

Doha Bank (DHBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR1.505	Target Price	QR1.883
Implied Upside	25.1%		

1Q2024 Falls Short of Estimates on NIM Compression; Maintain Market Perform

Doha Bank (DHBK) reported net profit of QR231.3mn in 1Q2024, growing by 10.9% YoY (+62.2% QoQ). Profitability fell short of our estimate of QR245.7mn (variation of -6.7%). **A drop in credit provisions and investment gains (vs. losses) drove YoY bottom-line.** While net interest income was flat, a 16.5% growth in non-funded income (attributable to investment gains) and a 12.2% drop in credit provisions helped the bottom-line. The sequential surge in earnings was attributable to a lack of litigation expense (4Q2023 litigation expense was QR161.6mn) as net operating income dropped by 3.5% and credit provisions surged by 44.9%. DHBK trades at a deep discount to its BV as the bank is not expected to generate economic profits in the medium-term as RoE is still expected to be below CoE over 2024 to 2028. The stock trades at a 60% discount to its 2024e BV. **We maintain our Market Perform rating and QR1.883 PT.**

Highlights

- **DHBK reported net profit of QR231.3mn in 1Q2024, growing by 10.9% YoY (+62.2% QoQ).** Profitability fell short of our estimate of QR245.7mn (variation of -6.7%).
- **A drop in credit provisions and investment gains (vs. losses) drove YoY bottom-line.** Although net interest income was flat, a 16.5% growth in non-funded income (attributable to investment gains) and a 12.2% drop in credit provisions helped the bottom-line. The sequential surge in earnings was attributable to a lack of litigation expense (4Q2023 litigation expense was QR161.6mn) as net operating income dropped by 3.5% and credit provisions surged by 44.9%.
- **CoR improved YoY.** DHBK's 1Q2024 annualized CoR improved from 135bps in 1Q2023 to 115bps.
- **Margins contracted both YoY and sequentially.** NIMs contracted by 10/40bps YoY/QoQ as growth in CoFs materially outpaced yields on IEAs.
- **RoE remains weak and significantly below CoE.** 1Q2024 annualized RoE came in at 8.9% vs. 8.3% in 1Q2023.
- **C/I ratio remains higher than its peers.** C/I ratio stood at 35.5% in 1Q2024 vs. 35.1% in 1Q2023 (4Q2023: 35.7%).
- **Asset quality remains a concern; NPLs continue to increase.** DHBK's NPLs increased 16.8%/2.1% to QR4.6bn in 1Q2024 vs. 1Q2023/FY2023. Moreover, the NPL ratio increased from 6.6%/7.4% in 1Q2023/4Q2023 to 7.5% in 1Q2024. On the other hand, the coverage ratio for Stage 3 loans sequentially remained flat at 71% in 1Q2024. Stage 2 loans contribute 31% to total loans (highest vs. its peers), which is concerning; coverage of Stage 2 loans is a low 6%.
- **Net loans were sequentially flat, while deposits increased.** Net loans remained flattish QoQ at QR58.1bn in 1Q2024. On the other hand, deposits moved up by 1.2% to QR52.2bn.
- **De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended 1Q2024 with a CET1 ratio of 13.3% and a Tier-1 ratio of 18.6%.

Catalysts

- Future stock price gains depend on a resumption of confidence in the bank's performance and realization of management's goals & objectives.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our QR1.883 price target and our Market Perform rating.** DHBK is trading at a 2024e/25e P/B and P/E of 0.4x and 6.7x/6.2x, respectively.
- **Risks:** 1) Asset quality. 2) Execution risks remain for management's new strategy.

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
EPS (QR)	0.181	0.225	0.241	0.283
Growth	0.7	24.7	7.0	17.3
P/E (x)	8.3	6.7	6.2	5.3
BVPS (QR)	3.37	3.52	3.66	3.82
P/B (x)	0.4	0.4	0.4	0.4
RoE (%)	5.6	6.7	6.9	7.7
DPS (QR)	0.075	0.100	0.125	0.175
Dividend Yield (%)	5.0	6.6	8.3	11.6

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.505
Dividend Yield (%)	5.0
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	1.865/1.407
3-m Average Volume (mn)	3.9
Mkt. Cap. (\$ bn/QR bn)	1.3/4.7
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	14.3
1-Year Total Return (%)	0.5
Fiscal Year End	December 31

Source: Bloomberg (as of April 21, 2024), *Qatar Exchange (as of April 21, 2024); Note: FO is foreign institutional ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Net Interest Income	2,585	2,322	2,148	2,237	2,366	2,507
Fees & Commissions	303	371	376	414	443	496
FX Income	154	153	105	120	126	137
Other Income	65	63	39	133	109	152
Non-Interest Income	522	587	520	667	678	785
Total Revenue	3,107	2,909	2,668	2,904	3,045	3,292
Operating Expenses	(876)	(894)	(946)	(988)	(1,042)	(1,103)
Net Operating Income	2,231	2,015	1,722	1,917	2,003	2,189
Net Provisions	(1,485)	(1,201)	(857)	(952)	(985)	(1,032)
Net Profit Before Tax	746	814	865	965	1,018	1,157
Tax	(43)	(48)	(95)	(53)	(56)	(62)
Net Profit (Reported/Headline)	704	765	769	912	962	1,095
Interest on Tier-1 Note	(197)	(190)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(19)	(19)	(23)	(24)	(27)
Attributable Net Profit	490	556	560	699	748	877
EPS	0.158	0.179	0.181	0.225	0.241	0.283

