

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR36.90	Current Target Price	QR47.00
Implied Upside	27.4%		

Earnings Fall Short Due to Higher Provisions & Impairments

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 FY2015, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~19%. The bank has recently become more cautious about lending to contractors; it plans to target prime contractors as opposed to subcontractors. Going forward, DHBK intends on approaching contractors with a consortium of banks rather than engage in bilateral lending.

Highlights

- **DHBK net profit misses estimates on higher provisions and impairments.** Doha Bank (DHBK) net profit increased by 53.05% QoQ (down 15.7% YoY) to QR354.16mn in 1Q2016, missing our estimate of QR423.08mn (BBG consensus: QR425.33mn). The miss was due to higher credit provisions and investment impairments. On the other hand, net interest income was in-line at QR518.54mn vs. our estimate of QR524.58mn (-1.2% variation). Moreover, net operating income came in-line at QR470.75mn vs. our estimate of QR464.08mn (+1.4% variation).
- **The QoQ growth in profitability was primarily driven by lower credit provisions and lower opex.** Doha Bank posted net credit provisions of QR61.0mn (QR151.5mn in 4Q2015 and QR28.6mn in 1Q2015) and investment impairments of QR54.1mn vs. QR57.0mn in 4Q2015 (QR9.9mn in 1Q2015). What is noteworthy is that DHBK reported investment losses of QR7.2mn. Moreover, the bank booked a loss in AFS investments of QR11.1mn under other comprehensive income. As such we expect more impairments in the coming quarters and still maintain our estimate of QR120mn. As expected the bank scaled back on opex due to the weak operating environment. As such, opex declined by 12.7% QoQ (-2.6% YoY), resulting in an improvement in the cost-to-income ratio (34.3% vs. 39.2% in 4Q2015 and 35.4% in 1Q2015).
- **NIMs remained under pressure.** The bank posted net interest income of QR518.54mn in 1Q2016, falling marginally by 0.8% QoQ (+2.3% YoY). DHBK's NIMs remained under pressure, declining by 5bps and 26bps to 2.68% QoQ and YoY, respectively. We still expect NIMs to continue its negative trajectory.
- **DHBK experienced some deterioration in asset quality.** The bank's NPLs rose by 6.0% QoQ to QR1.99mn, while the NPL ratio increased to 3.38% vs. 3.26% in FY2015. Moreover, we expect further deterioration in asset quality and maintain our NPLs ratio estimate at 3.65%. On the other hand, the coverage ratio remain healthy at 108%.
- **Loan growth slowed down.** DHBK's loan book increased by 2.2% YTD to QR56.86bn vs. QR55.62bn as of FY2015. On the other hand customer deposits declined by 2.6% YTD to QR51.42bn. Thus, the LDR was lifted to 111% vs. 105% in FY2015.

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) improvement in asset quality, 2) Clarity on capital raising could act as a further catalyst, 3) better execution of the bank's strategy and 4) a reduced DPS of QR2.50 in 2016 (vs. QR3.00 in 2015), still implying an attractive dividend yield of 6.4%.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR47.00 and Accumulate rating.** DHBK is trading at a 2016 P/B and P/E of 1.0x and 8.4x, respectively. The stock offers a yield of 6.8% in 2015 and 2016.
- **Risks:** 1) Declining oil prices remains the biggest risk for DHBK and the banking sector and 2) Exposure to the retail & contracting segments create concentration risk.

Key Financial Data and Estimates

	FY2015	FY2016e	FY2017e	FY2018e
Attributable EPS (QR)	4.72	4.40	4.75	5.33
EPS Growth (%)	1.2	-6.7	7.9	12.1
P/E (x)	7.8	8.4	7.8	6.9
BVPS (QR)	35.8	37.2	39.5	42.3
P/B (x)	1.0	1.0	0.9	0.9
DPS (QR)	3.00	2.50	2.50	2.75
Dividend Yield (%)	8.1	6.8	6.8	7.5

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	36.90
Dividend Yield (%)	6.8
Bloomberg Ticker	DHBK.QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	56.20/33.45
3-m Average Volume ('000)	213.7
Mkt. Cap. (\$ bn/QR bn)	2.6/9.5
Shares Outstanding (mn)	258.4
FO Limit* (%)	49.0
Current FO* (%)	11.9
1-Year Total Return (%)	(25.3)

