

Doha Bank (DHBK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR51.00	Current Target Price	QR62.00
Implied Upside	21.6%	Old Target Price	QR67.00

Changing Estimates; Revising Price Target

We revise our PT to QR62.00 from QR67.00 and maintain our Outperform rating. We utilize a Warranted Equity Valuation method (WEV) and Residual Income (RI). The RI method yields a price target of QR61.00 while the WEV yields QR63.00. Previously, we used headline earnings and headline RoAE to generate our price target of QR67.00. We now use attributable earnings and RoAE which accounts for interest expense on Tier-1 notes (this amount is netted in retained earnings and not explicitly deducted from profits) and social & sports contribution fund (same reasoning as the interest expense). As such, our forecasted attributable RoAE is 14.0% vs. 16.0% (headline/reported) which we used in the past.

Highlights

- **We estimate a loan book CAGR of 12.0% for 2014-18e.** DHBK was known for solely being a retail bank with retail loans representing ~42% of its loan book in 2008. However, in recent times the bank has shifted its strategy by tapping other sectors of the economy such as contracting and real estate. As of FY2014, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~21%. The bank has recently become more cautious about lending to contractors; it plans to target prime contractors as opposed to subcontractors. The share of the government segment in gross loans has increased to ~10% (highest in recent history) in 2014 versus ~8% in 2013. We pencil in loan book growth of 14.7% and 15.5% in 2015 and 2016, respectively.
- **DHBK to post net income of QR1.43bn and 1.56bn in 2015 and 2016 (previously QR1.49bn and QR1.61bn), respectively.** In 2015, we expect restrained growth in net interest income (+5.6% YoY) after a subdued performance in 2014 (+6.5% YoY). NIMs were under extreme pressure during 2012, 2013 and 2014 due to heavy competition within the banking industry. Presently, NIMs are slightly under pressure but the magnitude is less than the previous years. We estimate DHBK's NIM for 2015 and 2016 at 2.72% and 2.80%, respectively. Moreover, after a strong performance in fees & commission during 2014 (+27.3% YoY), we expect a more modest growth of 13.0% YoY. We also expect net provisions to be flattish. Thus, net profit is estimated to grow by 5.9% in 2015. We expect net income to grow by 8.4% in 2016, mainly driven by net interest income (+9.1%) and fees & commissions (+10.0%).

Catalysts

- **49% FOL, maintaining current DPS and clarity on asset quality.** 1) The board agreed on increasing the bank's FOL from 25% to 49%; 2) Distributing DPS of QR4.00 (Yield of 7.8%) and 3) addressing asset quality issues should be positive for the stock.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We revise our Price Target to QR62.00 and maintain an Outperform rating.** DHBK is trading at a 2015e P/B of 1.4x.
- **Risks:** 1) Declining oil prices remains the biggest risk for DHBK and the banking sector and 2) Exposure to the retail & contracting segments create concentration risk.

Key Financial Data and Estimates

	FY2013	FY2014	FY2015e	FY2016e
EPS (QR)	5.08	5.24	5.55	6.02
EPS Growth (%)	0.6	3.1	5.9	8.4
P/E (x)	10.0	9.7	9.2	8.5
BVPS (QR)	35.9	35.9	36.7	37.6
P/B (x)	1.4	1.4	1.4	1.4
DPS (QR)	4.50	4.00	4.00	3.50
Dividend Yield (%)	8.8	7.8	7.8	6.9

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

Key Data

Current Market Price (QR)	51.00
Dividend Yield (%)	7.8
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	68.00/48.50
3-m Average Volume ('000)	258.7
Mkt. Cap. (\$ bn/QR bn)	3.6/13.2
Shares Outstanding (mn)	258.4
FO Limit* (%)	25.0
Current FO* (%)	12.1
1-Year Total Return (%)	(9.2)

Fiscal Year End December 31

Source: Bloomberg (as of April 06, 2015), *Qatar Exchange (as of April 06, 2015); Note: FO is foreign ownership

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Recent Results Review & 1Q2015 Estimates

