

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR2.815	Target Price	QR3.151
Implied Upside	11.9%	Old Target Price	QR2.305

Upgrading to Accumulate & Raising Target Price on Better RoE Visibility

We raise our 5-year earnings CAGR from 12.0% (2019-2024e) to 21.7% (2020-2025e) considering a healthy pickup in revenue, cost containment and flat credit provisions; net income growth is also aided by a base effect as 2020 earnings were significantly depressed. Our new earnings estimates are expected to lead to an average RoE generation of 11.48% over our forecast horizon vs. low- to mid-single digit RoEs since 2016. As such, we raise our PT to QR3.151 from QR2.305 as we expect the bank to generate economic profits from 2025 and onward. However, RoE is still expected to be below CoE (2021-2024). We believe management is confident of a turnaround and **change our recommendation on the name from Market Perform to Accumulate**. The stock trades at a 14% discount to its 2021e BV and at a PEG of 0.7x (which is cheap).

Highlights

- DHBK reported a net profit of QR614.3mn in 1H2021 (+22.7% YoY) because of strong net interest income and cost containment.** Non-funded income remained subdued, but we expect fees and f/x income to pick up in 2022. Given 1H2021 results, along with expected credit provisions (coverage of stage 3 loans: 52.6%), we pencil in a bottom-line (attributable) growth of 26.0% in 2021 (QR608.1mn) and 25.3% in 2022 (QR761.7mn).
- CoR remained elevated in 1H2021 because of precautionary provisions.** DHBK reported provisions for credit losses of QR531.9mn in 1H2021 vs. QR2410.4mn in 1H2020, increasing by 29.6% YoY. Moreover, 1H2021 CoR (annualized) increased to 141bps vs. 122bps in 1H2020 (196bps in FY2020). 2021 CoR is estimated to be around ~194bps, steadily dropping to 114bps by 2025 (still on the high side) as we believe management needs to build further provisions in order to raise coverage of Stage 3 loans from 53% in 1H2021 to 100%.
- Margins improved YoY but dropped significantly QoQ, in-Line with our expectations.** DHBK's NIMs increased by 20bps YoY, but sequentially dropped by 30bps to 2.38% in 2Q2021. It should be noted that DHBK's NIM peaked at 2.71% in 1Q2020. On a 6 months basis, NIM increased by 25bps to 2.48%. We estimate NIMs to be higher in 2021 (2.62%) vs. 2.42% in 2020. On the other hand, we pencil in flat margins for 2022 and 2023.
- Cost control a key objective; C/I ratio is expected to remain slightly below 30% and steadily improve over the coming couple of years.** C/I ratio improved, declining to 27.8% in 1H2021 vs. 31.4% in 1H2020 (29.5% in FY2020). Moreover, DHBK generated positive JAWS in 1H2021 (+12.7%) as revenue grew by 9.5%, while opex declined by 3.1%. It is worth mentioning that the bank has been successfully generating positive JAWS since 2017. Going forward, we model an average C/I ratio of 27% (2021-2025e).
- Management is still in the process of de-risking its loan book; asset quality remains a headwind but is showing signs of stability (majority of impairments are related to GCC assets).** DHBK's NPLs increased QoQ by 1.4% (+3.6% YTD) to QR4.3bn. On the other hand, the NPL ratio decreased to 5.64% vs. 5.98% in FY2020 because of an increase in loans. However, the coverage ratio for Stage 3 loans decreased to 53% vs. 59% in the previous quarter (54.0% in FY2020); coverage remains very low. Stage 2 & 3 ECLs contribute 30% and 66% (96% collectively) to total ECLs. The bank's contracting portfolio & GCC exposure remains a challenge (58% of GCC exposure is impaired). On a positive note, DHBK has dropped its market share in contracting loans from 26.5% in FY2017 to 13.9% in 1H2021. During 1H2021, DHBK wrote-off QR919.5mn in impaired loans, which represents 1.2% of total loans (FY2020: QR4.0bn, 5.7% of total loans).
- Net loans continued its positive trajectory.** Net loans increased by 2.3% sequentially (+10.3% YTD) to QR72.2bn. On the other hand, deposits dropped by 7.2% QoQ (+7.4% YTD) to QR59.1bn; the growth in loans was led by the public/govt.segment. We pencil in a loan book CAGR of 7.6% (2020-25e) vs. 3.3% in 2015-2020 as the bank's lending appetite further picks up after completing its de-risking exercise.
- De-risking loan book along with optimization of RWAs is steadily improving DHBK's CET1 position.** CET1 ratio increased from 13.0% in FY2020 to 13.2% in 2Q2021. We estimate CET1 ratio to hover around 13.8% through optimization of RWAs in our forecast horizon.

Catalysts

- Future stock price gains depend on a resumption of confidence in the bank's performance and realization of management's goals & objectives.

