

QNBFS Alert – DHBK 3Q2016 Profitability Drops Due to a Spike in Provisions & Weak NII

- **3Q2016 earnings falls short of estimates.** Doha Bank (DHBK) reported a net profit of QR310.6mn in 3Q2016, falling short of our expectations (QR350.4mn) and consensus (BBG: QR359.0mn). Net income dropped by 12.3% and 8.9% QoQ and YoY, respectively. The miss was mainly due to a spike in provisions and impairments. On the other hand, net operating income before provisions came in-line at QR414.6mn vs. our estimate of QR416.9mn.
- **Surge in provisions and a drop in net-interest income led to a weak bottom-line.** DHBK reported net interest income of QR515.4mn, in-line with our estimate of QR525.13mn (-1.9% variation). Net interest income declined by 1.6% QoQ (remained flattish YoY). NIMs slightly dipped sequentially by 2bps to ~2.64% (receded by 13bps YoY) vs. ~2.66% in 2Q2016 (~2.76% in 3Q2015). *The downward trend on the NIM is due to funding pressure, as the bank's cost of funds increased more than the yield on its assets.* DHBK posted net provisions and impairments of QR103.7mn (+74.6% QoQ & -6.2% YoY) vs. our estimate of QR65.0mn.
- **Cost containment led to QoQ flat net operating income.** Opex receded by 2.7% QoQ (+8.8% YoY) to QR265.2mn, leading to a flat net operating income of QR414.6mn (QR416.2mn in 2Q2016). Cost-to-income remains on the high side at 39.0% vs. 39.6% in 2Q2016 (35.0% in 3Q2015).
- **Loans exhibited flat performance.** Net loans remained flat QoQ and YTD at QR55.6bn. On the other hand, deposits contracted by 7.3% QoQ (-7.9% YTD) to QR48.6bn. Thus, the LDR was lifted to 114% vs. 106% in 2Q2016 (105% at the end of 2015).
- **No pressure on asset quality yet.** DHBK's NPL ratio improved 3.05% in 3Q2016 vs. 3.26 in FY2015. Moreover, NPLs dropped by 6.5% YTD. The coverage ratio also enhanced, climbing up to 117% vs. 109% at the end of 2015.
- **Recommendation and valuation:** We maintain our Price Target of QR42.00 for now. DHBK trades at a P/E and P/TB of 9.5x and 1.0x on our 2016 estimates, respectively.

Recommendations	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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