المجموعة المالية - هيرميس
EFG HERMES

KUWAIT FINANCE HOUSE

1Q2009: Revenue Better than Forecasts but Credit Quality Still a Concern

05 MAY 2009

KUWAIT | BANKING

Short-Term Rec.: Reduce	Current Price* : KWD 1.14
Long-Term Rec. : Neutral	LT Fair Value**: KWD 1.15

• **Net Profit Falls 46% Y-o-Y and Recovers Q-o-Q:** Net profit fell 46% Y-o-Y to KWD39.3 million on lower investment and property income and higher provisioning charges. Earnings recovered substantially Q-o-Q from a loss of KWD64 million as 4Q2008 results included much higher provisioning charges and impairment of investments. Revenues and costs were better than expected, but provisioning charges were significantly higher than forecasts and pretax earnings missed by 1%. Lower taxes and minority interests were the main reasons behind the actual profit beating our estimate by 8%.

• **Total Assets Flat Q-o-Q**: Deposits grew 2% Q-o-Q and 14% Y-o-Y (1% below forecasts). Receivables (equivalent to customer loans) exhibited low but yet growth of 3% Q-o-Q (7% Y-o-Y), in line with forecasts. Total earnings assets were flat Q-o-Q, with short-term liquidity placements falling 10% Q-o-Q.

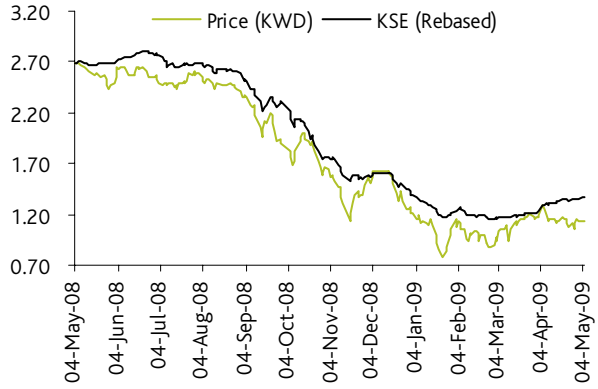
• **Revenues Better than Expectations on Lower Deposits Costs:** Revenues were flat Y-o-Y and 29% lower Q-o-Q. Net interest income rose 35% Y-o-Y (23% better than expected) and fell 60% Q-o-Q. The significant Q-o-Q decline is mainly attributable to 4Q2008 being an exceptionally low base for "profit distribution to depositors". However, this amount can be volatile on a quarterly basis with the final distribution being only approved by the board of directors based on the full-year audited financial statements. The trend for Kuwaiti banks since 4Q2008 seems to be nevertheless a Y-o-Y decline in funding costs, with banks having a more comfortable liquidity position after the loans to deposit ratio ceiling was increased to 85% from 80% in November 2008

• **Non-Interest Income Falls Y-o-Y, Recovers Q-o-Q:** Fee income fell 2% Y-o-Y and 1% Q-o-Q, missing forecasts by 15%. Investment and property related income fell by a combined 33% Y-o-Y but it has recovered substantially Q-o-Q to KWD45 million from KWD18.2 million in 4Q2008.

• **Provisioning Charges Fall Q-o-Q:** Provisions stood at KWD46 million in 1Q2009 above our forecast of KWD25 million. The charge was a significant decline vs. 4Q2008 (KWD233 million including impairment of investments). KFH has indicated that provisioning in 2008 was conservative and that the current level of provisions (stock) is in excess of what is warranted on the basis of current NPLs and regulatory requirements. NPLs had surged 488% in December 2008 Y-o-Y and, according to our calculations, provisions set aside account for 47% of NPLs. The coverage ratio is surely much higher if collaterals are accounted for.

• **Overall a Mixed Set of Results**: The trend in revenues and costs is better than forecast, but this has been offset by higher provisions. We are not accounting for an improvement in provisioning for the remainder of 2009 relative to 1Q2009 and therefore leave our net profit estimate of KWD156 million (flat Y-o-Y) unchanged. Maintain ST Reduce/LT Neutral recommendation.

FLASH NOTE



	2009e	2010e	2011e
EPS	0.068	0.073	0.087
P/E (x)	16.9	15.7	13.2
DPS	0.028	0.030	0.036
Div Yield	2.5%	2.7%	3.2%
BVPS	0.556	0.598	0.648
P/BV (x)	2.1	1.9	1.8

Stock Data	
Last Div and its Date	KWD0.04 on 11 Mar 09
Mkt. Cap / Shares (mn)	KWD2,629 / 2,305
Av. Mthly Liqdty (mn)	KWD152
52-Week High / Low	KWD2.68 / 0.79
Bloomberg / Reuters	KFIN KK / KFIN.KW
Est. Free Float	57%

*Prices as at 04 May 2009
**Adjusted for 11 March 2009 bonus share issue

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Figure 1: Kuwait Finance House's 1Q2009 Results, Main Highlights
KWD million, unless otherwise stated

	1Q08	4Q08	1Q09a	1Q09e	Y-o-Y	Q-o-Q	Vs. Est
Interest Income	133	144	132	153	-1%	-9%	-14%
Estimated Distribution to Depositors	(92)	(7)	(77)	(109)	-17%	922%	-29%
Net Interest Income	**41**	**137**	**55**	**45**	**35%**	**-60%**	**23%**
Net Fees and Commissions	17	16	16	19	-2%	1%	-15%
Other Non-Int Income	72	28	57	53	-20%	104%	8%
Non-Interest Income	**89**	**45**	**74**	**72**	**-17%**	**66%**	**2%**
Banking Income	**130**	**182**	**129**	**117**	**-1%**	**-29%**	**10%**
Total Expenses	(48)	(56)	(41)	(50)	-14%	-26%	-17%
Operating Profit	**82**	**126**	**88**	**67**	**7%**	**-30%**	**31%**
Total Provisions	(4)	(233)	(46)	(25)			
Extraordinary Income	-	-	-	-			
Profit before Tax	**78**	**(108)**	**42**	**42**	**-46%**	**139%**	**-1%**
Taxes	(3)	3	(2)	(1)			
Net Profit before Minorities	**76**	**(64)**	**40**	**41**	**-47%**	**162%**	**-3%**
Minority Interest	(2)	1	(1)	(5)			
Net Profit after Minorities	**73**	**(64)**	**39**	**36**	**-46%**	**162%**	**8%**
Receivables (= Loans)	4,640	4,780	4,943	4,923	7%	3%	0%
Deposits	9,408	6,612	6,723	6,810	-29%	2%	-1%

Source: Kuwait Finance House, EFG-Hermes estimates

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