

Al Khalij Commercial Bank/Al Khaliji (KCBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR21.15	Target Price	QR23.41
Implied Upside	10.7%		

Core Income with Net Reversals Boosts 2013 Earnings

Core banking income along with net reversals drives KCBK's net profit QoQ and YoY. Al Khaliji registered a net profit of QR152.7mn in 4Q2013 (FY2013: QR550.9mn), an increase of 41.8% QoQ and 14.2% YoY. FY2013 net income exceeded our estimate by 6.8% (BBG consensus ex-QNBFS: QR383mn). KCBK declared QR1.00 in DPS (DY: 4.7%, Payout: 65.3%), in line with our estimate.

Highlights

- 2013 analysis:** Net interest income gained by an impressive 15.5% YoY to reach QR590.4mn. Headline NIM dropped to 1.71% vs. 1.82% in 2012. However, when we look at the NIM on an adjusted basis, it appears that KCBK's NIM increased by ~3bps. Moreover, fees & commissions surprised on the upside, surging by 95.2% YoY to rest at QR142.8mn (FY2012: QR73.1mn). Another positive surprise stemmed from FX income. The bank posted QR26.4mn vs. a loss of QR12.1mn in 2012. On the other hand, investment income plummeted by 55.2%, reaching QR174.5mn vs. QR389.7mn in 2012. OPEX ticked up by 2.5% YoY to reach QR382.8mn (FY2012: QR373.3mn). Thus, the cost-to-income ratio increased to 40.6% (FY2012: 38.5%). Finally, a determining factor to KCBK's profitability was a net reversal of QR11.9mn vs. a net provision of QR61.1mn in 2012. RoAE slightly gained from 9.3% to 9.7% in 2013 (management's 3-year target: 15%).
- Phenomenal loan growth.** The bank's loan book surged by 58.8% (QR20.7bn) while deposits expanded 14.8% (QR19.9bn). Thus, KCBK's LDR increased to 104% vs. 75% in 2012. KCBK ended 2013 with NPL and coverage ratios of 0.34% and 322.9%, respectively.
- Outlook for 2014 & 2015:** We expect the bank to expand its loan book by 20.2% and 20.1% in 2014 and 2015, respectively. This along with a marginal pick up in NIMs should translate into bottom-line growth of 10.1% and 14.8% in 2014 (QR606.7mn) and 2015 (QR696.5mn), respectively.

Catalysts

- Visible progress in management's 3-year strategy:** 1) a consistent rise in market share; 2) an expansion of RoAE beyond 12% (FY2013 RoAE: 9.7%); 3) less reliance on treasury operations and 4) announcements/newsflow on infrastructure projects.

Recommendation, Valuation and Risks

- Recommendation and valuation:** *We rate KCBK an Accumulate with a price target of QR23.41.* KCBK trades at a FY2014e P/B of 1.3x.
- Risks:** 1) KCBK's market share does not materialize; 2) Untested loan book and asset quality and 3) concentration risk

Key Financial Data and Estimates

	2012	2013	2014e	2015e
EPS (QR)	1.42	1.53	1.69	1.93
EPS Growth	5.2	7.6	10.1	14.8
P/E (x)	14.9	13.8	12.5	10.9
BVS (QR)	15.8	15.7	16.3	17.2
P/B (x)	1.3	1.4	1.3	1.2
DPS (QR)	1.00	1.00	1.10	1.20
Dividend Yield (%)	4.7	4.7	5.2	5.7

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

Key Data

Current Market Price (QR)	21.15
Dividend Yield (%)	4.7
Bloomberg Ticker	KCBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	KCBK.QA
ISIN	QA000A0M6MD5
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	21.80/15.70
3-m Average Volume ('000)	255.0
Mkt. Cap. (\$ bn/QR bn)	2.1/7.6
Shares Outstanding (mn)	360.0
FO Limit* (%)	25.0
Current FO* (%)	13.9
1-Year Total Return (%)	32.9
Fiscal Year End	December 31

Source: Bloomberg (as of January 23, 2014), *Qatar Exchange (as of January 23, 2014); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509
 shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534
 saugata.sarkar@qnbfs.com.qa

