

# QNBFS Alert – KCBK 3Q2013 Net Income Down 32.3% QoQ

- **Weak 3Q2013 profitability due to muted gains from investment securities.** KCBK posted a net profit of QR107.7mn in 3Q2013, dropping by 32.3% QoQ (-7.6% YoY). Net profit declined primarily on the back of a significant drop in investment gains. Gains from investment securities (representing 33% of net operating income) was the thrust of profitability in 2Q2013, expanding by 365.5% QoQ (-10.3% YoY) to reach QR93.9mn vs. QR20.2mn in 1Q2013 (QR104.6mn in 2Q2012). However, in 3Q2013 gains plunged by 81.8% QoQ (-71.1% YoY). The bank's net interest income dropped by 10.6% QoQ (+8.5% YoY). Moreover, TTM NIMs was flattish in 9M2013, reaching 1.99% vs. ~2.04% in 1H2013 (1.79% at the end of 2012). Net fees and commissions remained under pressure, dropping by 21.8% QoQ (+62.9% YoY) likely due to heavy competition in the corporate sector. Nevertheless, KCBK's RoAE marginally deteriorated in 9M2013 to 9.7% vs. 10.2% in 1H2013 (9.3% at the end of 2012).
- **Loans significantly expanded QoQ and YTD.** Al Khaliji's loan book grew by 7.2% QoQ (+22.6% YTD). On the other hand, deposits receded by 4.7% QoQ (+2.4% YTD). As such, the LDR rested at 89.9% vs. 79.9% in 2Q2013 (75.1% at the end of 2012). Moreover, KCBK's investment portfolio expanded by 12.1% QoQ (-9.3% YTD).
- **Asset quality remains healthy.** KCBK's NPL ratio improved QoQ to 0.37% vs. 0.40% in 2Q2013 (0.45% at the end of 2012). Moreover, the bank remains more than adequately capitalized with a Tier-1 ratio and CAR of 17.5% and 18.9%, respectively.
- **We maintain our target price of QR18.40/share and rate the stock a Market Perform.**

### Recommendations

*Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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