

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.611	Target Price	QR1.883
Implied Upside	16.9%	Old Target Price	QR3.151

Trading at 53% Discount to BV But Double Digit RoE is a Challenge; Accumulate

Factoring in 2022 earnings, we lower our 2023 and 2024 estimates by 35.9% and 35.2% to QR684.2mn and QR806.5mn, respectively. Our changes in estimates are mainly driven by higher CoR and tightening of spreads; we pencil in a CoR of 160bps (2023e), 149bps (2024e) and 140bps (2025e). Our new earnings estimates (2022-27e) are expected to lead to an average RoE generation of 10.95% (11.50% previously) over our forecast horizon vs. low-to-mid-single digit RoEs since 2016. We expect the bank to generate economic profits from 2027 and onward. Hence, RoE is still expected to be below CoE over 2023 to 2027. The stock trades at a 53% discount to its 2023e BV due to asset quality issues. As such, DHBK has significantly underperformed its peers and therefore, we lower the stock's rating from Outperform to Accumulate. We also lower our PT from QR3.151 to QR1.883 and note that DHBK's beginning BVPS (2023) contributes 173% to our price target (as the present value of economic profits is negative).

Highlights

- DHBK reported attributable net profit of QR556.2mn in FY2022 (+13.6% YoY) as a result of a 19.1% drop in provisions and impairments; net interest income dropped by 10.2% on NIM compression.** We lower our 2023 and 2024 estimates by 35.9% and 35.2% to QR684.2mn and QR806.5mn, respectively. Changes in estimates are mainly driven by higher CoR and lower net interest income (tightening of spreads).
- CoR to remain on the high side; management is targeting 120-130bps by 2027.** DHBK generated a 2022 CoR of 153bps vs. 211bps in 2021 (196bps in 2020). 2023 CoR is estimated to be around ~160bp (in-line with guidance), steadily dropping to 120bps by 2027 (still on the high side) as management needs to build further provisions in order to 1) raise coverage of Stage 3 loans from 60% in 2022 to 85% and 2) mitigate any unforeseen impairments.
- RoE continues to remain weak and significantly below CoE.** RoE came in at 5.4% in FY2022, in-line with 2018-2021.
- C/I ratio is expected to remain slightly below 30% and steadily improve over the coming couple of years.** C/I ratio stood at 30.7% in FY2022. Going forward, we expect DHBK's C/I ratio to decline to 28.1% by 2027e. However, management is guiding to <25% by 2027.
- Asset quality remains problematic as management may further downgrade Stage 2 loans; NPLs are legacy.** DHBK's NPLs marginally increased YoY by 3.4% to QR4.0bn as the majority of NPLs are of legacy nature. Moreover, the NPL ratio increased from 5.83% in FY2021 to 6.43% in FY2022 (this is mainly due to a sharp drop in loans). Further, the coverage ratio for Stage 3 loans increased from 54% in FY2021 to 60% in 2022 (vs. 64% in 3Q2022); DHBK is targeting 85% coverage of Stage 3 loans. Stage 2 loans contribute 31% to total loans, highest vs. its peers. On average (2019-2022), DHBK wrote-off 13.0% of loans (QR8.9bn). Management is guiding for an NPL ratio of 6.0% for 2022 and 4.5-5% in 2024-2027.
- Net loans continue to recede on the back of government repayments; we expect single digit growth going forward, in-line with management guidance.** Net loans contracted by 7.3% to QR58.1bn YoY (+3.3% sequentially). On the other hand, private sector moved up by 2.7% YoY. We pencil in a loan book CAGR of 5.0% (unchanged) in 2022-27e as the bank's lending appetite picks up after completing its de-risking exercise.
- De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended FY2022 with CET1 ratio of 13.3% and a Tier-1 ratio of 18.8%. We estimate CET1 ratio to hover ~13% level 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 reduce our PT from QR3.151 to QR1.883 and lower our rating from Outperform to Accumulate.** DHBK is trading at a 2023e P/B and P/E of 0.5x and 7.3x, respectively.
- Risks:** 1) Asset quality.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS (QR)	0.179	0.221	0.260	0.308
Growth	13.6	23.0	17.9	18.4
P/E (x)	9.0	7.3	6.2	5.2
BVPS (QR)	3.25	3.40	3.56	3.71
P/B (x)	0.5	0.5	0.5	0.4
RoE (%)	5.4	6.8	7.7	8.7
DPS (QR)	0.075	0.100	0.150	0.175
Dividend Yield (%)	4.7	6.2	9.3	10.9

