

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR21.49	Target Price	QR28.00
Implied Upside	+30.3%		

Weak 3Q2018 as Expected; Operating Income In-Line

DHBK remains unprofitable as it is generating economic losses (RoE<CoE) vs. accounting profits. However with an expected 2018 DPS of QR2 (down from QR3 in 2017), the stock continues to remain one of the highest yielding names in the GCC.

Highlights

- DHBK reported weak 3Q2018 YoY performance as expected but still beat estimates.** Doha Bank (DHBK) reported a net income of QR266.8mn declining by 19.9% with weak results across the board. Net income sequentially surged due to a 53.4% drop in provisions & impairments. Excluding provisions, our estimates were inline. Total revenue and net operating was in line at QR664.7mn (-0.4% variation) and QR422.2mn (+1.1% variation), respectively.
- Operating metrics in-line with model; we will tweak our estimates before 4Q2018.** We do not expect major changes to our model with revisions likely to flow-through the impact of lower than expected provisions in 2018.
- Provisions for credit losses increased YoY but significantly dropped sequentially.** DHBK booked credit provisions of QR181.5mn which translates into CoR of 113bps vs. 255bps in 2Q2018 (28bps in 1Q2018). 9M2018 Annualized CoR is 131bps which is pretty steep. However, management intimated that the worst of the provisioning is behind it.
- Spreads and margins slightly widened sequentially, but remains subdued on YoY basis.** Net interest income dropped by 6.7% YoY (flat QoQ) to QR520.9mn (In-line with our estimate). DHBK's net interest margin expanded by 6bps sequentially but contracted by 9bps YoY to 2.55%. The widening of the spread sequentially was due to yield on assets gaining by 14bps, while cost of funds increasing by only ~9bps. On a YoY basis, the contraction in the NIM was a result of CoFs expanding more than yields. CoFs expanded by 56bps vs. +46bps for yields.
- Asset quality continues to worsen.** DHBK's asset quality deteriorated with the bank's NPLs gaining by 20.6% QoQ (+43.3% YTD) to QR3.2bn. Moreover, the NPL ratio moved to 5.05% from 4.30% in 2Q2018 (3.61% FY2017). The coverage ratio for Stage 3 loans dipped to 106% vs. 119% in the previous quarter. *The bank's contracting portfolio remains a challenge.*
- Net Loans gained traction while deposits remained weak.** Net Loans grew by 2.2% QoQ (-1.1% YTD) to QR59.2bn while deposits inched up by 0.6% (-12.8% YTD) to QR51.9bn. Hence, the bank's LDR moved up to 114% from 112% in 2Q2018 (101% end of 2017). *The bank needs to address its liquidity position in our view.*
- CET1 ratio remains low.** DHBK's CET1 ratio declined to 10.7% from 12.3% at the end of 2017. However, CET1 ratio marginally improved QoQ.

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 0.7x and 8.4x, respectively.
- Risks:** 1) Geopolitical factors and 3) Contracting segments

Key Financial Data and Estimates

	2017	2018e	2019e	2020e
EPS	3.02	2.56	2.97	3.30
Growth	-3.2	-15.3	16.3	10.8
P/E (x)	7.5	8.4	7.2	6.5
BVPS (QR)	34.9	29.3	30.2	32.4
P/B (x)	0.6	0.7	0.7	0.7
DPS (QR)	3.00	2.00	1.00	1.50
Dividend Yield (%)	14.0	9.3	4.7	7.0

Source: Company data, QNBFS Research

Key Data

Current Market Price (QR)	21.49
Dividend Yield (%)	9.3
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	34.98/19.90
3-m Average Volume ('000)	250.6
Mkt. Cap. (\$ bn/QR bn)	1.8/6.7
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	13.2
1-Year Total Return (%)	-10.6
Fiscal Year End	December 31

Source: Bloomberg (as of October 17, 2018), *Qatar Exchange (as of October 17, 2018); Note: FO is foreign ownership

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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%.

