

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR21.92	New Target Price	QR26.00
Implied Upside	+18.6%	Old Target Price	QR28.00

2019 CoR & Bottom-line Expected to be In-Line with 2018

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 25.2%. We are lowering our estimates and our PT to QR26.00 vs. QR28.00 (previously). We maintain our Market Perform Rating.

Highlights

- DHBK's 2018 bottom-line drops on the back of margin pressure, weak non-funded income and a sharp increase in CoR.** DHBK reported a headline net profit of QR830.2mn vs. QR1.1bn in 2017, dropping by 25.2% YoY. This was attributed to a drop in net interest income (7.7%), weak non-funded income (drop in fees and investment losses) and a surge in provisions for credit losses.
- Provisions for credit losses remained elevated and are expected to continue to do so in 2019.** DHBK booked credit provisions of QR951.7mn vs. QR592.5mn in 2017, which translates into CoR of 149bps & 95bps (81bps in 2016), 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 allocated to GCC. We pencil in CoR of 147bps (2019), 129bps (2020) and 95bps (2021).
- Spreads and margins compressed in 2018.** Net interest income dropped by 7.7% to QR2.2bn. DHBK's net interest margin contracted by 26bps. The compression in the NIM was due to CoFs gaining by 53bps, while yield on assets increasing by only 26bps. 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 10.3% while revenue declined by 8.8%. Hence, the C/I ratio improved to 35.5% vs. 36.2% in 2017 (39.2% in 2016). We estimate further cuts in opex for 2019.
- Asset quality continued to worsen, NPL ratio expected to reach 6% in 2019.** DHBK's asset quality deteriorated with the bank's NPLs gaining by 17.5% QoQ (+68.3% YoY) to QR3.8bn. Moreover, the NPL ratio moved to 5.85% from 5.05% in 3Q2018 (3.61% in FY2017). The coverage ratio for Stage 3 loans declined to 98% vs. 106% in the previous quarter and 119% in 2Q2018. The majority of Stage 2 loans (31% of total loans) are comprised of the contracting segment, which remains a challenge.
- Gross loans gained traction while deposits dropped on a YoY basis.** Gross loans grew by 3.8% YoY to QR65.0bn while deposits expanded by 6.9% QoQ (-6.7% YoY) to QR55.5bn. Hence, the bank's LDR improved to 108% from 114% in 3Q2018 (101%: end of 2017). However, LDR (based on stable sources of funds) remained healthy at 92% vs. 91% in 2017. The sequential 6.9% jump in deposits was driven by the public sector. We forecast mid-single digit growth for loans and flattish deposits in 2019.
- IFRS 9 negatively impacted CET1, wiping out QR1.37bn in risk reserves.** DHBK's CET1 ratio receded to 10.3% at the end of 2018 vs. 12.3% in 2017, still above the minimum limit of 9.0%. We forecast CET1 ratio of 10.0% in the coming few years as the bank manages its RWA's optimally.
- Cut in DPS is a positive.** DHBK recommended cash DPS of QR1.00 (yielding 4.6%) vs. QR3.00 in 2017. In our view, the cut in DPS was necessary in order to prevent the CET1 ratio from dropping below 10%. Had the bank maintained a DPS of QR3.00, CET1 would have dropped to 9.5%. We expect marginal increases in the DPS going forward but not to the extent of its historical trend.

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 11.1x, 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	3.47
Growth	-34.8	0.1	29.9	35.7
P/E (x)	11.1	11.1	8.6	6.3
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)	21.92
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)	34.98/19.75
3-m Average Volume ('000)	632.5
Mkt. Cap. (\$ bn/QR bn)	1.9/6.8
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	10.9
1-Year Total Return (%)	-25.2
Fiscal Year End	December 31

Source: Bloomberg (as of February 6, 2019), *Qatar Exchange (as of February 5, 2019); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,347	2,171	(7.5)	2,531	2,368	(6.5)
Non Interest Income	691	593	(14.2)	695	605	(13.0)
Net Operating Income	1,927	1,868	(3.1)	2,064	2,055	(0.4)
Net Income (Reported/Headline)	1,223	851	(30.4)	1,359	1,043	(23.2)
Net Income (Attributable)	972	589	(39.4)	1,105	767	(30.6)

