

Doha Bank (DHBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR2.232	Target Price	QR2.600
Implied Upside	16.5%		

Record Provisions Lead to a Weak 2019; DPS Eliminated; MP For Now

DHBK reported weak figures for FY2019 on the back of asset quality concerns, which has been a recurring theme over the past 3 years. As we had suspected, management proposed omitting the cash dividend for 2019, a prudent move, in our opinion. We will revise our forward estimates post the company's earnings call. We maintain our PT at QR2.60 and our Market Perform rating for the time being until we receive further clarity on the bank's strategy.

Highlights

- DHBK reports a net loss in 4Q2019, solely attributable to a surge in provisions and impairments.** Doha Bank (DHBK) reported a net loss of QR64.6mn vs. a net profit of QR92.8mn in 4Q2018 (net profit of QR299.9mn in 3Q2019), falling significantly short of our estimate of QR185.0mn. The loss was due to net provisions and impairments of QR531.2mn, the highest in the bank's operating history. On a YoY basis, revenue jumped by 16.2%, driven by investment income. On a sequential basis, revenue receded by 10.8% due to weak figures across the board.
- Management omitted cash DPS for 2019.** The bank will not pay a cash DPS for 2019; instead it transferred QR712.4mn to its risk reserve. We expect the bank to transfer another QR522.4mn to bring the risk reserve level to QR1.37bn (in-line with its 2017 pre-IFRS 9 figure).
- Provisions remained elevated in 2019 and the highest in its operating history.** DHBK reported provisions for credit losses of QR1.16bn in FY2019 vs. QR951.7mn in FY2018 (QR592.4mn in 2017). Moreover, CoR increased to 171bps vs. 149bps in 2018 (95bps in FY2017). It seems that DHBK booked more provisions on its GCC (Kuwait & UAE) operations.
- Spreads and margins continue to compress.** DHBK's net interest margin contracted by 32bps YoY to 2.14%. The compression in the spread YoY was due to cost of funds increasing by ~29bps, while yield on assets decreased by ~7bps.
- Cost control aided the bank's operating income.** DHBK's opex remained flat YoY while total revenue grew by 5.6%, resulting in an 8.8% growth in net operating income. C/I ratio improved, declining to 33.6% vs. 35.5% in FY2018 (36.2% in FY2017). Operating efficiency was determined by a combination of cost containment and investment income, which is not ideal. DHBK generated positive JAWs of 5.8% in FY2019.
- Asset quality remains a key theme.** Asset quality slightly deteriorated with the bank's NPLs gaining by 8.4% YoY to QR4.1bn. On the other hand, the NPL ratio remained stable at 5.81% vs. 5.84% in 2018 (3.61% FY2017). The coverage ratio for Stage 3 loans declined to 86% vs. 100% in the previous quarter and 98% in FY2018. The bank's contracting portfolio & GCC exposure remains a challenge. In FY2019, DHBK wrote-off QR1.77bn in impaired loans, which represents 2.7% of loans and 46.5% of FY2018 NPLs. The majority of Stage 2 loans (27% of total loans) are comprised of the contracting segment, which remains a challenge. It should be noted that stage 2 loans declined by 4.4%.
- Net loans expanded, driven by public sector and corporates.** Net loans grew by 9.9% YoY to QR65.8bn, while deposits gained by 4.8% YoY to QR58.5bn. Growth in loans was led by the public sector and corporates, while loans to the retail, real estate and contracting segments declined.
- Lack of cash DPS aided DHBK's CET 1 position.** CET 1 ratio increased from 10.7% in 2018 to 11.5% in 2019, while Tier-1 ratio moved from 15.8% to 16.6%.

Catalysts

- Stock price improvement depends on a resumption of confidence in company performance & realization of management's goals and objectives.

Recommendation, Valuation and Risks

- Recommendation and valuation:** DHBK is trading at a 2020e P/B and P/E of 0.7x and 9.7x, respectively.
- Risks:** 1) Geopolitical factors, 2) Contracting segment & 3) GCC exposure.

Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.17	0.23	0.26	0.32
Growth	-12.6	38.1	15.3	19.7
P/E (x)	13.4	9.7	8.4	7.0
BVPS (QR)	3.0	3.2	3.4	3.6
P/B (x)	0.7	0.7	0.7	0.6
DPS (QR)	0.000	0.100	0.125	0.150
Dividend Yield (%)	0.0	4.5	5.6	6.7

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	2.232
Dividend Yield (%)	0.0
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low (QR)	3.01/1.89
3-m Average Volume (mn)	2.0
Mkt. Cap. (\$ bn/QR bn)	1.9/6.9
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	49.0
Current FO* (%)	11.9
1-Year Total Return (%)	+14.2
Fiscal Year End	December 31

Source: Bloomberg (as of February 18, 2020), *Qatar Exchange (as of February 17, 2020); Note: FO is foreign ownership

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Detailed Financial Statements