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.611
Dividend Yield (%)	4.7
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	2.874/1.611
3-m Average Volume (mn)	6,233.3
Mkt. Cap. (\$ bn/QR bn)	1.4/5.0
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	10.4
1-Year Total Return (%)	(38.6)
Fiscal Year End	December 31

Source: Bloomberg (as of February 12, 2023), *Qatar Exchange (as of February 12, 2023); 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)	2023e			2024e		
	Old	New	Change	Old	New	Change
Net Interest Income	2,637	2,244	(14.9)	2,799	2,359	(15.7)
Non-Interest Income	633	622	(1.8)	664	631	(4.9)
Total Revenue	3,270	2,866	(12.4)	3,463	2,990	(13.7)
Opex	(936)	(891)	(4.8)	(932)	(896)	(3.8)
Net Operating Income	2,334	1,975	(15.4)	2,531	2,094	(17.3)
Net Provisions & Impairments	1,003	1,026	2.3	932	1,009	8.2
Net Income (Reported)	1,352	897	(33.7)	1,533	1,022	(33.3)
Net Income (Attributable)	1,067	684.2	(35.9)	1,244	806.5	(35.2)

Source: QNB FS Research

Valuation

We value DHBK using the Residual Income Model (RI) based on a fundamental P/B:

We derive DHBK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model: $P/B = (RoE-g)/(Ke-g)$. This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 1.2x.**

We add Qatar's 10-year CDS rate of 0.74% to the 10-year US government bond yield (3.5%) to arrive at a risk free rate of 4.2%. We factor in an adjusted beta of 1.0x. Finally, we add a local equity risk premium of 7.0% to arrive at a Ke of 11.23%. However, we use a Ke of 10.0% for the terminal year.

Valuation Methodology

Fundamental P/B	
Sustainable RoE (%)	10.9
Estimated Cost of Equity (%)	10.0
Terminal Growth Rate (%)	5.0
Fundamental P/B	1.2x

RI Based on Fundamental P/B	
Beginning BVPS (2023) (QR)	3.251
Present Value of Interim Residuals (QR)	(0.208)
Present Value of Terminal Value (QR)	0.398
Less: 50% of NPLs & 15% of Stage 2 Loans	(1.558)
Fundamental P/B	1.2x
Intrinsic Value (QR)	1.883
Current Market Price (QR)	1.613
Upside/(Downside) Potential (%)	+16.9%

Source: QNB FS Research

Forecasts

	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	Terminal
Beginning BVPS	3.251	3.396	3.557	3.714	3.905	4.143	4.400	4.679	4.975	5.287	5.604
EPS Forecast	0.221	0.260	0.308	0.365	0.439	0.481	0.529	0.572	0.612	0.642	0.674
DPS Forecast	0.075	0.100	0.150	0.175	0.200	0.225	0.250	0.275	0.300	0.325	0.350
Adjustment	-	-	-	-	-	-	-	-	-	-	-
Forecast BVPS	3.396	3.557	3.714	3.905	4.143	4.400	4.679	4.975	5.287	5.604	5.928
Equity Charge	0.365	0.381	0.399	0.417	0.438	0.465	0.494	0.525	0.559	0.594	0.560
Residual Income	-0.144	-0.121	-0.091	-0.052	0.000	0.016	0.035	0.046	0.053	0.049	0.114
Discounted Interim Residuals	-0.131	-0.099	-0.067	-0.034	0.000	0.008	0.017	0.020	0.020	0.017	0.040
Terminal Value (Based on Fundamental P/B)											0.633
Discounted Terminal Value											0.223

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	2,320	2,585	2,322	2,244	2,359	2,501
Fees & Commissions	304	303	371	380	392	422
FX Income	106	154	153	165	160	173
Other Income	207	65	63	77	79	85
Non-Interest Income	617	522	587	622	631	679
Total Revenue	2,937	3,107	2,909	2,866	2,990	3,180
Operating Expenses	(868)	(876)	(894)	(891)	(896)	(927)
Net Operating Income	2,069	2,231	2,015	1,975	2,094	2,253
Net Provisions	(1,365)	(1,485)	(1,201)	(1,026)	(1,009)	(1,007)
Net Profit Before Tax	704	746	814	949	1,085	1,246
Tax	(1)	(43)	(48)	(52)	(63)	(72)
Net Profit (Reported/Headline)	703	704	765	897	1,022	1,174
Interest on Tier-1 Note	(203)	(197)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(18)	(19)	(22)	(26)	(29)
Attributable Net Profit	482	490	556	684	806	955
EPS	0.156	0.158	0.179	0.221	0.260	0.308

