DHBK Alert – Operating Results In-Line Despite EPS Miss on Provisions; DPS Cut Shores Up CET1 Ratio

- **DHBK's 4Q2018 YoY surge was attributable to a drop in provisions & impairments.** Doha Bank (DHBK) reported a net income of QR92.8mn surging by 51.0% YoY, but falling short of our estimate. The miss vs. our earnings forecast was due to higher than expected provisions *as net operating income came in-line at QR410.0mn vs. our estimate of QR393.8mn (+4.1% variation).* YoY growth in earnings was due to a 20.4% drop in provisions & impairments (to a certain degree, base effect). Net interest income dropped by 20.9% YoY (down 8.3% QoQ) to QR477.7mn, while non-funded income expanded by 50.2% YoY (-18.0% QoQ) on strong fees & commissions. Bottom-line sequentially dropped due to a surge in provisions. Total revenue was weak as expected.

- **Management significantly cut cash dividends.** DHBK recommended cash DPS of QR1.00 (yielding 4.8%) vs. QR3.00 in 2017. We were expecting QR2 in DPS. In our view, the cut in DPS was necessary in order to prevent the CET1 ratio from dropping below 10%.

- **Provisions remain elevated.** DHBK reported provisions & impairments of QR318.4mn in 4Q2018 vs. QR400.3mn in 4Q2017 (QR154.3mn in 3Q2018). Moreover, FY2018 CoR jumped to 149bps vs. 95bps in 2017 (81bps in 2016). *Based on the bank's financials, Expected Credit Losses (ECLs) of QR1.8bn were charged against risk reserve/equity. This charge depleted Doha Bank's risk reserves and shaved off ~200bps from CET1 ratio.*

- **Spreads and margins compressed on a YoY basis and sequentially.** DHBK's net interest margin contracted by 58bps YoY and 28bps sequentially to 2.27%. The compression in the NIM YoY was due to cost of funds increasing by ~66bps, while yield on assets gained by only 8bps. On a QoQ basis, the contraction in the NIM was also a result of CoFs expanding more than yields. CoFs expanded by 17bps vs. 11bps drop in yields.

- **Asset quality continued to worsen.** DHBK's asset quality deteriorated with the bank's NPLs gaining by 17.5% QoQ (+68.3% YoY) to QR3.8bn. Moreover, the NPL ratio moved to 5.85% from 5.05% in 3Q2018 (3.61% in FY2017). The coverage ratio for Stage 3 loans declined to 98% vs. 106% in the previous quarter and 119% in 2Q2018. *The bank's contracting portfolio remains a challenge.*

- **Gross loans gained traction while deposits dropped on a YoY basis.** Gross loans grew by 3.8% YoY to QR65.0bn while deposits expanded by 6.9% QoQ (-6.7% YoY) to QR55.5bn. Hence, the bank's LDR improved to 108% from 114% in 3Q2018 (101%: end of 2017). However, LDR (based on stable sources of funds) remained healthy at 92% vs. 91% in 2017. *It appears that the QoQ jump in deposits was driven by the public sector.*

- **IFRS 9 negatively impacted CET1.** DHBK's CET1 ratio receded to 10.3% at the end of 2018 vs. 12.3% in 2017.

- **Recommendation and valuation:** DHBK trades at a P/E and P/TB of 7.3x and 0.7x on our 2019 estimates, respectively. We maintain our Market Perform rating.

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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