Recommendation, Valuation and Risks

- Recommendation and valuation: We increase our PT from QR2.305 to QR3.151 and raise our rating from Market Perform to Accumulate.** DHBK is trading at a 2022e P/B and P/E of 0.8x and 11.5x, respectively.
- Risks:** 1) Volatility in oil price, 2) Global recession driven by the coronavirus pandemic & 3) Asset quality.

Key Financial Data and Estimates

	2020	2021e	2022e	2023e
EPS (QR)	0.156	0.196	0.246	0.288
Grow th	-6.3	26.0	25.3	17.3
P/E (x)	18.1	14.4	11.5	9.8
BVPS (QR)	3.16	3.28	3.43	3.62
P/B (x)	0.9	0.9	0.8	0.8
RoE (%)	5.2	6.2	7.5	8.4
DPS (QR)	0.075	0.100	0.100	0.150
Dividend Yield (%)	2.7	3.6	3.6	5.3

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	2.815
Dividend Yield (%)	2.7
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	2.950/2.184
3-m Average Volume (mn)	3.0
Mkt. Cap. (\$ bn/QR bn)	2.4/8.7
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	11.7
1-Year Total Return (%)	+22.6
Fiscal Year End	December 31

Source: Bloomberg (as of August 04, 2021), *Qatar Exchange (as of August 04, 2021); Note: FO is foreign ownership

Shahan Keushgerian

+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Change in Estimates

(In QR mn)	2021e			2022e			2023e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,192	2,595	18.4	2,344	2,795	19.2	2,539	2,973	17.1
Non-Interest Income	714	542	(24.0)	696	558	(19.9)	634	551	(13.1)
Total Revenue	2,906	3,138	8.0	3,040	3,353	10.3	3,173	3,525	11.1
Opex	(905)	(844)	(6.7)	(928)	(876)	(5.6)	(968)	(929)	(4.1)
Net Operating Income	2,001	2,293	14.6	2,112	2,477	17.3	2,205	2,596	17.7
Net Provisions & Impairments	1,033	1,456	40.9	1,073	1,480	37.9	1,098	1,449	31.9
Net Income (Reported)	964	830	(13.9)	1,057	988	(6.6)	1,102	1,142	3.6
Net Income (Attributable)	698	608	(12.9)	777	762	(2.0)	814	894	9.8

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2018	2019	2020	2021e	2022e	2023e	2024e
Net Interest Income	2,081	1,980	2,320	2,595	2,795	2,973	3,233
Fees & Commissions	388	394	304	291	310	321	338
FX Income	115	112	106	143	121	127	132
Other Income	51	253	207	108	126	104	84
Non-Interest Income	554	759	617	542	558	551	554
Total Revenue	2,635	2,739	2,937	3,138	3,353	3,525	3,787
Operating Expenses	(937)	(935)	(868)	(844)	(876)	(929)	(1,007)
Net Operating Income	1,698	1,804	2,069	2,293	2,477	2,596	2,780
Net Provisions	(864)	(1,079)	(1,365)	(1,456)	(1,480)	(1,449)	(1,429)
Net Profit Before Tax	834	725	704	838	997	1,147	1,351
Tax	(4)	29	(1)	(8)	(9)	(5)	(6)
Net Profit (Reported/Headline)	830	754	703	830	988	1,142	1,345
Interest on Tier-1 Note	(220)	(220)	(203)	(201)	(201)	(220)	(250)
Social & Sports Contribution Fund	(21)	(19)	(18)	(21)	(25)	(29)	(34)
Attributable Net Profit	589	515	482	608	762	894	1,062

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2018	2019	2020	2021e	2022e	2023e	2024e
Cash & Balances with Central Bank	7,586	5,804	6,895	5,946	6,291	6,555	7,014
Interbank Loans	6,239	7,757	3,674	8,591	4,973	6,655	7,876
Net Investments	20,727	26,561	24,667	23,672	25,974	27,597	29,363
Net Loans	59,844	65,784	65,450	74,708	80,210	82,986	87,512
Other Assets	1,115	1,579	2,168	2,775	2,979	3,082	3,250
Net PP&E	621	724	686	692	684	665	649
Total Assets	96,132	108,208	103,540	116,384	121,110	127,539	135,664
Liabilities							
Interbank Deposits	19,529	24,037	23,037	28,839	27,414	28,142	29,316
Customer Deposits	55,785	58,464	55,054	59,458	62,907	65,549	70,137
Term Loans	5,592	7,332	8,545	10,938	13,016	15,359	16,895
Other Liabilities	2,494	5,058	3,110	2,973	3,145	3,277	3,507
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	87,399	98,891	93,746	106,208	110,483	116,328	123,856
Total Shareholders' Equity	8,733	9,318	9,795	10,176	10,627	11,211	11,808
Total Liabilities & Shareholders' Equity	96,132	108,208	103,540	116,384	121,110	127,539	135,664

