

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.322	Target Price	QR2.600
Implied Upside	12.0%		

Upgrading to Accumulate on Valuation

DHBK reported weak figures for FY2019 on the back of asset quality concerns, which has been a recurring theme over the past 3 years. Hence, the bank has set forth a strategy of exercising prudent risk control, de-risking the balance sheet away from contracting & real estate, containing costs and maintaining CET 1 of min. 12% through internal growth. Post 2024, we expect RoE to improve significantly. Moreover, the stock trades at a PEG of 0.7x, which is relatively attractive based on an earnings CAGR of 17.7%. We roll forward our estimates (page 2) resulting in an increase in our 5-year earnings CAGR from 14.3% to 17.7%. We maintain our PT at QR2.60. The recent decline in the stock post 2019 results prompts our upgrade from Market Perform to Accumulate.

Highlights

- DHBK reports a net loss in 4Q2019, solely attributable to a surge in provisions and impairments.** Doha Bank (DHBK) reported a net loss of QR64.6mn vs. a net profit of QR92.8mn in 4Q2018 (net profit of QR299.9mn in 3Q2019). The loss was due to net provisions and impairments of QR531.2mn, the highest in the bank's operating history. On a YoY basis, revenue jumped by 16.2%, driven by investment income.
- Management omitted cash DPS for 2019 to shore up capital; we believe DHBK will skip DPS in 2020 to raise its CET 1 ratio to 12%.** The bank has opted to not pay a cash DPS for 2019; instead, it transferred QR712.4mn to its risk reserve. We expect DHBK to transfer another QR522.4mn in 2020 to bring the risk reserve level to QR1.37bn (in-line with its 2017 pre-IFRS 9 figure).
- Provisions remained elevated in 2019 and the highest in its operating history; management intends to reduce CoR to 60bps to 75bps in the coming 5 years.** DHBK reported provisions for credit losses of QR1.16bn in FY2019 vs. QR951.7mn in FY2018 (QR592.4mn in 2017). Moreover, CoR increased to 171bps vs. 149bps in 2018 (95bps in FY2017). *CoR in 2020 is estimated to be broadly in-line with 2019, steadily dropping to 75bps by 2025.*
- Spreads and margins continue to compress.** DHBK's net interest margin contracted by 32bps YoY to 2.14%. The compression in the spread YoY was due to cost of funds increasing by ~29bps, while yield on assets decreased by ~7bps. *We expect further compression as the bank raises funds to bring the LDR down to the 105%-110% range. Hence, we forecast deposit growth (+9.7% CAGR 2019-24e) to outpace loans (+6.9%).*
- Cost control a key objective, C/I ratio is expected to drop to 30% and below over the coming 3 to 5 years.** DHBK's opex remained flat YoY while total revenue grew by 5.6%, resulting in an 8.8% growth in net operating income. C/I ratio improved, declining to 33.6% vs. 35.5% in FY2018 (36.2% in FY2017). *We model C/I ratio to decline to 29% by 2022e.*
- Management in process of de-risking, target is to bring down NPL ratio to 3.0% and below over the coming 3 to 5 years.** Asset quality slightly deteriorated with the bank's NPLs gaining by 8.4% YoY to QR4.1bn. On the other hand, the NPL ratio remained stable at 5.81% vs. 5.84% in 2018 (3.61% FY2017). The coverage ratio for Stage 3 loans declined to 86% vs. 100% in the previous quarter and 98% in FY2018. The bank's contracting portfolio & GCC exposure remains a challenge (UAE: 98% covered, Kuwait: 55% covered). In FY2019, DHBK wrote-off QR1.77bn in impaired loans, which represents 2.7% of loans and 46.5% of FY2018 NPLs. *The majority of Stage 2 loans (27% of total loans) are comprised of the contracting segment, which remains a concern.*
- Net loans expanded, driven by public sector and corporates.** Net loans grew by 9.9% YoY to QR65.8bn, while deposits gained by 4.8% YoY to QR58.5bn. Growth in loans was led by the public sector and corporates, while loans to the retail, real estate and contracting segments declined. *We pencil in a loan book CAGR of 6.9% (2019-24e) vs. 6.3% in 2014-2019.*
- DHBK intends to raise its CET 1 ratio above 12.0%.** CET 1 ratio increased from 10.7% in 2018 to 11.5% in 2019, while Tier-1 ratio moved from 15.8% to 16.6%. *We estimate CET 1 ratio of 12.0% + through optimization of RWAs in our forecast horizon.*