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,255	2,230	2,347	2,531
Fees & Commissions	465	432	467	482
FX Income	107	100	105	110
Other Income	119	110	119	103
Non-Interest Income	691	642	691	695
Total Revenue	2,946	2,872	3,038	3,226
Operating Expenses	(1,103)	(1,074)	(1,111)	(1,162)
Net Operating Income	1,843	1,798	1,927	2,064
Net Provisions & Impairments	(735)	(730)	(699)	(699)
Net Profit Before Tax	1,109	1,067	1,228	1,365
Tax	1	(5)	(6)	(6)
Net Profit (Headline/Reported)	1,110	1,062	1,223	1,359
Interest on Tier-1 Note	(220)	(220)	(220)	(220)
Social & Sports Contribution Fund	(28)	(27)	(31)	(34)
Attributable Net Profit	862	816	972	1,105

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	6,670	7,065	5,632	5,357
Interbank Loans	7,822	5,758	6,072	7,862
Net Investments	17,513	20,109	21,840	24,365
Net Loans	59,804	57,578	60,721	65,518
Other Assets	978	1,278	923	995
Net PP&E	709	654	638	624
Total Assets	93,495	92,442	95,825	104,722
Liabilities				
Interbank Deposits	11,005	12,283	10,689	13,107
Customer Deposits	59,468	58,874	62,583	66,963
Term Loans	6,091	5,969	6,685	7,688
Other Liabilities	2,124	2,178	2,378	2,679
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	82,688	83,304	86,335	94,437
Total Shareholders' Equity	10,807	9,138	9,490	10,285
Total Liabilities & Shareholders' Equity	93,495	92,442	95,825	104,722

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	8.5	8.2	10.4	11.2
RoAA (Attributable)	1.2	1.1	1.3	1.4
RoRWA (Attributable)	1.1	1.1	1.2	1.3
NIM (% of IEAs)	2.71	2.69	2.76	2.75
NIM (% of RWAs)	2.85	2.88	3.00	2.97
NIM (% of AAs)	2.45	2.40	2.49	2.52
Spread	2.5	2.5	2.5	2.4
Efficiency (%)				
Cost-to-Income (Headline)	37.4	37.4	36.6	36.0
Cost-to-Income (Core)	38.1	38.0	37.1	36.5
Liquidity (%)				
LDR	100.6	97.8	97.0	97.8
Loans/Assets	64.0	62.3	63.4	62.6
Cash & Interbank Loans-to-Total Assets	15.5	13.9	12.2	12.6
Deposits to Assets	63.6	63.7	65.3	63.9
Wholesale Funding to Loans	28.6	31.7	28.6	31.7
IEAs to IBLs	109.3	106.8	109.7	110.3
Asset Quality (%)				
NPL Ratio	3.61	4.42	4.06	3.62
NPLs to Shareholder's Equity	20.9	30.1	28.2	25.0
NPLs to Tier 1 Capital	23.3	32.4	29.1	26.2
Coverage Ratio	124.8	121.1	137.9	161.3
ALL/Average Loans	4.5	7.6	7.9	8.1
Cost of Risk	95	123	101	83
Capitalization (%)				
Tier 1 Ratio	17.4	16.5	16.4	15.3
CAR	17.5	16.6	16.5	15.5
Tier 1 Capital to Assets	14.7	13.5	13.7	13.2
Tier 1 Capital to Loans	22.9	21.7	21.7	21.1
Tier 1 Capital to Deposits	23.0	21.2	21.0	20.6
Leverage (x)	8.7	10.1	10.1	10.2
Growth (%)				
Net Interest Income	8.8	-1.1	5.2	7.8
Non-Interest Income	2.1	-7.0	7.7	0.5
Total Revenue	7.1	-2.5	5.8	6.2
Opex	2.3	-2.6	3.4	4.6
Net Operating Income	10.3	-2.5	7.2	7.1
Net Income (Headline/Reported)	5.3	-4.3	15.1	11.1
Net Income (Attributable)	6.8	-5.4	19.2	13.7
Loans	1.0	-3.7	5.5	7.9
Deposits	6.7	-1.0	6.3	7.0
Assets	3.5	-1.1	3.7	9.3
RWAs	-0.7	-3.9	6.2	11.9

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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