Detailed Financial Statements

Income Statement (In QR mn)	2012	2013	2014e	2015e
Net Interest Income	511	590	709	831
Fees & Commissions	73	143	154	167
FX Income	(12)	26	23	19
Dividend Income	6	7	2	2
Gains from Investment Securities	390	174	141	120
Other Income	1	1	1	1
Non-Interest Income	458	352	321	308
Operating Income	969	942	1,030	1,139
Operating Expenses	(373)	(383)	(390)	(398)
Net Provisions & Investment Impairment	(67)	9	(14)	(23)
Net Profit Before Taxes & Non-Recurring Items	529	568	626	719
Non-Recurring Income/(Loss)	-	-	-	-
Net Profit Before Taxes	529	568	626	719
Tax	(17)	(17)	(19)	(22)
Net Profit	512	551	607	696

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

Balance Sheet (In QR mn)	2012	2013	2014e	2015e
Assets				
Cash & Balances with Central Bank	1,779	1,297	1,554	1,818
Interbank Loans	2,241	4,286	3,107	4,545
Net Investments	15,865	13,898	14,592	15,320
Net Loans	13,032	20,697	24,877	29,889
Other Assets	416	725	821	986
Net PP&E	67	85	95	106
Goodwill & Intangible Assets	274	270	270	270
Total Assets	33,672	41,259	45,316	52,933
Liabilities				
Interbank Deposits	10,031	12,888	10,472	13,189
Customer Deposits	17,346	19,919	25,895	30,297
Term Loans	120	1,899	1,899	1,899
Other Liabilities	505	915	1,165	1,363
Total Liabilities	28,001	35,622	39,432	46,749
Shareholder's Equity				
Share Capital	3,600	3,600	3,600	3,600
Statutory Reserves	1,067	1,122	1,122	1,122
Risk Reserves	258	431	502	603
Fair Value Reserve	233	5	5	5
Foreign Currency Translation Reserve	14	30	30	30
Proposed Dividends	360	360	396	432
Retained Earnings	139	88	228	392
Total Shareholder's Equity	5,671	5,637	5,883	6,184
Total Liabilities & Shareholder's Equity	33,672	41,259	45,316	52,933

Source: Company data, QNBFS estimates

Key Ratios

	2012	2013	2014e	2015e
Profitability (%)				
RoAE	9.3	9.7	10.5	11.5
RoAA	1.7	1.5	1.4	1.4
RoRWA	2.3	2.1	2.0	2.0
Efficiency (%)				
Cost-to-Income (Headline)	38.5	40.6	37.8	34.9
Cost-to-Income (Core)	64.5	49.8	43.8	39.0
Liquidity (%)				
LDR	75.1	103.9	96.1	98.7
Loans/Assets	38.7	50.2	54.9	56.5
Liquid Assets-to-Total Assets	59.1	47.2	42.5	41.0
Asset Quality (%)				
NPL Ratio	0.45	0.34	0.36	0.40
NPLs-to-Shareholder's Equity	1.04	1.25	1.54	1.95
Cost of Risk	0.5	-0.1	0.0	0.1
Capitalization (%)				
Tier 1 Ratio	19.4	16.7	14.8	12.7
CAR	21.4	18.4	16.6	14.6
Growth (%)				
Net Interest Income	(13.0)	15.5	20.0	17.3
Net Operating Income	9.3	-2.7	9.3	10.6
Net Income	5.2	7.6	10.1	14.8
Loans	13.2	58.8	20.2	20.1
Deposits	(8.0)	42.6	43.0	15.0

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

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

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa**Ahmed M. Shehada**

Head of Trading

Tel: (+974) 4476 6535

ahmed.shehada@qnbfs.com.qa**Keith Whitney**

Head of Sales

Tel: (+974) 4476 6533

keith.whitney@qnbfs.com.qa**Sahbi Kasraoui**

Manager - HNWI

Tel: (+974) 4476 6544

sahbi.alkasraoui@qnbfs.com.qa**QNB Financial Services SPC**

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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