

Kuwait International Bank (KIBK.KW)

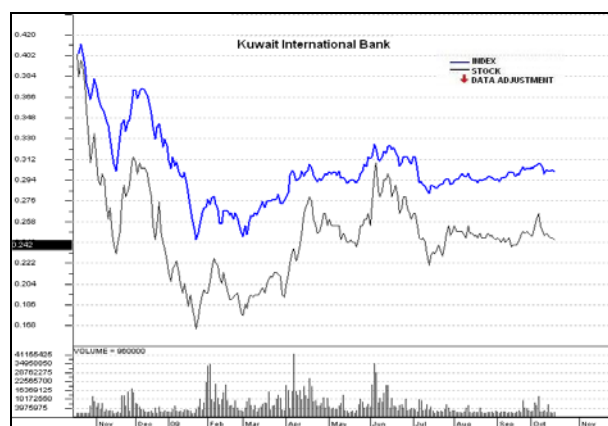
October 29, 2009

Key Data

Listing	Kuwait Stock Exchange
CMP (KWD)	0.242
YTD Change (%)	8.04
52-week High/Low (KWD)	0.415/0.614
Mkt. Capitalization (KWD mn)	251.03
EPS (in fils)	-3.74
BVPS	1.07
P/E	-
P/BV	0.23

Source: Zawya.com

Price History



Financial Summary

KWD (in million)	1H09	1H08	% chg
Murabaha and Other Islamic Financing Income	26.18	43.67	-40.1
Net Financing Income	13.43	19.37	-30.7
Investment income	2.21	11.11	-80.1
Net Fees & Comm. Income	1.33	1.03	28.9
Staff Cost	5.85	5.80	0.8
Net Loss/Profit	-3.49	31.75	-
Share Capital	103.73	94.30	10.0
Depositors' account	700.90	646.63	8.4
Financing Receivables	724.31	725.08	-0.1
Loans & Advances	2.10	2.90	-27.6
Shareholders' Equity	161.76	182.82	-6.2
Total Assets	1,106.02	1,179.65	-6.2
EPS (KWD)*	-0.01	0.07	-
Return on Equity (%)*	-4.32	34.74	-
Return on Assets (%)*	-0.63	5.38	-

*Annualized

For the six months ended June 30, 2009, Kuwait International Bank (KIB) reported a loss of KWD 3.49 million as against a profit of KWD 31.75 million for the same period last year, due to decline in income and higher operating expenses. During the period, the bank reported an impairment loss of KWD 12.74 million. The bank's Murabaha and other Islamic financing income declined 40.1% to KWD 26.18 million resulting in a 30.7% drop in net financing income. Similarly, non-financing income fell 71.0% to KWD 3.37 million, despite a 28.9% increase in net fees & commission income that reached KWD 1.33 million. Consequently, total income was down 45.8% to KWD 16.80 million in 1H09.

Segment-wise, revenues from the commercial & international banking segment, accounting for 68.6% of the total revenues, declined 27.7% to KWD 20.21 million. Revenues from retail banking, treasury, fund management and institutional banking, and investment management segments fell 67.2%, 44.9%, and 82.6%, respectively. On a positive note, revenues from other segment increased 32.6% on a YoY basis. The marginal profits earned from the treasury, fund management and institutional banking, and others segments were offset by losses incurred from the rest of its segments.

On the balance sheet side, depositors increased 8.4% to KWD 700.90 million and liabilities due to banks and other financial institutions, declined 32.3% to KWD 223.58 million. Loans & advances declined 27.6% to KWD 2.10 million during 1H09. Assets due from banks and other financial institutions rose 18.8% to KWD 278.77 million and financing receivables inched down 0.1% to KWD 724.31 million. Total assets were down 6.2% to KWD 1,106.02 million mainly hurt by a 96.6% decline in cash & balances with banks and financial institutions.

During 1H09, shareholders' equity stood at KWD 161.76 million, down 6.2% from KWD 182.82 million during 1H08. Due to the loss incurred during the period, KIB reported a negative annualized RoE of 4.3% compared to a positive 34.7% last year. Similarly, annualized RoA deteriorated to a negative 0.6% from a positive 5.4% during 1H08.

Company Profile

Kuwait International Bank K.S.C (KIB), formerly known as Kuwait Real Estate Bank (KREB), was established on May 13, 1973. The bank is principally engaged in providing retail, commercial, international, property management, and real estate appraisal services. Since July 2007, the bank has been exercising its business as an Islamic bank and carries out all banking and investment transactions in compliance with the provisions of the Islamic Shariah.

As part of its strategy to expand across governorates, on November 30, 2008, the bank inaugurated a new branch in Kuwait. KIB's subsidiaries include Financial Group of Kuwait, Kuwait Projects Company for Contracting & Building at 50.0% interest each. Meanwhile, Al Hoda Company for Hotels & Tourism, and Al Baraka Kuwaiti Company for General Trading hold 9.0% and 5.3% share in KIB, while the remaining 85.7% is held by the public.

