DHBK Alert – 2Q2019 YoY Growth Driven by Drop in Provisions/Impairments; Revenue Remains Soft on NIM Compression

- **DHBK's 2Q2019 YoY surge was attributable to a drop in provisions & impairments masking weak revenue/margin compression.** Doha Bank (DHBK) reported a net income of QR211.1mn, surging by 136.3 YoY, falling short of our estimate of QR273.0mn (-22.7% variation). The miss was due to higher than expected provisions as net operating income came in-line at QR424.7mn vs. our estimate of QR412.9mn (+2.8% variation). Growth was due to a 35.7% drop in provisions & impairments (to a certain degree, base effect). Net interest income dropped by 10.1% YoY (down 4.8% QoQ) to QR469.2mn, while non-funded income expanded by 29.2% (+30.9% QoQ) on strong investment income (DHBK generated investment losses in 2Q2018). Bottom-line sequentially dropped by 31.3% due to a surge in provisions. *Core banking revenue was weak as expected.*

- **Cost control is aiding the bank's operations.** DHBK's opex receded by 5.3% YoY vs. a 1.6% decline in in total revenue, resulting in flat net operating income. C/I ratio improved, declining to 35% vs. 37% in 2Q2018 (36% in 1Q2019).

- **Provisions remain elevated.** DHBK reported provisions for credit losses of QR296.9mn in 2Q2019 vs. QR119.9mn in 1Q2019 (QR398.7mn in 2Q2018). However, 1H2019 CoR declined to 126bps vs. 143bps in 1H2018 (149bps in FY2018). We expect further provisions for 2019 and a CoR of 147bps.

- **Spreads and margins compressed on a YoY basis and sequentially.** DHBK's net interest margin contracted by 16bps and 7.5bps YoY and sequentially, respectively, to 2.10%. The compression in the spread YoY was due to cost of funds increasing by ~19bps, while yield on assets remained flat. On a QoQ basis, the contraction in the NIM was also a result of CoFs expanding with yields remaining flat; CoFs expanded by 8bps vs. flat yields.

- **Asset quality remains a major concern.** DHBK's asset quality deteriorated with the bank's NPLs gaining by 4.8% QoQ (+1.4% YoY) to QR3.9bn. Moreover, the NPL ratio moved to 5.83% from 5.78% in 1Q2019 (5.84% FY2018 & 3.61% FY2017). The coverage ratio for Stage 3 loans remained stable at 95% vs. 96% in the previous quarter and 98% in FY2018. *The bank's contracting portfolio remains a challenge. So far in 1H2019, the bank has written off QR537.1mn in impaired loans which represents 0.8% of loans and 14.1% of FY2018 NPLs.*

- **Net loans & deposits gained traction on a QoQ basis.** Net loans expanded by 3.8% QoQ (+1.8% YTD) to QR60.9bn while deposits gained by 2.1% QoQ (flat YTD) to QR55.6bn. Hence, the bank's LDR deteriorated to 110% from 108% in 1Q2019 (107% end of 2018). However, LDR (based on stable sources of funds) remained acceptable at 96% vs. 94% in 1Q2019 (92% FY2018).

- **Recommendation and valuation:** DHBK trades at a P/E and P/TB of 13.7x and 0.9x on our 2019 estimates, respectively. For the time being we maintain our PT of QR2.60 and Market Perform rating. *However, we may change our estimates and recommendation shortly.*

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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