

Doha Bank (DHBK)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR2.345	Target Price	QR3.151
Implied Upside	32.7%		

Asset Quality Remains a Headwind; Stock is Trading at 33% Discount to BV

Factoring in 1H2022 earnings, we still pencil in a bottom-line (attributable) growth of 56.5% in 2022 (QR766.2mn). We also raise our 2023 and 2024 estimates by 19.3% and 17.2% to QR1.07bn and QR1.24bn, respectively. Our changes in estimates are mainly driven by lower CoR; we pencil in a CoR of 140bps (2023e), 120bps (2024e) and 104bps (2025e). Our new earnings estimates (2022-26e) are expected to lead to an average RoE generation of 11.50% (unchanged vs. previous estimate) over our forecast horizon vs. low- to mid-single digit RoEs since 2016. We expect the bank to generate economic profits from 2027 and onward. Hence, RoE is still expected to be below CoE over 2022 to 2026. The stock trades at a 33% discount to its 2022e BV due to asset quality issues from recent history. As such, DHBK has significantly underperformed its peers and therefore, we upgrade the stock from an Accumulate rating to an Outperform. We maintain our PT at QR3.151 and note that DHBK's beginning BVPS (2022) contributes 106% to our price target (as the present value of economic profits is negative). There could be downside risk to our estimates and price target if CoR does not normalize sooner than expected.

Highlights

- DHBK reported a headline net profit of QR665.0mn in 1H2022 (+8.2% YoY) as a result of a 19.3% drop in provisions and impairments.** We still pencil in a bottom-line (attributable) growth of 56.5% in 2022 (QR766.2mn). However, we raise our 2023 and 2024 estimates by 19.3% and 17.2% to QR1.07bn and QR1.24bn, respectively. Changes in estimates is mainly driven by lower CoR; we pencil in a CoR of 140bps (2023e), 120bps (2024e) and 104bps (2025e).
- CoR dependent on QCB's review of the loan book.** DHBK reported provisions for credit losses of QR436.4mn in 1H2022 vs. QR531.9mn in 1H2021, decreasing by 18.0% YoY. Moreover, 1H2022 CoR (annualized) decreased to 116bps vs. 166bps in 1H2021 (211bps in FY2021). 2022 CoR is estimated to be around ~167bps, steadily dropping to 104bps by 2025 (still on the high side) as management needs to build further provisions in order to raise coverage of Stage 3 loans from 63% in 1H2022 to 100%.
- Given the recent interest rate hike by the QCB following the FED, we expect margins to expand next year.** As DHBK's lending picks up in 2023, we estimate NIM to increase from 2022's estimate of 2.72% to 2.84%. On the other hand, we maintain our flat forecast for 2024.
- C/I ratio is expected to remain slightly below 30% and steadily improve over the coming couple of years.** C/I ratio stood at 29.7% in 1H2022 vs. 27.8% in 1H2021 (28.2% in FY2021). Going forward, we expect DHBK to record a C/I ratio of 29.9% in 2022e and improve to 27.9% by 2026e.
- Asset quality remains problematic but is showing signs of stability; management may further downgrade Stage 2 loans.** DHBK's NPLs marginally increased QoQ by 1.3% to QR3.8bn (flat vs. FY2021). Moreover, the NPL ratio remained flat at 5.95% vs. 5.97% in 1Q2022 (5.83% in FY2021). Further, the coverage ratio for Stage 3 loans improved from 57% in 1Q2022 to 63% in 2Q2022; DHBK is allocating more provisions to Stage 2 & 3 loans. Stage 2 loans contribute 30% to total loans, highest vs. its peers. During 1H2022, DHBK wrote-off QR82.4mn in impaired loans, which is insignificant (FY2021: QR2.3bn, 3.4% of total loans; FY2020: QR4.0bn, 5.7% of total loans).
- Net loans continue to recede.** Net loans decreased by 3.1% vs. FY2021 to QR60.7bn. On the other hand, deposits expanded by 6.6% vs. FY2021 to QR53.7bn; the decline in loans was led by the public/govt. segment. We pencil in a loan book CAGR of 5.0% (2021-26e) vs. 1.1% in 2016-2021 as the bank's lending appetite picks up after completing its de-risking exercise.
- De-risking loan book along with optimization of RWAs is improving DHBK's CET1 position; CET1 and Tier-1 to improve organically.** DHBK ended 2Q2022 with CET1 ratio of 12.6% and a Tier-1 ratio of 18.1%. We estimate CET1 ratio to hover between 13% & 14% in our forecast horizon.

