

## Al Khalij Commercial Bank/Al Khaliji (KCBK)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR22.50	Current Target Price	QR23.00
Implied Upside	14.5%	Old Target Price	QR23.00

### Changing Estimates; Maintaining Target Price at QR23.00

*Al Khaliji is a young and small bank 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 (6th 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.*

#### Highlights

- We estimate net income to grow by a CAGR of 13.4% (2014-2018e).** Post 2014 results, we expect KCBK to post net income of QR606.6mn and 688.5mn in 2015 and 2016 (previously QR593mn and QR720mn), respectively. We mainly expect net interest income to drive future growth in profitability. We pencil in a CAGR (2014-2018e) of 15.4% for net interest income. We base our assumptions on management's strategy of focusing on core banking income vs. treasury operations. NIMs were under extreme pressure during 2012 (plunged by ~102 bps to 1.82% from 2.84% in 2011) and 2013 (dipped by 11bps to 1.71%) due to heavy competition within the banking industry. On the other hand, KCBK's NIMs rebounded by 6bps in 2014 to 1.77%. It should be noted that NIMs among domestic banks remained under some pressure in 2014. Presently, NIMs are slightly under pressure but the magnitude is less than the previous years. It should be noted that KCBK has the lowest NIMs among domestic banks. Going forward, we estimate some NIM compression (~7bps) in 2015 due to competitive market conditions. As such, net interest income is forecasted to grow by 12.1% vs. 26.9% in 2014. We estimate KCBK's NIMs for 2015 and 2016 at 1.70% and 1.72%, respectively. Moreover, after a strong performance in fees & commission during 2014 (+38.7% YoY), we expect a more modest growth of 10.0% YoY. We also expect net provisions to significantly grow. Hence, we forecast a growth of 7.8% in 2015 earnings. Regarding 2016, net income is modeled to grow by 13.5% on the back of higher loan growth (+17.9%), marginal pick up in NIM, growth in investment income and fees.
- Decent loan growth:** We estimate the bank's loan book to grow by a CAGR of 14.1% (2014-2018e) vs. 38.7% (2010-2014) as infrastructure spending gains momentum. Moreover, deposits are estimated to grow at a CAGR of 13.7% vs. 34.0% during 2010-2014. KCBK's LDR is expected to remain below 100% at an average of 99.3%, in line with QCB's 100% policy.

#### Catalysts

- Visible progress in management's strategy:** 1) a consistent rise in market share; 2) an expansion of attributable RoAE beyond 12% (2015e and 2016e RoAE: 10.0% and 10.9%, respectively); 3) less reliance on treasury operations and 4) announcements/newsflow on infrastructure projects.

#### Recommendation, Valuation and Risks

- Recommendation and valuation:** *We change KCBK to an Accumulate but maintain a price target of QR23.00.* KCBK trades at a FY2015e P/B of 1.2x.
- Risks:** 1) Declining oil prices remains the biggest risk to KCBK and the banking sector; 2) KCBK's market share gains do not materialize; 3) Untested loan book and asset quality and 4) concentration risk.

#### Key Financial Data and Estimates

	2013	2014	2015e	2016e
EPS (QR)	1.53	1.56	1.69	1.91
EPS Growth	7.6	2.2	7.8	13.5
P/E (x)	13.1	12.8	11.9	10.5
BVPS (QR)	15.7	16.1	16.7	17.6
P/B (x)	1.3	1.3	1.2	1.1
DPS (QR)	1.00	1.00	1.00	1.00
Dividend Yield (%)	5.0	5.0	5.0	5.0

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

#### Key Data

Current Market Price (QR)	20.08
Dividend Yield (%)	5.0
Bloomberg Ticker	KCBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	KCBK.QA
ISIN	QA000A0M6MD5
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	25.85/19.52
3-m Average Volume ('000)	70.8
Mkt. Cap. (\$ bn/QR bn)	2.2/8.1
Shares Outstanding (mn)	360.0
FO Limit* (%)	25.0
Current FO* (%)	13.6
1-Year Total Return (%)	(7.2)
Fiscal Year End	December 31

Source: Bloomberg (as of April 06, 2015), \*Qatar Exchange (as of December 06, 2015); Note: FO is foreign ownership

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## Detailed Financial Statements

