

### Doha Bank (DHBK)

<b>Recommendation</b>	<b>Market Perform</b>	<b>Risk Rating</b>	<b>R-3</b>
<b>Share Price</b>	<b>QR2.51</b>	<b>Target Price</b>	<b>QR2.60</b>
<b>Implied Upside</b>	<b>3.9%</b>		

#### De-Risking Continues; EPS Growth via Investment Income Not Sustainable

DHBK has faced headwinds over the past couple of years due to concerns on asset quality emanating from its contracting segment loans and GCC operations. Hence, the bank has set forth a strategy of exercising prudent risk control, de-risking the balance sheet & cost cutting. Post 2021, we expect RoE to improve significantly. Having said this, the stock trades at a PEG of 0.9x (around fair value) based on an earnings CAGR of 14.3%. Moreover, the stock is trading in-line with its intrinsic/fundamental P/E of 9.5x. We revise our estimates for 2019, 2020 & 2021 (page 2). We maintain our PT at QR2.60 and our Market Perform rating.

#### Highlights

- DHBK's 3Q2019 YoY earnings growth was driven by investment income and cost containment.** Doha Bank (DHBK) reported a net income of QR299.9mn, moving up by 12.4% YoY. Growth was due to strong investment income (QR134.9mn vs. loss QR4.9mn in 3Q2018) coupled with a drop in opex. Net interest income increased by 2.5% YoY (+13.8% QoQ) to QR533.8mn, while non-funded income surged by 76.9% (+36.1% QoQ) on strong investment income (DHBK generated investment losses in 3Q2018). DHBK's bottom-line sequentially surged by 42.1% due to strong investment income along with net interest income. We do not think this investment income growth profile is sustainable and model in investment income of QR57.1 (down 66.4% YoY).
- Provisions to remain elevated in 2019 and 2020, but sharply drop in 2021.** DHBK reported provisions for credit losses of QR261.6mn in 3Q2019 vs. QR181.5mn in 3Q2018 (QR296.9mn in 2Q2019). However, 9M2019 CoR declined to 128bps vs. 131bps in 9M2018 (149bps in FY2018). We expect further provisions for 2019 & 2020 and a CoR of 144bps and 129bps, respectively. DHBK will book more provisions on its GCC (Kuwait & UAE) operations. As such, the bank has provisioned 85% and 55% of its UAE and Kuwait books, respectively.
- Spreads and margins continue to compress YoY.** DHBK's net interest margin contracted by 30bps YoY to 2.25%. The compression in the spread YoY was due to cost of funds increasing by ~10bps, while yield on assets decreased by ~20bps. Sequentially, the expansion in the NIM was a result of yields dropping less than that of CoFs; yields dropped ~10bps vs. ~20 drop in CoFs.
- Cost control is aiding the bank's operations and will continue to do so.** DHBK's opex receded by 0.9% YoY while total revenue grew by 18.6%, resulting in a 29.8% jump in net operating income. C/I ratio improved, declining to 30.5% vs. 36.5% in 3Q2018 (35.3% in 2Q2019). Operating efficiency was determined by a combination of cost containment and double-digit growth in revenue. Moreover, DHBK generated positive JAWs of 8.2% in 9M2019. Management is exercising cost-containment as it treads through a challenging period. Opex is modeled to drop further in 2019 and 2020 before flattening out 2021.
- Asset quality remains a major concern.** Asset quality deteriorated with the bank's NPLs gaining by 3.5% QoQ (+5.0% YTD) to QR4.0bn. On the other hand, the NPL ratio moved to 5.65% from 5.83% in 2Q2019 (5.85% FY2018 & 3.61% FY2017). The coverage ratio for Stage 3 loans improved to 100% vs. 95% in the previous quarter and 98% in FY2018. The bank's contracting portfolio & GCC exposure remains a challenge. GCC NPL ratio stands at 28.5%, while the domestic ratio is 2.4%. So far, in 3Q2019, DHBK has written off QR537.1mn in impaired loans, which represents 0.8% of loans and 14.1% of FY2018 NPLs. The majority of Stage 2 loans (28% of total loans) are comprised of the contracting segment, which remains a challenge. Stage 3 loans (impaired) are mainly GCC.
- Net loans and deposits gained traction sequentially.** Net loans expanded by 6.7% QoQ (+8.6% YTD) to QR65.0bn while deposits gained by 5.9% QoQ (+5.6% YTD) to QR58.9bn. Hence, the bank's LDR (based on stable sources of funds) increased to 98% vs. 96% in 2Q2019 (92% FY2018). We pencil in high single-digit growth in loans for 2019 and 2020.

#### Catalysts

- Stock price improvement depends on a resumption of confidence in company performance & realization of management's goals and objectives.

#### Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2020e P/B and P/E of 0.8x and 9.5x, respectively.
- Risks:** 1) Geopolitical factors, 2) Contracting segment & 3) GCC exposure.