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 PT at QR3.151 and raise our rating from Accumulate to Outperform.** DHBK is trading at a 2023e P/B and P/E of 0.6x and 6.8x, respectively.
- Risks:** 1) Volatility in oil prices & 2) Asset quality.

Key Financial Data and Estimates

	2021	2022e	2023e	2024e
EPS (QR)	0.158	0.247	0.344	0.401
Growth	1.5	56.5	39.2	16.7
P/E (x)	14.8	9.5	6.8	5.8
BVPS (QR)	3.31	3.48	3.72	4.03
P/B (x)	0.7	0.7	0.6	0.6
RoE (%)	5.0	7.5	9.9	10.8
DPS (QR)	0.075	0.100	0.100	0.150
Dividend Yield (%)	3.2	4.3	4.3	6.4

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	2.345
Dividend Yield (%)	3.2
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	3.217/2.310
3-m Average Volume (mn)	4.5
Mkt. Cap. (\$ bn/QR bn)	2.0/7.3
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	10.5
1-Year Total Return (%)	(13.4)
Fiscal Year End	December 31

Source: Bloomberg (as of September 26, 2022), *Qatar Exchange (as of September 26, 2022); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2022e			2023e			2024e		
	Old	New	Change (%)	Old	New	Change	Old	New	Change
Net Interest Income	2,795	2,480	(11.3)	2,973	2,637	(11.3)	3,233	2,799	(13.4)
Non-Interest Income	558	576	3.2	551	633	14.9	554	664	19.8
Total Revenue	3,353	3,055	(8.9)	3,524	3,270	(7.2)	3,787	3,463	(8.6)
Opex	(876)	(915)	4.5	(929)	(936)	0.8	(1,007)	(984)	(2.2)
Net Operating Income	2,477	2,140	(13.6)	2,595	2,334	(10.1)	2,780	2,478	(10.9)
Net Provisions & Impairments	1,480	1,144	(22.7)	1,449	1,003	(30.8)	1,429	932	(34.8)
Net Income (Reported)	988	987	(0.1)	1,142	1,320	15.6	1,345	1,533	14.0
Net Income (Attributable)	762	766	0.6	894	1,067	19.3	1,062	1,244	17.2

Source: Company data, QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Net Interest Income	1,980	2,320	2,585	2,480	2,637	2,799
Fees & Commissions	394	304	303	340	356	375
FX Income	112	106	154	149	161	169
Other Income	253	207	65	87	116	119
Non-Interest Income	759	617	522	576	633	664
Total Revenue	2,739	2,937	3,107	3,055	3,270	3,463
Operating Expenses	(935)	(868)	(876)	(915)	(936)	(984)
Net Operating Income	1,804	2,069	2,231	2,140	2,334	2,478
Net Provisions	(1,079)	(1,365)	(1,485)	(1,144)	(1,003)	(932)
Net Profit Before Tax	725	704	746	996	1,332	1,547
Tax	29	(1)	(43)	(9)	(12)	(14)
Net Profit (Reported/Headline)	754	703	704	987	1,320	1,533
Interest on Tier-1 Note	(220)	(203)	(197)	(197)	(220)	(250)
Social & Sports Contribution Fund	(19)	(18)	(18)	(25)	(33)	(38)
Attributable Net Profit	515	482	490	766	1,067	1,244

