

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.020	Target Price	QR2.425
Implied Upside	20.0%	Old Target Price	QR2.600

Lowering Target Price on Subdued RoE Outlook

We lower our 2019-24e earnings CAGR from 14.3% to 13.0% considering the ramifications of the Coronavirus pandemic. Having said this, we believe given the government's initiative of providing liquidity to the banks and its QR75bn support package to the private sector, Qatari banks could be insulated to a certain extent. We believe the QCB's measures could bolster the banks' liquidity positions and mitigate adverse effects on their p&ls. We lower our PT from QR2.600 to QR2.425 as we expect the bank generate economic losses (2020-2027) due to RoE<CoE. We are going through what can be termed as an extraordinary period and our estimates are subject to change as the situation becomes clearer.

Highlights

- DHBK reported net profit of QR324.1mn in 1Q2020, driven by net interest income and investment income.** Doha Bank (DHBK) reported a net profit of QR324.1mn, moving up by 5.4% 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 couple with large provisions. We estimate 2020 attributable earnings to decline by 19.2%, reaching QR416.2mn.
- We believe DHBK will skip DPS in 2020 to raise its CET 1 ratio to 12% and transfer more funds to its risk reserve.** Similar to 2019, we do not anticipate DHBK to pay a cash DPS for 2020; instead, we are of the view that it will transfer the remaining balance of QR522.4mn to bring the risk reserve level to QR1.37bn (in-line with its 2017 pre-IFRS 9 figure). In FY2019, DHBK transferred QR712.4mn to its risk reserve.
- Provisions remained elevated in 1Q2020 because of possible negative repercussions arising from COVID-19.** DHBK reported provisions for credit losses of QR180mn in 1Q2020, increasing by 50.1% YoY. Moreover, CoR increased to 103bps vs. 75bps in 1Q2019 (171bps in FY2019). 2020 CoR is estimated to be >150bps, steadily dropping to 90bps by 2025.
- Spreads and margins continue to compress as the bank de-risks.** DHBK's net interest margin contracted by 4bps YoY to 2.23%. The compression in the spread YoY was due to the drop in yield on assets being larger than the drop in cost of funds. We expect further compression as the bank raises funds to bring the LDR down to the 105%-110% range (119% in 1Q2020). Hence, we forecast deposit growth (+6.3% CAGR 2019-24e) to outpace loans (+4.0%).
- 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 30.8% in 1Q2020 vs. 35.7% in 1Q2019 (33.6% in FY2019 and 4Q2019). We model C/I ratio to decline to 29% by 2022e.
- Management in process of de-risking loan book; it expects recoveries of QR1bn from Kuwait in 3Q/4Q 2020, which we do not model for (although the courts have ruled in DHBK's favor) as the judges have not resumed work yet.** Asset quality marginally improved with the bank's NPLs declining by 3.1% YTD to QR4.0bn. Moreover, the NPL ratio declined to 5.69% vs. 5.81% in 2019 (5.85% FY2018). However, the coverage ratio for Stage 3 loans declined to 80% vs. 86% in the previous quarter and 98% in FY2018. The bank's contracting portfolio & GCC exposure remains a challenge (UAE: 98% covered). In 1Q2020, DHBK wrote-off QR553.7mn in impaired loans, which represents 0.8% of loans.
- Net loans declined due to the weak operating environment.** Net loans receded by 0.7% YTD to QR65.3bn, while deposits dropped by 6.3% to QR54.8bn; the drop in loans was led by the real estate and contracting segments. We 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%; plans to raise ADT1 in 3Q/4Q.** CET 1 ratio decreased from 11.5% in 2019 to 9.8% in 1Q2020 due to negative fair value reserve. Management indicated that a big chunk of the negative fair value reversed after 1Q. We estimate CET 1 ratio of 12% + through optimization of RWAs in our forecast horizon.

