

DHBK Alert – 4Q2017 Earnings In-Line with Historical Trends; DPS Uped to QR3.00

- **4Q2017 earnings in-line with historical trends as the bank books the majority of provisions in 4Q.** Doha Bank (DHBK) reported a net income of QR61.4mn vs. our estimate of QR72.2mn and BBG consensus of QR181.5mn. Net income sequentially dropped by 81.6% (+76.7% YoY) due provisions & impairments surging to QR400.3mn vs. 125.8mn in 3Q2017. YoY increase in the bottom-line (base effect) was a result of net interest income and drop in opex.
- **Provisions remain elevated; IFRS 9 to weigh in.** DHBK reported provisions & impairments of QR734.6mn in FY2017 vs. QR619.7mn in 2016. Moreover CoR jumped to 95bps vs. 81bps in 2016 (54bps in 2015). *Based on the bank's financials, management is forecasting Expected Credit Losses (ECLs) of QR1.7bn which would be charged against risk reserve/equity. This charge could deplete Doha Bank's risk reserves and affect the Tier 1 ratio. This is still a preliminary estimate by management.*
- **DHBK upped its DPS.** The bank announced DPS of QR3.0 vs. adjusted (rights issue) DPS of QR2.50 in 2016 which translates into a yield of 10%.
- **Spreads and margins widened, which is a positive.** Net interest income increased by 8.2% QoQ (+17.2% YoY) to QR604.3mn. DHBK's net interest margin expanded by 21bps and 27bps QoQ and YoY to 2.86%, respectively. The widening of the spread sequentially was due to yield on assets gaining by 28bps, while cost of funds increasing by only ~7bps. On a YoY basis the improvement in the NIM was a result of yields expanding by 52bps vs. +28bps for cost of funds.
- **Asset quality remains under pressure.** DHBK's asset quality worsened with the bank's NPLs gaining by 12.2% YoY to QR2.0bn. Moreover, The NPL ratio moved to 3.61% from 3.26% in 3Q2017 (3.27% 2016). The coverage ratio increased to 125% vs. 121% in 3Q2017 (120% in 2016).
- **Deposits from the public sector led to a significant improvement in the LDR.** Deposits expanded by 13.2% QoQ (6.7% YoY) to QR59.5bn led by the public sector (+38.8% YoY). The public sector drove the growth as retail and corporate deposits dropped by 12.1% and 14.1% YoY, respectively. Loans inched up by 1.4% QoQ (+1.0% YoY) to QR59.8bn. Hence, the LDR to 101% vs. 112% in 3Q2017 (106% in 4Q2016).
- **Recommendation and valuation:** DHBK trades at a P/E and P/TB of 10.7x and 0.9x on our 2018 estimates, respectively.

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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