

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR27.60	Target Price	QR31.00
Implied Upside	+12.3%		

1Q2018 Bottom-Line Driven by Lower Net Provisions

A secure dividend play with improving fundamentals; maintain Market Perform for now. DHBK remains a compelling dividend play given what we consider to be a safe payout of QR2.50-3.00/sh over the next 3-5 years. The stock is also one of the highest yielding names in the region.

Highlights

- 1Q2018 net income driven by lower provisions & impairments both sequentially and YoY.** DHBK reported net profit of QR381.4mn (in-line with our estimate of QR371.3mn; variation of +2.7%) vs. QR61.4mn in 4Q2017 & QR364.4mn in 1Q2017 (+4.7% growth). The bottom-line was driven by a sharp in provisions as revenue and net operating income receded QoQ and YoY. The bank booked net provisions of QR60.5mn vs. QR400.3mn in 4Q2017 (QR86.4mn in 1Q2017).
- Spreads compressed sequentially.** Net interest income decreased by 7.3% QoQ (+7.5% YoY) to QR560.1mn. DHBK's net interest margin contracted by 22bps QoQ (+13bps YoY) to 2.64%. The compression in the spread was due to CoFs gaining by 19bps while yield on assets remaining flat. *The margin pressure in 1Q2018 was possibly due to deposits flows at the end of 4Q2017 and the interest expense associated with it may not have impacted the income statement in 4Q2017.*
- Efficiency ratio remained unchanged; still on the high side.** Opex and revenue declined by similar percentages. Thus, C/I ratio remained at 37% vs. 38% in 4Q2017 and 1Q2017.
- Provisioning as per IFRS 9 wiped out risk reserves.** DHBK's expected net credit losses & impairments sat at QR1.5bn. After netting it out against risk reserves, the remaining charge of QR134.3mn was applied to retained earnings. These charges reduced shareholders' equity by 14.7% YTD.
- CoR dropped, which is a positive.** CoR came in at 28bps in 1Q2018 vs. 232bps in 4Q2017 (35bps in 1Q2017).
- Asset quality remained under pressure.** DHBK's asset quality worsened with the bank's NPLs gaining by 13.3% QoQ to QR2.6bn. Moreover, The NPL ratio moved to 3.99% from 3.61% in 2017. However, the coverage ratio remains healthy at 109%.
- Net Loans and deposits exhibited flat performance.** Net loans and deposits remained flat at QR59.9bn and QR59.3bn, respectively. Hence the LDR remained unchanged at 101%. On the other hand, loans to stable sources of funds rested at 92%.
- CET1 ratio declined as a result of impairments arising from IFRS 9.** DHBK's CET1 ratio declined by 208bps to 10.2% from 12.3% at the end of 2017. Moreover, total Tier-1 ratio (includes AT1 capital) sequentially dropped by 195bps to 15.4% vs. 17.4% in FY2017.

Catalysts

- 1) Better execution of the bank's strategy and 2) improvement in asset quality

Recommendation, Valuation and Risks

- Recommendation and valuation:** We retain our Market Perform rating and QR31/sh. PT. DHBK is trading at a 2018e P/B and P/E of 0.9x and 9.0x, respectively.
- Risks:** 1) Geopolitical factors and 3) Exposure real estate & contracting segments

Key Financial Data and Estimates

	2017	2018e	2019e	2020e
EPS	3.02	3.07	3.97	4.55
Growth	-3.2	1.6	29.2	14.8
P/E(x)	9.6	9.0	7.0	6.1
BVPS (QR)	34.9	29.8	31.2	33.6
P/B (x)	0.8	0.9	0.9	0.8
DPS (QR)	3.00	2.50	2.00	2.50
Dividend Yield (%)	10.9	9.1	7.2	9.1

Source: Company data, QNBFS Research

Key Data

Current Market Price (QR)	27.60
Dividend Yield (%)	9.1
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	34.98/25.20
3-m Average Volume ('000)	392.1
Mkt. Cap. (\$ bn/QR bn)	2.4/8.9
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	13.0
1-Year Total Return (%)	-1.2
Fiscal Year End	December 31

Source: Bloomberg (as of April 23, 2018), *Qatar Exchange (as of April 22, 2018); Note: FO is foreign ownership

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Company Description

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 FY2017, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~14%.

