

## Doha Bank (DHBK)

<b>Recommendation</b>	<b>MARKET PERFORM</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR2.311</b>	<b>Target Price</b>	<b>QR2.305</b>
<b>Implied Upside</b>	<b>(0.3%)</b>	<b>Old Target Price</b>	<b>QR2.425</b>

### Adjusting Estimates & Target Price on Negative EVA; Market Perform

We lower our 2019-24e earnings CAGR from 13.0% to 12.0% considering the ramifications of the coronavirus pandemic and Doha Bank's asset quality situation. As such, we lower our PT by 4.9% from QR2.425 to QR2.305 as we still expect the bank to generate economic losses (2020-2029) throughout our forecast horizon due to RoE<CoE. **Since we upgraded DHBK to an Accumulate on May 21 2020, the stock has rallied by 14.4% vs. the QE Index's 10.0%. We now believe the stock is trading around its fair value and consequently change our recommendation on the name from Accumulate to Market Perform.** The stock trades at a 32% discount to its 2021e BV, which we believe is justified to an extent given negative EVA.

#### Highlights

- DHBK reported net profit of QR500.7mn in 1H2020 (-3.4% YoY) because of investment impairments; strong net operating income was driven by margin expansion, investment income and cost containment.** Doha Bank (DHBK) reported a net profit of QR500.7mn, declining by 3.4% YoY. While the bank generated strong net interest income and contained costs, we do not expect this positive momentum to continue during the rest of the year due to the COVID-19 pandemic. We expect weak revenue coupled with large investment impairments. We estimate 2020 attributable earnings to be flattish at QR519.9mn vs. QR515.1mn in FY2019.
- CoR remained elevated in 2Q2020 because of negative repercussions arising from COVID-19; Investment impairments surged.** DHBK reported provisions for credit losses of QR230.5mn in 2Q2020 vs. QR296.9mn in 2Q2019 (QR180.0mn in 1Q2020), dropping by 22.4% YoY but up 28.0% QoQ. 1H2020 provisions for credit losses declined by 1.5% YoY. On the other hand, CoR slightly moved up from 61bps (1H2019) to 63bps in 1H2020 (171bps in FY2019). 2020 CoR is estimated to be around ~150bps, steadily dropping to 90bps by 2025.
- Spreads and margins expanded on a YoY basis but remained flattish sequentially.** DHBK's 2Q2020 net interest income grew by 11.6% YoY to QR523.5mn resulting in an expansion in net interest margin. Net interest margin gained by 9bps YoY to 2.19%. The expansion in the spread YoY was due to management of cost of funds. On a 6-month basis, DHBK's NIM moved up by 9bps to 2.24% YoY.
- Cost control a key objective, C/I ratio is expected to drop to 30% and below over the coming 3-to-5 years.** C/I ratio improved, declining to 31.4% in 1H2020 vs. 35.5% in 1H2019 (33.6% in FY2019). Moreover, DHBK generated positive Jaws in 1H2020 (+12.8%) as revenue grew by 10.6% while opex declined by 2.2%. Going forward, we model C/I ratio to decline to 30% by 2022e.
- Management in process of de-risking loan book; asset quality remains a headwind.** NPLs remained flat at QR4.0bn as of 1H2020. On the other hand, the NPL ratio increased to 5.95% vs. 5.69% in 1Q2020 and 5.81% in FY2019 (5.85% FY2018). However, the coverage ratio for Stage 3 loans remained flat at 80% vs. the previous quarter and 86% in FY2019 (98% in FY2018). The bank's contracting portfolio & GCC exposure remains a challenge (34% of GCC exposure impaired). In 1H2020, DHBK wrote-off QR857.0mn in impaired loans, which represents 1.3% of total loans.
- Net loans declined due to the weak operating environment.** Net loans contracted by 4.4% QoQ (-5.0% YTD) to QR62.5bn. On the other hand, deposits increased by 2.2% QoQ (-4.2% YTD) to QR56.0bn; the drop in loans was led by all segments across the board. We still pencil in a loan book CAGR of 4.0% (2019-24e) vs. 6.3% in 2014-2019.
- DHBK intends to raise its CET 1 ratio above 12.0%.** CET 1 ratio increased from 9.8% in 1Q2020 to 11.3% in 2Q2020, due to significant reversals in negative fair value reserves incurred in 1Q2020. We estimate CET 1 ratio of 12% + through optimization of RWAs in our forecast horizon.

