

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR30.80	Target Price	QR31.00
Implied Upside	+0.6%		

Slight Adjustments in Estimates Post 2Q2017 Results

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%.

Highlights

- 2Q2017 earnings in-line.** Doha Bank (DHBK) reported a net profit of QR351.1mn in 2Q2017, in-line with our expectation of QR339.8mn (variation of +3.3%).
- Bottom-line drop sequentially and YoY was solely driven by a surge in provisions, while the growth in net operating income was attributed to growth in revenue outpacing opex.** DHBK reported net income of QR351.1mn vs. QR364.4mn in 1Q2017, declining by 3.6% QoQ (QR354.2mn in 2Q2016, -0.9% YoY). The surge in provisions to QR122.1mn vs. QR86.4mn in 1Q2017 (QR59.4mn in 2Q2016) prevented growth in the bottom-line both sequentially and YoY basis. Non-funded income declined by 12.5% QoQ mainly due to a 16% drop in fees and 64% drop in investment income.
- Spreads finally widened, which is a positive.** Net interest income increased by 9.8% QoQ (+9.2% YoY) to QR571.9mn. DHBK net interest margin expanded by 24bps and 10bps QoQ and YoY to 2.76%, respectively. The widening of the spread sequentially was due to yield on assets gaining by 25bps while cost of funds remaining stable. On a YoY basis the improvement in the NIM was a result of yields expanding by 37bps vs. +27bps for cost of funds.
- Efficiency improved, resulting in positive JAWs.** Opex grew by 1.3% QoQ (+0.9% YoY) to QR274.9mn, resulting in the C/I ratio to recede to 36.7% vs. 37.5% in 1Q2017 (39.6% in 2Q2016). DHBK also generated positive JAWs of 2.2% and 7.9% QoQ and YoY, respectively.
- NPL ratio stable.** DHBK's asset quality remained stable with the bank's NPL ratio moving to 3.1% from 3.0% in 1Q2017 (3.27% in 4Q2016). On the other hand, the coverage ratio decreased to 112% vs. 126% in 1Q2017 (120% in 4Q2016), but still remains fine.
- Loans remained muted while deposits improved.** Net loans were flat QoQ & YTD at QR59.2bn, while deposits moved up by 3.7% QoQ (flat YTD) vs. a 3.1% drop QoQ in 1Q2017. Hence, the LDR improved to 106% vs. 110% in 1Q2017 (106% at the end of 2016). *We are still of the view that the LDR needs to go down below 100% at the cost of expensive deposits.*
- Capitalization remains at healthy levels.** DHBK ended 2Q2017 with a CAR of 17.0% (post rights issue) vs. 14.8% in 1Q2017 (15.4% at the end of 2016).

Catalysts

- Beyond a stabilization/recovery in oil prices,** 1) better execution of the bank's strategy and 2) improvement in asset quality

Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our Price Target of QR31.00 and Market Perform rating.** DHBK is trading at a 2017e P/B and P/E of 1.0x and 11.3x, respectively. The stock trades around its fair value (PEG of 0.9x).
- Risks:** 1) Geopolitical factors, 2) Volatility in oil prices and 3) Exposure to the retail, real estate & contracting segments create concentration risk.

Key Financial Data and Estimates

	2016	2017e	2018e	2019e
EPS (Attributable)	2.60	2.73	3.03	4.32
Growth	-33.8	4.8	11.1	42.4
Attributable P/E (x)	11.8	11.3	10.2	7.1
BVPS (QR)	30.3	32.2	33.2	35.5
P/B (x)	1.0	1.0	0.9	0.9
DPS (QR)	2.50	2.00	2.00	2.50
Dividend Yield (%)	8.1	6.5	6.5	8.1

Source: Company data, QNBFS Research

Key Data

Current Market Price (QR)	30.80
Dividend Yield (%)	6.5
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	39.11/28.50
3-m Average Volume ('000)	346.2
Mkt. Cap. (\$ bn/QR bn)	2.6/9.5
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	12.8
1-Year Total Return (%)	-5.4
Fiscal Year End	December 31

Source: Bloomberg (as of July 23, 2017), *Qatar Exchange (as of July 23, 2017); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2017e			2018e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,153	2,203	2.3	2,278	2,394	5.1
Non Interest Income	740	693	(6.3)	782	704	(10.1)
Net Operating Income	1,774	1,778	0.2	1,879	1,932	2.8
Net Income (Reported/Headline)	1,124	1,093	(2.7)	1,195	1,189	(0.5)
Net Income (Attributable)	876	846	(3.4)	945	940	(0.6)