Catalysts

- Despite outperforming the market in the past 1-year, DHBK stock remains the worst performing Qatari bank stock over the last 5 years. 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 2020e P/B and P/E of 0.7x and 11.8x, respectively.
- Risks:** 1) Oil price shock, 2) Global recession driven by Coronavirus & 3) Interest rate cut (s)

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.17	0.20	0.25	0.30
Growth	-12.6	18.6	28.2	19.7
P/E (x)	14.0	11.8	9.2	7.7
BVPS (QR)	3.0	3.2	3.5	3.7
P/B (x)	0.8	0.7	0.7	0.6
DPS (QR)	0.000	0.000	0.075	0.100
Dividend Yield (%)	0.0	0.0	3.2	4.3

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	2.322
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)	3.01/1.89
3-m Average Volume (mn)	2.3
Mkt. Cap. (\$ bn/QR bn)	2.0/7.2
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	11.8
1-Year Total Return (%)	+19.0
Fiscal Year End	December 31

Source: Bloomberg (as of March 02, 2020), *Qatar Exchange (as of March 02, 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	2,118	2,114	(0.2)	2,331	2,268	(2.7)	2,519	2,448	(2.8)
Non-Interest Income	663	832	25.6	683	820	20.1	633	772	22.0
Total Revenue	2,781	2,946	5.9	3,014	3,089	2.5	3,152	3,220	2.2
Opex	(903)	(924)	2.4	(931)	(929)	(0.2)	(955)	(944)	(1.2)
Net Operating Income	1,878	2,022	7.7	2,083	2,160	3.7	2,197	2,276	3.6
Net Income (Reported)	955	862	(9.7)	1,077	1,051	(2.4)	1,243	1,221	(1.8)
Net Income (Attributable)	712	611	(14.2)	820	783	(4.5)	982	937	(4.6)

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	2,114	2,268	2,448
Fees & Commissions	420	388	394	407	387	414
FX Income	107	115	112	116	125	116
Other Income	106	51	297	309	309	242
Non-Interest Income	633	554	803	832	820	772
Total Revenue	2,888	2,635	2,783	2,946	3,089	3,220
Operating Expenses	(1,045)	(937)	(935)	(924)	(929)	(944)
Net Operating Income	1,843	1,698	1,848	2,022	2,160	2,276
Net Provisions	(735)	(864)	(1,123)	(1,156)	(1,104)	(1,050)
Net Profit Before Tax	1,109	834	725	866	1,056	1,226
Tax	1	(4)	29	(4)	(4)	(6)
Net Profit (Reported/Headline)	1,110	830	754	862	1,051	1,221
Interest on Tier-1 Note	(220)	(220)	(220)	(230)	(242)	(253)
Social & Sports Contribution Fund	(28)	(21)	(19)	(22)	(26)	(31)
Attributable Net Profit	862	589	515	611	783	937

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	6,245	6,452	7,628
Interbank Loans	7,822	6,239	7,757	6,914	7,762	7,144
Net Investments	17,513	20,727	26,561	30,977	35,532	37,283
Net Loans	59,804	59,844	65,784	70,556	76,096	83,071
Other Assets	978	1,115	1,579	1,422	1,457	1,258
Net PP&E	709	621	724	722	783	760
Total Assets	93,495	96,132	108,208	116,837	128,082	137,145
Liabilities						
Interbank Deposits	11,005	19,529	24,037	24,444	24,212	23,378
Customer Deposits	59,468	55,785	58,464	63,726	71,691	80,294
Term Loans	6,091	5,592	7,332	9,385	11,731	12,435
Other Liabilities	2,124	2,494	5,058	5,353	5,735	5,621
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	82,688	87,399	98,891	106,908	117,370	125,728
Total Shareholders' Equity	10,807	8,733	9,318	9,929	10,712	11,416
Total Liabilities & Shareholders' Equity	93,495	96,132	108,208	116,837	128,082	137,145