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2018	2019	2020	2021e	2022e	2023e	2024e
Profitability (%)							
RoE (Attributable)	5.5	5.9	5.2	6.2	7.5	8.4	9.5
RoAA (Attributable)	0.9	0.7	0.7	0.8	0.8	0.9	1.0
RoRWA (Attributable)	0.8	0.7	0.6	0.9	1.1	1.2	1.3
NIM (% of IEAs)	2.45	2.14	2.42	2.62	2.60	2.63	2.70
NIM (% of RWAs)	2.67	2.53	3.07	3.63	3.87	3.89	3.93
NIM (% of AAs)	2.19	1.94	2.19	2.36	2.35	2.39	2.46
Spread	2.0	1.6	2.1	2.4	2.4	2.5	2.5
Efficiency (%)							
Cost-to-Income (Headline)	35.5	34.1	29.5	26.9	26.1	26.3	26.6
Cost-to-Income (Core)	35.4	38.4	31.5	27.6	26.9	26.9	26.9
Liquidity (%)							
LDR	107	113	119	126	128	127	125
Loans/Assets	62.3	60.8	63.2	64.2	66.2	65.1	64.5
Cash & Interbank Loans-to-Total Assets	14.4	12.5	10.2	12.5	9.3	10.4	11.0
Deposits to Assets	58.0	54.0	53.2	51.1	51.9	51.4	51.7
Wholesale Funding to Loans	42.0	47.7	48.3	53.2	50.4	52.4	52.8
IEAs to IBLs	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Asset Quality (%)							
NPL Ratio	5.84	5.81	5.98	5.80	5.00	4.75	4.00
NPL to Shareholders' Equity	43.5	44.2	42.0	44.4	39.6	37.3	31.8
NPL to Tier 1 Capital	46.2	45.1	43.9	46.3	41.3	38.9	33.1
Coverage Ratio	137.6	124.4	81.4	68.5	94.3	121.1	166.9
ALL/Average Loans	8.2	7.5	4.8	4.2	4.9	5.9	6.9
Cost of Risk (%)	149	164	196	194	158	128	130
Capitalization (%)							
Tier 1 Ratio	15.8	16.6	18.6	19.4	19.3	18.7	18.0
CAR	17.0	17.7	19.8	20.5	20.4	19.8	19.1
Tier 1 Capital to Assets	12.7	12.1	12.9	11.8	11.7	11.6	11.3
Tier 1 Capital to Loans	20.4	20.0	20.4	18.4	17.7	17.8	17.5
Tier 1 Capital to Deposits	21.9	22.5	24.3	23.1	22.5	22.5	21.9
Leverage (x)	11.0	11.6	10.6	11.4	11.4	11.4	11.5
Growth (%)							
Net Interest Income	-7.7	-4.8	17.1	11.9	7.7	6.4	8.7
Non-Interest Income	-12.4	37.0	-18.7	-12.1	2.8	-1.1	0.6
Total Revenue	-8.8	4.0	7.2	6.8	6.8	5.1	7.4
Opex	-10.3	-0.2	-7.2	-2.7	3.7	6.0	8.4
Net Operating Income	-7.9	6.2	14.7	10.8	8.0	4.8	7.1
Net Income (Headline/Reported)	-25.2	-9.2	-6.8	18.1	19.0	15.7	17.8
Net Income (Attributable)	-31.6	-12.6	-6.3	26.0	25.3	17.3	18.8
Loans	0.1	9.9	-0.5	14.1	7.4	3.5	5.5
Deposits	-6.2	4.8	-5.8	8.0	5.8	4.2	7.0
Assets	2.8	12.6	-4.3	12.4	4.1	5.3	6.4
RWAs	-2.2	2.7	-9.3	-1.3	3.7	7.4	8.1

Source: Company data, QNB FS 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

Contacts

Saugata Sarkar, CFA, CAIA

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

Mehmet Aksoy, PhD

Senior Research Analyst

Tel: (+974) 4476 6589

mehmet.aksoy@qnbfs.com.qa

QNB Financial Services Co. WLL

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

Disclaimer and Copyright Notice: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNB FS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNB FS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. QNB FS accepts no liability whatsoever for any direct or indirect losses arising from use of this report. Any investment decision should depend on the individual circumstances of the investor and be based on specifically engaged investment advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNB FS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. QNB FS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. For reports dealing with Technical Analysis, expressed opinions and/or recommendations may be different or contrary to the opinions/recommendations of QNB FS Fundamental Research as a result of depending solely on the historical technical data (price and volume). QNB FS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report. This report may not be reproduced in whole or in part without permission from QNB FS

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNB FS.