

## KCBK Alert – 2Q2020 Beats Estimates on Strong Margins; Encouraging Set of Results

- **KCBK's 2Q2020 profitability beats our estimates on higher-than-expected margin expansion.** Al Khalij Commercial Bank (KCBK) reported net income of QR184.2mn in 2Q2020 (ahead of our estimate of QR164.9mn; +11.7% variation), increasing by 4.8% YoY (+4.1% sequentially).
- **Margins significantly improved on drop in cost of funds.** Net Interest Income expanded by 24.6% YoY (+13.7% sequentially) to QR306.1mn on the back of a large drop in CoFs. Thus, NIMs moved up by ~27bps and 29bps YoY and sequentially, respectively, to 2.39%.
- **Non-funded income was weak as expected.** Net fees & commissions decreased by 25.5% YoY (-7.8% QoQ) while f/x income dropped by 56.2% YoY.
- **KCBK remained cost efficient.** Although opex increased by 9.5% YoY (+11.1% QoQ), KCBK generated a cost-to-income ratio of 26.3% vs. 27.6% in 2Q2019 (26.1% in 1Q2020). This was due to strong net interest income.
- **Asset quality remained healthy.** NPLs increased by 2.6% YTD to QR621.9mn. On the other hand, the NPL ratio marginally improved to 1.83% vs. 1.86% in FY2019. Coverage of Stage 3 loans remained flat at 79% vs. 80% in FY2019 (80% in 1Q2020).
- **Provisions for credit losses increased as a precautionary measure against COVID-19.** Provisions increased by 30.9% YoY (-32.8% QoQ) to QR43.3mn. Moreover, CoR jumped from ~46bps in 1H2019 (annualized) to ~63bps in 1H2020 (59bps in FY2019).
- **Net loans moved up, while deposits exhibited flattish performance.** Net loans increased by 1.8% QoQ (+4.5% YTD) to QR32.2bn, while deposits remained flattish both YTD and sequentially at QR29.0bn
- **Valuation and recommendation.** KCBK trades at a P/B and P/E of 0.9x and 9.5x on our 2020 estimates, respectively. We maintain our Market Perform rating and PT of QR1.400/share for the time being.

### 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

**Saugata Sarkar, CFA, CAIA**  
Head of Research  
+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

**Shahan Keushgerian**  
Senior Research Analyst  
+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

**Mehmet Aksoy, PhD**  
Senior Research Analyst  
+974 4476 6589  
mehmet.aksoy@qnbfs.com.qa

**Zaid Al Nafsoosi, CMT, CFTE**  
Senior Research Analyst  
+974 4476 6535  
zaid.alnafsoosi@qnbfs.com.qa

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