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	5,887	3,668	4,842	4,332	4,230	4,913
Interbank Loans	5,365	8,651	5,497	6,031	5,695	5,335
Net Investments	25,083	24,964	30,386	30,698	35,075	37,209
Net Loans	62,667	58,079	58,010	60,310	63,274	66,693
Other Assets	1,412	1,618	1,901	2,001	1,593	1,346
Net PP&E	689	665	619	569	566	563
Total Assets	101,103	97,645	101,255	103,941	110,433	116,061
Liabilities						
Interbank Deposits	22,511	19,239	23,908	22,888	24,150	24,071
Customer Deposits	50,356	50,130	51,573	54,151	57,942	61,419
Term Loans	11,629	11,408	8,517	9,283	10,676	12,277
Other Liabilities	2,351	2,790	2,813	2,708	2,318	2,457
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	90,847	87,566	90,811	93,030	99,085	104,223
Total Shareholders' Equity	10,256	10,079	10,444	10,910	11,348	11,838
Total Liabilities & Shareholders' Equity	101,103	97,645	101,255	103,941	110,433	116,061
Risk Weighted Assets	71,898	73,175	78,094	81,593	87,794	93,661

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2021	2022	2023	2024e	2025e	2026e
Profitability (%)						
RoE (Attributable)	5.0	5.4	5.6	6.7	6.9	7.7
RoAA (Attributable)	0.7	0.8	0.8	0.9	0.9	1.0
RoRWA (Attributable)	0.7	0.8	0.7	0.9	0.9	1.0
NIM (% of IEAs)	2.80	2.57	2.36	2.38	2.38	2.38
NIM (% of RWAs)	3.60	3.20	2.84	2.80	2.79	2.76
NIM (% of AAs)	2.53	2.34	2.16	2.18	2.21	2.21
Spread	2.6	2.1	1.4	1.3	1.2	1.1
Efficiency (%)						
Cost-to-Income (Headline)	28.2	30.7	33.4	34.0	34.2	33.5
Cost-to-Income (Core)	28.4	31.0	35.7	35.3	35.3	34.9
Liquidity (%)						
LDR (stable sources of funds)	101	94	97	95	92	90
Loans/Assets	62.0	59.5	57.3	58.0	57.3	57.5
Cash & Interbank Loans-to-Total Assets	11.1	12.6	10.2	10.0	9.0	8.8
Deposits to Assets	49.8	51.3	50.9	52.1	52.5	52.9
Wholesale Funding to Loans	54.5	52.8	55.9	53.3	55.0	54.5
IEAs to IBLs	1.2	1.2	1.3	1.3	1.3	1.3
Asset Quality (%)						
NPL Ratio	5.83	6.43	7.36	7.12	6.00	5.75
NPL to Shareholders' Equity	37.3	39.3	43.6	42.3	36.5	35.9
NPL to Tier 1 Capital	39.5	40.6	44.9	43.6	37.6	36.9
Coverage Ratio	77.5	87.0	83.2	99.0	140.6	167.5
ALL/Average Loans	4.4	5.4	6.1	7.2	8.7	9.9
Cost of Risk (%)	211	153	145	146	140	135
Capitalization (%)						
CET1 Ratio	13.5	13.3	13.0	13.0	12.5	12.3
Tier-1 Ratio	19.0	18.8	18.1	17.9	17.1	16.5
CAR	20.2	19.9	19.2	19.0	18.3	17.7
Tier-1 Leverage (x)	13.5	14.1	14.0	14.0	13.6	13.3
Growth (%)						
Net Interest Income	11.4	-10.2	-7.5	4.2	5.8	5.9
Non-Interest Income	-15.4	12.4	16.2	-2.1	1.6	15.7
Total Revenue	5.8	-6.4	-2.7	2.6	4.8	8.1
Opex	1.0	2.1	5.8	4.4	5.5	5.9
Net Operating Income	7.8	-9.7	-6.5	1.8	4.5	9.3
Net Income (Headline/Reported)	0.1	8.8	0.5	18.5	5.5	13.8
Net Income (Attributable)	1.5	13.6	0.7	24.7	7.0	17.3
Loans	-4.3	-7.3	-0.1	4.0	4.9	5.4
Deposits	-8.5	-0.4	2.9	5.0	7.0	6.0
Assets	-2.4	-3.4	3.7	2.7	6.2	5.1
RWAs	0.0	1.8	6.7	4.5	7.6	6.7

Source: Company data, QNB FS Research

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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