

QNBFS Alert – KCBK 4Q2017 Earnings Beat Estimates; In-Line DPS Flat at QR0.75

- **4Q2017 net profit beats our estimates; DPS QR0.75 in-line.** Al Khalij Commercial Bank (KCBK) posted a net profit of QR96.96mn in 4Q2017, beating our estimate of QR57.46mn. Net profit declined by 27.5% QoQ due to soft revenue generation (net interest income decline was mainly impacted by interest suspension & non-funded declined QoQ). On YoY basis, net profit surged (base effect) due to a sharp drop in provisions & impairments. Provisions and impairments dropped by 55.2% to QR98.6mn vs. QR219.9mn in 4Q2016.
- **Dividends remained flat, matching our forecast.** KCBK announced a DPS of QR0.75/share (implying a yield of 5.6%)
- **Margins came under pressure in Q4.** NIM and margins came under pressure sequentially in the 4th quarter as net interest income receded by 8.3% QoQ (down 2.5% YoY). NIM declined by ~14bps QoQ to ~1.72% vs. 1.87% in 3Q2017 (flat YoY). The QoQ drop was due to yield on IEAs dropping more than CoFs. Yields dropped by ~16bps while CoFs dropped by ~7bps only. However, on a YoY basis yields and CoFs increased in-line. It is worth mentioning that on an annual basis, KCBK's NIM expanded by 13bps to 1.72% vs. 1.59% in 2016.
- **LDR improved, which is a positive.** Net loans declined by 2.4% QoQ (flat YoY) to QR35.1bn (the bank exited non-core loans), while deposits increased by 1.5% QoQ and YoY to QR32.7bn. As such, KCBK's LDR remained improved to 107% vs. 112% in 3Q2017 (109% in FY2016).
- **Asset quality remained under pressure, but manageable.** The bank's NPLs increased by 28.1% YoY to QR698.1mn in 2017. Hence, the NPL ratio climbed up to 1.94% vs. 1.52% at the end of 2016. However, the coverage ratio increased to 118% vs. 110% in 2016.
- **Capitalization improved.** KCBK ended 2017 with a CAR of 16.7% vs. 15.8% in 2016.
- **Recommendation and valuation:** The stock trades at a P/TB of 0.8x on our 2018 estimates. For now we maintain our PT at QR15.00 and Market Perform rating.

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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