

Al Khalij Commercial Bank (KCBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR1.190	Target Price	QR1.400
Implied Upside	17.6%		

Compelling Dividend Play; Stock is Trading ~30% Below BV

We lower our 2019-24e earnings CAGR from 9.3% to 7.9% considering the ramifications of the Coronavirus pandemic. Having said this, we believe given the government's initiative of providing liquidity to the banks and its QR75bn support package to the private sector, Qatari banks could be insulated to a certain extent. We believe the QCB's measures could bolster the banks' liquidity positions and mitigate adverse effects on their p&ls. KCBK trades at a 0.7x P/B (indicating a ~30% discount to book value) and a 7.1x P/E based on our 2020 estimates, which we think is unjustified. Moreover, the stock yields 6.3% and the company's dividends are sustainable, in our view. However, we note there could be downside risks to our estimates. For the time being, we retain our Market Perform rating and our price target of QR1.40. We are going through what can be termed as an extraordinary period and we expect KCBK's stock to remain volatile along with rest of the market.

Highlights

- Relatively safe dividend play.** The stock offers a handsome yield of 6.3% (2020e). Management can maintain QR0.075 DPS (translates to an average 40% payout) without affecting its capitalization levels.
- Given KCBK's asset/liability interest rate gap, we expect some margin expansion.** 60% of the bank's assets are repricedable within 1-year vs. 74% of liabilities to total assets, thus leading to some margin expansion in a low interest rate environment. Hence, we expect NIMs to increase by 5bps from 1.98% in 2019 to 2.04% in 2020 and expand a further 10 bps in 2021.
- Management continues to operate efficiently.** KCBK's C/I ratio significantly improved from 2014's 42.0% to 27.9% in 2019. We foresee a further improvement in the efficiency ratio, penciling in 27.4% (2020) and 26.2% (2021). Moreover, KCBK is expected to continue on generating positive JAWS.
- Net loans are estimated to experience low-single digit growth in 2020; loans were on the decline in the previous quarters as management shed non-core low yielding assets, targeting more lucrative deals.** In 4Q2019, net loans expanded by 2.6% QoQ to QR30.8bn (-2.6% YoY) while deposits increased by 6.8% QoQ (+1.2% YoY) to QR29.2bn. Nevertheless, KCBK's liquidity position remained strong with LDR (based on stable sources of funds) amounting to 88% vs. 92% in FY2018.
- Asset quality remains a non-issue for now.** In 2019, the bank's NPLs dropped by 1.5% YoY, while the NPL ratio remained flat at 1.86%. Moreover, the coverage ratio (coverage of stage-3 loans/NPLs) remained flat at 81% vs. FY2018. We expect the coverage ratio to be adequately maintained as management exercises prudent risk control. CoR also remained flat at 59bps vs. 60bps in FY2018. We expect CoR of 61 bps in 2020 given the current situation, but estimate lower provisions in the after years leading to a CoR of 55 bps and 53 bps in FY2021 and 2022, respectively.
- Tier-1 to remain robust as the bank continues on optimizing RWAs; management has no plans to reduce capitalization levels.** The bank's CET1 and Tier-1 ratios increased to 15.5% (13.0% in 2018) and 17.9% (15.6% in 2018), respectively. We expect capitalization to remain on the high side in 2020 and the coming years. KCBK's strong capitalization levels could help it absorb any shocks arising from the Coronavirus.

Catalysts

- Visible progress in management's strategy:** 1) an expansion of attributable RoE beyond 12% (2020e and 2021e RoE: 10.3% and 10.8%, respectively), 2) improvement in the liquidity of the stock and 3) M&A activity.

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Market Perform rating and target price at QR1.40.** KCBK trades at P/TB and P/E of 0.7x and 7.1x on our 2020 estimates, respectively. We continue to think the name is in search of a catalyst to move the stock upward.
- Risks:** 1) Oil price shock and 2) Global recession driven by the Coronavirus pandemic.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.160	0.168	0.187	0.206
Growth (%)	6.9	5.3	11.0	10.5
P/E (x)	7.4	7.1	6.4	5.8
TBVPS (QR)	1.63	1.73	1.84	1.97
P/TB (x)	0.7	0.7	0.6	0.6
RoE (%)	10.6	10.3	10.8	11.2
DPS (QR)	0.075	0.075	0.075	0.075
Dividend Yield (%)	6.3	6.3	6.3	6.3

Source: Company financials, QNB FS Research; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	1.190
Dividend Yield (%)	6.3
Bloomberg Ticker	KCBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	KCBK.QA
ISIN	QA000A0M6MD5
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	1.420/1.078
3-m Average Volume (mn)	0.7
Mkt. Cap. (\$ bn/QR bn)	1.2/4.3
Shares Outstanding (bn)	3.60
FO Limit* (%)	49.0
Current FO* (%)	10.4
1-Year Total Return (%)	9.4

Fiscal Year End December 31

Source: Bloomberg (as of March 29, 2020), *Qatar Exchange (as of March 26, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e	2023e
Net Interest Income	984	915	980	1,030	1,111	1,204	1,293
Fees & Commissions	182	190	177	167	174	181	167
FX Income	39	38	18	25	18	24	35
Other Income	9	0	4	2	9	9	8
Non-Interest Income	231	228	198	193	200	213	210
Total Revenue	1,215	1,143	1,178	1,223	1,311	1,417	1,503
Operating Expenses	(335)	(329)	(329)	(335)	(344)	(364)	(385)
Net Operating Income	880	814	849	888	967	1,053	1,118
Net Provisions & Impairments	(319)	(190)	(176)	(184)	(192)	(197)	(182)
Net Profit Before Taxes	562	624	672	704	776	856	937
Tax	(11)	(16)	(26)	(27)	(30)	(33)	(36)
Net Profit (Reported)	551	608	646	677	745	823	900
Interest Pmt. on Tier-1 Perpetual Note	(55)	(55)	(55)	(55)	(55)	(60)	(66)
Social & Sports Contribution Fund	(14)	(15)	(16)	(17)	(19)	(21)	(23)
Net Profit (Attributable)	482	538	575	605	672	742	812