DHBK's net income inched up by 3.1% YoY in 2014. DHBK posted a net profit of QR1.35bn vs. QR1.31bn in 2013, marginally increasing by 3.1%. Growth was adversely affected by a 53.3% surge in net provisions investment impairment provisions. Net interest income grew by 6.1% to QR1.9bn vs. a growth of 8.5% in 2013. The bank's NIM further contracted by ~28bps in 2014 to 2.98% (NIM contracted by ~14bps in 2013 to 3.27%). Moreover, the spread dropped to 2.6% from 2.8% in 2013. Furthermore, DHBK's yield on interest earning assets contracted by ~44bps while cost of funds receded by ~only 22bps. We can attribute this performance due to the heavy competition occurring in the domestic banking sector. Fees & commissions displayed robust performance, gaining by 27.3% to QR516.0mn (fees grew by 15.9% in 2013). Total income grew by 12.5% to QR2.9bn with the help of investment income (investment income spiked by 51.8% vs. a sharp drop of 42.6% in 2013). Thus, investment income was a driving force behind this growth. On the asset quality front, NPLs grew by 22.6% resulting in a NPL ratio of 3.1% vs. 3.0% in 2013. On the other hand, the coverage ratio significantly increased to 114% from 97% in 2013. On the expenses side, the cost-to-income ratio marginally declined to 35.8% vs. 36.1% in 2013, although operating expenses increased by 11.7%.

Net loans displayed strong growth. DHBK's loan book grew by 18.1% vs. 13.1% for the Qatari banking sector (domestic loans) and 14.6% for the 8-listed banks (includes domestic and international loans). This healthy loan growth was based on two factors: 1) Corporate loans (excluding real estate, contracting, and public sector) expanded by 39.2% YoY vs. a relatively milder growth of 11.4% in 2013 and 2) Public sector loans surged by 46.4% (public sector loans made up 9.9% of total loans vs. 8.1% in 2013). Moreover, contracting and real estate loans also grew but at a lesser magnitude vs. 2013. Total deposits only grew by 8.1% YoY due to growth subsiding in the corporate segment. As such, DHBK ended 2014 with a LDR of 106% vs. 97% in 2013 (98% in 2012). Doha Bank's investment book dropped by 19.2% YoY mainly due to sale and maturities of government debt.

1Q2015 Estimates

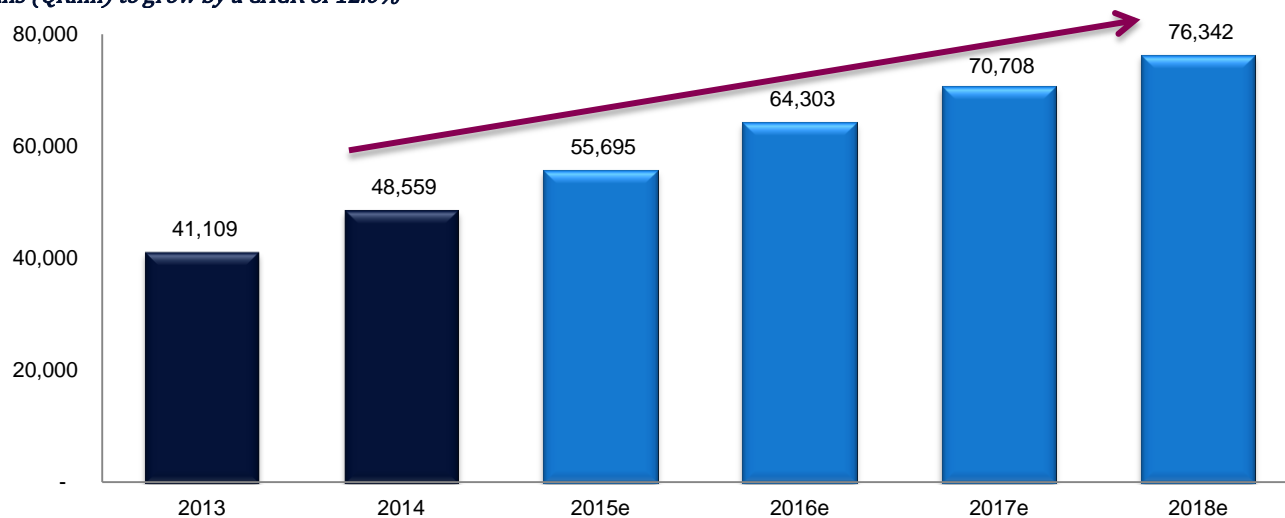
We expect DHBK to exhibit a 83.8% QoQ expansion in net income (+0.6% YoY). We estimate DHBK to report a net income of QR401.8mn in 1Q2015 vs. QR218.7mn in 4Q2014 (QR399.3mn in 1Q2014). We expect the QoQ increase in net income to be mainly attributed to a drop in provisions and operating expenses (in-line with the bank's historical trend). Our estimated YoY flattish performance is due to smaller investment gains vs. 1Q2014. Estimating investment income remains a tricky exercise at best.

