

Doha Bank (DHBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR1.736	Target Price	QR1.883
Implied Upside	8.5%		

Long Road to Recovery; Moving to Market Perform

Factoring in 9M2023 earnings, we lower our 2023 and 2024 estimates (see page 3). Our changes in estimates are mainly driven by higher CoR; we pencil in a CoR of 172bps (2023e), 157bps (2024e) and 153bps (2025e). We estimate earnings CAGR of 20.3% (2022-27e). We expect the bank to generate economic profits from 2028 and onward as RoE is still expected to be below CoE over 2023 to 2027. The stock trades at a 48% discount to its 2023e BV due to asset quality issues. We lower our rating from Accumulate to Market Perform, but retain our QR1.883 PT. We note that DHBK's beginning BVPS (2023) contributes 173% to our price target (as the present value of interim economic profits is negative).

Highlights

- DHBK reported attributable net profit of QR626.9mn in 9M2023 vs. QR932.9mn in 9M2022, dropping by 32.8%.** The drop, on a YoY basis was mainly attributed to margin compression (2.40%; 38bps decline) as net interest income declined by 13.6%. On the other hand, non-funded income gained by 27.1% on the back of investment income (income of QR63.6mn in 9M2023 vs. loss of QR2.3mn in 9M2022) and the insurance segment (income of QR82.2mn vs. QR13.4mn in 9M2022).
- CoR to remain on the high side; management is targeting 120-130bps by 2027; 9M2023 CoR increased to 169bps vs. 146bps in 9M2022 (FY2022: 153bps).** DHBK generated a 2022 CoR of 153bps vs. 211bps in 2021 (196bps in 2020). 2023 CoR is estimated to be around ~170bps (above 160bps guidance), steadily dropping to 123bps 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 72% in 3Q2023 to 85%/90% and 2) mitigate any unforeseen impairments.
- RoE will remain weak and significantly below CoE; 9M2023 annualized RoE came in at 8.3%.** RoE came in at 5.4% in FY2022, in-line with 2018-2021. We estimate RoE to increase ~1ppt every year to 13.2% by 2028. We forecast 2024/25 RoE of 5.5%/6.7%.
- C/I ratio is expected to remain around the 30% levels.** C/I ratio stood at 32.8%/30.0% in 9M2023/22 (30.7% in FY2022). Going forward, we expect DHBK's C/I ratio to hover around the 30% levels. However, management is guiding to <25% by 2027.
- Asset quality remains a concern as management may further downgrade Stage 2 loans; NPLs are legacy.** DHBK's NPLs declined (improved) -6.7%/-5.2% to QR3.7bn in 3Q2023 vs. 2Q2023/FY2022 partially due to write-offs of QR427mn. Moreover, the NPL ratio decreased from 6.43%/6.71% in FY2022/2Q2023 to 6.18% in 3Q2023. Further, the coverage ratio for Stage 3 loans increased from 61%/70% in FY2022/2Q2023 to 72% in 3Q2023 (vs. 51% in FY2021); 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 increased sequentially after numerous quarterly declines; we still expect single digit growth going forward, in-line with management guidance.** Net loans increased by 1.6% QoQ to QR56.7bn in 3Q2023 (-2.4% vs. FY2022). Private sector loans gained by 3.7% vs. FY2022, while public sector loans declined on repayment of credit facilities. We pencil in a loan book CAGR of 4.1% in 2022-27e vs. 5.0% previously 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 3Q2023 with a CET1 ratio of 12.8% and a Tier-1 ratio of 18.1%. We still 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 maintain our QR1.883 price target, but reduce our rating from Accumulate to Market Perform.** DHBK is trading at a 2023e/24e P/B and P/E of 0.5x and 11.8x/9.2x, respectively.
- Risks:** 1) Asset quality. 2) Execution risks remain for management's new strategy.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS (QR)	0.179	0.147	0.190	0.237
Growth	13.6	-17.8	28.6	25.2
P/E (x)	9.7	11.8	9.2	7.3
BVPS (QR)	3.25	3.32	3.44	3.55
P/B (x)	0.5	0.5	0.5	0.5
RoE (%)	5.4	4.5	5.7	6.9
DPS (QR)	0.075	0.075	0.125	0.175
Dividend Yield (%)	4.3	4.3	7.2	10.1

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.736
Dividend Yield (%)	4.3
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	2.230/1.407
3-m Average Volume (mn)	4,707.4
Mkt. Cap. (\$ bn/QR bn)	1.5/5.4
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	13.4
1-Year Total Return (%)	(16.2)
Fiscal Year End	December 31