#### Key Financial Data and Estimates

	2018	2019e	2020e	2021e
EPS (QR)	0.20	0.24	0.26	0.30
Growth	-31.4	20.4	10.9	13.9
P/E (x)	12.8	10.6	9.5	8.4
BVPS (QR)	2.8	2.9	3.1	3.3
P/B (x)	0.9	0.9	0.8	0.8
DPS (QR)	0.100	0.100	0.100	0.125
Dividend Yield (%)	4.6	4.6	5.7	5.7

Source: Company data, QNB FS Research

#### Key Data

Current Market Price (QR)	2.51
Dividend Yield (%)	4.6
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	4.265/3.37
3-m Average Volume (mn)	4.51
Mkt. Cap. (\$ bn/QR bn)	2.1/7.8
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	11.9
1-Year Total Return (%)	+5.8
Fiscal Year End	December 31

Source: Bloomberg (as of October 27, 2019), \*Qatar Exchange (as of October 27, 2019); Note: FO is foreign ownership

#### Shahan Keushgerian

+974 4476 6509  
shahan.keushgerian@qnbfs.com.qa

#### Saugata Sarkar, CFA, CAIA

+974 4476 6534  
saugata.sarkar@qnbfs.com.qa

## Change in Estimates

(In QR mn)	2019e			2020e			2021e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,051	2,001	(2.5)	2,202	2,140	(2.8)	2,377	2,355	(0.9)
Non Interest Income	628	725	15.4	857	684	(20.2)	626	704	12.4
Total Revenue	2,679	2,725	1.7	3,059	2,823	(7.7)	3,003	3,059	1.9
Opex	(873)	(894)	2.4	(857)	(872)	1.8	(931)	(1,016)	9.1
Net Operating Income	1,806	1,832	1.4	2,202	1,951	(11.4)	2,072	2,043	(1.4)
Net Income (Reported/Headline)	889	955	7.4	960	1,035	7.8	1,203	1,158	(3.7)
Net Income (Attributable)	646	711	10.1	716	789	10.2	943	899	(4.6)

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2016	2017	2018	2019e	2020e	2021e
<b>Net Interest Income</b>	<b>2,073</b>	<b>2,255</b>	<b>2,081</b>	<b>2,001</b>	<b>2,140</b>	<b>2,355</b>
Fees & Commissions	460	420	388	410	438	416
FX Income	102	107	115	107	116	117
Other Income	115	106	51	207	130	171
<b>Non-Interest Income</b>	<b>677</b>	<b>633</b>	<b>554</b>	<b>725</b>	<b>684</b>	<b>704</b>
<b>Total Revenue</b>	<b>2,750</b>	<b>2,888</b>	<b>2,635</b>	<b>2,725</b>	<b>2,823</b>	<b>3,059</b>
Operating Expenses	(1,078)	(1,045)	(937)	(894)	(872)	(880)
<b>Net Operating Income</b>	<b>1,672</b>	<b>1,843</b>	<b>1,698</b>	<b>1,832</b>	<b>1,951</b>	<b>2,179</b>
Net Provisions	(620)	(735)	(864)	(904)	(912)	(1,016)
<b>Net Profit Before Tax</b>	<b>1,052</b>	<b>1,109</b>	<b>834</b>	<b>928</b>	<b>1,039</b>	<b>1,163</b>
Tax	2	1	(4)	27	(4)	(5)
<b>Net Profit (Reported/Headline)</b>	<b>1,054</b>	<b>1,110</b>	<b>830</b>	<b>955</b>	<b>1,035</b>	<b>1,158</b>
Interest on Tier-1 Note	(220)	(220)	(220)	(220)	(220)	(230)
Social & Sports Contribution Fund	(26)	(28)	(21)	(24)	(26)	(29)
<b>Attributable Net Profit</b>	<b>807</b>	<b>862</b>	<b>589</b>	<b>711</b>	<b>789</b>	<b>899</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2016	2017	2018	2019e	2020e	2020e
Cash & Balances with Central Bank	4,260	6,670	7,586	7,121	6,793	7,755
Interbank Loans	10,505	7,822	6,239	7,183	7,175	7,938
Net Investments	14,706	17,513	20,727	27,781	29,282	29,985
Net Loans	59,186	59,804	59,844	65,298	71,752	77,819
Other Assets	936	978	1,115	2,100	1,446	1,179
Net PP&E	771	709	621	701	754	819
<b>Total Assets</b>	<b>90,365</b>	<b>93,495</b>	<b>96,132</b>	<b>110,184</b>	<b>117,202</b>	<b>125,494</b>
<b>Liabilities</b>						
Interbank Deposits	12,275	11,005	19,529	23,520	25,848	26,206
Customer Deposits	55,730	59,468	55,785	59,342	64,089	70,498
Term Loans	6,814	6,091	5,592	7,661	9,806	11,767
Other Liabilities	2,165	2,124	2,494	6,528	3,845	2,820
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>80,984</b>	<b>82,688</b>	<b>87,399</b>	<b>101,050</b>	<b>107,589</b>	<b>115,291</b>
<b>Total Shareholders' Equity</b>	<b>9,381</b>	<b>10,807</b>	<b>8,733</b>	<b>9,134</b>	<b>9,613</b>	<b>10,203</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>90,365</b>	<b>93,495</b>	<b>96,132</b>	<b>110,184</b>	<b>117,202</b>	<b>125,494</b>

