

KCBK Alert – In-Line 1Q2021; Margin Expansion Drives Revenue but CoR Restricts Growth in Earnings

- **KCBK's 1Q2020 profitability is in-line with our estimates:** Al Khalij Commercial Bank (KCBK) reported net income of QR185.1mn in 1Q2021 (bang in-line with our estimate of QR183.7mn; +0.8% variation), increasing by 4.6% YoY (+32.8% sequentially).
- **Strong net interest income propelled revenue, while CoR restricted further growth in earnings.** Net interest income grew by 27.3%, leading to a growth of 20.4% in net operating income to QR289.2mn (in-line with our estimate of QR283.8mn, variation of +1.9%). Net income only grew by 4.6% YoY due to a surge in provisions. Bottom-line grew by 32.8% QoQ due to a 28.6% drop in net provisions & impairments.
- **Non-funded income remained weak YoY, but significantly improved sequentially, as anticipated.** Fees and forex income came in weak in the 1st quarter of 2021 vs. 1Q2020 as the pandemic did not have an impact on fees in 1Q2020. However, fees improved by 100% to QR30.1mn sequentially.
- **Margins significantly improved YoY on a drop in cost of funds, but declined sequentially, as expected.** Net Interest Income expanded by 27.3% YoY (-4.1% QoQ) in 1Q2021 to QR342.7mn (in-line with our estimate of QR330.9mn, +3.6% variation) on the back of a large drop in CoFs. Thus, NIMs moved up by ~44bps YoY (-20bps QoQ) to 2.55%.
- **KCBK remained cost efficient.** KCBK generated a cost-to-income ratio of 23.8% vs. 26.1% in 1Q2020 (26.6% in 4Q2020). Moreover, the bank generated JAWS of 10.7% YoY (10.4% QoQ) in 1Q2021 as revenue grew by 20.4% outpacing growth in opex.
- **Asset quality remained healthy.** NPLs (Stage 3 loans) increased by an insignificant/immaterial 1.1% sequentially to QR612.2mn. On the other hand, the NPL ratio improved to 1.68% vs. 1.71% in FY2020. Coverage of Stage 3 loans declined from 79% in FY2020 to 67% in 1Q2021. *It should be noted that Stage 3 ECLs is immaterial (-12% QoQ), as the bank allocated the majority of ECLS to Stage 2 (representing 68% of total ECLS).*
- **Provisions for credit losses surged YoY (dropped by 26.5% QoQ) as a precautionary measure against COVID-19, as expected and estimated.** Provisions increased by 63.1% YoY (-26.5% QoQ) to QR105.1mn. Moreover, CoR jumped from ~70bps in 1Q2020 (annualized) to ~114bps in 1Q2021 (106bps in FY2020).
- **Net loans and deposits continued its positive trajectory.** Net loans increased by 3.8% sequentially to QR35.2bn, while deposits increased by 3.3% to QR31.8bn.
- **Valuation.** KCBK trades at a P/B and P/E of 1.1x and 9.7x on our 2021 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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