Source: Bloomberg (as of November 14, 2023), *Qatar Exchange (as of November 14, 2023); Note: FO is foreign institutional ownership

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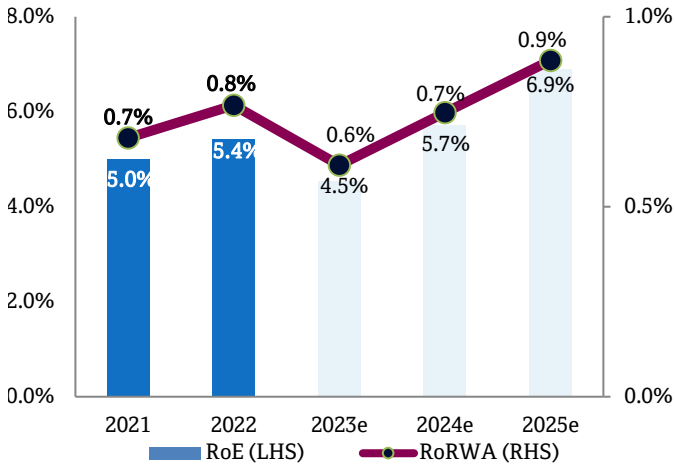
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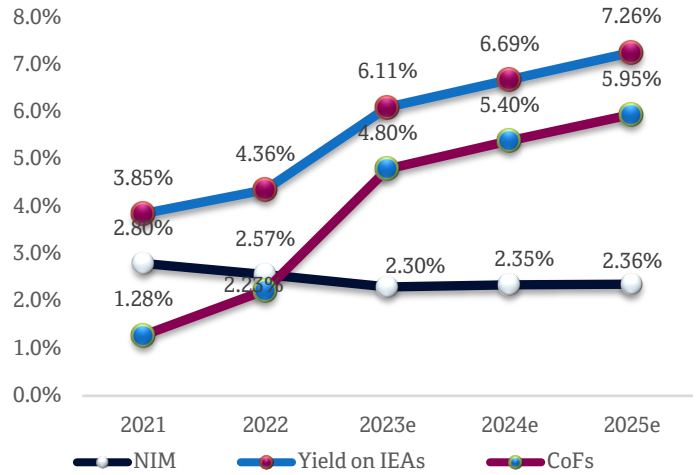
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RoE Remains <CoE During Forecast Horizon; RoRWAs is Weak

