

## Doha Bank (DHBK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR22.29</b>	<b>Target Price</b>	<b>QR26.00</b>
<b>Implied Upside</b>	<b>16.6%</b>		

### 1Q2019 Results Weaker Than Expected; CoR Remains Elevated

DHBK has been the worst performing bank stock in Qatar due to concerns on asset quality emanating from the contracting segment loans and GCC operations. On a 1-year TTR basis, the stock is down 13.3%. Lackluster results followed a weak 2018 with 1Q2019 earnings dropping by 19.4% YoY on weak net operating income and a surge in provisions. **For the time being, we maintain our estimates for 2019 and 2020. However, if this negative trend continues into the 2<sup>nd</sup> quarter, we may have to lower our estimates.**

#### Highlights

- **DHBK's 1Q2019 bottom-line drops on the back of margin pressure and a sharp increase in CoR.** DHBK reported a net profit of QR307.5mn vs. QR381.3mn in 1Q2018, dropping by 19.4% and falling short of our estimate of QR362.5mn (-15.2% variation). The earnings miss can be attributed to a drop in net interest income (12.0%) and a YoY surge in provisions for credit losses. The bank booked credit provisions of QR119.9mn vs. QR49.7mn in 1Q2018. On the other hand, a 62.7% QoQ drop in provisions mainly drove the sequential surge (231.5%) in profitability.
- **Provisions for credit losses remained elevated and should continue to do so in 2019.** DHBK booked credit provisions of QR119.9mn vs. QR49.7mn in 1Q2018, which translates into CoR of 75ps & 31bps (FY2018: 149bps), respectively. Provisions in 2019 are expected to hover around the 2018 level, as DHBK will book more provisions on its GCC (Kuwait & UAE) operations. As such, 60% of total provisions are GCC-related.
- **Spreads and margins compressed YoY but remained flat QoQ.** Net interest income dropped by 12.0% to QR492.mn YoY. DHBK's net interest margin contracted by 37bps to 2.27%. The compression in the NIM was due to CoFs gaining by 45bps, while yield on assets increasing by only 7bps. Sequentially CoFs and yield on IEAs moved in line. *We are of the opinion that CoFs aggressively increased as the bank needed to protect its funding and liquidity position.*
- **Operating efficiency improved.** DHBK's opex dropped by 10.8% while revenue declined by 9.0%. Hence, the C/I ratio improved to 35.7% vs. 36.5% in 1Q2018 (32.3% in 4Q2018). *Management is exercising cost-containment as it treads through a challenging period.*
- **Asset quality remains an issue.** DHBK's NPL ratio remained flat at 5.88% vs. 5.85% in FY2018 (3.61% in FY2017). On the other hand, absolute NPLs declined by 3.2% mainly due to write-offs. The coverage ratio for Stage 3 loans slightly declined to 96% vs. 98% in the previous quarter; prior to 3Q2018 coverage was greater than 100%. *The majority of Stage 2 loans (32% of total loans) are comprised of the contracting segment, which remains a challenge.*
- **Net loans and deposits sequentially declined.** Net loans declined by 1.9% QoQ to QR58.7bn, while deposits followed suit and dropped by 2.4% sequentially to QR54.5bn. Hence, the bank's LDR remained elevated at 108% vs. 107% in FY2018 (101%: end of 2017). However, LDR (based on stable sources of funds) remained healthy at 94% vs. 92% in FY2017. *The drop in Loans is due to the bank's efforts in de-risking its books.*
- **Tier-1 ratio remained stable as the bank optimized its RWAs.** DHBK's CET1 ratio remained flattish 10.8% vs. 10.7% in FY2018, still above the minimum limit of 9.0%. CAR also remained stable at 17.1% vs. 17.0% in FY2018. *We forecast CET1 ratio of 10.0% in the coming few years as the bank manages its RWAs optimally.*

#### Catalysts

- Stock price improvement depends on a resumption of confidence in company performance.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation:** DHBK is trading at a 2019e P/B and P/E of 0.8x and 11.3x, respectively.
- **Risks:** 1) Geopolitical factors and 2) Contracting segment

#### Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS	1.97	1.97	2.56	3.48
Growth	-31.4	0.1	30.2	35.5
P/E (x)	11.3	11.3	8.7	6.4
BVPS (QR)	28.2	29.1	30.5	32.7
P/B (x)	0.8	0.8	0.7	0.7
DPS (QR)	1.00	1.00	1.25	1.25
Dividend Yield (%)	4.6	4.6	5.7	5.7

Source: Company data, QNB FS Research

#### Key Data

Current Market Price (QR)	22.29
Dividend Yield (%)	4.5
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	27.50/18.90
3-m Average Volume ('000)	350.6
Mkt. Cap. (\$ bn/QR bn)	1.9/6.9
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	10.0
1-Year Total Return (%)	-13.3
Fiscal Year End	December 31

Source: Bloomberg (as of May 1, 2019), \*Qatar Exchange (as of April 30, 2019); Note: FO is foreign ownership

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## Detailed Financial Statements

<b>Income Statement (In QR mn)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
<b>Net Interest Income</b>	<b>2,073</b>	<b>2,255</b>	<b>2,081</b>	<b>2,172</b>	<b>2,370</b>	<b>2,582</b>
Fees & Commissions	460	420	388	376	389	369
FX Income	102	107	115	120	126	127
Other Income	115	106	51	97	91	85
<b>Non-Interest Income</b>	<b>677</b>	<b>633</b>	<b>554</b>	<b>594</b>	<b>605</b>	<b>581</b>
<b>Total Revenue</b>	<b>2,750</b>	<b>2,888</b>	<b>2,635</b>	<b>2,765</b>	<b>2,975</b>	<b>3,164</b>
Operating Expenses	(1,078)	(1,045)	(937)	(897)	(918)	(962)
<b>Net Operating Income</b>	<b>1,672</b>	<b>1,843</b>	<b>1,698</b>	<b>1,868</b>	<b>2,058</b>	<b>2,202</b>
Net Provisions	(620)	(735)	(864)	(1,014)	(1,008)	(858)
<b>Net Profit Before Tax</b>	<b>1,052</b>	<b>1,109</b>	<b>834</b>	<b>854</b>	<b>1,050</b>	<b>1,344</b>
Tax	2	1	(4)	(4)	(5)	(6)
<b>Net Profit (Reported/Headline)</b>	<b>1,054</b>	<b>1,110</b>	<b>830</b>	<b>851</b>	<b>1,045</b>	<b>1,338</b>
Interest on Tier-1 Note	(220)	(220)	(220)	(240)	(250)	(260)
Social & Sports Contribution Fund	(26)	(28)	(21)	(21)	(26)	(33)
<b>Attributable Net Profit</b>	<b>807</b>	<b>862</b>	<b>589</b>	<b>589</b>	<b>769</b>	<b>1,044</b>

Source: Company data, QNB FS Research

<b>Balance Sheet (In QR mn)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2020e</b>
Cash & Balances with Central Bank	4,260	6,670	7,586	6,788	7,869	6,658
Interbank Loans	10,505	7,822	6,239	7,556	8,142	6,637
Net Investments	14,706	17,513	20,727	24,655	28,168	33,036
Net Loans	59,186	59,804	59,844	62,968	67,846	73,743
Other Assets	936	978	1,115	1,585	1,029	1,118
Net PP&E	771	709	621	576	563	552
<b>Total Assets</b>	<b>90,365</b>	<b>93,495</b>	<b>96,132</b>	<b>104,129</b>	<b>113,617</b>	<b>121,744</b>
<b>Liabilities</b>						
Interbank Deposits	12,275	11,005	19,529	26,135	29,993	29,728
Customer Deposits	55,730	59,468	55,785	56,569	60,529	66,582
Term Loans	6,814	6,091	5,592	6,263	7,202	8,643
Other Liabilities	2,165	2,124	2,494	2,150	2,421	2,663
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>80,984</b>	<b>82,688</b>	<b>87,399</b>	<b>95,116</b>	<b>104,145</b>	<b>111,616</b>
<b>Total Shareholders' Equity</b>	<b>9,381</b>	<b>10,807</b>	<b>8,733</b>	<b>9,013</b>	<b>9,471</b>	<b>10,128</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>90,365</b>	<b>93,495</b>	<b>96,132</b>	<b>104,129</b>	<b>113,617</b>	<b>121,744</b>

