

## QNBFS Alert – CBQK 2Q2014 Slightly Misses Estimates

- **2Q2014 profitability slightly misses estimates on the back of higher-than-expected provisions.** CBQK posted a net profit of QR489.8mn, slightly below (5.5%) our estimate of QR518.5mn (Bloomberg & Reuters consensus of QR513mn and QR512.75mn). Net income declined by 8.3% and 5.5% QoQ and YoY, respectively. A surge in provisions was the primary cause of drop in profitability and the miss. The bank posted net provisions (credit and investment impairments) of QR227.1mn vs. QR59.3mn in 1Q2014 (2Q2013: QR148.2mn).
- **CBQK exhibited healthy performance from core banking income.** Net interest income climbed up by 5.1% QoQ (+41.9% YoY; note YoY comparisons are impacted by Abank's consolidation) to QR652.7mn. The bank's NIM has shown signs of improvement, improving to 2.7% in 2Q2014 vs. 2.6% in 1Q2014. Fees & commissions surged by 28.1% QoQ (+64.2% YoY) to QR271.0mn. On the other hand, FX income was weak at QR24.3mn (down 42.5% and 39.1% QoQ and YoY, respectively). Share of profit from associates (QR101.8mn) displayed positive performance, growing by 11.1% QoQ and 27.7% YoY. Operating expenses marginally increased by 3.6% QoQ (+62.8% YoY). On the positive side, CBQK's efficiency ratio improved from 39.6% in 1Q2014 to 36.3% in 2Q2014 (2Q2013: 38.8%)
- **Loan growth is yet to materialize.** CBQK's loan book grew by 1.0% QoQ (3.8% YTD), reaching QR69.4bn. On the other hand, deposits receded by 3.7% QoQ (down 5.6% YTD) to QR59.8bn. As such, the LDR jumped to 116% in 2Q2014 vs. 111% in 1Q2013 (2013: 105%). Abank contributed 18.2% and 14.7% to overall loans and deposits, respectively.
- **Asset quality worsened.** CBQK's NPL ratio deteriorated in 2Q2014 to 3.82% vs. 3.65% at the end of 2013. On the other hand, the bank's coverage ratio improved, climbing to 67.3% vs. 63.0% at the end of 2013.
- **We maintain our target price of QR81.00/share and rate the stock an Accumulate.** CBQK currently trades at a P/E and P/TBV of 11.0x and 1.4x on our 2014 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*

<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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