KCBK Alert – In-Line 3Q2021; Drop in CoR Drives Bottom-Line as Margins Compressed

- **KCBK's 3Q2021 profitability is in-line with our estimates:** Al Khalij Commercial Bank (KCBK) reported net income of QR188.9mn in 3Q2021 (in-line with our estimate of QR184.9mn; +2.1% variation), increasing by 3.6% YoY (+1.1% sequentially).
- **Drop in CoR aided growth in earnings as margins significantly compressed & non-funded income was lackluster.** Total revenue dropped by 11.8% and 7.2% YoY/QoQ as result of margin pressure and weak non-funded income. Net income only grew by 3.6% YoY due to a drop in net provisions & impairments. The sequential 1.1% growth in the bottom-line was also attributable to a large drop in provisions.
- **Margins significantly compressed YoY/QoQ on a large drop in yield vs. CoFs.** Net Interest Income decreased by 5.9% YoY (-6.6% QoQ) in 3Q2021 to QR319.3mn on the back of a larger drop in asset yields vs. CoFs. Thus, NIMs compressed by ~33bps YoY (-18bps QoQ) to 2.33%.
- **KCBK remained cost efficient.** KCBK generated a cost-to-income ratio of 20.4% vs. 19.4% in 3Q2020 (21.1% in 2Q2021).
- **Asset quality remained healthy.** NPLs (Stage 3 loans) decreased by 1.9% sequentially to QR618.4mn. Moreover, the NPL ratio declined to 1.62% vs. 1.67% in 2Q2021 (1.71% in FY2020). Coverage of Stage 3 loans improved to 84% in 3Q2021 vs. 78% in 2Q2021 (79% in FY2020). *It should be noted that Stage 3 ECLs is immaterial, as the bank allocated the majority of ECLS to Stage 2 (representing 67% of total ECLs).*
- **Provisions for credit losses significantly dropped both YoY and sequentially.** Provisions for credit losses declined from QR108.8mn in 3Q2020 to QR81.5mn in 3Q2021 (-47.5% QoQ).
- **Net loans continued its positive trajectory.** Net loans increased by 0.8% sequentially (+6.9% YTD) to QR36.25bn, while deposits increased by 1.6% QoQ to QR32.22bn (+4.8% YTD).
- **Recommendation and Valuation:** We withdraw our Price Target and recommendation. KCBK ceased to trade after MARK and KCBK shareholders approved their merger.

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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