#### Catalysts

- Future stock price gains depend on a resumption of confidence in the bank's performance & realization of management's goals & objectives.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our PT from QR2.425 to QR2.305 and lower our rating from Accumulate to Market Perform.** DHBK is trading at a 2021e P/B and P/E of 0.7x and 10.3x, respectively.
- Risks:** 1) Volatility in oil price, 2) Global recession driven by the Coronavirus pandemic & 3) Asset quality

#### Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.166	0.168	0.225	0.244
Growth	-12.6	0.9	34.2	8.4
P/E (x)	13.9	13.8	10.3	9.5
BVPS (QR)	3.01	3.05	3.40	3.54
P/B (x)	0.8	0.8	0.7	0.7
RoE (%)	5.9	5.6	7.4	7.2
DPS (QR)	0.000	0.000	0.100	0.100
Dividend Yield (%)	0.0	0.0	4.3	4.3

Source: Company data, QNB FS Research

#### Key Data

Current Market Price (QR)	2.311
Dividend Yield (%)	0.0
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.980/1.800
3-m Average Volume (mn)	3.9
Mkt. Cap. (\$ bn/QR bn)	2.0/7.2
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	10.3
1-Year Total Return (%)	-13.8
Fiscal Year End	December 31

Source: Bloomberg (as of September 08, 2020), \*Qatar Exchange (as of September 08, 2020); Note: FO is foreign ownership

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## Change in Estimates

(In QR mn)	2020e			2021e			2022e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,015	2,040	1.3	2,148	2,192	2.0	2,338	2,344	0.3
Non-Interest Income	705	750	6.4	714	714	(0.0)	696	696	0.0
Total Revenue	2,720	2,791	2.6	2,862	2,905	1.5	3,034	3,040	0.2
Opex	(905)	(905)	0.0	(896)	(905)	1.0	(895)	(928)	3.7
Net Operating Income	1,815	1,885	3.9	1,966	2,001	1.8	2,139	2,112	(1.2)
Net Provisions & Impairments	1,149	1,113	(3.1)	1,063	1,033	(2.8)	1,078	1,073	(0.5)
Net Income (Reported)	663	769	16.0	899	964	7.2	1,057	1,035	(2.1)
Net Income (Attributable)	416	520	25.0	635	698	9.9	777	756	(2.7)

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e	2023e
<b>Net Interest Income</b>	<b>2,255</b>	<b>2,081</b>	<b>1,980</b>	<b>2,040</b>	<b>2,192</b>	<b>2,344</b>	<b>2,539</b>
Fees & Commissions	420	388	394	354	376	386	355
FX Income	107	115	112	123	121	126	121
Other Income	106	51	297	273	217	185	158
<b>Non-Interest Income</b>	<b>633</b>	<b>554</b>	<b>803</b>	<b>750</b>	<b>714</b>	<b>696</b>	<b>634</b>
<b>Total Revenue</b>	<b>2,888</b>	<b>2,635</b>	<b>2,783</b>	<b>2,791</b>	<b>2,905</b>	<b>3,040</b>	<b>3,173</b>
Operating Expenses	(1,045)	(937)	(935)	(905)	(905)	(928)	(968)
<b>Net Operating Income</b>	<b>1,843</b>	<b>1,698</b>	<b>1,848</b>	<b>1,885</b>	<b>2,001</b>	<b>2,112</b>	<b>2,205</b>
Net Provisions	(735)	(864)	(1,123)	(1,113)	(1,033)	(1,073)	(1,098)
<b>Net Profit Before Tax</b>	<b>1,109</b>	<b>834</b>	<b>725</b>	<b>772</b>	<b>968</b>	<b>1,040</b>	<b>1,107</b>
Tax	1	(4)	29	(3)	(4)	(5)	(5)
<b>Net Profit (Reported/Headline)</b>	<b>1,110</b>	<b>830</b>	<b>754</b>	<b>769</b>	<b>964</b>	<b>1,035</b>	<b>1,102</b>
Interest on Tier-1 Note	(220)	(220)	(220)	(230)	(242)	(253)	(260)
Social & Sports Contribution Fund	(28)	(21)	(19)	(19)	(24)	(26)	(28)
<b>Attributable Net Profit</b>	<b>862</b>	<b>589</b>	<b>515</b>	<b>520</b>	<b>698</b>	<b>756</b>	<b>814</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e	2023e
Cash & Balances with Central Bank	6,670	7,586	5,804	7,882	7,143	7,220	6,388
Interbank Loans	7,822	6,239	7,757	6,236	7,966	7,226	8,989
Net Investments	17,513	20,727	26,561	27,277	30,485	33,483	35,676
Net Loans	59,804	59,844	65,784	62,355	66,384	72,257	74,906
Other Assets	978	1,115	1,579	4,376	3,994	3,625	3,009
Net PP&E	709	621	724	722	635	614	596
<b>Total Assets</b>	<b>93,495</b>	<b>96,132</b>	<b>108,208</b>	<b>108,847</b>	<b>116,609</b>	<b>124,425</b>	<b>129,563</b>
<b>Liabilities</b>							
Interbank Deposits	11,005	19,529	24,037	20,509	22,633	24,417	23,804
Customer Deposits	59,468	55,785	58,464	60,627	63,780	68,117	70,978
Term Loans	6,091	5,592	7,332	8,799	10,558	12,142	14,328
Other Liabilities	2,124	2,494	5,058	5,456	5,102	4,768	4,968
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>82,688</b>	<b>87,399</b>	<b>98,891</b>	<b>99,390</b>	<b>106,073</b>	<b>113,444</b>	<b>118,078</b>
<b>Total Shareholders' Equity</b>	<b>10,807</b>	<b>8,733</b>	<b>9,318</b>	<b>9,457</b>	<b>10,535</b>	<b>10,981</b>	<b>11,486</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>93,495</b>	<b>96,132</b>	<b>108,208</b>	<b>108,847</b>	<b>116,609</b>	<b>124,425</b>	<b>129,563</b>

