

KCBK Alert – In-Line 2Q2021; Margins Continued to Drive Revenue but CoR Restricted Growth in Earnings

- **KCBK's 2Q2021 profitability is in-line with our estimates:** Al Khalij Commercial Bank (KCBK) reported net income of QR186.8mn in 2Q2021 (in-line with our estimate of QR188.8mn; -1.1% variation), increasing by 1.4% YoY (+0.9% sequentially).
- **Strong net interest income boosted revenue, while CoR restricted further growth in earnings.** Net interest income grew by 11.7%, leading to a growth of 6.3% in revenue to QR370.3mn (in-line with our estimate of QR370.4mn). Net income only grew by 1.4% YoY due to a surge in provisions. Bottom-line exhibited flattish performance sequentially, aided by a large drop in opex.
- **Non-funded income remained weak YoY and sequentially.** Fees came in weak in the 2nd quarter of 2021 vs. 2Q2020 as the pandemic did not have a large impact on fees in 2Q2020. Fees dropped by 50.7% YoY (-35.9% QoQ) to QR19.3mn.
- **Margins significantly improved YoY on a drop in cost of funds, but remained sequentially flat, as expected.** Net Interest Income increased by 11.7% YoY (flat QoQ) in 2Q2021 to QR342.0mn (in-line with our estimate of QR330.0mn, +3.7% variation) on the back of a drop in CoFs. Thus, NIMs moved up by ~11bps YoY (-4bps QoQ) to 2.51%.
- **KCBK remained cost efficient.** KCBK generated a cost-to-income ratio of 21.1% vs. 20.5% in 2Q2020 (23.8% in 1Q2021). Moreover, the bank generated JAWS of 3.5% YoY in 1H2021 as revenue grew by 13.0%, while opex grew by 9.4%.
- **Asset quality remained healthy.** NPLs (Stage 3 loans) increased by an insignificant/immaterial 3.0% sequentially to QR630.4mn. On the other hand, the NPL ratio remained flat sequentially at 1.67% (1.71% in FY2020). Coverage of Stage 3 loans improved to 78% in 2Q2021 vs. 68% in 1Q2021 (79% in FY2020). *It should be noted that Stage 3 ECLs is immaterial, as the bank allocated the majority of ECLS to Stage 2 (representing 66% of total ECLS).*
- **Provisions for credit losses surged YoY and sequentially as a precautionary measure against COVID-19, as expected and estimated.** Provisions for credit losses surged from QR43.4mn in 2Q2020 to QR155.7mn in 2Q2021 (+47.5% QoQ). Moreover, 1H2021 annualized CoR jumped from ~63bps in 1H2020 to ~138bps in 1H2021 (106bps in FY2020).
- **Net loans continued its positive trajectory.** Net loans increased by 2.2% sequentially (+6.0% YTD) to QR35.9bn, while deposits remained flat at QR31.7bn (+3.1% YTD).
- **Valuation.** KCBK trades at a P/B and P/E of 1.1x and 12.2x 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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