KCBK Alert – In-line 4Q2018; DPS Remains Unchanged at QR0.75 vs. 2017

- **KCBK reported in-line earnings, displaying double digit growth YoY.** Al Khalij Commercial Bank (KCBK) reported a net profit of QR139.0mn in 4Q2018, surging by 43.4% YoY (+3.7% QoQ), in-line with our estimate of QR139.6mn.
- **KCBK DPS remains unchanged and is also in-line with our estimate.** The bank announced DPS of QR0.75, yielding a strong 6.3%.
- **The growth in KCBK's bottom-line YoY and QoQ was driven by a significant drop in provisions and impairments.** The surge in profitability YoY was driven by a drop of 68.4% in provisions as net interest income and non-funded income was weak. Having said this, KCBK was focused on asset quality and risk management.
- **CoR improved.** CoR declined by 23bps to 60bps in 2018 vs. 84bps (2017).
- **Gross loans and deposits dropped YoY.** Gross loans contracted by 8.9% YoY to QR32.7bn. Drop in loans was mainly attributable to the public and corporate sectors. The decline in the corporate segment loans was due to KCBK's risk management, which resulted in divesting non-core loans. Moreover, deposits contracted by 12.5% to QR28.6bn. The contraction in deposits was on the back of the corporate segment where the bank shed high interest-bearing deposits, resulting in lower CoFs. Thus, KCBK's LDR (including stable source of funds) position remained healthy at 92% vs. 91% (2017).
- **Asset quality improved.** The NPL ratio decreased to 1.88% vs. 1.94%% in FY2017. During the same time, NPLs decreased by 11.9% YoY to QR615.1mn. Moreover, the coverage ratio of Stage 3 loans (NPLs) improved to 83% vs. 79% in 3Q2018.
- **Tier-1 remains strong, although slightly receding.** The bank's CET-1 and Tier-1 ratios declined to 13.0% (14.2% in 2017) and 15.6% (16.7% in 2017), respectively. Moreover, KCBK ended 2018 with a CAR of 16.7% (15.8% in 2017).
- **Recommendation & valuation:** KCBK trades at 2019 P/E and P/TB of 7.0x and 0.8x. We retain our Market Perform rating PT QR15.00 for now. We may tweak our estimates shortly.

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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