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2017	2018	2019	2020e	2021e	2022e
Profitability (%)						
RoE (Attributable) Based on Beg. Book Value	9.2	5.5	5.9	6.6	7.9	8.8
RoAA (Attributable)	1.2	0.9	0.7	0.8	0.9	0.9
RoRWA (Attributable)	1.1	0.8	0.7	0.8	0.9	1.1
NIM (% of IEAs)	2.71	2.45	2.14	2.04	2.01	2.00
NIM (% of RWAs)	2.85	2.67	2.53	2.64	2.71	2.75
NIM (% of AAs)	2.45	2.19	1.94	1.88	1.85	1.85
Spread	2.5	2.3	1.9	1.8	1.7	1.7
Efficiency (%)						
Cost-to-Income (Headline)	36.2	35.5	33.6	31.4	30.1	29.3
Cost-to-Income (Core)	36.8	35.4	37.7	34.5	32.5	31.0
Liquidity (%)						
LDR	100.6	107.3	112.5	110.7	106.1	103.5
Loans/Assets	64.0	62.3	60.8	60.4	59.4	60.6
Cash & Interbank Loans-to-Total Assets	15.5	14.4	12.5	11.3	11.1	10.8
Deposits to Assets	63.6	58.0	54.0	54.5	56.0	58.5
Wholesale Funding to Loans	28.6	42.0	47.7	47.9	47.2	43.1
IEAs to IBLs	1.1	1.1	1.1	1.1	1.1	1.1
Asset Quality (%)						
NPL Ratio	3.61	5.84	5.81	5.20	4.80	3.80
NPL to Shareholders' Equity	20.9	43.5	44.2	39.8	37.0	29.9
NPL to Tier 1 Capital	23.3	46.2	45.1	40.6	37.7	30.5
Coverage Ratio	124.8	137.6	124.4	138.2	161.3	200.0
ALL/Average Loans	4.5	8.2	7.5	7.4	8.1	7.9
Cost of Risk (%)	95	149	171	165	139	99
Capitalization (%)						
Tier 1 Ratio	17.4	15.8	16.6	17.0	16.8	16.6
CAR	17.5	17.0	17.7	18.2	18.0	17.8
Tier 1 Capital to Assets	14.7	12.7	12.1	11.8	11.3	11.1
Tier 1 Capital to Loans	22.9	20.4	20.0	19.5	19.1	18.3
Tier 1 Capital to Deposits	23.0	21.9	22.5	21.6	20.2	18.9
Leverage (x)	8.7	11.0	11.6	11.8	12.0	12.0
Growth (%)						
Net Interest Income	8.8	-7.7	-4.8	6.8	7.3	7.9
Non-Interest Income	-6.5	-12.4	44.9	3.7	-1.5	-5.9
Total Revenue	5.0	-8.8	5.6	5.9	4.8	4.3
Opex	-3.1	-10.3	-0.2	-1.1	0.5	1.6
Net Operating Income	10.3	-7.9	8.8	9.4	6.8	5.4
Net Income (Headline/Reported)	5.3	-25.2	-9.2	14.4	21.9	16.1
Net Income (Attributable)	6.8	-31.6	-12.6	18.6	28.2	19.7
Loans	1.0	0.1	9.9	7.3	7.9	9.2
Deposits	6.7	-6.2	4.8	9.0	12.5	12.0
Assets	3.5	2.8	12.6	8.0	9.6	7.1
RWAs	-0.7	-2.2	2.7	2.0	6.9	5.6

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

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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