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Net Interest Income	2,081	2,171	2,368	2,581
Fees & Commissions	388	376	389	369
FX Income	115	120	126	127
Other Income	51	97	90	85
Non-Interest Income	554	593	605	581
Total Revenue	2,635	2,765	2,972	3,162
Operating Expenses	(937)	(897)	(918)	(962)
Net Operating Income	1,698	1,868	2,055	2,200
Net Provisions & Impairments	(864)	(1,013)	(1,007)	(857)
Net Profit Before Tax	834	855	1,048	1,343
Tax	(4)	(4)	(5)	(6)
Net Profit (Headline/Reported)	830	851	1,043	1,337
Interest on Tier-1 Note	(220)	(240)	(250)	(260)
Social & Sports Contribution Fund	(21)	(21)	(26)	(33)
Attributable Net Profit	589	589	767	1,043

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	FY2018	FY2019e	FY2020e	FY2021e
Assets				
Cash & Balances with Central Bank	7,586	6,788	7,869	6,658
Interbank Loans	6,230	7,550	8,135	6,632
Net Investments	20,552	24,447	27,931	32,757
Net Loans	59,798	62,921	67,796	73,689
Other Assets	1,345	1,584	1,028	1,117
Net PP&E	621	576	563	552
Total Assets	96,132	103,866	113,322	121,405
Liabilities				
Interbank Deposits	19,463	25,888	29,718	29,415
Customer Deposits	55,460	56,569	60,529	66,582
Term Loans	5,577	6,246	7,183	8,620
Other Liabilities	2,899	2,150	2,421	2,663
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	87,399	94,854	103,852	111,280
Total Shareholders' Equity	8,733	9,013	9,470	10,125
Total Liabilities & Shareholders' Equity	96,132	103,866	113,322	121,405

Source: Company data, QNB FS Research

Ratios	FY2018	FY2019e	FY2020e	FY2021e
Profitability (%)				
RoAE (Attributable)	5.5	6.7	8.5	11.0
RoAA (Attributable)	0.9	0.9	1.0	1.1
RoRWA (Attributable)	0.8	0.7	0.9	1.2
NIM (% of IEAs)	2.46	2.41	2.40	2.39
NIM (% of RWAs)	2.67	2.75	2.83	2.87
NIM (% of AAs)	2.19	2.17	2.18	2.20
Spread	2.3	2.2	2.2	2.1
Efficiency (%)				
Cost-to-Income (Headline)	35.5	32.4	30.9	30.4
Cost-to-Income (Core)	35.4	33.0	31.2	30.7
Liquidity (%)				
LDR	107.8	111.2	112.0	110.7
Loans/Assets	62.2	60.6	59.8	60.7
Cash & Interbank Loans-to-Total Assets	14.4	13.8	14.1	10.9
Deposits to Assets	57.7	54.5	53.4	54.8
Wholesale Funding to Loans	41.9	51.1	54.4	51.6
IEAs to IBLs	1.1	1.1	1.1	1.1
Asset Quality (%)				
NPL Ratio	5.85	6.00	5.75	4.50
NPLs to Shareholder's Equity	43.5	45.9	45.2	35.9
NPLs to Tier 1 Capital	47.8	50.4	49.9	39.4
Coverage Ratio	137.6	145.4	155.4	195.0
ALL/Average Loans	8.2	9.0	9.3	9.1
Cost of Risk	149	147	129	95
Capitalization (%)				
Tier-1 Ratio	15.5	15.1	14.6	14.1
CAR	16.6	16.2	15.8	15.3
Tier 1 Capital to Assets	12.4	11.8	11.1	10.9
Tier 1 Capital to Loans	20.0	19.4	18.6	17.9
Tier 1 Capital to Deposits	21.5	21.6	20.8	19.9
Leverage (x)	11.0	11.5	12.0	12.0
Growth (%)				
Net Interest Income	-7.7	4.3	9.0	9.0
Non-Interest Income	-12.4	7.1	2.0	-3.9
Total Revenue	-8.8	4.9	7.5	6.4
Opex	-10.3	-4.3	2.3	4.8
Net Operating Income	-7.9	10.0	10.0	7.1
Net Income (Headline/Reported)	-25.2	2.5	22.6	28.1
Net Income (Attributable)	-31.6	0.0	30.1	36.0
Loans	0.0	5.2	7.7	8.7
Deposits	-6.7	2.0	7.0	10.0
Assets	2.8	8.0	9.1	7.1
RWAs	-2.2	5.0	6.3	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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