

Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR25.68	Target Price	QR28.00
Implied Upside	+9.0%	Old Target Price	QR31.00

Factoring in 2Q2018; Lowering Estimates & PT to QR28

We lower our PT to QR28/sh and cut the DPS estimate to QR2/sh. Our reduced TP is due to lower average sustainable RoE in our forecast horizon (11.6% vs. 13.0% previously). DHBK is generating economic losses (RoE<CoE) vs. accounting profits. **QR3 DPS is not sustainable, as the bank needs to generate growth internally and improve its CET1 ratio.**

Highlights

- Ongoing margin pressure and weak non-funded income; we lower our estimates for 2018 and 2019.** We lowered our 2018 net income estimate to QR1.06bn from QR1.17bn and 2019 estimate to QR1.22bn vs. QR1.45bn previously. We also revise down our NIM estimates to 2.69% in 2018 (+2.81% previously), 2.76% in 2019 (2.83% previously) and 2.75% in 2020 (2.87% previously). The rationale behind our new estimates is we are of the view that the bank would have to raise expensive funds in order to manage its liquidity profile.
- Provisions for credit losses jumped to unprecedented levels in 2Q2018 primarily driven by GCC exposure (mainly UAE branches).** DHBK booked credit provisions of QR398.7mn which translates into CoR of 255bps vs. 28bps in 1Q2018 (51bps in 2Q2017). We revise our CoR estimates upwards to 123bps in 2018 (106bps previously), 101bps in 2019 (89bps previously) and 83bps in 2020 (77bps previously).
- Asset quality continues to deteriorate, driven by GCC real estate exposure and contracting-related book.** DHBK's asset quality worsened with the bank's NPLs gaining by 4.8% QoQ (+18.8% YTD) to QR2.7bn. Moreover, the NPL ratio moved to 4.30% from 3.99% in 1Q2018 (3.61% in 2017). However, stage 3 coverage ratio remained healthy at 119%. GCC branches (mainly UAE) primarily drove NPLs where 27.1% of GCC loans book was impaired, while Qatar operation remained manageable with 2.2% of domestic loans impaired. Moreover, the contracting segment NPL ratio was on the high side at 11% (DHBK has a 27% market share in this segment and contributes 17.1% to its loan book). On the other hand, NPLs in the real estate segment was not material (0.04%). We revise our NPL estimates to 4.42% for 2018 (3.95% previously), 4.06% for 2019 (unchanged) and 3.62% for 2020 (4.30% previously).
- Net Loans and deposits are expected to remain weak in 2018 but to pick up gradually in 2019 and 2020.** Net loans and deposits declined by 3.2% and 13.3% YTD, respectively. We now estimate loans to decline by 3.7% in 2018 (vs. +2.7% previously), +5.5% in 2019 (+6.5% previously) and 8.0% in 2020 (unchanged). Moreover, we estimate deposits to decline by only 1.0% as we expect public sector deposits to support DHBK. As such, the LDR should decline to 98% vs. 112% in 2Q2018 (101% in FY2017)
- CET1 ratio remains low.** DHBK's CET1 ratio declined by 204bps to 10.2% from 12.3% at the end of 2017. We expect the CET1 ratio to improve by year-end to 11.2% driven by a cut in DPS (QR2.00 vs. QR3.00 in 2017). Without a cut in DPS, CET1 ratio is calculated to remain at 10.2% based on our estimates.

Catalysts

- 1) Better execution of the bank's strategy and 2) improvement in asset quality

Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2018e P/B and P/E of 0.9x and 9.5x, respectively.
- Risks:** 1) Geopolitical factors and 3) Contracting segments

Key Financial Data and Estimates

	2017	2018e	2019e	2020e
EPS	3.02	2.72	3.23	3.67
Growth	-3.2	-10.0	19.0	13.6
P/E (x)	8.9	9.5	7.9	7.0
BVPS (QR)	34.9	29.5	30.6	33.2
P/B (x)	0.7	0.9	0.8	0.8
DPS (QR)	3.00	2.00	1.00	1.50
Dividend Yield (%)	11.7	7.8	3.9	5.8

Source: Company data, QNBFS Research

Key Data

Current Market Price (QR)	25.68
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)	34.98/24.95
3-m Average Volume ('000)	170.9
Mkt. Cap. (\$ bn/QR bn)	2.2/8.0
Shares Outstanding (mn)	310.0
FO Limit* (%)	49.0
Current FO* (%)	13.6
1-Year Total Return (%)	-5.9
Fiscal Year End	December 31

Source: Bloomberg (as of September 4, 2018), *Qatar Exchange (as of September 3, 2018); Note: FO is foreign ownership

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Change in Estimates

(In QR mn)	2018e			2019e			2020e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,421	2,230	(7.9)	2,621	2,347	(10.4)	2,830	2,531	(10.6)
Non Interest Income	700	642	(8.3)	744	691	(7.1)	752	695	(7.6)
Net Operating Income	1,991	1,798	(9.7)	2,183	1,927	(11.7)	2,306	2,064	(10.5)
Net Income (Reported/Headline)	1,172	1,062	(9.3)	1,449	1,223	(15.6)	1,631	1,359	(16.7)
Net Income (Attributable)	922	816	(11.5)	1,193	972	(18.5)	1,370	1,105	(19.3)

Source: QNBFS Research

Company Description

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 FY2017, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~14%.

