

DHBK Alert – 2Q2020 Falls Short of Estimates; Impairments & Weak Non-Funded Income Impacted Earnings

- **DHBK's 2Q2020 falls short of estimates; bottom-line impacted by weak non-funded income and a surge in impairments on investments.** Doha Bank (DHBK) reported a net income of QR176.6mn, dropping by 16.3% YoY, falling short of our estimate of QR218.0mn (-19.0% variation). The miss was due to higher than expected provisions & impairments.
- **Cost control is aiding the bank's operations.** DHBK's opex dropped by 6.1% YoY vs. a 3.6% increase in total revenue, resulting in a 8.8% increase in net operating income. C/I ratio improved, declining from 35% in 2Q2019 to 32% in 2Q2020 (30% in 1Q2020).
- **CoR remains elevated.** DHBK reported provisions for credit losses of QR230.5mn in 2Q2020 vs. QR296.9mn in 2Q2019 (QR180.0mn in 1Q2020), dropping by 22.4% YoY (+28.0% QoQ). However, 1H2020 CoR remained flat at 122bps vs 126bps in 1H2019 (171bps in FY2019).
- **Spreads and margins expanded on a YoY basis but remained flattish sequentially.** DHBK's net interest income grew by 11.6% YoY to QR523.5mn (in-line with our estimate of QR525.9mn) resulting in an expansion in net interest margin. Net interest margin gained by 9bps YoY to 2.19%. The expansion in the spread YoY was due to management of cost of funds.
- **Asset quality remains a concern.** DHBK's NPLs remained flat QoQ but declined by 2.8% YTD to QR4.0bn. On the other hand, the NPL ratio increased to 5.95% vs. 5.69% in 1Q2020 (5.81% FY2019). However, the coverage ratio for Stage 3 loans remained flat at 80% vs. the previous quarter (86% in FY2019). The bank's contracting portfolio & GCC exposure remains a challenge.
- **Net loans continued to decline due to the weak operating environment.** Net loans contracted by 4.4% QoQ (-5.0% YTD) to QR62.5bn. On the other hand, deposits increased by 2.2% QoQ (-4.2% YTD) to QR56.0bn.
- **Recommendation and valuation:** DHBK trades at a P/E and P/TB of 17.9x and 0.8x on our 2020 estimates, respectively. For the time being we maintain our PT of QR2.425. *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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