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2017	2018	2019	2020e	2021e	2022e	2023e
<b>Profitability (%)</b>							
RoE (Attributable)	9.2	5.5	5.9	5.6	7.4	7.2	7.4
RoAA (Attributable)	1.2	0.9	0.7	0.7	0.9	0.9	0.9
RoRWA (Attributable)	1.1	0.8	0.7	0.7	0.9	0.9	0.9
NIM (% of IEAs)	2.71	2.45	2.14	2.10	2.20	2.17	2.20
NIM (% of RWAs)	2.85	2.67	2.53	2.61	2.78	2.83	2.88
NIM (% of AAs)	2.45	2.19	1.94	1.88	1.94	1.95	2.00
Spread	2.3	2.0	1.6	1.7	1.8	1.7	1.7
<b>Efficiency (%)</b>							
Cost-to-Income (Headline)	36.2	35.5	33.6	32.4	31.1	30.5	30.5
Cost-to-Income (Core)	36.8	35.4	37.7	35.2	32.8	31.8	31.5
<b>Liquidity (%)</b>							
LDR	101	107	113	103	104	106	106
Loans/Assets	64.0	62.3	60.8	57.3	56.9	58.1	57.8
Cash & Interbank Loans-to-Total Assets	15.5	14.4	12.5	13.0	13.0	11.6	11.9
Deposits to Assets	63.6	58.0	54.0	55.7	54.7	54.7	54.8
Wholesale Funding to Loans	28.6	42.0	47.7	47.0	50.0	50.6	50.9
IEAs to IBLs	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<b>Asset Quality (%)</b>							
NPL Ratio	3.61	5.84	5.81	5.90	5.60	5.05	3.90
NPL to Shareholders' Equity	20.9	43.5	44.2	42.5	38.8	36.5	28.2
NPL to Tier 1 Capital	23.3	46.2	45.1	42.6	40.3	37.9	29.3
Coverage Ratio	124.8	137.6	124.4	142.5	159.8	174.8	247.2
ALL/Average Loans	4.5	8.2	7.5	8.2	9.3	9.2	9.9
Cost of Risk (%)	95	149	171	148	139	115	123
<b>Capitalization (%)</b>							
Tier 1 Ratio	17.4	15.8	16.6	17.4	17.6	17.0	16.6
CAR	17.5	17.0	17.7	18.6	18.8	18.2	17.8
Tier 1 Capital to Assets	14.7	12.7	12.1	12.3	12.1	11.7	11.6
Tier 1 Capital to Loans	22.9	20.4	20.0	21.5	21.3	20.1	20.1
Tier 1 Capital to Deposits	23.0	21.9	22.5	22.2	22.1	21.4	21.2
Leverage (x)	8.7	11.0	11.6	11.5	11.1	11.3	11.3
<b>Growth (%)</b>							
Net Interest Income	8.8	-7.7	-4.8	3.0	7.4	7.0	8.3
Non-Interest Income	-6.5	-12.4	44.9	-6.5	-4.9	-2.5	-8.9
Total Revenue	5.0	-8.8	5.6	0.3	4.1	4.6	4.4
Opex	-3.1	-10.3	-0.2	-3.2	-0.1	2.6	4.4
Net Operating Income	10.3	-7.9	8.8	2.0	6.1	5.6	4.4
Net Income (Headline/Reported)	5.3	-25.2	-9.2	2.0	25.3	7.4	6.5
Net Income (Attributable)	6.8	-31.6	-12.6	0.9	34.2	8.4	7.7
Loans	1.0	0.1	9.9	-5.2	6.5	8.8	3.7
Deposits	6.7	-6.2	4.8	3.7	5.2	6.8	4.2
Assets	3.5	2.8	12.6	0.6	7.1	6.7	4.1
RWAs	-0.7	-2.2	2.7	-2.5	3.7	6.9	5.9

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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