Key Forecasts

Loan Book

We estimate a loan book CAGR of 12.0% for 2014-18e. DHBK was known for solely being a retail bank with retail loans representing ~42% of its loan book in 2008. However, in recent times the bank has shifted its strategy by tapping other sectors of the economy such as contracting and real estate. As of FY2014, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~21%. The bank has recently become more cautious about lending to contractors; it plans to target prime contractors as opposed to subcontractors. The share of the government segment in gross loans has increased to ~10% (highest in recent history) in 2014 versus ~8% in 2013. We expect decent performance to continue in this segment as the bank targets government related projects. Moreover, the retail and other corporates segments, the historical niche segments for the bank, should also witness increased credit off-take. As of 2014, DHBK had 33% of its loan book in other corporates, 21% (retail), 19% (real estate), 17% (contracting) and 10% (public sector). We pencil in loan book growth of 14.7% and 15.5% in 2015 and 2016, respectively. Overall, we expect the loan book to grow to QR76.3bn in 2018e from QR48.6bn in 2014.

Loans (QRmn) to grow by a CAGR of 12.0%



Source: Company Data, QNBFS Research

Valuation

We revise our price target to QR62.00 from QR67.00 and maintain our Outperform rating. We utilize a Warranted Equity Valuation method (WEV) and Residual Income (RI). The RI method yields a price target of QR61.00 while the WEV yields QR63.00. Previously, we used headline earnings and headline RoAE to generate our price target of QR67.00. We now use attributable earnings and RoAE which accounts for interest expense on Tier-1 notes (this amount is netted in retained earnings and not explicitly deducted from profits) and social & sports contribution fund (same reasoning as the interest expense). As such, our forecasted attributable RoAE is 14.0% vs. 16.0% (headline/reported) which we used in the past.

Operating Performance

DHBK to post net income of QR1.43bn in 2015 and QR1.56bn in 2016. Post 2014 results, we have revised our 2015 and 2016 net profit estimates downward. We now expect net profit to reach QR1.43bn and QR1.56bn in 2015 and 2016, respectively (previously QR1.49bn and QR1.61bn). In 2015, we expect restrained growth in net interest income (+5.6% YoY) after a subdued performance in 2014 (+6.5% YoY). From a NIMs perspective, competition within the banking industry during 2012, 2013 and 2014 was strong as most banks saw the yields on their assets and NIMs take a drop while the cost of funding remained rigid. Thus, DHBK's NIMs contracted by ~80 bps in 2012 reaching 3.41%, declining to 3.27% in 2013 and further dropping to 2.98% in 2014 (one of the lowest in the bank's operating history over 2003-14). Presently, NIMs are slightly under pressure but the magnitude is less than the previous years. We estimate DHBK's NIM for 2015 and 2016 at 2.72% and 2.80%, respectively. Moreover, after a strong performance in fees & commission during 2014 (+27.3% YoY), we expect a more modest growth of 13.0% YoY. We also expect net provisions to be flattish. Thus, net profit is estimated to grow by 5.9% in 2015. We expect net income to grow by 8.4% in 2016, mainly driven by net interest income (+9.1%) and fees & commissions (+10.0%).