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,255	2,421	2,621	2,830
Fees & Commissions	465	476	505	507
FX Income	107	111	117	109
Other Income	119	113	122	136
Non-Interest Income	691	700	744	752
Total Revenue	2,946	3,121	3,365	3,582
Operating Expenses	(1,103)	(1,130)	(1,182)	(1,276)
Net Operating Income	1,843	1,991	2,183	2,306
Net Provisions & Impairments	(735)	(814)	(728)	(667)
Net Profit Before Tax	1,109	1,177	1,456	1,639
Tax	1	(5)	(7)	(7)
Net Profit (Headline/Reported)	1,110	1,172	1,449	1,631
Interest on Tier-1 Note	(220)	(220)	(220)	(220)
Social & Sports Contribution Fund	(28)	(29)	(36)	(41)
Attributable Net Profit	862	922	1,193	1,370

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	6,670	4,995	6,126	5,826
Interbank Loans	7,822	8,599	9,816	8,480
Net Investments	17,513	20,109	22,176	23,768
Net Loans	59,804	61,423	65,440	70,671
Other Assets	978	994	993	1,072
Net PP&E	709	643	614	587
Total Assets	93,495	96,764	105,166	110,404
Liabilities				
Interbank Deposits	11,005	12,068	13,352	11,623
Customer Deposits	59,468	62,442	68,061	72,826
Term Loans	6,091	6,700	7,504	8,629
Other Liabilities	2,124	2,310	2,586	2,913
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	82,688	87,519	95,503	99,991
Total Shareholders' Equity	10,807	9,245	9,663	10,413
Total Liabilities & Shareholders' Equity	93,495	96,764	105,166	110,404

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	8.5	9.2	12.6	13.7
RoAA (Attributable)	1.2	1.2	1.4	1.5
RoRWA (Attributable)	1.1	1.1	1.4	1.4
NIM (% of IEAs)	2.71	2.81	2.83	2.87
NIM (% of RWAs)	2.85	3.00	3.00	2.95
NIM (% of AAs)	2.45	2.54	2.60	2.63
Spread	2.5	2.6	2.6	2.6
Efficiency (%)				
Cost-to-Income (Headline)	37.4	36.2	35.1	35.6
Cost-to-Income (Core)	38.1	36.8	35.6	36.4
Liquidity (%)				
LDR	100.6	98.4	96.1	97.0
Loans/Assets	64.0	63.5	62.2	64.0
Cash & Interbank Loans-to-Total Assets	15.5	14.0	15.2	13.0
Deposits to Assets	63.6	64.5	64.7	66.0
Wholesale Funding to Loans	28.6	30.6	31.9	28.7
IEAs to IBLs	109.3	109.7	108.2	109.1
Asset Quality (%)				
NPL Ratio	3.61	3.95	4.06	4.30
NPLs to Shareholder's Equity	20.9	28.2	29.7	31.5
NPLs to Tier 1 Capital	23.3	30.9	31.7	34.1
Coverage Ratio	124.8	124.5	130.0	126.3
ALL/Average Loans	4.5	7.2	7.5	7.6
Cost of Risk	95	106	89	77
Capitalization (%)				
Tier 1 Ratio	17.4	15.1	14.1	13.7
CAR	17.5	15.3	14.2	13.9
Tier 1 Capital to Assets	14.7	12.9	12.4	12.3
Tier 1 Capital to Loans	22.9	20.3	19.9	19.3
Tier 1 Capital to Deposits	23.0	20.0	19.1	18.7
Leverage (x)	8.7	10.5	10.9	10.6
Growth (%)				
Net Interest Income	8.8	7.3	8.3	8.0
Non-Interest Income	2.1	1.4	6.2	1.1
Total Revenue	7.1	5.9	7.8	6.4
Opex	2.3	2.5	4.6	8.0
Net Operating Income	10.3	8.0	9.6	5.6
Net Income (Headline/Reported)	5.3	5.5	23.7	12.5
Net Income (Attributable)	6.8	7.0	29.4	14.9
Loans	1.0	2.7	6.5	8.0
Deposits	6.7	5.0	9.0	7.0
Assets	3.5	3.5	8.7	5.0
RWAs	-0.7	4.3	12.5	7.4

Source: Company data, QNBFS 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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