

QNBFS Alert – CBQK 1Q2015 Disappoints; Estimates Under Review

- **CBQK posted a disappointing bottom-line growth in 1Q2015 due to higher-than-expected provisions.** CBQK reported a net profit of QR452.3mn falling short of our estimate of QR555.3mn (18.5% deviation) as well as BBG's consensus of QR528.40mn (14.4% deviation). This miss was mainly due to provisions. The bank's bottom-line dropped by 15.3% YoY (+22.2% QoQ).
- **However, core income came in line with our estimate.** CBQK reported a net interest income of QR625.5mn in-line with our estimate of QR624.3mn. Moreover, the bank registered a total revenue and net operating income of QR1,052mn (in-line with our estimate of QR1,071.5mn) and QR651.2mn (in-line with our estimate of QR645.5mn), respectively.
- **CBQK reported net provisions and impairments of QR176.3mn vs. our estimate of QR62.0mn, which was the main reason behind the miss.** QoQ growth in bottom-line was driven by lower provisions while the YoY decline was due to a surge in provisions. The bank's net interest income was flat QoQ and inched up by 0.8% YoY. Moreover, annualized NIMs seem to have stabilized QoQ at ~2.54%. On a positive note, fees & commissions grew by 7.6% YoY (+12.2% QoQ). The bank's cost-to-income ratio deteriorated to 38.1% vs. 37.1% in 4Q2014 due to weaker revenue. **On the other hand, the bank's expenses were contained.**
- **Lack of growth in loan book vs. domestic peers not encouraging.** CBQK's loan book dipped by 0.8% YTD to QR71.9bn vs. loan growth of 8.5% for MARK, 4.7% for DHBK, 8.1% for QIBK and 6.1% for QIIK. On the other hand, CBQK's deposits were flat YTD at QR61.7bn. Thus, CBQK ended 1Q2015 with an LDR 117% vs. 118% at the end of 2014. We note that Abank posted a ~10% YTD loan book growth vs. a 11% weakening in TRY spot rates over the same period.
- **Asset quality showing signs of deterioration.** The bank's NPLs increased by 2.2% QoQ with the NPL ratio climbing up to 3.89% vs. 3.79% in FY2014 (1Q2014: 3.55%). On the other hand, the coverage ratio improved to 77% vs. 74% in FY2014.
- **Estimates under review pending discussion with management.** Given the bottom-line miss and CBQK's lackluster loan growth, we will have to adjust our estimates downward after talking to management.

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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