Industry Overview

Kuwait is expected to grow at 2.2% in 2010, following a projected decline of 1.2% in 2009. On the other hand, the GCC is expected to grow by 5.2% in 2010 after a decline of 0.7% in 2009. Although Kuwait's inflation was reported at 5.9% during September 2009, in terms of the overall economic recovery, Kuwait lags behind the rest of the GCC countries. On the liquidity front, Kuwaiti money supply growth slowed to 14.7% in September 2009 from 18.8% in August 2009. The broadest measure of money circulating in the economy, M3, stood at KWD 24.58 billion compared to KWD 21.43 billion during September 2008. The inter bank overnight offer rate plunged to 0.766% during August 2009 from 4.452% a year ago. Assets of Kuwait's banking industry declined 65.3% YoY during 1H09, whereas the assets of the overall GCC banking industry declined by 23.5% during the same period.

Over the last decade, the Islamic finance industry has grown rapidly at an annual rate of 20-30%. Islamic finance is being hailed as an alternative to the risk-prone conventional financial services. France and the UK have also been trying to attract Islamic finance investments from Kuwait, while North America is expected to be the next big growth market for the Shariah financing. Meanwhile, Islamic financing is expected to become an important source for the aircraft financing industry in the Middle East with financing requirements of Middle Eastern airlines such as Emirates, Etihad, Qatar Airways and budget carrier Flydubai expected to increase substantially over the next two years.

According to a study by the Asian Banker Research, a Singapore-based publication, during 2008, total asset base of the top 100 Islamic banks registered a 66.0% growth to USD 580.00 billion compared to USD 350.00 billion in the previous year. According to a recent survey, the GCC bonds and Sukuk volume reached USD 18.4 billion, a YoY increase of 37% during 1H09. However, bonds and Sukuk volumes, in 1H09, were less than half of the total year volume peak of 2007. The conventional issuances raised USD 17.30 billion representing 93.9% of the total value raised through 32 issues during 1H09 compared to USD 1.10 billion for Sukuk through 12 issues during the same period last year. The sovereign issuances dominated majority of the amount raised (USD 12.70 billion) during 1H09 following the trend observed since 2003 except for the peak years of 2006 to 2008, where corporate issuances dominated the market. During the period under review, conventional corporate bond issuance in the GCC increased 15%, while Sukuk issuances were down 74%.

Kuwait presently has three Islamic banks including Kuwait Finance House, Boubyan Bank and KIB. Meanwhile, the Kuwaiti government has approved the establishment of a fourth Islamic bank called Warba Bank, with a capital of KWD 100 million (USD 350 million). About 76% of the new Islamic bank will be held by the public which is worth USD 265 million, while the remaining 24% stake will be owned by the state owned sovereign wealth fund, Kuwait Investment Authority. While local companies are allowed to issue Islamic Sukuks, the country still needs to establish comprehensive legal regulation regarding issuance of various Islamic financial instruments. It is believed that the costs of structuring and issuing Sukuks are much higher compared to that for conventional bank loans and bond issuance. S&P opines that high financing costs would be a significant deterrent for the future growth of Sukuks in the Gulf region.

Recent Developments

During June 2009, KIB signed an agreement with National Web Solutions (Mawaqaa) to design and implement a comprehensive content management system and a suite of integrated web solutions for their new web site. As part of its strategy to attract new customers, the bank held a marketing exhibition of its products offering unique Islamic banking services at Zakat House and Kuwait Oil Company Hospital. In March 2009, KIB's 'Al-Joud Deposit' won the 'Best Investment Product in the Middle East' award by the Banker Middle East Magazine. The bank also launched the SMS service to its customers which enables them to check their own accounts via SMS all over the world.

Outlook

Most of the Kuwaiti banks have been able to deal successfully with the repercussions of the global economic crisis due to the implementation of the financial stability law during 1H09. As growth of the banking sector depends on the performance of the economy, recessionary forces may continue to pressurize growth in the business volumes of the banks. However, the government's initiatives to promote Shariah-compliant products aim to restore confidence and limit the negative impact of the slowdown. KIB reported losses of KWD 3.49 million along with impairment losses and provisions for the same. KIB's growth initiatives keep its long-term growth drivers intact. However at the same time, exposure to real estate and investment income remains key causes for concern. We believe that the bank will capitalize on the growing demand for Islamic financial products reflected by its conscious efforts to expand its customer base.

KIB made a loss per share of 3.74 fils in 1H09, against an earnings per share of 34.01 fils in 1H08. Currently KIB's stock is trading at KWD 0.242, and has fallen 8.04% so far this year while the Kuwait Stock Exchange lost 2.2%. Considering the above discussed factors, we maintain our NEUTRAL opinion on the stock.

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