QNBFS Alert – KCBK 2Q2013 Net Income Up 21.0% QoQ

- **2Q2013 profitability driven by gains from investment securities.** KCBK posted a net profit of QR159.0mn in 2Q2013, registering growth of 21.0% QoQ (+13.5% YoY). Net profit exceeded our estimate of QR142.1mn and Bloomberg consensus of QR131.5mn on the back of hefty investment gains. The bank's net interest income slipped by 2.3% QoQ (+11.2% YoY). Moreover, the NIM improved in 1H2013, reaching 1.91% vs. ~1.86% in 1Q2013 (1.79% at the end of 2012). Net fees and commissions dropped by 27% QoQ (+98.8% YoY) likely due to heavy competition in the corporate sector. Gains from investment securities (representing 33% of net operating income) was the thrust of profitability in 2Q2013, expanding by 365.5% QoQ (-10.3% YoY) to reach QR93.9mn vs. QR20.2mn in 1Q2013 (QR104.6mn in 2Q2012). We remain of the view that generating significant investment gains to boost growth is not sustainable over the long term. Nevertheless, KCBK's RoAE marginally improved in 1H2013 to 10.2% vs. 10.0% in 1Q2013 (9.3% at the end of 2012).

- **Loans significantly expanded QoQ and YTD.** Al Khaliji's loan book grew by 6.0% QoQ (14.3% YTD). Deposits followed suit and grew by 7.9% QoQ (7.4% YTD). As such, the LDR rested at 79.9% vs. 81.3% in 1Q2013 (75.1% at the end of 2012). On the other hand, KCBK's investment portfolio contracted by 19.9% QoQ (-19.1% YTD). It is evident that management is winding down the bank's investment portfolio in order to focus on lending as per the bank's new strategy.

- **Asset quality remains healthy.** KCBK's NPL ratio was flat QoQ at 0.40% (0.45% at the end of 2012). Moreover, the bank remains more than adequately capitalized with a Tier-1 ratio and CAR of 18.7% and 20.1%, respectively.

- **We maintain our target price of QR18.40/share and rate the stock a Market Perform.**

Recommendations		Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price		_Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals_	
OUTPERFORM	Greater than +20%	**R-1**	Significantly lower than average
ACCUMULATE	Between +10% to +20%	**R-2**	Lower than average
MARKET PERFORM	Between -10% to +10%	**R-3**	Medium / In-line with the average
REDUCE	Between -10% to -20%	**R-4**	Above average
UNDERPERFORM	Lower than -20%	**R-5**	Significantly above average

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