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2019	2020	2021	2022e	2023e	2024e
Cash & Balances with Central Bank	5,804	6,895	5,887	5,944	5,415	6,099
Interbank Loans	7,757	3,674	5,365	5,980	5,186	6,219
Net Investments	26,561	24,667	25,083	24,970	26,450	28,188
Net Loans	65,784	65,450	62,667	61,025	64,658	69,105
Other Assets	1,579	2,168	1,412	1,110	1,434	1,395
Net PP&E	724	686	689	668	662	659
Total Assets	108,208	103,540	101,103	99,698	103,805	111,665
Liabilities						
Interbank Deposits	24,037	23,037	22,511	16,369	14,866	16,485
Customer Deposits	58,464	55,054	50,356	54,032	57,004	60,994
Term Loans	7,332	8,545	11,629	12,292	13,767	15,144
Other Liabilities	5,058	3,110	2,351	2,215	2,622	2,562
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	98,891	93,746	90,847	88,908	92,259	99,185
Total Shareholders' Equity	9,318	9,795	10,256	10,790	11,546	12,480
Total Liabilities & Shareholders' Equity	108,208	103,540	101,103	99,698	103,805	111,665
Risk Weighted Assets	79,287	71,908	71,740	73,278	76,816	83,749

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2019	2020	2021	2022e	2023e	2024e
Profitability (%)						
RoE (Attributable)	5.9	5.2	5.0	7.5	9.9	10.8
RoAA (Attributable)	0.7	0.7	0.7	1.0	1.3	1.4
RoRWA (Attributable)	0.7	0.6	0.7	1.1	1.4	1.5
NIM (% of IEAs)	2.14	2.42	2.80	2.72	2.84	2.84
NIM (% of RWAs)	2.53	3.07	3.60	3.42	3.51	3.49
NIM (% of AAs)	1.94	2.19	2.53	2.47	2.59	2.60
Spread	1.6	2.1	2.6	2.5	2.6	2.5
Efficiency (%)						
Cost-to-Income (Headline)	34.1	29.5	28.2	29.9	28.6	28.4
Cost-to-Income (Core)	38.4	31.5	28.5	30.5	29.4	29.1
Liquidity (%)						
LDR (stable sources of funds)	100	103	101	92	91	91
Loans/Assets	60.8	63.2	62.0	61.2	62.3	61.9
Cash & Interbank Loans-to-Total Assets	12.5	10.2	11.1	12.0	10.2	11.0
Deposits to Assets	54.0	53.2	49.8	54.2	54.9	54.6
Wholesale Funding to Loans	47.7	48.3	54.5	47.0	44.3	45.8
IEAs to IBLs	1.2	1.2	1.2	1.2	1.2	1.2
Asset Quality (%)						
NPL Ratio	5.81	5.98	5.36	5.89	5.78	5.66
NPL to Shareholders' Equity	44.2	42.0	34.3	35.8	35.2	34.3
NPL to Tier 1 Capital	45.1	43.9	36.3	37.9	37.1	36.0
Coverage Ratio	124.4	81.4	84.2	119.1	136.8	150.6
ALL/Average Loans	7.5	4.8	4.4	7.0	8.2	8.8
Cost of Risk (%)	164	196	211	167	140	120
Capitalization (%)						
CET1 Ratio	11.5	13.0	13.5	13.9	14.3	14.2
Tier-1 Ratio	16.6	18.6	19.1	19.4	19.5	19.0
CAR	17.7	19.8	20.2	20.5	20.6	20.1
Tier-1 Leverage (x)	12.1	12.9	13.5	14.2	14.4	14.2
Growth (%)						
Net Interest Income	-4.8	17.1	11.4	-4.1	6.4	6.1
Non-Interest Income	37.0	-18.7	-15.4	10.3	9.9	4.9
Total Revenue	4.0	7.2	5.8	-1.7	7.0	5.9
Opex	-0.2	-7.2	1.0	4.5	2.3	5.1
Net Operating Income	6.2	14.7	7.8	-4.1	9.1	6.2
Net Income (Headline/Reported)	-9.2	-6.8	0.1	40.3	33.6	16.1
Net Income (Attributable)	-12.6	-6.3	1.5	56.5	39.2	16.7
Loans	9.9	-0.5	-4.3	-2.6	6.0	6.9
Deposits	4.8	-5.8	-8.5	7.3	5.5	7.0
Assets	12.6	-4.3	-2.4	-1.4	4.1	7.6
RWAs	2.7	-9.3	-0.2	2.1	4.8	9.0

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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