Source: Company data, QNB FS Research

<b>Ratios &amp; Financial Indicators</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019e</b>	<b>2020e</b>	<b>2021e</b>
<b>Profitability (%)</b>						
RoE (Attributable) Based on Beg. Book Value	8.7	9.2	5.5	6.7	8.5	11.0
RoAA (Attributable)	1.2	1.2	0.9	0.8	1.0	1.1
RoRWA (Attributable)	1.0	1.1	0.8	0.7	0.9	1.2
NIM (% of IEAs)	2.60	2.71	2.45	2.40	2.39	2.38
NIM (% of RWAs)	2.60	2.85	2.67	2.74	2.83	2.87
NIM (% of AAs)	2.39	2.45	2.19	2.17	2.18	2.19
Spread	2.3	2.5	2.3	2.2	2.2	2.1
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	39.2	36.2	35.5	32.4	30.8	30.4
Cost-to-Income (Core)	39.8	36.8	35.4	32.9	31.2	30.6
<b>Liquidity (%)</b>						
LDR	106.2	100.6	107.3	111.3	112.1	110.8
Loans/Assets	65.5	64.0	62.3	60.5	59.7	60.6
Cash & Interbank Loans-to-Total Assets	16.3	15.5	14.4	13.8	14.1	10.9
Deposits to Assets	61.7	63.6	58.0	54.3	53.3	54.7
Wholesale Funding to Loans	32.3	28.6	42.0	51.5	54.8	52.0
IEAs to IBLs	1.1	1.1	1.1	1.1	1.1	1.1
<b>Asset Quality (%)</b>						
NPL Ratio	3.27	3.61	5.84	6.00	5.75	4.50
NPL to Shareholders' Equity	21.5	20.9	43.5	45.9	45.2	35.9
NPL to Tier 1 Capital	24.4	23.3	46.2	48.7	48.3	38.3
Coverage Ratio	119.7	124.8	137.6	145.3	155.3	194.9
ALL/Average Loans	4.0	4.5	8.2	9.0	9.3	9.1
Cost of Risk (%)	81	95	149	147	129	95
<b>Capitalization (%)</b>						
Tier 1 Ratio	15.4	17.4	15.8	15.4	14.9	14.4
CAR	15.6	17.5	17.0	16.5	16.1	15.6
Tier 1 Capital to Assets	13.6	14.7	12.7	12.0	11.3	11.1
Tier 1 Capital to Loans	20.7	22.9	20.4	19.8	19.0	18.3
Tier 1 Capital to Deposits	22.0	23.0	21.9	22.1	21.3	20.3
Leverage (x)	9.6	8.7	11.0	11.6	12.0	12.0
<b>Growth (%)</b>						
Net Interest Income	1.2	8.8	-7.7	4.4	9.1	9.0
Non-Interest Income	-11.5	-6.5	-12.4	7.1	2.0	-3.9
Total Revenue	-2.2	5.0	-8.8	4.9	7.6	6.3
Opex	4.6	-3.1	-10.3	-4.3	2.3	4.8
Net Operating Income	-6.1	10.3	-7.9	10.0	10.1	7.0
Net Income (Headline/Reported)	-23.3	5.3	-25.2	2.5	22.9	28.0
Net Income (Attributable)	-33.8	6.8	-31.6	0.0	30.5	35.8
Loans	6.4	1.0	0.1	5.2	7.7	8.7
Deposits	5.6	6.7	-6.2	1.4	7.0	10.0
Assets	8.5	3.5	2.8	8.3	9.1	7.2
RWAs	-0.8	-0.7	-2.2	5.2	6.3	8.6

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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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