Fiscal Year End December 31

Source: Bloomberg (as of April 18, 2016), *Qatar Exchange (as of April 18, 2016); Note: FO is foreign ownership

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Detailed Financial Statements

Ratios	FY2015	FY2016e	FY2017e	FY2018e
Profitability (%)				
RoAE (Attributable)	13.2	12.1	12.4	13.0
RoAA (Attributable)	1.7	1.6	1.6	1.6
RoRWA (Attributable)	1.6	1.4	1.4	1.4
NIM (% of IEAs)	2.81	2.66	2.56	2.52
NIM (% of RWAs)	2.76	2.55	2.50	2.46
NIM (% of AAs)	2.58	2.44	2.35	2.32
Spread	2.3	2.2	2.2	2.2
Efficiency (%)				
Cost-to-Income (Headline)	36.7	35.3	34.7	34.1
Cost-to-Income (Core)	37.6	36.1	35.4	35.2
Liquidity (%)				
LDR	105.4	103.0	101.9	97.4
Loans/Assets	66.8	64.8	63.8	66.7
Cash & Interbank Loans-to-Total Assets	16.7	18.6	19.1	14.1
Deposits to Assets	63.3	62.9	62.6	68.5
Wholesale Funding to Loans	26.6	29.6	31.5	20.9
IEAs to IBLs	142.6	132.6	125.7	127.9
Asset Quality (%)				
NPL Ratio	3.26	3.65	3.72	3.55
NPLs to Shareholder's Equity	20.3	23.2	24.1	23.6
NPLs to Tier 1 Capital	24.7	24.9	25.7	25.3
Coverage Ratio	109.1	108.2	110.6	117.8
ALL/Average Loans	3.8	4.1	4.3	4.4
Cost of Risk	0.54	0.60	0.64	0.61
Capitalization (%)				
Tier 1 Ratio	14.5	15.0	14.7	14.2
CAR	14.8	15.3	15.1	14.5
Tier 1 Capital to Assets	13.9	14.3	13.7	13.6
Tier 1 Capital to Loans	20.9	22.1	21.4	20.4
Tier 1 Capital to Deposits	22.0	22.7	21.8	19.9
Leverage (x)	9.0	9.4	9.7	9.5
Growth (%)				
Net Interest Income	5.5	3.7	5.1	6.0
Net Operating Income	-1.7	3.7	5.4	6.7
Net Income (Attributable)	1.2	-6.7	7.9	12.1
Loans	14.5	5.6	7.8	9.9
Deposits	14.8	8.0	9.0	15.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	2,048	2,124	2,232	2,366
Fees & Commissions	497	516	547	602
FX Income	98	102	109	101
Other Income	170	174	185	210
Non-Interest Income	764	793	841	913
Total Income	2,812	2,917	3,073	3,279
Operating Expenses	(1,031)	(1,029)	(1,065)	(1,119)
Net Operating Income	1,781	1,888	2,008	2,159
Net Provisions & Impairments	(403)	(477)	(505)	(503)
Net Profit Before Tax	1,378	1,411	1,503	1,657
Tax	(5)	(5)	(5)	(5)
Net Profit (Headline/Reported)	1,374	1,407	1,498	1,651
Interest on Tier-1 Note	(120)	(240)	(240)	(240)
Social & Sports Contribution Fund	(34)	(29)	(31)	(35)
Attributable Net Profit	1,219	1,138	1,227	1,376

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Assets				
Cash & Balances with Central Bank	3,563	3,989	4,348	4,286
Interbank Loans	10,385	12,918	14,560	10,438
Net Investments	12,198	13,418	15,311	18,224
Net Loans	55,615	58,717	63,305	69,586
Other Assets	757	831	864	1,019
Net PP&E	786	789	809	799
Total Assets	83,304	90,662	99,197	104,352
Liabilities				
Interbank Deposits	8,776	11,324	13,013	6,917
Customer Deposits	52,767	56,988	62,117	71,434
Term Loans	6,040	6,040	6,946	7,641
Other Liabilities	2,464	2,690	2,919	3,429
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	74,047	81,042	88,996	93,421
Total Shareholders' Equity	9,257	9,620	10,201	10,931
Total Liabilities & Shareholders' Equity	83,304	90,662	99,197	104,352

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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