

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR38.65	Target Price	QR39.00
Implied Upside	+0.9%	Old Target Price	QR42.00

Revising Estimates for Higher Provisions; Lowering TP

Doha Bank is Qatar's 3rd largest conventional bank with a market share of ~8% in loans and deposits, respectively (5th largest among all listed banks). DHBK was known for solely being a retail bank with retail loans representing ~42% of its loan book in 2008. However, the bank has shifted its strategy by tapping other sectors of the economy such as contracting and real estate. As of FY2016, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~18%.

Highlights

- FY2016 earnings falls short of estimates.** Doha Bank (DHBK) reported headline net profit of QR1.05bn in FY2016 (attributable profit; QR807.44mn), falling short of our expectations (QR1.23bn) and consensus (BBG: QR1.10bn). Net income dropped by 22.3% YoY, respectively. The miss was mainly due to a spike in provisions and impairments. *On the other hand, net operating income before provisions came in-line at QR1.67bn vs. our estimate of QR1.73bn (-3.5% variation).*
- Surge in provisions and a drop in net-interest income led to a weak bottom-line.** DHBK reported net provisions & impairments of QR619.72mn vs. QR402.82mn in 2015. Moreover, non-interest income declined by 11.5% led by a 7.4% drop in fees and an investment loss of QR5.10mn vs. a profit of QR30.67mn in 2015.
- Margins remained under pressure.** The bank posted net interest income QR2.07bn, inching up by only 1.2% YoY. This weak performance was attributable to margin pressure. Cost of funds increased by 16bps vs. 9bps for asset yield. Thus NIM dropped by 21bps to 2.60%. *We expect further compression in 2017, 2018 and 2019 as the bank raises expensive deposits in order to lower its LDR, in our view. We forecast NIMs of 2.49% (2017) and 2.45% (2018).*
- DHBK remains inefficient.** Opex increased by 4.6% YoY to QR1.08bn (in-line with our estimate) while total revenue receded by 2.2%. Hence, the bank's cost-to-income ratio climbed up to 39.2% vs. 36.7% in 2015.
- Asset quality showing signs of deterioration.** DHBK's NPL ratio remained flattish at 3.27% (3.26% in 2015). Moreover, NPLs increased by 7.0% YoY. The coverage ratio was enhanced, climbing up to 120% vs. 109% at the end of 2015. However, Net provisions surged by 63.8% to QR480.mn and CoR soared to 81bps vs. 54bps in 2015. What is interesting to note here is that QR3.59bn in past due but not impaired loans (61 to 90 days bucket) accounts for 5.8% of total loans. *Nevertheless, we expect further deterioration in asset quality. We pencil in a CoR of 86bps (2017) and 87bps (2018)*
- Liquidity position improved.** Net loans increased by 6.4% YoY to QR59.19bn. Moreover, deposits also gained by 5.6% YoY to QR55.73bn. Thus, the LDR moved down to 106% vs. 114% in 3Q2016 (105% in 2015). Loan growth was driven by the real estate sector (+23%) followed by the public sector (+8%). *We now expect loans to grow by 0.9% in 2016e. We change Our estimates for 2017 5.4% (4.7% previously) and maintain 2018 at 7.8%.*

Catalysts

- Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Clarity on capital raising could act as a further catalyst, 2) better execution of the bank's strategy and 3) improvement in asset quality

Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our Price Target to QR39.00 and reduce our rating to Market Perform.** *The change in Price Target is due to lower sustainable average RoE resulting from higher expected provisions.* DHBK is trading at a 2017e P/B and P/E of 1.1x and 11.4x, respectively. The stock trades around its fair value (PEG of 1.0x).
- Risks:** 1) Depressed oil prices remains the biggest risk for DHBK and the banking sector and 2) Exposure to the retail & contracting segments create concentration risk,

Key Financial Data and Estimates

	FY2016	FY2017e	FY2018e	FY2019e
Attributable EPS (QR)	3.13	3.39	3.66	4.68
EPS Growth (%)	-33.8	8.6	7.9	27.9
P/E (x)	12.4	11.4	10.6	8.3
BVPS (QR)	36.3	36.7	37.4	39.0
P/B (x)	1.1	1.1	1.0	1.0
DPS (QR)	3.00	3.00	3.00	3.25
Dividend Yield (%)	7.8	7.8	7.8	8.4

Source: Company data, QNBFS estimates

Key Data

Current Market Price (QR)	38.65
Dividend Yield (%)	7.8
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	42.50/32.90
3-m Average Volume ('000)	172.6
Mkt. Cap. (\$ bn/QR bn)	2.7/10.0
Shares Outstanding (mn)	258.4
FO Limit* (%)	49.0
Current FO* (%)	12.9
1-Year Total Return (%)	+12.1
Fiscal Year End	December 31

Source: Bloomberg (as of January 24, 2017), *Qatar Exchange (as of January 23, 2017); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Change In Estimates

	2017e			2018e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,165	2,154	(0.5)	2,300	2,279	(0.9)
Non Interest Income	748	740	(1.1)	811	782	(3.6)
Net Operating Income	1,802	1,775	(1.5)	1,937	1,880	(2.9)
Net Income (Reported/Headline)	1,263	1,125	(10.9)	1,387	1,196	(13.8)
Net Income (Attributable)	1,017	877	(13.8)	1,138	946	(16.9)

Source: QNBFS Research

The changes to our bottom-line is mainly due to account for higher provisions.