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2016	2017	2018	2019e	2020e	2021e
<b>Profitability (%)</b>						
RoE (Attributable) Based on Beg. Book Value	8.7	9.2	5.5	8.1	8.6	9.4
RoAA (Attributable)	1.2	1.2	0.9	0.9	0.9	1.0
RoRWA (Attributable)	1.0	1.1	0.8	0.9	1.0	1.0
NIM (% of IEAs)	2.60	2.71	2.45	2.16	2.07	2.12
NIM (% of RWAs)	2.60	2.85	2.67	2.54	2.60	2.68
NIM (% of AAs)	2.39	2.45	2.19	1.94	1.88	1.94
Spread	2.3	2.5	2.3	1.9	1.8	1.9
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	39.2	36.2	35.5	32.8	30.9	28.8
Cost-to-Income (Core)	39.8	36.8	35.4	35.4	31.9	29.6
<b>Liquidity (%)</b>						
LDR	106.2	100.6	107.3	110.0	112.0	110.4
Loans/Assets	65.5	64.0	62.3	59.3	61.2	62.0
Cash & Interbank Loans-to-Total Assets	16.3	15.5	14.4	13.0	11.9	12.5
Deposits to Assets	61.7	63.6	58.0	53.9	54.7	56.2
Wholesale Funding to Loans	32.3	28.6	42.0	47.8	49.7	48.8
IEAs to IBLs	1.1	1.1	1.1	1.1	1.1	1.1
<b>Asset Quality (%)</b>						
NPL Ratio	3.27	3.61	5.84	5.45	5.32	4.50
NPL to Shareholders' Equity	21.5	20.9	43.5	42.4	43.3	37.5
NPL to Tier 1 Capital	24.4	23.3	46.2	45.0	45.8	39.9
Coverage Ratio	119.7	124.8	137.6	150.4	155.9	185.2
ALL/Average Loans	4.0	4.5	8.2	8.6	8.7	8.7
Cost of Risk (%)	81	95	149	144	129	109
<b>Capitalization (%)</b>						
Tier 1 Ratio	15.4	17.4	15.8	15.7	15.5	14.8
CAR	15.6	17.5	17.0	16.8	16.7	16.0
Tier 1 Capital to Assets	13.6	14.7	12.7	11.4	11.2	10.8
Tier 1 Capital to Loans	20.7	22.9	20.4	19.3	18.2	17.5
Tier 1 Capital to Deposits	22.0	23.0	21.9	21.3	20.4	19.3
Leverage (x)	9.6	8.7	11.0	12.1	12.2	12.3
<b>Growth (%)</b>						
Net Interest Income	1.2	8.8	-7.7	-3.9	6.9	10.1
Non-Interest Income	-11.5	-6.5	-12.4	30.8	-5.7	2.9
Total Revenue	-2.2	5.0	-8.8	3.4	3.6	8.3
Opex	4.6	-3.1	-10.3	-4.6	-2.4	0.9
Net Operating Income	-6.1	10.3	-7.9	7.9	6.5	11.7
Net Income (Headline/Reported)	-23.3	5.3	-25.2	15.0	8.4	11.9
Net Income (Attributable)	-33.8	6.8	-31.6	20.6	11.0	14.0
Loans	6.4	1.0	0.1	9.1	9.9	8.5
Deposits	5.6	6.7	-6.2	6.4	8.0	10.0
Assets	8.5	3.5	2.8	14.6	6.4	7.1
RWAs	-0.8	-0.7	-2.2	4.2	4.9	8.6

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*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

### Contacts

#### **Saugata Sarkar, CFA, CAIA**

Head of Research

Tel: (+974) 4476 6534

[saugata.sarkar@qnbfs.com.qa](mailto:saugata.sarkar@qnbfs.com.qa)

#### **Mehmet Aksoy, PhD**

Senior Research Analyst

Tel: (+974) 4476 6589

[mehmet.aksoy@qnbfs.com.qa](mailto:mehmet.aksoy@qnbfs.com.qa)

#### **Shahan Keushgerian**

Senior Research Analyst

Tel: (+974) 4476 6509

[shahan.keushgerian@qnbfs.com.qa](mailto:shahan.keushgerian@qnbfs.com.qa)

#### **QNB Financial Services Co. WLL**

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

#### **Zaid Al Nafsoosi, CMT, CFTe**

Senior Research Analyst

Tel: (+974) 4476 6535

[zaid.alnafsoosi@qnbfs.com.qa](mailto:zaid.alnafsoosi@qnbfs.com.qa)

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