

Kuwait International Bank (KIB)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	KWd 285	Target Price	KWd 319
Implied Upside	12.0%		

Margin Pressure & Provisions Dents 2Q2019 Bottom-Line

Since we initiated coverage on KIB back on July 24, 2019, the stock has rallied 4.8%. We maintain our PT of KWd 319. KIB trades at a significant discount to its historical P/B & P/E. Moreover, the market is pricing in a sustainable RoE of 10.5%, lower than our estimate of 11.7%. Thus, we believe there is room for further upside based on current valuation.

Highlights

- KIB's 2Q2019 bottom-line decreased by 20.5% YoY (-45.4% QoQ) on the back of margin pressure and a sharp increase in provisions.** KIB reported a net profit of KWD 3.4mn vs. KWD 4.3mn in 2Q2018 (KWD 6.2mn in 1Q2019), dropping by 20.5% and 45.4% YoY and sequentially, respectively.
- Net operating income exhibited soft performance due to margin pressure and growth in opex.** Net operating income displayed flat performance in 2Q2019, mitigated by non-funded (+39.9% YoY) as net interest income receded by 4.7%, while opex gained by 8.5%. On a sequential basis, net operating income declined by 8.8% due to a 21.6% jump in opex.
- Margins remained under pressure on the back of CoFs.** Net interest income decreased by 4.7% YoY (-3.6% QoQ) to KWD 12.9mn; KIB's net interest margin compressed by 47bps and 20bps YoY and QoQ to 2.45%, respectively. Heavy pressure on NIM was attributable to aggressive rise in CoFs outweighing yield on assets.
- The bank remains inefficient unsurprisingly.** KIB's C/I ratio jumped to 56% vs. 54% in 2Q2018 (49% in 1Q2019), driven by aggressive growth in opex (8.5% YoY), while revenue only gained by 4.7%. Hence, the bank generated negative JAWS YoY and QoQ basis. In-line with the KIB's strategy for growth, opex is expected to increase as the bank invests in its IT infrastructure and digital banking services.
- Net loans and deposits expanded sequentially and on YTD basis, outpacing the banking sector.** Net loans increased by 5.2% sequentially (+7.2% YTD) to KWD 1.7bn, while deposits also expanded by 3.9% QoQ (+8.2% YTD) to KWD 1.4bn.
- \$300mn ADT1 Sukuk bolsters Tier-1 and supports growth.** With the issuance of ADT1 paper in June 2019, KIB's Tier-1 ratio significantly improved to 19.5% vs. 15.5% in FY2018, while CAR moved up to 20.7%.

Catalysts

- 1) Kuwait's inclusion in MSCI EM Index in 2020, 2) Further recoveries of write-offs & 3) Signs of continued loans and earnings growth.

Recommendation, Valuation and Risks

- Recommendation and valuation:** KIB is trading at a 2019e P/B and P/E of 1.0x and 12.9x, respectively. We maintain our Accumulate rating.
- Risks:** 1) Geo-political factors, 2) Unexpected asset quality deterioration, 3) CoR does not improve & the bank does not achieve its growth objectives.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (KWd)	22.4	22.1	25.1	29.2
Growth	17.8	-1.2	13.6	16.2
P/E (x)	13.2	12.9	11.3	9.8
BVPS (KWd)	281.3	292.9	307.0	324.2
P/B (x)	1.0	1.0	0.9	0.9
DPS (KWd)	11.0	11.0	12.0	12.0
Dividend Yield	3.7	3.9	4.2	4.2

Source: Company data, QNB FS Research

Key Data

Current Market Price (KWd)	285
Dividend Yield (%)	3.7
Bloomberg Ticker	KIB KK
ADR/GDR Ticker	N/A
Reuters Ticker	KIB.KW
ISIN	KW0EQ0100069
Sector	Banks
52wk High/52wk Low (KWd)	330/219
3-m Average Volume (mn)	4.9
Mkt. Cap. (\$ bn/KWD bn)	0.8/0.3
Shares Outstanding (mn)	971,037.0
Current FO* (%)	4.81
1-Year Total Return (%)	+18.0
Fiscal Year End	December 31

Source: Bloomberg (as of August 1, 2019), *Boursa Kuwait (as of July 31, 2019); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In KWD mn)	2016	2017	2018	2019e	2020e	2021e	2022e
Net Interest Income	50	49	54	61	70	80	88
Fees & Commissions	9	9	10	10	10	11	11
FX Income	1	1	1	1	1	1	1
Other Income	4	5	2	3	5	4	4
Non-Interest Income	13	15	13	14	16	15	16
Total Revenue	63	64	67	75	86	95	104
Operating Expenses	(31)	(33)	(36)	(39)	(43)	(46)	(50)
Net Operating Income	33	31	30	36	43	49	54
Net Provisions & Impairments	(14)	(12)	(8)	(10)	(12)	(14)	(13)
Net Profit Before Tax	19	19	22	25	31	35	41
Tax	(1)	(1)	(1)	(1)	(1)	(2)	(2)
Net Profit Before Minority Interest	18	18	21	24	30	34	39
Minority Interest	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net Profit (Headline/Reported)	18	18	21	24	30	33	39
Interest on ADT1 Sukuk				(3)	(5)	(5)	(5)
Net Profit (Attributable to Shareholders)	18	18	21	21	24	28	34