Income Statement (In QR mn)	2013	2014	2015e	2016e
Net Interest Income	590	749	840	956
Fees & Commissions	143	198	218	233
FX Income	26	(1)	11	12
Dividend Income	7	6	6	6
Gains from Investment Securities	174	60	34	47
Other Income	1	1	1	1
<b>Non-Interest Income</b>	<b>352</b>	<b>264</b>	<b>270</b>	<b>300</b>
<b>Total Income</b>	<b>942</b>	<b>1,013</b>	<b>1,110</b>	<b>1,256</b>
Operating Expenses	(383)	(426)	(440)	(478)
<b>Net Operating Income</b>	<b>560</b>	<b>588</b>	<b>671</b>	<b>778</b>
Net Provisions & Investment Impairment	9	(6)	(45)	(67)
<b>Net Profit Before Taxes &amp; Non-Recurring Items</b>	<b>568</b>	<b>582</b>	<b>626</b>	<b>711</b>
Non-Recurring Income/(Loss)	-	-	-	-
<b>Net Profit Before Taxes</b>	<b>568</b>	<b>582</b>	<b>626</b>	<b>711</b>
Tax	(17)	(19)	(19)	(22)
<b>Net Profit (Headline/Reported)</b>	<b>551</b>	<b>563</b>	<b>607</b>	<b>688</b>
Social & Sports Contribution Fund	(14)	(14)	(15)	(17)
<b>Net Income (Attributable)</b>	<b>537</b>	<b>549</b>	<b>591</b>	<b>671</b>

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

Balance Sheet (In QR mn)	2013	2014	2015e	2016e
<b>Assets</b>				
Cash & Balances with Central Bank	1,297	2,932	1,861	3,628
Interbank Loans	4,286	3,928	4,652	3,628
Net Investments	13,898	16,624	17,854	19,994
Net Loans	20,697	26,877	30,630	36,126
Other Assets	725	508	613	903
Net PP&E	85	177	199	222
Goodwill & Intangible Assets	270	195	195	195
<b>Total Assets</b>	<b>41,259</b>	<b>51,242</b>	<b>56,003</b>	<b>64,697</b>
<b>Liabilities</b>				
Interbank Deposits	12,888	15,005	15,677	18,550
Customer Deposits	19,919	27,443	31,011	36,283
Term Loans	1,899	1,906	1,906	1,906
Other Liabilities	915	1,105	1,395	1,633
<b>Total Liabilities</b>	<b>35,622</b>	<b>45,460</b>	<b>49,989</b>	<b>58,372</b>
<b>Shareholder's Equity</b>				
Share Capital	3,600	3,600	3,600	3,600
Statutory Reserves	1,122	1,178	1,178	1,178
Risk Reserves	431	573	617	728
Fair Value Reserve	5	8	8	8
Foreign Currency Translation Reserve	30	(15)	(15)	(15)
Proposed Dividends	360	360	360	360
Retained Earnings	88	78	266	466
<b>Total Shareholder's Equity</b>	<b>5,637</b>	<b>5,782</b>	<b>6,014</b>	<b>6,325</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>41,259</b>	<b>51,242</b>	<b>56,003</b>	<b>64,697</b>

Source: Company data, QNBFS estimates

**Key Ratios**

	2013	2014	2015e	2016e
<b>Profitability (%)</b>				
NIM	1.7	1.8	1.7	1.7
Spread	1.8	1.8	1.6	1.6
RoAE	9.7	9.9	10.3	11.2
RoAA	1.5	1.2	1.1	1.1
RoRWA	2.1	1.8	1.7	1.7
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	40.6	42.0	39.6	38.1
Cost-to-Income (Core)	49.8	44.7	40.9	39.6
<b>Liquidity (%)</b>				
LDR	103.9	97.9	98.8	99.6
Loans/Assets	50.2	52.5	54.7	55.8
Liquid Assets-to-Total Assets	43.5	42.3	40.0	38.7
<b>Asset Quality (%)</b>				
NPL Ratio	0.34	1.35	1.40	1.30
NPLs-to-Shareholder's Equity	1.25	6.34	7.18	7.48
Cost of Risk	-0.1	0.0	0.1	0.2
<b>Capitalization (%)</b>				
Tier 1 Ratio	16.7	15.3	14.7	12.7
CAR	18.4	15.3	14.7	12.7
<b>Growth (%)</b>				
Net Interest Income	15.5	26.9	12.1	13.9
Total Income	-2.7	7.5	9.5	13.1
Net Income	7.6	2.2	7.8	13.5
Loans	58.8	29.9	14.0	17.9
Deposits	14.8	37.8	13.0	17.0

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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