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	6,895	5,887	3,668	4,231	4,527	4,889
Interbank Loans	3,674	5,365	8,651	5,463	6,382	4,725
Net Investments	24,667	25,083	24,964	25,695	28,396	31,268
Net Loans	65,450	62,667	58,079	60,698	63,819	67,500
Other Assets	2,168	1,412	1,618	1,346	1,287	1,429
Net PP&E	686	689	665	662	662	665
Total Assets	103,540	101,103	97,645	98,095	105,073	110,477
Liabilities						
Interbank Deposits	23,037	22,511	19,239	16,267	18,744	18,445
Customer Deposits	55,054	50,356	50,130	52,887	56,589	61,116
Term Loans	8,545	11,629	11,408	11,978	12,337	12,954
Other Liabilities	3,110	2,351	2,790	2,433	2,377	2,445
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	93,746	90,847	87,566	87,565	94,047	98,960
Total Shareholders' Equity	9,795	10,256	10,079	10,530	11,027	11,517
Total Liabilities & Shareholders' Equity	103,540	101,103	97,645	98,095	105,073	110,477
Risk Weighted Assets	71,908	71,898	73,175	75,141	81,537	87,276

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Attributable)	5.2	5.0	5.4	6.8	7.7	8.7
RoAA (Attributable)	0.7	0.7	0.8	0.9	1.0	1.1
RoRWA (Attributable)	0.6	0.7	0.8	0.9	1.0	1.1
NIM (% of IEAs)	2.42	2.80	2.57	2.50	2.52	2.52
NIM (% of RWAs)	3.07	3.60	3.20	3.03	3.01	2.96
NIM (% of AAs)	2.19	2.53	2.34	2.29	2.32	2.32
Spread	2.1	2.6	2.1	1.9	1.8	1.8
Efficiency (%)						
Cost-to-Income (Headline)	29.5	28.2	30.7	31.1	30.0	29.2
Cost-to-Income (Core)	31.5	28.4	31.0	31.6	30.4	29.7
Liquidity (%)						
LDR (stable sources of funds)	103	101	94	94	93	91
Loans/Assets	63.2	62.0	59.5	61.9	60.7	61.1
Cash & Interbank Loans-to-Total Assets	10.2	11.1	12.6	9.9	10.4	8.7
Deposits to Assets	53.2	49.8	51.3	53.9	53.9	55.3
Wholesale Funding to Loans	48.3	54.5	52.8	46.5	48.7	46.5
IEAs to IBLs	1.2	1.2	1.3	1.3	1.2	1.2
Asset Quality (%)						
NPL Ratio	5.98	5.83	6.43	6.00	5.75	5.50
NPL to Shareholders' Equity	42.0	37.3	39.3	37.2	36.3	35.6
NPL to Tier 1 Capital	43.9	39.5	40.6	38.4	37.4	36.8
Coverage Ratio	81.4	77.5	87.0	116.9	142.6	171.4
ALL/Average Loans	4.8	4.4	5.4	7.2	8.5	9.8
Cost of Risk (%)	196	211	153	160	149	140
Capitalization (%)						
CET1 Ratio	13.0	13.5	13.3	13.6	13.1	12.8
Tier-1 Ratio	18.6	19.0	18.8	18.9	18.0	17.4
CAR	19.8	20.2	19.9	20.0	19.1	18.5
Tier-1 Leverage (x)	12.9	13.5	14.1	14.5	14.0	13.7
Growth (%)						
Net Interest Income	17.1	11.4	-10.2	-3.4	5.1	6.0
Non-Interest Income	-18.7	-15.4	12.4	6.0	1.5	7.6
Total Revenue	7.2	5.8	-6.4	-1.5	4.3	6.4
Opex	-7.2	1.0	2.1	-0.3	0.6	3.5
Net Operating Income	14.7	7.8	-9.7	-2.0	6.0	7.6
Net Income (Headline/Reported)	-6.8	0.1	8.8	17.1	14.0	14.9
Net Income (Attributable)	-6.3	1.5	13.6	23.0	17.9	18.4
Loans	-0.5	-4.3	-7.3	4.5	5.1	5.8
Deposits	-5.8	-8.5	-0.4	5.5	7.0	8.0
Assets	-4.3	-2.4	-3.4	0.5	7.1	5.1
RWAs	-9.3	0.0	1.8	2.7	8.5	7.0

Source: Company data, QNB FS Research

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

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

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