Source: Company data, QNB FS Research

Balance Sheet (In KWD mn)	2016	2017	2018	2019e	2020e	2021e	2022e
Cash & Balances with Central Bank	18	19	42	45	48	52	56
Interbank Loans	393	403	316	294	313	381	315
Net Investments	86	84	106	112	119	120	130
Net Loans	1,268	1,304	1,606	1,837	2,086	2,382	2,625
Other Assets	55	79	71	71	73	74	99
Net PP&E	26	26	29	31	34	36	40
Total Assets	1,846	1,916	2,169	2,391	2,672	3,045	3,266
Liabilities							
Interbank Deposits	418	394	518	462	516	628	561
Customer Deposits	1,125	1,203	1,319	1,490	1,699	1,936	2,169
Other Liabilities	48	54	56	60	65	72	104
Additional Tier-1 Perpetual Sukuk				91	91	91	91
Total Liabilities	1,591	1,652	1,892	2,103	2,370	2,727	2,925
Minority Interest	3	3	3	4	4	4	4
Shareholders' Equity	252	261	273	284	298	315	337
Total Liabilities & Shareholders' Equity	1,846	1,916	2,169	2,391	2,672	3,045	3,266

Source: Company data, QNB FS Research

Ratios	2016	2017	2018	2019e	2020e	2021e	2022e
Profitability (%)							
RoE	7.3	6.9	7.8	7.7	8.4	9.2	10.3
RoAA	1.0	0.9	1.0	1.1	1.2	1.2	1.2
RoRWA	1.5	1.3	1.3	1.2	1.2	1.2	1.2
NIM (% of IEAs)	2.97	2.84	2.87	2.90	2.98	2.99	3.00
NIM (% of RWAs)	4.14	3.69	3.45	3.34	3.36	3.31	3.26
NIM (% of AAs)	2.74	2.61	2.63	2.67	2.75	2.78	2.78
Spread	2.2	1.9	1.8	1.6	1.4	1.2	1.1
Efficiency (%)							
Cost-to-Income (Headline)	48.3	51.7	54.5	52.3	50.0	48.6	48.3
Cost-to-Income (Core)	49.4	53.9	54.8	53.3	51.4	49.4	49.1
Liquidity (%)							
LDR	112.8	108.4	121.8	123.3	122.8	123.0	121.1
Loans/Assets	68.7	68.1	74.0	76.8	78.1	78.2	80.4
Cash & Interbank Loans-to-Total Assets	22.3	22.0	16.5	14.2	13.5	14.2	11.4
Deposits to Assets	60.9	62.8	60.8	62.3	63.6	63.6	66.4
Wholesale Funding to Loans	33.0	30.2	32.2	25.2	24.7	26.3	21.4
IEAs to IBLs	168.5	159.5	151.5	163.9	166.5	162.1	163.8
Asset Quality (%)							
NPL Ratio	1.40	1.19	1.00	0.98	0.90	0.92	0.98
NPLs to Shareholders' Equity	7.3	6.1	6.1	6.9	6.8	7.5	8.2
NPL to Tier 1 Capital	7.6	6.4	6.3	7.1	7.1	7.8	8.5
Coverage Ratio	268.6	282.1	308.0	309.2	350.6	350.0	340.6
ALL/Average Loans	0.2	0.4	0.5	0.7	0.9	1.0	1.2
Cost of Risk (bps)	105	80	132	104	98	89	80
Capitalization (%)							
Tier 1 Ratio	19.4	17.9	15.5	18.9	17.1	15.3	14.9
CAR	20.5	19.1	16.6	20.1	18.3	16.5	16.1
Tier 1 Capital to Assets	13.2	13.1	12.1	15.3	14.2	13.0	12.8
Tier 1 Capital to Loans	19.1	19.3	16.4	19.9	18.2	16.6	15.9
Tier 1 Capital to Deposits	21.6	20.9	20.0	24.5	22.3	20.4	19.3
Growth (%)							
Net Interest Income	3.9	-1.4	9.4	13.3	14.6	14.2	10.4
Non-Interest Income	-59.1	13.2	-14.7	7.9	13.2	-2.6	6.2
Total Revenue	-21.7	1.7	3.7	12.3	14.3	11.1	9.8
Opex	12.2	8.8	9.3	7.7	9.2	7.9	9.1
Net Operating Income	-39.0	-4.9	-2.3	17.7	20.0	14.2	10.4
Net Income (Headline/Reported)	13.8	-2.8	18.0	15.0	22.8	13.4	15.5
Net Income (Attributable)	13.8	-2.8	18.0	2.7	13.6	16.2	18.3
Loans	8.1	2.8	23.1	14.4	13.5	14.2	10.2
Deposits	10.5	7.0	9.6	13.0	14.0	14.0	12.0
Assets	3.1	3.8	13.2	10.2	11.8	14.0	7.2
RWAs	8.7	12.3	21.2	13.6	14.5	16.7	8.5

Source: Company data, QNB FS Research

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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