Catalysts

- DHBK stock remains the worst performing Qatari bank stock over the last 5 years due to asset quality concerns, which has been a recurring theme. 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:** DHBK is trading at a 2021e P/B and P/E of 0.6x and 9.9x, respectively.
- Risks:** 1) Oil price shock & 2) Global recession driven by the Coronavirus pandemic.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.166	0.134	0.205	0.251
Growth	-12.6	-19.2	52.5	22.5
P/E (x)	12.2	15.0	9.9	8.1
BVPS (QR)	3.01	2.90	3.35	3.50
P/B (x)	0.7	0.7	0.6	0.6
DPS (QR)	0.000	0.000	0.100	0.150
Dividend Yield (%)	0.0	0.0	5.0	7.4

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	2.020
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)	3.01/1.80
3-m Average Volume (mn)	2.4
Mkt. Cap. (\$ bn/QR bn)	1.7/6.3
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	11.0
1-Year Total Return (%)	-9.1
Fiscal Year End	December 31

Source: Bloomberg (as of May 21, 2020), *Qatar Exchange (as of May 20, 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	2,114	2,015	(4.7)	2,268	2,148	(5.3)	2,448	2,338	(4.5)
Non-Interest Income	832	705	(15.3)	820	714	(12.9)	772	696	(9.8)
Total Revenue	2,946	2,720	(7.7)	3,088	2,862	(7.3)	3,220	3,034	(5.8)
Opex	(924)	(905)	(2.0)	(929)	(896)	(3.6)	(944)	(895)	(5.2)
Net Operating Income	2,022	1,815	(10.2)	2,159	1,966	(8.9)	2,276	2,139	(6.0)
Net Provisions & Impairments	1,156	1,149	(0.6)	1,104	1,063	(3.7)	1,050	1,078	2.7
Net Income (Reported)	862	663	(23.1)	1,051	899	(14.5)	1,221	1,057	(13.5)
Net Income (Attributable)	611	416	(31.9)	783	635	(19.0)	937	777	(17.1)

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	2,255	2,081	1,980	2,015	2,148	2,338
Fees & Commissions	420	388	394	354	386	396
FX Income	107	115	112	116	121	126
Other Income	106	51	297	236	207	174
Non-Interest Income	633	554	803	705	714	696
Total Revenue	2,888	2,635	2,783	2,720	2,862	3,034
Operating Expenses	(1,045)	(937)	(935)	(905)	(896)	(895)
Net Operating Income	1,843	1,698	1,848	1,815	1,966	2,139
Net Provisions	(735)	(864)	(1,123)	(1,149)	(1,063)	(1,078)
Net Profit Before Tax	1,109	834	725	666	903	1,061
Tax	1	(4)	29	(3)	(4)	(5)
Net Profit (Reported/Headline)	1,110	830	754	663	899	1,057
Interest on Tier-1 Note	(220)	(220)	(220)	(230)	(242)	(253)
Social & Sports Contribution Fund	(28)	(21)	(19)	(17)	(22)	(26)
Attributable Net Profit	862	589	515	416	635	777

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Cash & Balances with Central Bank	6,670	7,586	5,804	5,955	6,879	7,291
Interbank Loans	7,822	6,239	7,757	9,403	11,345	8,747
Net Investments	17,513	20,727	26,561	26,147	27,946	29,325
Net Loans	59,804	59,844	65,784	62,685	66,737	72,892
Other Assets	978	1,115	1,579	2,832	2,414	2,199
Net PP&E	709	621	724	722	783	760
Total Assets	93,495	96,132	108,208	107,743	116,104	121,214
Liabilities						
Interbank Deposits	11,005	19,529	24,037	24,162	24,721	21,451
Customer Deposits	59,468	55,785	58,464	56,710	61,417	68,787
Term Loans	6,091	5,592	7,332	8,212	10,676	11,316
Other Liabilities	2,124	2,494	5,058	5,671	4,913	4,815
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	82,688	87,399	98,891	98,755	105,727	110,369
Total Shareholders' Equity	10,807	8,733	9,318	8,988	10,378	10,845
Total Liabilities & Shareholders' Equity	93,495	96,132	108,208	107,743	116,104	121,214

