

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR54.80	Target Price	QR62.53
Implied Upside	14.1%		

3Q2012 Net Income Dips 8.4% QoQ; Revising Estimates & Target Price Slightly

Inline results; Maintain Accumulate rating. Doha Bank (DHBK) reported a net profit of QR320.6mn for 3Q2012, down 8.4% QoQ from QR350.0 in 2Q2012. The results were in line with our forecast of QR320.2mn. The QoQ decline was due to lower net income from financial investments, while all other income heads were relatively flat. We have revised our estimates in light of the recent data from the sector and the bank. On our revised estimates of 2013, DHBK is trading at a P/E ratio of 8.0x and a P/B ratio of 1.4x.

- Interest income from financing activities increased to QR571.5mn, up 3.1% QoQ. However, interest expense increased by 10.4% QoQ to QR159.3mn, reducing the net interest income to QR412.2mn in 3Q2012 vs. QR410.1mn in 2Q2012, up only 0.5% QoQ.
- Net income from insurance activities was QR6.4mn, up 63.7% QoQ. Net fee and commission income increased by 7.2% QoQ to QR87.0mn. Net income from financial investments declined by 58.3% to QR32.2mn vs. 77.3mn in 2Q2012. The latter is the primary reason for the QoQ decline in overall net income for the bank.
- Combined impairment on loans and advances and financial investments came at QR46.1mn; declining by 1.0% QoQ. The loan-to-deposit ratio increased to 100.9% in 3Q2012 from 97.8% at the end of 2Q2012 (96.9% at the end of 2011). Loan book improved by 5.7% QoQ while deposits increased by 2.5% QoQ. On an YTD basis, the loan book has increased by 2.2% while deposits are down by 1.9%.

In light of the recent data, we have revised our estimates and expect the bank to post EPS of QR6.67 (previously QR6.30) and QR6.83 (previously QR6.77) for 2012 and 2013, respectively. Recently, DHBK has disclosed its intention to raise its capital by 50% in 1Q2013. Subsequently, the bank has appointed JP Morgan as the advisor/manager for this exercise. However, we await more details of how this will be conducted. Our initial thoughts remain that this will be a combination of a domestic rights issue, GDR and private placement. In our view, this could represent approximately \$1bn in additional capital. This exercise should help loan growth as the bank will have the necessary capacity to increase its loan book. We note that DHBK's lack of lending capacity on the capital front has been a key concern affecting our estimates. This capital raise should hopefully address this issue to a large extent. However, we expect NIMs will contract by 10bps in 2013 as the industry is experiencing re-pricing by existing clients. We have also updated other assumptions (primarily reducing 2012/13 DPS), which lead to a revised target price of QR62.53 from QR63.30.

Key Data:

Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DHBK.QA
ISIN	QA0006929770
Sector*	Banks & Financial Services
52wk High/52wk Low (QR)	67.20/53.00
3-m Average Volume	81,223
Mkt. Cap. (\$ bn/QR bn)	3.1/11.3
Shares Outstanding (mn)	206.7
FO Limit* (%)	18.8
Current FO*	6.2
1-Year Total Return (%)	(5.9)

Fiscal Year End Dec. 31

Source: Bloomberg (as of October 21, 2012), *Qatar Exchange* (as of October 21, 2012) Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	6
Hold	7
Sell	0

Source: Bloomberg

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DHBK Key Stats (In QR mn)	3Q2011	2Q2012	3Q2012	Change QoQ (%)	Change YoY (%)
Interest income and income from Islamic financing activities	550.4	554.4	571.5	3.1	3.8
Interest expense and unrestricted investment depositors' share of profit	(122.6)	(144.3)	(159.3)	10.4	29.9
Net interest income and net income from Islamic financing activities	427.9	410.1	412.2	0.5	(3.7)
Net fee and commission income	93.5	81.1	87.0	7.2	(7.0)
Impairment losses on loans and advances (net) and on financial investments	(51.5)	(46.6)	(46.1)	(1.0)	(10.5)
Net profit	308.4	350.0	320.6	(8.4)	4.0
	2011	2Q2012	3Q2012	Change QoQ (%)	Change YTD (%)
Loans, advances and financing activities to customers	30,704.0	29,667.2	31,364.6	5.7	2.2
Total assets	52,420.3	51,873.0	52,798.2	1.8	0.7
Customer deposits and unrestricted investment accounts	31,698.9	30,338.5	31,085.8	2.5	(1.9)
Total shareholders' equity	7,081.2	6,953.4	7,359.0	5.8	3.9

Source: Company data

Key Financial Data and Estimates

In QR	2010	2011	2012E	2013E
EPS	5.10	6.00	6.67	6.83
EPS Growth (%)	8.3	17.7	11.0	2.5
P/E (x)	10.7	9.1	8.2	8.0
BVPS	29.19	34.26	37.14	39.97
P/B (x)	1.9	1.6	1.5	1.4
DPS	4.6	4.4	4.0	4.0
Dividend Payout (%)	89.9	72.9	60.0	58.5
Dividend Yield (%)	8.4	8.0	7.3	7.3

Source: Company data, QNBFS estimates

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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