Detailed Financial Statements

Income Statement (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Net Interest Income	2,255	2,230	2,347	2,531
Fees & Commissions	465	432	467	482
FX Income	107	100	105	110
Other Income	119	110	119	103
Non-Interest Income	691	642	691	695
Total Revenue	2,946	2,872	3,038	3,226
Operating Expenses	(1,103)	(1,074)	(1,111)	(1,162)
Net Operating Income	1,843	1,798	1,927	2,064
Net Provisions & Impairments	(735)	(730)	(699)	(699)
Net Profit Before Tax	1,109	1,067	1,228	1,365
Tax	1	(5)	(6)	(6)
Net Profit (Headline/Reported)	1,110	1,062	1,223	1,359
Interest on Tier-1 Note	(220)	(220)	(220)	(220)
Social & Sports Contribution Fund	(28)	(27)	(31)	(34)
Attributable Net Profit	862	816	972	1,105

Source: Company data, QNBFS Research

Balance Sheet (In QR mn)	FY2017	FY2018e	FY2019e	FY2020e
Assets				
Cash & Balances with Central Bank	6,670	7,065	5,632	5,357
Interbank Loans	7,822	5,758	6,072	7,862
Net Investments	17,513	20,109	21,840	24,365
Net Loans	59,804	57,578	60,721	65,518
Other Assets	978	1,278	923	995
Net PP&E	709	654	638	624
Total Assets	93,495	92,442	95,825	104,722
Liabilities				
Interbank Deposits	11,005	12,283	10,689	13,107
Customer Deposits	59,468	58,874	62,583	66,963
Term Loans	6,091	5,969	6,685	7,688
Other Liabilities	2,124	2,178	2,378	2,679
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	82,688	83,304	86,335	94,437
Total Shareholders' Equity	10,807	9,138	9,490	10,285
Total Liabilities & Shareholders' Equity	93,495	92,442	95,825	104,722

Source: Company data, QNBFS Research

Ratios	FY2017	FY2018e	FY2019e	FY2020e
Profitability (%)				
RoAE (Attributable)	8.5	8.2	10.4	11.2
RoAA (Attributable)	1.2	1.1	1.3	1.4
RoRWA (Attributable)	1.1	1.1	1.2	1.3
NIM (% of IEAs)	2.71	2.69	2.76	2.75
NIM (% of RWAs)	2.85	2.88	3.00	2.97
NIM (% of AAs)	2.45	2.40	2.49	2.52
Spread	2.5	2.5	2.5	2.4
Efficiency (%)				
Cost-to-Income (Headline)	37.4	37.4	36.6	36.0
Cost-to-Income (Core)	38.1	38.0	37.1	36.5
Liquidity (%)				
LDR	100.6	97.8	97.0	97.8
Loans/Assets	64.0	62.3	63.4	62.6
Cash & Interbank Loans-to-Total Assets	15.5	13.9	12.2	12.6
Deposits to Assets	63.6	63.7	65.3	63.9
Wholesale Funding to Loans	28.6	31.7	28.6	31.7
IEAs to IBLs	109.3	106.8	109.7	110.3
Asset Quality (%)				
NPL Ratio	3.61	4.42	4.06	3.62
NPLs to Shareholder's Equity	20.9	30.1	28.2	25.0
NPLs to Tier 1 Capital	23.3	32.4	29.1	26.2
Coverage Ratio	124.8	121.1	137.9	161.3
ALL/Average Loans	4.5	7.6	7.9	8.1
Cost of Risk	95	123	101	83
Capitalization (%)				
Tier 1 Ratio	17.4	16.5	16.4	15.3
CAR	17.5	16.6	16.5	15.5
Tier 1 Capital to Assets	14.7	13.5	13.7	13.2
Tier 1 Capital to Loans	22.9	21.7	21.7	21.1
Tier 1 Capital to Deposits	23.0	21.2	21.0	20.6
Leverage (x)	8.7	10.1	10.1	10.2
Growth (%)				
Net Interest Income	8.8	-1.1	5.2	7.8
Non-Interest Income	2.1	-7.0	7.7	0.5
Total Revenue	7.1	-2.5	5.8	6.2
Opex	2.3	-2.6	3.4	4.6
Net Operating Income	10.3	-2.5	7.2	7.1
Net Income (Headline/Reported)	5.3	-4.3	15.1	11.1
Net Income (Attributable)	6.8	-5.4	19.2	13.7
Loans	1.0	-3.7	5.5	7.9
Deposits	6.7	-1.0	6.3	7.0
Assets	3.5	-1.1	3.7	9.3
RWAs	-0.7	-3.9	6.2	11.9

Source: Company data, QNBFS Research

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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