

DHBK Alert – 4Q2022 Loss on NIM Compression and Large Provisions; DPS Flat

- **DHBK's reported a loss in 4Q2022:** Doha Bank (DHBK) reported a net loss of QR167.5mn in 4Q2022 vs. net loss of QR188.0mn in 4Q2021 (net profit of QR267.9mn in 3Q2022); we had estimated a 4Q2022 net profit of QR67.3mn. *Net loss, on a YoY basis, was attributed to a sharp drop in net interest income (-25.8%) and provisions & impairments. On a sequential basis, losses was also driven by a sharp drop in net interest income and increase in provisions & impairments (+121.5%).*
- **Fees remained strong, while f/x income significantly improved:** Fee income moved up by 21.2% YoY (up 0.9% sequentially), while f/x income surged by 28.9/76.0% YoY/QoQ.
- **Margins compressed:** DHBK's 4Q2022 (annualized) NIMs dropped by 57/51bps YoY/QoQ to 2.21% as a result of a large increase in CoFs. In FY2022, NIMs dropped to 2.57bps from 2.80% in FY2021.
- **RoE continued to remain weak and significantly below CoE.** RoE came in at 5.4% in FY2022, in line with 2018-2021.
- **DPS remained flat and below our estimate.** The board proposed a flat DPS of QR0.075 vs. our estimate of QR0.100, which translates into a yield of 4.3% and payout ratio of 41.8%.
- **CoR and provisions continued to decline, which is a positive.** FY2022 CoR receded to 154bps (212bps in FY2021), while credit provisions in 4Q2022 declined by 51.6% YoY to QR289.2mn vs. QR597.9mn in 4Q2021. Sequentially, credit provisions increased by 18.4% (in-line with historical trends).
- **Asset quality remains a concern; NPLs are legacy.** DHBK's NPLs increased QoQ by 11.3% to QR4.0bn (+3.4% YoY). Moreover, the NPL ratio increased from 5.95% in 3Q2022 to 6.43% in FY2022 (5.83% in FY2021). Further, the coverage ratio for Stage 3 loans declined to 60% vs. 64% in 3Q2022 (FY2021: 54%). *DHBK has the largest share of Stage 2 loans as a % of total loans among domestic banks; Stage 2 loans stood at 31% of total loans.*
- **Net loans contracted YoY:** Net loans increased by 3.3% sequentially to QR58.1bn (dropped by 7.3% YoY as a result of repayments from the public sector). Moreover, deposits also increased by 2.1% QoQ (flat YoY) to QR50.1bn.
- **CET1 and Tier-1 position remains healthy.** DHBK ended 4Q2022 with CET1 ratio of 13.3% and a Tier-1 ratio of 18.8%.
- **Recommendation and valuation:** DHBK trades at a P/B of 0.5x on our 2023 estimates. We will adjust our rating and estimates after the company's earnings conference call.

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| Recommendations | | Risk Ratings | |
|---|----------------------|--|-----------------------------------|
| <i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i> | | <i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i> | |
| OUTPERFORM | Greater than +20% | R-1 | Significantly lower than average |
| ACCUMULATE | Between +10% to +20% | R-2 | Lower than average |
| MARKET PERFORM | Between -10% to +10% | R-3 | Medium / In-line with the average |
| REDUCE | Between -10% to -20% | R-4 | Above average |
| UNDERPERFORM | Lower than -20% | R-5 | Significantly above average |

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