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2017	2018	2019	2020e	2021e	2022e	2023e
Profitability (%)							
RoE (Attributable) Based on Beg. BV	9.2	5.5	5.9	4.5	7.1	7.5	7.1
RoAA (Attributable)	1.2	0.9	0.7	0.6	0.8	0.9	0.9
RoRWA (Attributable)	1.1	0.8	0.7	0.5	0.8	0.9	0.9
NIM (% of IEAs)	2.71	2.45	2.14	2.05	2.12	2.17	2.28
NIM (% of RWAs)	2.85	2.67	2.53	2.57	2.70	2.79	2.91
NIM (% of AAs)	2.45	2.19	1.94	1.87	1.92	1.97	2.08
Spread	2.3	2.0	1.6	1.5	1.6	1.6	1.6
Efficiency (%)							
Cost-to-Income (Headline)	36.2	35.5	33.6	33.3	31.3	29.5	27.5
Cost-to-Income (Core)	36.8	35.4	37.7	35.6	32.8	30.6	27.2
Liquidity (%)							
LDR	100.6	107.3	112.5	110.5	108.7	106.0	101.7
Loans/Assets	64.0	62.3	60.8	58.2	57.5	60.1	61.0
Cash & Interbank Loans-to-Total Assets	15.5	14.4	12.5	14.3	15.7	13.2	11.5
Deposits to Assets	63.6	58.0	54.0	52.6	52.9	56.7	60.0
Wholesale Funding to Loans	28.6	42.0	47.7	51.6	53.0	45.0	38.5
IEAs to IBLs	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Asset Quality (%)							
NPL Ratio	3.61	5.84	5.81	5.70	4.60	3.80	3.20
NPL to Shareholders' Equity	20.9	43.5	44.2	43.6	32.7	28.1	24.1
NPL to Tier 1 Capital	23.3	46.2	45.1	43.8	35.4	30.4	26.0
Coverage Ratio	124.8	137.6	124.4	155.6	204.5	242.8	314.5
ALL/Average Loans	4.5	8.2	7.5	8.7	9.7	9.6	10.3
Cost of Risk (%)	95	149	171	161	142	114	128
Capitalization (%)							
Tier 1 Ratio	17.4	15.8	16.6	16.6	16.7	16.3	16.1
CAR	17.5	17.0	17.7	17.8	17.9	17.5	17.2
Tier 1 Capital to Assets	14.7	12.7	12.1	12.0	11.7	11.6	11.6
Tier 1 Capital to Loans	22.9	20.4	20.0	20.7	20.3	19.2	19.0
Tier 1 Capital to Deposits	23.0	21.9	22.5	22.8	22.1	20.4	19.3
Leverage (x)	8.7	11.0	11.6	12.0	11.2	11.2	11.1
Growth (%)							
Net Interest Income	8.8	-7.7	-4.8	1.8	6.6	8.8	9.1
Non-Interest Income	-6.5	-12.4	44.9	-12.2	1.3	-2.5	-23.9
Total Revenue	5.0	-8.8	5.6	-2.3	5.2	6.0	1.5
Opex	-3.1	-10.3	-0.2	-3.2	-1.1	-0.1	-5.5
Net Operating Income	10.3	-7.9	8.8	-1.8	8.3	8.8	4.4
Net Income (Headline/Reported)	5.3	-25.2	-9.2	-12.1	35.6	17.5	0.4
Net Income (Attributable)	6.8	-31.6	-12.6	-19.2	52.5	22.5	-0.4
Loans	1.0	0.1	9.9	-4.7	6.5	9.2	3.6
Deposits	6.7	-6.2	4.8	-3.0	8.3	12.0	8.0
Assets	3.5	2.8	12.6	-0.4	7.8	4.4	2.1
RWAs	-0.7	-2.2	2.7	-1.9	4.5	5.9	3.5

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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