

Doha Bank (DHBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.65	Target Price	QR2.60
Implied Upside	(1.9%)		

CoR to Remain Elevated 2019/2020; RoE to Pick up Post 2020

DHBK has faced headwinds over the past couple of years due to concerns on asset quality emanating from its contracting segment loans and GCC operations. Hence, the bank has set forth a strategy of exercising prudent risk control, de-risking the balance sheet & cost cutting. Post 2020, we expect RoE to improve significantly. Having said this, the stock trades at a PEG of 0.9x (around fair value) based on an earnings CAGR of 14.3%. Moreover, the market is pricing in a sustainable RoE of 10.3%, in-line with our estimate (10.5%). **We revise our estimates for 2019, 2020 & 2021. We maintain our PT at QR2.60 and our Market Perform rating.**

Highlights

- DHBK's 2Q2019 YoY surge was attributable to a drop in provisions & impairments masking weak revenue/margin compression.** Doha Bank (DHBK) reported a net income of QR211.1mn, surging by 136.3% YoY. Growth was due to a 35.7% drop in provisions & impairments (to a certain degree, base effect). Net interest income dropped by 10.1% YoY (down 4.8% QoQ) to QR469.2mn, while non-funded income expanded by 29.2% (+30.9% QoQ) on strong investment income (DHBK generated investment losses in 2Q2018). Bottom-line sequentially dropped by 31.3% due to a surge in provisions. *Core banking revenue was weak as expected.*
- Provisions to remain elevated in 2019 and 2020, but sharply drop in 2021.** DHBK reported provisions for credit losses of QR296.9mn in 2Q2019 vs. QR119.9mn in 1Q2019 (QR398.7mn in 2Q2018). However, 1H2019 CoR declined to 126bps vs. 143bps in 1H2018 (149bps in FY2018). *We expect further provisions for 2019 & 2020 and a CoR of 143bps and 138bps, respectively.* DHBK will book more provisions on its GCC (Kuwait & UAE) operations. As such, 70% of total provisions are GCC-related.
- Spreads and margins continue to compress as the bank de-risks its balance sheet.** DHBK's net interest margin contracted by 16bps and 7.5bps YoY and sequentially, respectively, to 2.10%. The compression in the spread YoY was due to cost of funds increasing by ~19bps, while yield on assets remained flat. On a QoQ basis, the contraction in the NIM was also a result of CoFs expanding with yields remaining flat; CoFs expanded by 8bps vs. flat yields.
- Cost control is aiding the bank's operations and will continue to do so.** DHBK's opex receded by 5.3% YoY vs. a 1.6% decline in total revenue, resulting in flat net operating income. C/I ratio improved, declining to 35% vs. 37% in 2Q2018 (36% in 1Q2019). *Management is exercising cost-containment as it treads through a challenging period. Opex is modeled to drop further in 2019 and 2020 before flattening out 2021.*
- Asset quality remains a major concern.** Asset quality deteriorated with the bank's NPLs gaining by 4.8% QoQ (+1.4% YTD) to QR3.9bn. Moreover, the NPL ratio moved to 5.83% from 5.78% in 1Q2019 (5.84% FY2018 & 3.61% FY2017). The coverage ratio for Stage 3 loans remained stable at 95% vs. 96% in the previous quarter and 98% in FY2018. The bank's contracting portfolio remains a challenge. So far, in 1H2019, DHBK has written off QR537.1mn in impaired loans, which represents 0.8% of loans and 14.1% of FY2018 NPLs. *The majority of Stage 2 loans (29% of total loans) are comprised of the contracting segment, which remains a challenge.*
- Net loans and deposits gained traction sequentially.** Net loans expanded by 3.8% QoQ (+1.8% YTD) to QR60.9bn while deposits gained by 2.1% QoQ (flat YTD) to QR55.6bn. Hence, the bank's LDR deteriorated to 110% from 108% in 1Q2019 (107% end of 2018). However, LDR (based on stable sources of funds) remained acceptable at 96% vs. 94% in 1Q2019 (92% FY2018). *We pencil in mid-digit growth in loans for 2019 and 2020.*

Catalysts

- Stock price improvement depends on a resumption of confidence in company performance & realization of management's goals and objectives.

Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2019e P/B and P/E of 0.9x and 12.3x, respectively. The stock trades at a PEG of 0.9x (around fair value) on a 5 year earnings CAGR of 14.3%.
- Risks:** 1) Geopolitical factors, 2) Contracting segment & 3) GCC exposure.

Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (QR)	0.20	0.22	0.24	0.31
Growth	-31.4	9.6	10.7	31.5
P/E (x)	13.5	12.3	11.1	8.4
BVPS (QR)	2.8	2.9	3.1	3.3
P/B (x)	0.9	0.9	0.9	0.8
DPS (QR)	0.100	0.100	0.100	0.125
Dividend Yield (%)	4.6	4.6	5.7	5.7

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	2.65
Dividend Yield (%)	4.6
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.80/1.89
3-m Average Volume (mn)	2.96
Mkt. Cap. (\$ bn/QR bn)	2.3/8.2
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	12.0
1-Year Total Return (%)	+5.9
Fiscal Year End	December 31

Source: Bloomberg (as of August 04, 2019), *Qatar Exchange (as of August 04, 2019); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2019e			2020e			2021e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,172	2,051	(5.6)	2,370	2,202	(7.1)	2,582	2,377	(7.9)
Non Interest Income	594	628	5.8	605	619	2.3	581	626	7.8
Total Revenue	2,766	2,679	(3.1)	2,975	2,821	(5.2)	3,163	3,004	(5.0)
Opex	(898)	(873)	(2.8)	(917)	(857)	(6.6)	(961)	(864)	(10.1)
Net Operating Income	1,868	1,807	(3.3)	2,058	1,964	(4.6)	2,202	2,140	(2.8)
Net Income (Reported/Headline)	851	889	4.4	1,045	960	(8.1)	1,338	1,203	(10.1)
Net Income (Attributable)	589	646	9.8	769	716	(6.9)	1,044	943	(9.7)

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
Net Interest Income	2,073	2,255	2,081	2,051	2,202	2,377
Fees & Commissions	460	420	388	410	424	403
FX Income	102	107	115	120	126	127
Other Income	115	106	51	98	69	96
Non-Interest Income	677	633	554	628	619	626
Total Revenue	2,750	2,888	2,635	2,679	2,821	3,004
Operating Expenses	(1,078)	(1,045)	(937)	(873)	(857)	(864)
Net Operating Income	1,672	1,843	1,698	1,807	1,964	2,140
Net Provisions	(620)	(735)	(864)	(914)	(1,000)	(931)
Net Profit Before Tax	1,052	1,109	834	893	964	1,209
Tax	2	1	(4)	(4)	(4)	(5)
Net Profit (Reported/Headline)	1,054	1,110	830	889	960	1,203
Interest on Tier-1 Note	(220)	(220)	(220)	(220)	(220)	(230)
Social & Sports Contribution Fund	(26)	(28)	(21)	(22)	(24)	(30)
Attributable Net Profit	807	862	589	646	716	943

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2020e
Cash & Balances with Central Bank	4,260	6,670	7,586	6,788	6,658	7,324
Interbank Loans	10,505	7,822	6,239	6,317	6,047	7,448
Net Investments	14,706	17,513	20,727	25,258	30,098	30,565
Net Loans	59,186	59,804	59,844	63,170	67,189	73,017
Other Assets	936	978	1,115	1,780	1,355	1,107
Net PP&E	771	709	621	648	647	616
Total Assets	90,365	93,495	96,132	103,962	111,995	120,077
Liabilities						
Interbank Deposits	12,275	11,005	19,529	22,475	25,459	25,316
Customer Deposits	55,730	59,468	55,785	56,569	60,529	66,582
Term Loans	6,814	6,091	5,592	7,605	9,506	11,407
Other Liabilities	2,165	2,124	2,494	4,243	3,026	2,663
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	80,984	82,688	87,399	94,892	102,520	109,968
Total Shareholders' Equity	9,381	10,807	8,733	9,070	9,476	10,109
Total Liabilities & Shareholders' Equity	90,365	93,495	96,132	103,962	111,995	120,077