Efficiency

DHBK's cost-to-income ratio used to be within an acceptable range, but is beginning to display a negative trend. Historically, DHBK has maintained a healthy efficiency ratio at an average of 33.6% (2007-13), which is mostly in-line with its GCC peers. However, the recent jump to 36.1% in 2013 was due to an increase in headcount and salary increments. Moreover, the cost-to-income ratio remained on the high side at 35.8% at the end of 2014. We expect the cost-to-income to increase in 2015 (37.1%) and 2016 (37.9%) as growth in operating expenses marginally outpaces growth in total income.

Asset Quality

Potential asset quality issues on the horizon. In recent times, Doha Bank's loan portfolio has skewed towards contracting in addition to having a sizeable retail and real estate positions. This has caused some asset quality concerns to pop up. The bank's NPL ratio stood at 3.1% as of FY2014 vs. 3.0% in 2013 (2.8% in 2012). However, we expect some pressure on the NPL ratio as the bank gains more exposure to the contracting, retail and real estate sectors. We assume an NPL ratio of 3.3% and 3.0% in 2015 and 2016, respectively. The bank has generally maintained a coverage ratio in the low-to-mid 90s (%) between 2005 and 2013. However during this period, the ratio occasionally dropped to an average of ~76%. The bank ended 2014 with a coverage ratio of 113.8%, which we believe is a conservative level for the bank given its historical trend. Nevertheless we pencil in an average (2015e-2018e) coverage ratio of 109.8%. Further, we are of the view that management would like to remain conservative and maintain a coverage ratio around the 100s.

Capitalization

Capital raising expected to enhance Tier-1 position. Doha bank will be issuing perpetual Tier-1 notes (which qualify as Additional Tier-1 Capital) worth QR2.0bn during 1H2015. The ensuing capital raising should lift the bank's Tier-1 ratio and CAR to 16.3% (2014: 14.7%) and 16.6% (2014: 15.0%), respectively. Without the AT1, DHBK would end 2015e with a Tier-1 ratio and CAR of 13.6% and 13.9%, respectively. Doha Bank is no stranger to raising capital as it raised capital via a 25% rights issue in the beginning of 2013 and further raised Tier-1 perpetual capital notes worth QR2.0bn in December 2013 in order to boost its Tier-1 capital. The bank ended 2013 with a Tier-1 ratio and CAR of 14.3% (2012: 10.9%) and 15.9% (2012: 13.6%), respectively. With a strong balance sheet in place, we believe the bank is gearing up to partake in the credit off-take growth expected to occur. Historically, Doha Bank has maintained a low Tier 1 ratio vs. its domestic peers, averaging 11.0% (2006-2012).

Company Description

As of 2014, Doha Bank is Qatar's third largest conventional bank with a ~7% market share in both loans and deposits (among all listed banks). DHBK is a conventional bank offering commercial banking services and products to corporate and retail customers. Incorporated in 1979, the bank offers commercial loans, trade and project finance, treasury services, consumer loans, current and savings accounts, time deposits, credit cards, e-cards, internet banking and phone banking services. As of 2014, the bank had a domestic network of 31 branches and 4 overseas branches (Dubai, Abu Dhabi, Kuwait & India). Moreover, the bank has representative offices in UK, Germany, Singapore, Turkey, China, Japan, South Korea, Hong Kong, Australia, Canada and Sharjah.