Source: Company data, QNBFS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	2,073	2,203	2,394	2,629
Fees & Commissions	460	451	449	494
FX Income	102	112	119	120
Other Income	115	130	135	160
Non-Interest Income	677	693	704	774
Total Revenue	2,750	2,897	3,097	3,404
Operating Expenses	(1,078)	(1,118)	(1,165)	(1,290)
Net Operating Income	1,672	1,778	1,932	2,113
Net Provisions & Impairments	(620)	(680)	(737)	(508)
Net Profit Before Tax	1,052	1,098	1,195	1,605
Tax	2	(5)	(5)	(7)
Net Profit (Headline/Reported)	1,054	1,093	1,189	1,598
Interest on Tier-1 Note	(220)	(220)	(220)	(220)
Social & Sports Contribution Fund	(26)	(27)	(30)	(40)
Attributable Net Profit	807	846	940	1,338

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	4,260	5,266	4,506	5,182
Interbank Loans	10,505	11,653	9,915	10,379
Net Investments	14,706	17,517	20,906	23,463
Net Loans	59,186	61,330	66,098	74,138
Other Assets	936	930	969	1,123
Net PP&E	771	748	737	723
Total Assets	90,365	97,444	103,130	115,009
Liabilities				
Interbank Deposits	12,275	14,373	12,765	12,773
Customer Deposits	55,730	58,516	64,368	74,023
Term Loans	6,814	7,836	8,620	9,654
Other Liabilities	2,165	2,750	3,090	3,553
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	80,984	87,476	92,843	104,003
Total Shareholders' Equity	9,968	10,288	11,006	9,968
Total Liabilities & Shareholders' Equity	97,444	103,130	115,009	97,444

Source: Company data, QNBFS Research

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	8.7	8.7	9.3	12.6
RoAA (Attributable)	1.2	1.2	1.2	1.5
RoRWA (Attributable)	1.0	1.0	1.1	1.4
NIM (% of IEAs)	2.60	2.57	2.61	2.62
NIM (% of RWAs)	2.60	2.73	2.81	2.77
NIM (% of AAs)	2.39	2.35	2.39	2.41
Spread	2.3	2.4	2.4	2.4
Efficiency (%)				
Cost-to-Income (Headline)	39.2	38.6	37.6	37.9
Cost-to-Income (Core)	39.8	39.5	38.4	38.8
Liquidity (%)				
LDR	106.2	104.8	102.7	100.2
Loans/Assets	65.5	62.9	64.1	64.5
Cash & Interbank Loans-to-Total Assets	16.3	17.4	14.0	13.5
Deposits to Assets	61.7	60.1	62.4	64.4
Wholesale Funding to Loans	32.3	36.2	32.4	30.3
IEAs to IBLs	111.0	110.1	111.0	109.9
Asset Quality (%)				
NPL Ratio	3.27	3.21	3.35	3.10
NPLs to Shareholder's Equity	21.5	20.7	22.6	21.9
NPLs to Tier 1 Capital	24.4	22.1	24.0	23.6
Coverage Ratio	119.7	137.9	138.1	144.7
ALL/Average Loans	4.0	4.5	4.8	4.7
Cost of Risk	81	85	92	56
Capitalization (%)				
Tier 1 Ratio	15.4	16.3	15.4	14.0
CAR	15.6	16.5	15.6	14.2
Tier 1 Capital to Assets	13.6	13.7	13.2	12.4
Tier 1 Capital to Loans	20.7	21.7	20.7	19.2
Tier 1 Capital to Deposits	22.0	22.8	21.2	19.2
Leverage (x)	9.6	9.8	10.0	10.5
Growth (%)				
Net Interest Income	1.2	6.3	8.7	9.8
Non-Interest Income	-11.5	2.5	1.5	10.1
Total Revenue	-2.2	5.3	6.9	9.9
Opex	4.6	3.7	4.2	10.7
Net Operating Income	-6.1	6.4	8.6	9.4
Net Income (Headline/Reported)	-23.3	3.7	8.8	34.4
Net Income (Attributable)	-33.8	4.8	11.1	42.4
Loans	6.4	3.6	7.8	12.2
Deposits	5.6	5.0	10.0	15.0
Assets	8.5	7.8	5.8	11.5
RWAs	-0.8	3.0	8.4	14.1

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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