Detailed Financial Statements

Ratios	FY2016	FY2017e	FY2018e	FY2019e
Profitability (%)				
RoAE (Attributable)	8.7	9.3	9.9	12.3
RoAA (Attributable)	1.2	1.2	1.2	1.3
RoRWA (Attributable)	1.0	1.1	1.1	1.2
NIM (% of IEAs)	2.60	2.49	2.45	2.44
NIM (% of RWAs)	2.60	2.61	2.55	2.51
NIM (% of AAs)	2.39	2.28	2.25	2.25
Spread	2.3	2.3	2.3	2.3
Efficiency (%)				
Cost-to-Income (Headline)	39.2	38.6	38.6	39.4
Cost-to-Income (Core)	39.8	39.5	39.4	40.3
Liquidity (%)				
LDR	106.2	104.6	102.5	99.9
Loans/Assets	65.5	63.5	64.3	63.4
Cash & Interbank Loans-to-Total Assets	16.3	16.9	14.0	15.2
Deposits to Assets	61.7	60.7	62.7	63.5
Wholesale Funding to Loans	32.3	35.7	32.9	34.0
IEAs to IBLs	111.0	110.0	110.0	108.4
Asset Quality (%)				
NPL Ratio	3.27	3.30	3.35	3.10
NPLs to Shareholder's Equity	21.5	22.6	24.4	24.2
NPLs to Tier 1 Capital	24.4	24.7	26.5	26.4
Coverage Ratio	119.7	121.4	125.0	133.2
ALL/Average Loans	4.0	4.1	4.3	4.4
Cost of Risk	81	86	87	59
Capitalization (%)				
Tier 1 Ratio	15.4	14.9	13.8	12.4
CAR	15.6	15.0	14.0	12.6
Tier 1 Capital to Assets	13.6	12.9	12.3	11.1
Tier 1 Capital to Loans	20.7	20.4	19.1	17.6
Tier 1 Capital to Deposits	22.0	21.3	19.6	17.5
Leverage (x)	9.6	10.4	10.8	11.8
Growth (%)				
Net Interest Income	1.2	3.9	5.8	10.1
Net Operating Income	-2.2	5.2	5.8	8.4
Net Income (Attributable)	-33.8	8.6	7.9	27.9
Loans	6.4	5.4	7.8	12.1
Deposits	5.6	7.0	10.0	15.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Net Interest Income	2,073	2,154	2,279	2,509
Fees & Commissions	460	492	531	534
FX Income	102	108	117	118
Other Income	115	139	134	158
Non-Interest Income	677	740	782	811
Total Revenue	2,750	2,893	3,061	3,319
Operating Expenses	(1,078)	(1,118)	(1,181)	(1,308)
Net Operating Income	1,672	1,775	1,880	2,012
Net Provisions & Impairments	(620)	(645)	(679)	(539)
Net Profit Before Tax	1,052	1,130	1,201	1,473
Tax	2	(5)	(5)	(7)
Net Profit (Headline/Reported)	1,054	1,125	1,196	1,466
Interest on Tier-1 Note	(120)	(220)	(220)	(220)
Social & Sports Contribution Fund	(34)	(25)	(26)	(29)
Attributable Net Profit	1,219	985	1,017	1,138

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2016	FY2017e	FY2018e	FY2019e
Assets				
Cash & Balances with Central Bank	4,260	4,770	4,592	5,280
Interbank Loans	10,505	11,850	10,085	12,808
Net Investments	14,706	17,517	20,906	23,463
Net Loans	59,186	62,369	67,230	75,344
Other Assets	936	946	986	1,141
Net PP&E	771	748	737	723
Total Assets	90,365	98,200	104,535	118,760
Liabilities				
Interbank Deposits	12,275	14,448	13,519	15,965
Customer Deposits	55,730	59,631	65,594	75,433
Term Loans	6,814	7,836	8,620	9,654
Other Liabilities	2,165	2,803	3,149	3,621
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	80,984	88,718	94,882	108,673
Total Shareholders' Equity	9,381	9,482	9,653	10,087
Total Liabilities & Shareholders' Equity	90,365	98,200	104,535	118,760

Source: Company data, QNBFS estimates

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

Contacts

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

Tel: (+974) 4476 6509

shahan.keushgerian@qnbfs.com.qa

Zaid Al Nafsoosi

Senior Research Analyst

Tel: (+974) 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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