Detailed Financial Statements

Ratios	FY2013	FY2014	FY2015e	FY2016e
Profitability (%)				
RoAE	15.6	14.6	15.3	16.2
RoAA	2.1	1.9	1.8	1.8
RoRWA	2.2	1.8	1.7	1.6
NIM (% of IEAs)	3.3	3.0	2.8	2.7
NIM (% of RWAs)	3.1	2.9	2.8	2.7
NIM (% of AAs)	37.9	38.3	39.4	39.9
Spread	2.8	2.6	2.4	2.4
Efficiency (%)				
Cost-to-Income (Headline)	36.1	35.8	37.1	37.9
Cost-to-Income (Core)	37.9	38.3	39.4	39.9
Liquidity (%)				
LDR	96.7	105.7	108.2	105.9
Loans/Assets	61.4	64.3	68.0	67.8
Cash & Interbank Loans-to-Total Assets	18.8	21.1	17.4	18.1
Deposits to Assets	63.5	60.8	62.8	64.1
Wholesale Funding to Loans	26.2	33.2	25.8	27.1
IEAs to IBLs	141.5	139.5	139.6	138.8
Asset Quality (%)				
NPL Ratio	3.0	3.1	3.3	3.0
NPL to Shareholder's Equity	13.7	16.8	20.2	20.5
NPL to Tier 1 Capital	13.9	19.4	22.7	22.7
Coverage Ratio	96.7	113.8	115.2	114.7
ALL/Average Loans	3.2	3.8	4.1	3.7
Cost of Risk	0.77	0.95	0.81	0.71
Capitalization (%)				
Tier 1 Ratio	14.3	14.7	16.3	14.4
CAR	15.9	15.0	16.6	14.7
Tier 1 Capital to Assets	13.7	13.3	15.2	13.5
Tier 1 Capital to Loans	22.4	16.6	15.1	13.7
Tier 1 Capital to Deposits	21.6	21.9	24.2	21.1
Leverage (x)	7.2	8.1	8.6	9.7
Growth (%)				
Net Interest Income	8.5	6.5	5.6	9.1
Net Operating Income	5.0	12.5	6.3	8.0
Net Income	0.6	3.1	5.9	8.4
Loans	21.7	18.1	14.7	15.5
Deposits	23.6	8.1	12.0	18.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2013	FY2014	FY2015e	FY2016e
Net Interest Income	1,822	1,941	2,051	2,238
Fees & Commissions	405	516	583	641
FX Income	89	97	103	106
Dividend Income	27	36	40	43
Income From Investment Gains	122	185	176	165
Other Income	76	84	88	91
Non-Interest Income	719	918	990	1,046
Total Income	2,541	2,860	3,041	3,284
Operating Expenses	(917)	(1,025)	(1,128)	(1,245)
Net Operating Income	1,624	1,835	1,913	2,039
Net Provisions	(306)	(469)	(467)	(471)
Net Profit Before Tax	1,318	1,365	1,446	1,568
Tax	(5)	(12)	(12)	(13)
Net Profit (Headline/Reported)	1,313	1,354	1,434	1,555
Interest on Tier-1 Note	-	(120)	(180)	(240)
Social & Sports Contribution Fund	(33)	(34)	(31)	(33)
Attributable Net Profit	1,280	1,200	1,223	1,282

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2013	FY2014	FY2015e	FY2016e
Assets				
Cash & Balances with Central Bank	3,436	3,707	3,088	3,036
Interbank Loans	9,180	12,247	11,139	14,147
Net Investments	11,704	9,453	10,398	11,600
Net Loans	41,109	48,559	55,695	64,303
Other Assets	781	788	845	974
Net PP&E	759	761	741	721
Total Assets	66,970	75,514	81,906	94,781
Liabilities				
Interbank Deposits	7,720	12,795	9,586	12,607
Customer Deposits	42,522	45,947	51,460	60,723
Term Loans	3,031	3,310	4,810	4,810
Other Liabilities	2,426	2,174	2,573	2,915
Tier-1 Perpetual Note	2,000	2,000	4,000	4,000
Total Liabilities	57,699	66,226	72,429	85,055
Shareholders' Equity				
Share Capital	2,584	2,584	2,584	2,584
Statutory Reserves	4,311	4,313	4,313	4,313
Banking Risk Reserve	961	1,140	1,281	1,479
Other Reserves	(48)	(68)	(68)	(68)
Proposed Dividends	1,163	1,033	1,033	904
Retained Earnings	301	286	334	514
Total Shareholders' Equity	9,271	9,288	9,477	9,726
Total Liabilities & Shareholders' Equity	66,970	75,514	81,906	94,781

Source: Company data, QNBFS estimates

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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