

## QNBFS Alert – KCBK 3Q2014 Beats on Higher Than Expected Investment Income & Provisions

- **3Q2014 profitability beats estimates on the back of higher-than-expected investment income and lower provisions.** KCBK posted a net profit of QR145.9mn, beating our estimate of QR101.9mn. The bank reported a net interest income of QR183.0mn, inline with our estimate of QR180.4mn. On an operating income basis (adjusted for investment income), KCBK generated QR219.5mn (inline with our expectations of QR223.2mn). Net income declined by 2.5% QoQ (+35.5% YoY). Lower provisions and higher than expected investment income was the primary cause of the miss.
- **Core banking income was weak on a QoQ basis but strong on a YoY basis.** Net interest income receded by 7.9% QoQ (+34.8% YoY) to QR183.0mn. The bank's NIM has been under pressure, sliding to ~1.69% in 3Q2014 vs. ~1.91% in 2Q2014 (3Q2013: ~1.77%). Fees & commissions continued its positive performance, climbing up by 2.6% QoQ (+69.0% YoY) to QR45.6mn. Gains from investment securities mitigated the QoQ drop in earnings. KCBK posted investment income of QR33.3mn vs. 12.7mn in 2Q2014 (3Q2013: QR17.0mn). Operating expenses declined by 3.6% QoQ (+13.1% YoY). On the positive side, KCBK's efficiency ratio was flat on QoQ at 40.0% (3Q2013: 49.0%). KCBK booked provisions of QR1.1mn in 3Q2014 vs. a net reversal of QR1.6mn in 2Q2014 (3Q2013: net reversal of QR18.0mn).
- **Loans exhibited robust performance.** KCBK's loan book expanded by 4.0% QoQ (+19.2% YTD), reaching QR24.7bn. Moreover, deposits followed suit and grew by 1.3% QoQ (+28.6% YTD) to QR25.6bn. As such, the LDR jumped to 96% in 3Q2014 vs. 93% in 2Q2014 (1Q2013: 106%).
- **Asset quality worsened.** KCBK's NPL ratio deteriorated in 3Q2014 to 1.3% vs. 0.3% in 2Q2014 (2013: 0.3%). Moreover, the coverage ratio also deteriorated, dropping to 54.3% vs. 298.8% in 2Q2014 (2013: 322.9%).
- **We maintain our target price of QR23.00/share and rate the stock a Market Perform.** KCBK currently trades at a P/E and P/TBV of 15.3x and 1.4x on our 2014 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*

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

### Risk Ratings

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

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

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