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2016	2017	2018	2019e	2020e	2021e
Profitability (%)						
RoE (Attributable) Based on Beg. Book Value	8.7	9.2	5.5	7.4	7.9	10.0
RoAA (Attributable)	1.2	1.2	0.9	0.9	0.9	1.0
RoRWA (Attributable)	1.0	1.1	0.8	0.9	0.9	1.1
NIM (% of IEAs)	2.60	2.71	2.45	2.28	2.24	2.23
NIM (% of RWAs)	2.60	2.85	2.67	2.72	2.85	2.83
NIM (% of AAs)	2.39	2.45	2.19	2.05	2.04	2.05
Spread	2.3	2.5	2.3	2.1	2.0	2.0
Efficiency (%)						
Cost-to-Income (Headline)	39.2	36.2	35.5	32.6	30.4	28.8
Cost-to-Income (Core)	39.8	36.8	35.4	33.4	30.7	29.0
Liquidity (%)						
LDR	106.2	100.6	107.3	111.7	111.0	109.7
Loans/Assets	65.5	64.0	62.3	60.8	60.0	60.8
Cash & Interbank Loans-to-Total Assets	16.3	15.5	14.4	12.6	11.3	12.3
Deposits to Assets	61.7	63.6	58.0	54.4	54.0	55.4
Wholesale Funding to Loans	32.3	28.6	42.0	47.6	52.0	50.3
IEAs to IBLs	1.1	1.1	1.1	1.1	1.1	1.1
Asset Quality (%)						
NPL Ratio	3.27	3.61	5.84	6.00	5.60	4.50
NPL to Shareholders' Equity	21.5	20.9	43.5	45.6	43.5	35.6
NPL to Tier 1 Capital	24.4	23.3	46.2	48.4	46.1	37.9
Coverage Ratio	119.7	124.8	137.6	140.4	155.6	190.4
ALL/Average Loans	4.0	4.5	8.2	8.7	9.0	8.9
Cost of Risk (%)	81	95	149	143	138	95
Capitalization (%)						
Tier 1 Ratio	15.4	17.4	15.8	17.0	16.1	15.4
CAR	15.6	17.5	17.0	18.2	17.2	16.6
Tier 1 Capital to Assets	13.6	14.7	12.7	12.1	11.6	11.2
Tier 1 Capital to Loans	20.7	22.9	20.4	19.9	19.3	18.5
Tier 1 Capital to Deposits	22.0	23.0	21.9	22.2	21.4	20.3
Leverage (x)	9.6	8.7	11.0	11.5	11.8	11.9
Growth (%)						
Net Interest Income	1.2	8.8	-7.7	-1.4	7.4	8.0
Non-Interest Income	-11.5	-6.5	-12.4	13.4	-1.5	1.2
Total Revenue	-2.2	5.0	-8.8	1.7	5.3	6.5
Opex	4.6	-3.1	-10.3	-6.8	-1.8	0.8
Net Operating Income	-6.1	10.3	-7.9	6.4	8.7	8.9
Net Income (Headline/Reported)	-23.3	5.3	-25.2	7.0	8.0	25.3
Net Income (Attributable)	-33.8	6.8	-31.6	9.7	10.8	31.7
Loans	6.4	1.0	0.1	5.6	6.4	8.7
Deposits	5.6	6.7	-6.2	1.4	7.0	10.0
Assets	8.5	3.5	2.8	8.1	7.7	7.2
RWAs	-0.8	-0.7	-2.2	-4.4	9.2	8.7

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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