

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR30.40	Target Price	QR31.00
Implied Upside	+2.0%	Old Target Price	QR39.00

Adjusting PT to QR31.00 on Account for Capital Increase

We adjust our price target to QR31.00 following the bank's 20% rights issue. DHBK's capital increased to QR3.1bn from QR2.6bn.

Highlights

- Valuation impacted by deteriorating fundamentals.** We believe the bank needs to address its RoE generation ability; DHBK is generating economic losses vs. accounting profit as the bank's RoE (8.7%, 9.3% and 9.5% in 2016, 2017e and 2018e, respectively) is well below its cost of equity (11.52%). The market is pricing in an expected RoE of 11.8%, in-line with our average estimate of 11.6%. Given the current and medium-term expectation/estimates, we believe DHBK is trading at fair value.
- Doha Bank is Qatar's 3rd largest conventional bank with a market share of ~8% in loans and deposits, respectively (5th largest among all listed banks).** DHBK was known for solely being a retail bank with retail loans representing ~42% of its loan book in 2008. However, the bank has shifted its strategy by tapping other sectors of the economy such as contracting and real estate. As of FY2016, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~18%.

Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) better execution of the bank's strategy and 2) improvement in asset quality

Recommendation, Valuation and Risks

- Recommendation and valuation:** We adjust our Price Target to QR31.00 and maintain our Market Perform rating. DHBK is trading at a 2017e P/B and P/E of 0.9x and 10.8x, respectively. The stock trades around its fair value (PEG of 0.9x).
- Risks:** 1) Volatile oil prices remains the biggest risk for DHBK and regional equities and 2) Exposure to the retail & contracting segments create concentration risk.

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Attributable EPS (QR)	2.60	2.83	3.05	3.90
EPS Growth (%)	-33.8	8.5	7.9	27.9
P/E (x)	11.7	10.8	10.0	7.8
BVPS (QR)	30.3	32.2	32.3	33.2
P/B (x)	1.0	0.9	0.9	0.9
DPS (QR)	2.50	2.50	2.50	3.00
Dividend Yield (%)	8.2	8.2	8.2	9.9

Source: Company data, QNBFS estimates

Key Data

Current Market Price (QR)	30.40
Dividend Yield (%)	8.2
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	39.11/30.40
3-m Average Volume ('000)	274.7
Mkt. Cap. (\$ bn/QR bn)	2.6/9.4
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	12.8
1-Year Total Return (%)	(6.2)
Fiscal Year End	December 31

Source: Bloomberg (as of March 15, 2017), *Qatar Exchange (as of March 15, 2017); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	8.7	9.0	9.4	11.9
RoAA (Attributable)	1.2	1.2	1.2	1.3
RoRWA (Attributable)	1.0	1.1	1.1	1.2
NIM (% of IEAs)	2.60	2.49	2.45	2.44
NIM (% of RWAs)	2.60	2.60	2.55	2.51
NIM (% of AAs)	2.39	2.28	2.24	2.25
Spread	2.3	2.3	2.3	2.3
Efficiency (%)				
Cost-to-Income (Headline)	39.2	38.7	38.6	39.4
Cost-to-Income (Core)	39.8	39.5	39.4	40.3
Liquidity (%)				
LDR	106.2	104.6	102.5	99.9
Loans/Assets	65.5	63.1	64.3	63.4
Cash & Interbank Loans-to-Total Assets	16.3	17.4	14.0	15.2
Deposits to Assets	61.7	60.4	62.7	63.5
Wholesale Funding to Loans	32.3	35.9	32.4	33.7
IEAs to IBLs	111.0	109.9	110.4	108.7
Asset Quality (%)				
NPL Ratio	3.27	3.30	3.35	3.10
NPLs to Shareholder's Equity	21.5	21.4	23.5	23.7
NPLs to Tier 1 Capital	24.4	23.7	25.9	26.3
Coverage Ratio	119.7	121.4	125.0	133.2
ALL/Average Loans	4.0	4.1	4.3	4.4
Cost of Risk	81	86	87	59
Capitalization (%)				
Tier 1 Ratio	15.4	15.4	14.4	12.8
CAR	15.6	15.5	14.5	13.0
Tier 1 Capital to Assets	13.6	13.4	12.8	11.5
Tier 1 Capital to Loans	20.7	21.2	19.9	18.1
Tier 1 Capital to Deposits	22.0	22.2	20.4	18.1
Leverage (x)	9.6	9.9	10.3	11.2
Growth (%)				
Net Interest Income	1.2	3.9	5.8	10.1
Non-Interest Income	-11.5	9.3	5.8	3.6
Total Revenue	-2.2	5.2	5.8	8.4
Opex	4.6	3.7	5.6	10.7
Net Operating Income	-6.1	6.1	5.9	7.0
Net Income (Headline/Reported)	-23.3	6.7	6.3	22.6
Net Income (Attributable)	-33.8	8.5	7.9	27.9
Loans	6.4	5.4	7.8	12.1
Deposits	5.6	7.0	10.0	15.0
Assets	8.5	9.3	5.8	13.6
RWAs	-0.8	8.2	8.2	14.7

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	2,073	2,153	2,278	2,508
Fees & Commissions	460	492	531	534
FX Income	102	108	117	118
Other Income	115	139	134	158
Non-Interest Income	677	740	782	811
Total Revenue	2,750	2,893	3,060	3,318
Operating Expenses	(1,078)	(1,118)	(1,181)	(1,308)
Net Operating Income	1,672	1,774	1,879	2,011
Net Provisions & Impairments	(620)	(645)	(679)	(539)
Net Profit Before Tax	1,052	1,129	1,200	1,472
Tax	2	(5)	(5)	(7)
Net Profit (Headline/Reported)	1,054	1,124	1,195	1,465
Interest on Tier-1 Note	(220)	(220)	(220)	(220)
Social & Sports Contribution Fund	(26)	(28)	(30)	(37)
Attributable Net Profit	807	876	945	1,209

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	4,260	5,367	4,592	5,280
Interbank Loans	10,505	11,850	10,085	12,808
Net Investments	14,706	17,517	20,906	23,463
Net Loans	59,186	62,369	67,230	75,344
Other Assets	936	946	986	1,141
Net PP&E	771	748	737	723
Total Assets	90,365	98,797	104,535	118,760
Liabilities				
Interbank Deposits	12,275	14,529	13,159	15,760
Customer Deposits	55,730	59,631	65,594	75,433
Term Loans	6,814	7,836	8,620	9,654
Other Liabilities	2,165	2,803	3,149	3,621
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	80,984	88,799	94,521	108,469
Total Shareholders' Equity	9,381	9,998	10,013	10,291
Total Liabilities & Shareholders' Equity	90,365	98,797	104,535	118,760

Source: Company data, QNBFS estimates

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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