Source: Company financials, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e	2023e
Cash & Balances with Central Bank	2,587	2,881	2,182	2,355	2,551	2,741	3,279
Interbank Loans	6,617	6,100	7,753	6,259	7,335	6,245	7,286
Net Investments	12,506	10,788	12,355	12,738	12,609	12,989	14,140
Net Loans	35,094	31,636	30,817	32,004	33,972	36,397	37,829
Other Assets	689	219	120	192	238	182	197
Net PP&E	235	335	408	461	518	540	563
Goodwill & Intangible Assets	156	143	133	121	117	117	117
Total Assets	57,885	52,102	53,768	54,129	57,340	59,212	63,411
Liabilities							
Interbank Deposits	10,597	9,563	11,080	10,445	11,137	9,649	11,521
Customer Deposits	32,683	28,845	29,191	29,804	31,890	34,697	36,432
Term Loans	5,743	5,608	5,647	5,647	5,647	5,647	5,647
Other Liabilities	1,570	1,510	846	894	925	1,006	1,057
AT1 Perpetual Bond	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Liabilities	51,593	46,526	47,765	47,791	50,600	51,999	55,656
Total Shareholders' Equity	6,292	5,577	6,003	6,339	6,740	7,213	7,755
Total Liabilities & Shareholders' Equity	57,885	52,102	53,768	54,129	57,340	59,212	63,411

Source: Company financials, QNB FS Research

Ratios/Financial Indicators	2017	2018	2019	2020e	2021e	2022e	2023e
Profitability (%)							
RoE Tangible (Based on Beg. Book Value)	8.2	8.8	10.6	10.3	10.8	11.2	11.4
RoAA (Attributable)	0.8	1.0	1.1	1.1	1.2	1.3	1.3
RoRWA (Attributable)	0.9	1.1	1.2	1.3	1.3	1.4	1.5
NIM (% of IEAs)	1.8	1.8	2.0	2.0	2.1	2.2	2.3
NIM (% of RWAs)	2.4	2.4	2.6	2.8	2.9	2.9	3.0
NIM (% of AAs)	1.7	1.7	1.9	1.9	2.0	2.1	2.1
Spread	1.4	1.5	1.6	1.6	1.7	1.8	1.8
Efficiency (%)							
Cost-to-Income (Headline)	27.6	28.8	27.9	27.4	26.2	25.7	25.6
Cost-to-Income (Core)	27.8	28.8	28.0	27.4	26.4	25.9	25.7
Liquidity (%)							
LDR	107.4	109.7	105.6	107.4	106.5	104.9	103.8
Loans/Assets	60.6	60.7	57.3	59.1	59.2	61.5	59.7
Cash & Interbank Loans-to-Total Assets	15.9	17.2	18.5	15.9	17.2	15.2	16.7
Deposits to Assets	56.5	55.4	54.3	55.1	55.6	58.6	57.5
Wholesale Funding to Loans	46.3	46.1	50.4	46.5	45.9	38.7	42.2
IEAs to IBLs	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Asset Quality (%)							
NPL Ratio	1.9	1.9	1.9	2.0	1.9	1.9	2.0
NPLs to Shareholders' Equity	11.1	11.0	10.1	10.6	10.2	9.8	10.3
NPLs to Tier-1 Capital	10.5	10.4	9.2	9.9	9.7	9.5	10.1
Coverage Ratio	118	228	251	248	266	279	261
ALL/Average Loans	2.3	4.1	4.6	5.0	5.3	5.3	5.3
Cost of Risk	84	60	59	61	55	53	46
Capitalization (%)							
CET1 Ratio	14.2	13.0	15.2	15.5	15.3	15.4	15.3
AT1 Ratio	2.5	2.7	2.7	2.7	2.5	2.4	2.2
Tier-1 Ratio	16.7	15.6	17.9	18.2	17.8	17.8	17.5
CAR	16.7	16.9	19.1	19.4	19.0	19.0	18.7
Leverage (x)	9.2	9.3	9.0	8.5	8.5	8.2	8.2
Growth (%)							
Net Interest Income	7.9	(7.0)	7.1	5.1	7.8	8.4	7.4
Non-Interest Income	(6.9)	(1.0)	(13.3)	(2.4)	3.7	6.5	(1.5)
Total Revenue	4.7	(5.9)	3.0	3.9	7.2	8.1	6.1
OPEX	(1.9)	(1.6)	(0.1)	1.9	2.5	6.0	5.7
Net Operating Income	7.5	(7.5)	4.2	4.6	8.9	8.9	6.2
Net Provisions & Impairments	(21.0)	(40.3)	(7.3)	4.2	4.4	2.7	(7.7)
Net Income (Reported)	29.1	10.5	6.2	4.8	10.0	10.4	9.4
Net Income (Attributable)	28.8	11.7	6.9	5.3	11.0	10.5	9.3
Loans	(0.2)	(9.9)	(2.6)	3.9	6.1	7.1	3.9
Deposits	1.5	(11.7)	1.2	2.1	7.0	8.8	5.0
Assets	(4.5)	(10.0)	3.2	0.7	5.9	3.3	7.1
RWAs	(3.1)	(5.5)	(2.3)	1.8	6.2	5.0	7.4

Source: Company financials, QNB FS Research

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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