

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR33.08	Target Price	QR31.00
Implied Upside	(6.3%)		

Maintain Market Perform and PT QR31/share

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. Despite an overall challenging macro environment, we were pleased with DHBK's improvement in revenue generation and costs control. We maintain our 10% growth in attributable net income for 2018 and retain our Market Perform rating.

Highlights

- Improvement in 2017 bottom-line was driven by stronger revenue generation vs. 2016.** DHBK reported attributable net profit of QR862.3mn, increasing by 6.8% vs. a drop of 33.8% in 2016. Improvement in the bottom-line was due to a recovery in net interest income, non-funded income and cost containment. *Going forward in 2018, we maintain our net income estimate of QR947.5mn. However, we lower our 2019 estimate to QR1.1bn (previous QR1.3bn) due to higher provisions. Change in net operating income is negligible (+2.4%). (see page 2)*
- Spreads finally widened, which is a positive.** Net interest income increased by 8.8% YoY to QR2.3bn. DHBK's net interest margin expanded by 11bps YoY to 2.71%. The widening of the spread was due to yield on assets gaining by 38bps while cost of funds moved up marginally by 9bps. *We expect margin pressure in 1Q2018 as the deposits flow took place in 4Q2017 and the interest expense associated with it may not have impacted the income statement.*
- Efficiency improved, resulting in positive JAWs.** Opex grew by 2.3% YoY to QR1.1bn while revenue gained by 7.1% to QR2.9bn. Thus, C/I ratio receded to 37.4% vs. 39.2% in FY2016. DHBK also generated positive JAWs of 4.9% in 2017 vs. a negative of 6.8% in 2016. *We foresee further improvement in DHBK's C/I as the bank exercises cost control.*
- Provisioning as per IFRS 9 charged against risk reserve.** DHBK's expected net credit losses & impairments sat at QR1.5bn. After netting it out against risk reserves, the bank would have a remaining charge against retained earnings of QR134.3mn. This negative impact on equity is immaterial, however. Moreover, we expect CoR to remain elevated in 2018 and 2019 vs. 95bps in 2017.
- Asset quality worsened.** DHBK's asset quality worsened with the bank's NPLs gaining by 12.2% YoY to QR2.0bn. Moreover, The NPL ratio moved to 3.61% from 3.27% in 2016. The coverage ratio increased to 125% vs. 120% in 2016.
- Deposits from the public sector led to a significant improvement in the LDR.** Deposits expanded by 13.2% QoQ (+6.7% YoY) to QR59.5bn led by the public sector (+38.8% YoY). The public sector drove the growth as retail and corporate deposits dropped by 12.1% and 14.1% YoY, respectively. Loans inched up by 1.4% QoQ (+1.0% YoY) to QR59.8bn. Hence, the LDR moved down to 101% vs. 112% in 3Q2017 (106% in 4Q2016). *We lower our loans growth estimate to 5.1% (previously 7.8%) and 6.3% (12.2%) in 2018 and 2019, respectively due to the current operating environment.*
- Capitalization remains at healthy levels for now.** DHBK ended 2017 with a CET1 ratio of 12.3% and total Tier-1 ratio of 17.4% (includes AT1 capital).

Catalysts

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

Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2018e P/B and P/E of 0.9x and 10.8x, respectively. The stock trades around its fair value (PEG of 1.3x).
- Risks:** 1) Geopolitical factors and 3) Exposure real estate & contracting segments

Key Financial Data and Estimates

	2017	2018e	2019e	2020e
EPS (Attributable)	2.78	3.06	3.52	4.18
Growth	6.8	9.9	15.1	18.7
Attributable P/E (x)	11.9	10.8	9.4	7.9
BVPS (QR)	34.9	34.9	35.9	37.6
P/B (x)	0.9	0.9	0.9	0.9
DPS (QR)	3.00	2.50	2.50	2.50
Dividend Yield (%)	9.1	7.6	7.6	7.6

Source: Company data, QNBFS Research

Key Data

Current Market Price (QR)	33.08
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)	38.33/25.70
3-m Average Volume ('000)	268.4
Mkt. Cap. (\$ bn/QR bn)	2.9/10.3
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	12.9
1-Year Total Return (%)	-3.7
Fiscal Year End	December 31

Source: Bloomberg (as of January 29, 2018), *Qatar Exchange (as of January 28, 2018); 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

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%.