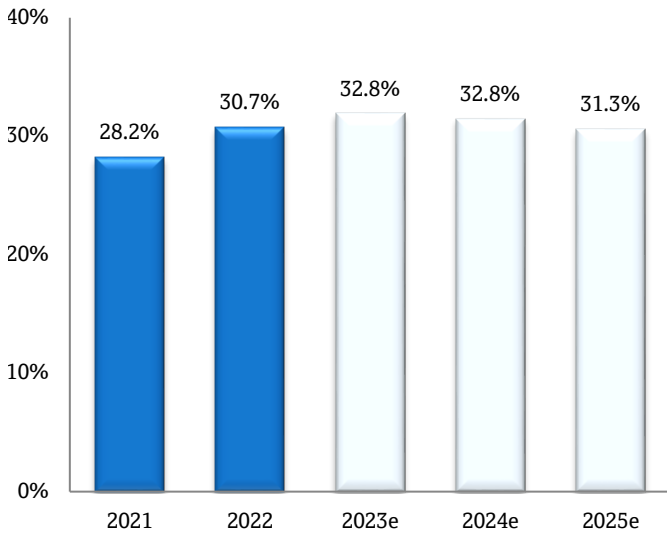


Source: Company data, QNB FS Research

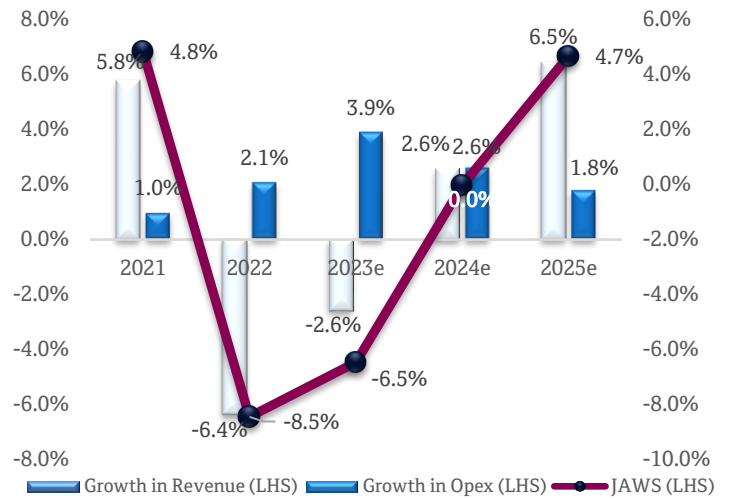
While Margins to Gradually Improve



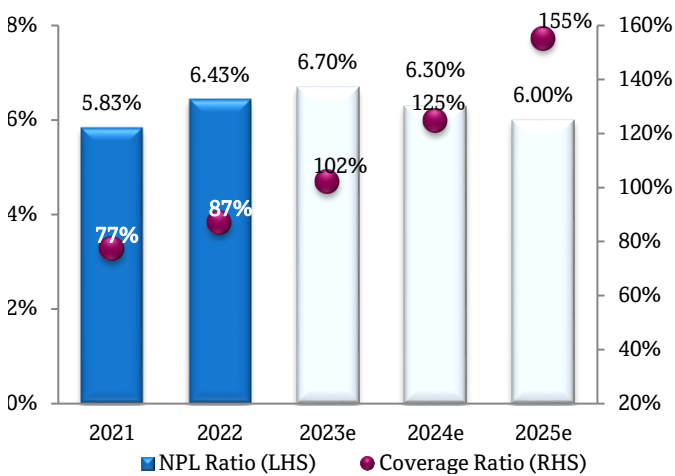
C/I Ratio to Hover @ ~Current Levels as Revenue & Opex Move in Lock Step While Generating Marginal JAWS Post 2023



Source: Company data, QNB FS Research



NPL Ratio Spiked Mainly on Contracting & RE Loans



Source: Company data, QNB FS Research

Stage 2 Highest Domestically; Coverage of Stage 3 Improved

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	37,038,140	19,956,351	3,751,249	60,745,740
ECLs	110,646	1,242,871	2,713,610	4,067,127
Stages % of Loans	61.0%	32.9%	6.18%	
Stages % ECLs	2.7%	30.6%	66.7%	
Coverage Ratio	0.3%	6.2%	72.3%	

Change in Estimates

(In QR mn)	2023e			2024e			2025e		
	Old	New	Change (%)	Old	New	Change	Old	New	Change (%)
Net Interest Income	2,206	2,083	(5.6)	2,286	2,213	(3.2)	2,417	2,213	(8.4)
Non-Interest Income	675	751	11.3	710	693	(2.3)	767	693	(9.6)
Total Revenue	2,881	2,834	(1.6)	2,996	2,907	(3.0)	3,184	2,907	(8.7)
Opex	(919)	(929)	1.1	(943)	(953)	1.0	(974)	(953)	(2.2)
Net Operating Income	1,962	1,905	(2.9)	2,053	1,954	(4.8)	2,210	1,954	(11.6)
Net Provisions & Impairments	1,051	1,151	9.5	1,002	1,110	10.7	1,012	1,110	9.6
Net Income (Reported)	861	664	(22.9)	993	798	(19.6)	1,133	798	(29.6)
Net Income (Attributable)	650	457.2	(29.7)	778	588.0	(24.4)	915	588	(35.7)

Source: QNB FS Research

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Net Interest Income	2,320	2,585	2,322	2,083	2,213	2,361	2,581
Fees & Commissions	304	303	371	378	394	403	402
FX Income	106	154	153	130	141	148	141
Other Income	207	65	63	242	158	182	170
Non-Interest Income	617	522	587	751	693	733	712
Total Revenue	2,937	3,107	2,909	2,834	2,907	3,094	3,294
Operating Expenses	(868)	(876)	(894)	(929)	(953)	(970)	(1,025)
Net Operating Income	2,069	2,231	2,015	1,905	1,954	2,125	2,269
Net Provisions	(1,365)	(1,485)	(1,201)	(1,151)	(1,110)	(1,120)	(1,002)
Net Profit Before Tax	704	746	814	754	844	1,005	1,267
Tax	(1)	(43)	(48)	(91)	(46)	(55)	(68)
Net Profit (Reported/Headline)	703	704	765	664	798	950	1,198
Interest on Tier-1 Note	(203)	(197)	(190)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(18)	(19)	(17)	(20)	(24)	(30)
Attributable Net Profit	482	490	556	457	588	736	978
EPS	0.156	0.158	0.179	0.147	0.190	0.237	0.316

