

KCBK Alert – 3Q2020 Beats Estimates on Strong Revenue; Maintain MP

- **KCBK's 2Q2020 profitability beats our estimates on higher-than-expected revenue.** Al Khalij Commercial Bank (KCBK) reported net income of QR182.4mn in 3Q2020 (ahead of our estimate of QR160.2mn; +13.8% variation), increasing by 25.7% YoY (-1.0% sequentially).
- **Margins significantly improved on continued drop in cost of funds.** Net Interest Income expanded by 29.7% YoY (+10.8% QoQ) in 3Q2020 to QR339.3mn on the back of a large drop in CoFs. Thus, NIMs moved up by ~44bps YoY (+27bps QoQ) to 2.66%. 9M2020 (annualized) NIMs expanded to 2.39% vs. 2.10% in 9M2019.
- **Non-funded income improved, driven by f/x and investment income.** Non-funded income increased by 18.6% YoY (+18.9% sequentially) as f/x and investment income surged both YoY & QoQ. On the other hand, net fees & commissions decreased by 7.8% YoY (-11.9% QoQ).
- **KCBK remained cost efficient.** KCBK generated a cost-to-income ratio of 24.5% vs. 28.2% in 3Q2019 (20.5% in 2Q2020). Moreover, the bank generated JAWS of 16.4% YoY in 9M2020 as revenue grew by 17.5% vs. 1.1% growth in opex.
- **Asset quality remained healthy.** NPLs increased by 4.3% YTD to QR632.1mn. On the other hand, the NPL ratio improved to 1.82% vs. 1.86% in FY2019. Coverage of Stage 3 loans remained flat at 78% vs. 80% in FY2019 (79% in 2Q2020). *It should be noted that the increase in Stage 3 ECLS is immaterial (+1.2% YTD), as the bank allocated the majority of ECLS to Stages 1 & 2.*
- **Provisions for credit losses increased as a precautionary measure against COVID-19.** Provisions increased by 65.4% YoY (+150.9% QoQ) to QR108.8mn. Moreover, CoR jumped from ~57bps in 9M2019 (annualized) to ~83bps in 9M2020 (59bps in FY2019).
- **Net loans and deposits continued its positive trajectory.** Net loans increased by 1.4% QoQ (+5.9% YTD) to QR32.6bn, while deposits increased by 3.8% sequentially (+3.1% YTD) to QR30.1bn.
- **Valuation and recommendation.** KCBK trades at a P/B and P/E of 0.9x and 9.6x on our 2020 estimates, respectively. We maintain our Market Perform rating and PT of QR1.554/share for the time being.

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

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE
Senior Research Analyst
+974 4476 6535
zaid.alnafsoosi@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.