Change in Estimates

(In QR mn)	2018e			2019e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,394	2,399	0.2	2,629	2,596	(1.3)
Non Interest Income	704	708	0.6	774	750	(3.1)
Net Operating Income	1,932	1,978	2.4	2,113	2,165	2.4
Net Income (Reported/Headline)	1,189	1,197	0.7	1,598	1,344	(15.9)
Net Income (Attributable)	940	947	0.8	1,338	1,091	(18.5)

Source: Company data, QNBFS Research

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,255	2,399	2,596	2,800
Fees & Commissions	465	482	511	514
FX Income	107	111	117	109
Other Income	119	115	122	136
Non-Interest Income	691	708	750	759
Total Revenue	2,946	3,107	3,346	3,559
Operating Expenses	(1,103)	(1,130)	(1,182)	(1,276)
Net Operating Income	1,843	1,978	2,165	2,282
Net Provisions & Impairments	(735)	(775)	(814)	(721)
Net Profit Before Tax	1,109	1,203	1,351	1,561
Tax	1	(5)	(6)	(7)
Net Profit (Headline/Reported)	1,110	1,197	1,344	1,554
Interest on Tier-1 Note	(220)	(220)	(220)	(220)
Social & Sports Contribution Fund	(28)	(30)	(34)	(39)
Attributable Net Profit	862	947	1,091	1,295

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	8,801	10,019	8,637
Net Investments	17,513	20,109	22,176	23,768
Net Loans	59,804	62,865	66,796	71,972
Other Assets	978	1,017	1,014	1,092
Net PP&E	709	643	614	587
Total Assets	93,495	98,431	106,745	111,881
Liabilities				
Interbank Deposits	11,005	12,155	13,454	11,853
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	87,607	95,605	100,221
Total Shareholders' Equity	10,807	10,824	11,140	11,660
Total Liabilities & Shareholders' Equity	93,495	98,431	106,745	111,881

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	8.5	8.8	9.9	11.3
RoAA (Attributable)	1.2	1.2	1.3	1.4
RoRWA (Attributable)	1.1	1.2	1.2	1.3
NIM (% of IEAs)	2.71	2.76	2.76	2.79
NIM (% of RWAs)	2.85	2.95	2.92	2.88
NIM (% of AAs)	2.45	2.50	2.53	2.56
Spread	2.5	2.6	2.5	2.5
Efficiency (%)				
Cost-to-Income (Headline)	37.4	36.4	35.3	35.9
Cost-to-Income (Core)	38.1	36.9	35.8	36.6
Liquidity (%)				
LDR	100.6	100.7	98.1	98.8
Loans/Assets	64.0	63.9	62.6	64.3
Cash & Interbank Loans-to-Total Assets	15.5	14.0	15.1	12.9
Deposits to Assets	63.6	63.4	63.8	65.1
Wholesale Funding to Loans	28.6	30.0	31.4	28.2
IEAs to IBLs	109.3	111.6	109.8	110.6
Asset Quality (%)				
NPL Ratio	3.61	3.95	4.06	4.30
NPLs to Shareholder's Equity	20.9	24.1	25.7	27.7
NPLs to Tier 1 Capital	23.3	26.0	27.7	30.1
Coverage Ratio	124.8	123.0	131.7	129.4
ALL/Average Loans	4.5	5.0	5.5	5.8
Cost of Risk	95	100	102	85
Capitalization (%)				
Tier 1 Ratio	17.4	16.8	15.3	14.8
CAR	17.5	16.9	15.4	14.9
Tier 1 Capital to Assets	14.7	14.3	13.4	13.3
Tier 1 Capital to Loans	22.9	22.3	21.5	20.7
Tier 1 Capital to Deposits	23.0	22.5	21.3	20.6
Leverage (x)	8.7	9.1	9.6	9.6
Growth (%)				
Net Interest Income	8.8	6.4	8.2	7.9
Non-Interest Income	2.1	2.6	5.9	1.1
Total Revenue	7.1	5.5	7.7	6.3
Opex	2.3	2.5	4.6	8.0
Net Operating Income	10.3	7.3	9.4	5.4
Net Income (Headline/Reported)	5.3	7.9	12.3	15.6
Net Income (Attributable)	6.8	9.9	15.1	18.7
Loans	1.0	5.1	6.3	7.7
Deposits	6.7	5.0	9.0	7.0
Assets	3.5	5.3	8.4	4.8
RWAs	-0.7	6.1	12.3	7.2

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

Contacts

Saugata Sarkar, CFA, CAIA

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Mohamed Abo Daff

Senior Research Analyst

Tel: (+974) 4476 6589

mohd.abodaff@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

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

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNBFS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNBFS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNBFS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.