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	6,895	5,887	3,668	3,710	3,652	4,168	4,418
Interbank Loans	3,674	5,365	8,651	7,069	7,954	8,979	6,767
Net Investments	24,667	25,083	24,964	27,439	29,696	31,582	33,513
Net Loans	65,450	62,667	58,079	58,910	61,185	64,133	67,673
Other Assets	2,168	1,412	1,618	1,778	1,357	1,615	1,366
Net PP&E	686	689	665	664	664	662	658
Total Assets	103,540	101,103	97,645	99,570	104,507	111,138	114,394
Liabilities							
Interbank Deposits	23,037	22,511	19,239	25,722	27,867	28,531	26,075
Customer Deposits	55,054	50,356	50,130	46,370	48,689	52,097	55,223
Term Loans	8,545	11,629	11,408	9,696	11,248	13,497	15,522
Other Liabilities	3,110	2,351	2,790	3,478	2,045	2,084	2,209
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	93,746	90,847	87,566	89,266	93,849	100,209	103,029
Total Shareholders' Equity	9,795	10,256	10,079	10,303	10,659	10,930	11,366
Total Liabilities & Shareholders' Equity	103,540	101,103	97,645	99,570	104,507	111,138	114,394
Risk Weighted Assets	71,908	71,898	73,175	76,868	80,471	85,799	88,655

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2020	2021	2022	2023e	2024e	2025e	2026e
Profitability (%)							
RoE (Attributable)	5.2	5.0	5.4	4.5	5.7	6.9	9.0
RoAA (Attributable)	0.7	0.7	0.8	0.7	0.8	0.9	1.1
RoRWA (Attributable)	0.6	0.7	0.8	0.6	0.7	0.9	1.1
NIM (% of IEAs)	2.42	2.80	2.57	2.30	2.35	2.36	2.47
NIM (% of RWAs)	3.07	3.60	3.20	2.78	2.81	2.84	2.96
NIM (% of AAs)	2.19	2.53	2.34	2.11	2.17	2.19	2.29
Spread	2.1	2.6	2.1	1.3	1.3	1.3	1.4
Efficiency (%)							
Cost-to-Income (Headline)	29.5	28.2	30.7	32.8	32.8	31.3	31.1
Cost-to-Income (Core)	31.5	28.4	31.0	35.4	34.3	33.0	32.5
Liquidity (%)							
LDR (stable sources of funds)	103	101	94	105	102	98	96
Loans/Assets	63.2	62.0	59.5	59.2	58.5	57.7	59.2
Cash & Interbank Loans-to-Total Assets	10.2	11.1	12.6	10.8	11.1	11.8	9.8
Deposits to Assets	53.2	49.8	51.3	46.6	46.6	46.9	48.3
Wholesale Funding to Loans	48.3	54.5	52.8	60.1	63.9	65.5	61.5
IEAs to IBLs	1.2	1.2	1.3	1.3	1.2	1.2	1.2
Asset Quality (%)							
NPL Ratio	5.98	5.83	6.43	6.70	6.30	6.00	5.75
NPL to Shareholders' Equity	42.0	37.3	39.3	41.1	39.3	38.8	38.2
NPL to Tier 1 Capital	43.9	39.5	40.6	42.5	40.6	40.2	39.5
Coverage Ratio	81.4	77.5	87.0	102.3	124.9	155.3	181.0
ALL/Average Loans	4.8	4.4	5.4	7.0	8.1	9.6	10.8
Cost of Risk (%)	196	211	153	172	157	153	130
Capitalization (%)							
CET1 Ratio	13.0	13.5	13.3	13.0	12.8	12.3	12.4
Tier-1 Ratio	18.6	19.0	18.8	18.2	17.8	17.0	16.9
CAR	19.8	20.2	19.9	19.3	18.9	18.1	18.1
Tier-1 Leverage (x)	12.9	13.5	14.1	14.0	13.7	13.1	13.1
Growth (%)							
Net Interest Income	17.1	11.4	-10.2	-10.3	6.3	6.7	9.3
Non-Interest Income	-18.7	-15.4	12.4	28.0	-7.7	5.8	-2.8
Total Revenue	7.2	5.8	-6.4	-2.6	2.6	6.5	6.4
Opex	-7.2	1.0	2.1	3.9	2.6	1.8	5.7
Net Operating Income	14.7	7.8	-9.7	-5.5	2.6	8.7	6.8
Net Income (Headline/Reported)	-6.8	0.1	8.8	-13.3	20.2	19.0	26.2
Net Income (Attributable)	-6.3	1.5	13.6	-17.8	28.6	25.2	33.0
Loans	-0.5	-4.3	-7.3	1.4	3.9	4.8	5.5
Deposits	-5.8	-8.5	-0.4	-7.5	5.0	7.0	6.0
Assets	-4.3	-2.4	-3.4	2.0	5.0	6.3	2.9
RWAs	-9.3	0.0	1.8	5.0	4.7	6.6	3.3

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

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