

## DHBK Alert – 2Q2023 Falls Short of Estimates; NIMs Compression and Provisions & Impairments Dent Earnings

- **DHBK misses estimates; net profit drops by 30.4% YoY:** Doha Bank (DHBK) reported a net profit of QR183.4mn in 2Q2023 vs. QR263.5mn in 2Q2022 (QR208.6mn in 1Q2023; we had estimated a 2Q2023 net profit of QR233.3mn). *The drop, on a YoY basis, was attributed to NIMs compression (net interest income dropped by 9.9% YoY) and a rise in net provisions & impairments (19.6%). On a sequential basis, profitability declined due to a surge in provisions & impairments (43.7%).*
- **Margins compressed in-line with our modeled estimates:** DHBK's 2Q2023 (annualized) NIMs dropped by 17bps YoY (+24bps QoQ) to 2.43% as a result of a sharp increase in CoFs. Net interest income came in at QR537.4mn vs. our estimate of QR529.5mn (variation of +1.5%).
- **Non-funded income was driven by investment gains:** Non-funded income surged by 53.4% YoY (+21.2% QoQ) as DHBK reported investment gains of QR40.8mn vs. a loss of QR27.3mn in 2Q2022 (1Q2023: loss of QR7.2mn). Fees grew by a healthy 1.4% YoY (+3.4% sequentially), while f/x income declined by 27.6% YoY (-3.3% QoQ).
- **CoR and credit provisions increased.** 1H2023 CoR (annualized) increased to 158bps (136bps in 1H2022), while credit provisions in 2Q2023 increased by 8.4% YoY to QR267.9mn vs. QR247.1mn in 2Q2022. Sequentially, credit provisions surged by 31.4%.
- **Asset quality remains a concern; NPLs are legacy.** DHBK's NPLs remained broadly flat at QR4.0bn sequentially and YTD. Moreover, the NPL ratio remained flat at 6.7% QoQ (6.43% in FY2022). On a positive note, the coverage ratio for Stage 3 loans increased to 70% vs. 65% in 1Q2023. *DHBK has the largest share of Stage 2 loans as a % of total loans among domestic banks; Stage 2 loans stood at 33% of total loans. DHBK has increased in buffers for stage loans, but coverage remains a low of 6.0%.*
- **Net loans contracted sequentially and YTD:** Net loans declined by 1.5% sequentially (-3.9% YTD) to QR56.8bn on the back of public sector repayments of credit facilities. Moreover, deposits contracted by 9.2% QoQ (-12.1% YTD) to QR44.1bn.
- **CET1 requires improvement but Tier-1 position remains healthy.** DHBK ended 2Q2023 with CET1 ratio of 13.2% and a Tier-1 ratio of 18.6%.
- **Recommendation and valuation:** DHBK trades at a P/B of 0.5x on our 2023 estimates. For now, we maintain our PT of QR1.883/share but lower our rating to Market Perform as the stock has rallied and is now trading around its fair value.

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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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