

QNBFS Alert – KCBK 2Q2015 Bottom-Line Driven by Net Interest Income & Fees

- **2Q2015 earnings comes ahead of estimates.** Al Khalij Commercial Bank (KCBK) reported a net profit of QR157.97mn in 2Q2015, ahead of our expectations (QR151.19mn) by 4.5% and consensus (Reuters: QR152.05mn). Net income increased by 9.4% and 5.6% QoQ and YoY, respectively.
- **Net-interest income coupled with fees & commissions led to growth in the bottom-line.** KCBK posted net interest income of QR232.0mn (our estimate of QR225.6mn; +2.8% divergence) increasing by 5.0% and 16.8% QoQ and YoY, respectively. NIM remained stable QoQ at ~1.83% vs. ~1.84% in 1Q2015. Moreover, fees & commissions displayed positive performance, soaring by 12.1% and 14.0%, QoQ and YoY, respectively. Opex increased by 10.1% QoQ (+1.9% YoY) vs. 3.5% QoQ growth (+11.0% YoY) in total income. As such cost-to-income ratio climbed up to 36.7% vs. 34.5% in 1Q2015 (40.7% in 2Q2014).
- **Deposits grew while loans declined.** Net loans receded by 0.9% QoQ (+10.6 YTD) to QR29.7bn. On the other hand, deposits jumped by 4.0% QoQ (+8.1% YTD) to QR29.7bn. Hence, the LDR dropped to 100% vs. 105% in 1Q2015 (98% at the end of 2014).
- **Asset quality improved.** KCBK's NPL ratio dropped sequentially to 0.80% in 2Q2015 vs. 1.20% in 1Q2015 (1.35% at the end of 2014). Most likely this improvement is due to write-offs. Moreover, the coverage ratio also improved, rising to 91.4% vs. 56.0% in 1Q2015 (48.8% at the end of 2014).
- **Recommendation and valuation:** We maintain our Price Target of QR23.00 with a Market Perform rating. KCBK trades at a P/E and P/TB of 13.7x and 1.4x on our 2015 estimates, respectively.

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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