

## Al Khalij Commercial Bank (KCBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR17.90	Current Target Price	QR19.00
Implied Upside	6.1%	Old Target Price	QR23.00

### Net Profit Down QoQ on Margin Compression & Higher Opex

*Al Khaliji is one of the smallest banks domestically with potential to grow. In terms of loans (~4% market share as of 2014), KCBK is one of the smallest of the five-listed conventional banks (6<sup>th</sup> among the eight-listed banks). Focused on Qatar, KCBK's management has set forth a 3 to 5 year strategy that would improve the bank's market share and boost its RoAE, catching up to that of its peers. KCBK has the lowest RoE (10.4%) among listed banks and it is below its cost of equity of 11.52%.*

#### Highlights

- KCBK reports in-line net profit.** Al Khalij Commercial Bank (KCBK) reported a net profit of QR156.19mn in 1Q2016, declining by 1.6% QoQ and in-line with our estimate of QR148.34mn (+5.3% variation). However, on a YoY basis net profit was up 8.1% YoY on the back of good performance across the board.
- KCBK's QoQ performance was affected by weak net interest income (margin compression) and higher opex.** The bank posted net interest income of QR227.83mn (in-line with our estimate of QR237.12mn; -3.9% variation), declining by 3.4% QoQ (+3.1% YoY) on the back of margin pressure. KCBK's NIM receded by ~11bps and ~16bps to 1.68%, QoQ and YoY, respectively. Moreover, KCBK reported opex of QR95.59mn (in-line with our estimate of QR94.24mn), increasing by 4.8% QoQ (flat YoY). Thus, the cost-to-income ratio climbed up to 32.2% vs. 30.8% in 4Q2015. We believe that this is an optimal level for the bank
- Net Loans displayed robust growth.** Net loans expanded by 5.5% YTD to QR35.27bn, while customer deposits dropped by 6.3% YTD to QR28.98bn. As a result, KCBK's LDR was elevated to 122% vs. 108% in 4Q2015. The main driver of YTD loan growth in 1Q2016 was the retail segment followed by the public sector which expanded by 71.3% and 15.3% YTD, respectively. It seems that KCBK started targeting the retail segment since it was a small portion of the bank's loan portfolio. Retail represented 6% of KCBK's loan book in FY2015 vs. 10% in 1Q2016. The contraction in 1Q2016's deposits is attributed to the public sector segment which decreased by 14.6% YTD. The bulk of KCBK's deposits (60% in 1Q2016 vs. 66% in FY2015) is from the public sector deposits.
- Asset quality remains healthy.** KCBK's NPL ratio at the end of 1Q2016 stood at 0.81% vs. 0.86%, while NPLs remained flat. Moreover, the coverage ratio improved to 100% vs. 89% in 2015.
- QR1bn AT1 note helped capitalization.** KCBK issued QR1bn AT1 notes in 1Q2016 which improved the bank's CAR to 16.0%. Without the AT1 notes, CAR would have remained at 13.5%.

#### Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market: Visible progress in management's strategy:** 1) a consistent rise in market share; 2) an expansion of attributable RoAE beyond 12% (2016e and 2017e RoAE: 10.1% and 10.8%, respectively) and 3) announcements/newsflow on infrastructure projects.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We Change our Price Target to QR19.00.** We made some revisions (nothing material) to our 2016, 2017 and 2018 estimates.
- Risks:** 1) Depressed oil prices remains the biggest risk for KCBK and the banking sector; 2) KCBK's market share gains do not materialize; 3) Untested loan book and asset quality; 4) concentration risk and 5) LDR requirement from the QCB could create short-term issues.

#### Key Financial Data and Estimates

	FY2015	FY2016e	FY2017e	FY2018e
Attributable EPS (QR)	1.69	1.71	1.93	2.28
EPS Growth (%)	11.1	0.9	12.9	17.9
P/E (x)	10.6	10.5	9.3	7.9
Tangible BVPS (QR)	16.2	17.0	18.0	19.2
P/TB (x)	1.1	1.1	1.0	0.9
DPS (QR)	1.00	1.00	1.00	1.25
Dividend Yield (%)	5.6	5.6	5.6	7.0

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	17.90
Dividend Yield (%)	5.6
Bloomberg Ticker	KCBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	KCBK.QA
ISIN	QA000A0M6MD5
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	22.75/15.90
3-m Average Volume ('000)	58.0
Mkt. Cap. (\$ bn/QR bn)	1.8/6.4
Shares Outstanding (mn)	360.0
FO Limit* (%)	49.0
Current FO* (%)	10.9
1-Year Total Return (%)	(5.3)

Fiscal Year End December 31

Source: Bloomberg (as of April 20, 2016), \*Qatar Exchange (as of April 20, 2016); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	924	1,012	1,119	1,267
Fees & Commissions	190	209	226	208
FX Income	20	22	24	22
Other Income	10	10	12	24
<b>Non-Interest Income</b>	<b>220</b>	<b>241</b>	<b>262</b>	<b>254</b>
<b>Total Income</b>	<b>1,144</b>	<b>1,253</b>	<b>1,381</b>	<b>1,521</b>
Operating Expenses	(391)	(396)	(406)	(422)
<b>Net Operating Income</b>	<b>753</b>	<b>857</b>	<b>975</b>	<b>1,100</b>
Net Provisions & Impairments	(101)	(131)	(162)	(152)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>651</b>	<b>726</b>	<b>813</b>	<b>948</b>
Non-Recurring Income	-	-	-	-
<b>Net Profit Before Tax</b>	<b>651</b>	<b>726</b>	<b>813</b>	<b>948</b>
Tax	(26)	(35)	(41)	(47)
<b>Net Profit (Headline/Reported)</b>	<b>626</b>	<b>691</b>	<b>773</b>	<b>900</b>
Social & Sports Contribution Fund	(16)	(16)	(18)	(21)
<b>Net Profit (Attributable)</b>	<b>610</b>	<b>615</b>	<b>695</b>	<b>819</b>

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
<b>Assets</b>				
Cash & Balances with Central Bank	1,973	2,317	2,284	2,626
Interbank Loans	5,098	3,972	5,329	4,377
Net Investments	15,275	16,184	18,598	20,829
Net Loans	33,447	37,893	43,115	48,216
Other Assets	511	606	776	579
Net PP&E	171	166	161	161
Goodwill & Other Intangibles	160	137	122	122
<b>Total Assets</b>	<b>56,634</b>	<b>61,276</b>	<b>70,385</b>	<b>76,910</b>
<b>Liabilities</b>				
Interbank Deposits	14,598	15,974	19,584	19,712
Customer Deposits	30,935	33,100	38,065	43,775
Term Loans & Borrowings	3,829	3,629	3,629	3,629
Other Liabilities	1,285	1,324	1,523	1,751
AT1 Perpetual Bonds		1,000	1,000	1,000
<b>Total Liabilities</b>	<b>50,647</b>	<b>55,027</b>	<b>63,801</b>	<b>69,867</b>
<b>Total Shareholders' Equity</b>	<b>5,987</b>	<b>6,249</b>	<b>6,584</b>	<b>7,043</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>56,634</b>	<b>61,276</b>	<b>70,385</b>	<b>76,910</b>

Source: Company data, QNBFS estimates

### 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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