Income Statement (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Net Interest Income	2,255	2,081	1,980	2,118	2,331	2,519
Fees & Commissions	420	388	394	421	399	427
FX Income	107	115	112	121	122	113
Other Income	106	51	297	122	162	92
Non-Interest Income	633	554	803	663	683	633
Total Revenue	2,888	2,635	2,783	2,781	3,015	3,152
Operating Expenses	(1,045)	(937)	(935)	(903)	(910)	(955)
Net Operating Income	1,843	1,698	1,848	1,879	2,104	2,197
Net Provisions	(735)	(864)	(1,123)	(919)	(1,022)	(948)
Net Profit Before Tax	1,109	834	725	959	1,082	1,249
Tax	1	(4)	29	(4)	(5)	(6)
Net Profit (Reported/Headline)	1,110	830	754	955	1,077	1,243
Interest on Tier-1 Note	(220)	(220)	(220)	(220)	(230)	(230)
Social & Sports Contribution Fund	(28)	(21)	(19)	(24)	(27)	(31)
Attributable Net Profit	862	589	515	712	820	982

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2017	2018	2019	2020e	2021e	2022e
Cash & Balances with Central Bank	6,670	7,586	5,804	6,693	7,640	7,390
Interbank Loans	7,822	6,239	7,757	7,221	7,981	7,318
Net Investments	17,513	20,727	26,561	27,994	28,667	29,885
Net Loans	59,804	59,844	65,784	72,209	78,249	85,090
Other Assets	978	1,115	1,579	1,455	1,185	1,288
Net PP&E	709	621	724	777	843	808
Total Assets	93,495	96,132	108,208	116,348	124,566	131,779
Liabilities						
Interbank Deposits	11,005	19,529	24,037	25,584	26,026	22,648
Customer Deposits	59,468	55,785	58,464	63,141	69,455	77,790
Term Loans	6,091	5,592	7,332	9,806	11,767	12,473
Other Liabilities	2,124	2,494	5,058	3,788	2,778	3,734
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	82,688	87,399	98,891	106,319	114,026	120,644
Total Shareholders' Equity	10,807	8,733	9,318	10,029	10,540	11,135
Total Liabilities & Shareholders' Equity	93,495	96,132	108,208	116,348	124,566	131,779

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2017	2018	2019	2020e	2021e	2022e
Profitability (%)						
RoE (Attributable) Based on Beg. Book Value	9.2	5.5	5.9	7.6	8.2	9.3
RoAA (Attributable)	1.2	0.9	0.7	0.9	0.9	1.0
RoRWA (Attributable)	1.1	0.8	0.7	0.9	0.9	1.0
NIM (% of IEAs)	2.71	2.45	2.14	2.06	2.11	2.14
NIM (% of RWAs)	2.85	2.67	2.53	2.60	2.67	2.67
NIM (% of AAs)	2.45	2.19	1.94	1.89	1.94	1.97
Spread	2.5	2.3	1.9	1.8	1.9	1.9
Efficiency (%)						
Cost-to-Income (Headline)	36.2	35.5	33.6	32.5	30.2	30.3
Cost-to-Income (Core)	36.8	35.4	37.7	33.5	31.1	30.6
Liquidity (%)						
LDR	100.6	107.3	112.5	114.4	112.7	109.4
Loans/Assets	64.0	62.3	60.8	62.1	62.8	64.6
Cash & Interbank Loans-to-Total Assets	15.5	14.4	12.5	12.0	12.5	11.2
Deposits to Assets	63.6	58.0	54.0	54.3	55.8	59.0
Wholesale Funding to Loans	28.6	42.0	47.7	49.0	48.3	41.3
IEAs to IBLs	1.1	1.1	1.1	1.1	1.1	1.1
Asset Quality (%)						
NPL Ratio	3.61	5.84	5.81	5.32	4.50	3.60
NPL to Shareholders' Equity	20.9	43.5	44.2	41.4	36.1	29.8
NPL to Tier 1 Capital	23.3	46.2	45.1	43.5	38.3	31.8
Coverage Ratio	124.8	137.6	124.4	139.7	167.7	215.6
ALL/Average Loans	4.5	8.2	7.5	7.8	7.9	8.1
Cost of Risk (%)	95	149	171	130	110	99
Capitalization (%)						
Tier 1 Ratio	17.4	15.8	16.6	16.2	15.3	14.8
CAR	17.5	17.0	17.7	17.3	16.5	16.0
Tier 1 Capital to Assets	14.7	12.7	12.1	11.6	11.2	11.0
Tier 1 Capital to Loans	22.9	20.4	20.0	18.7	17.8	17.0
Tier 1 Capital to Deposits	23.0	21.9	22.5	21.4	20.1	18.6
Leverage (x)	8.7	11.0	11.6	11.6	11.8	11.8
Growth (%)						
Net Interest Income	8.8	-7.7	-4.8	7.0	10.1	8.0
Non-Interest Income	-6.5	-12.4	44.9	-17.4	3.1	-7.4
Total Revenue	5.0	-8.8	5.6	-0.1	8.4	4.5
Opex	-3.1	-10.3	-0.2	-3.5	0.9	4.9
Net Operating Income	10.3	-7.9	8.8	1.7	12.0	4.4
Net Income (Headline/Reported)	5.3	-25.2	-9.2	26.7	12.8	15.4
Net Income (Attributable)	6.8	-31.6	-12.6	38.1	15.3	19.7
Loans	1.0	0.1	9.9	9.8	8.4	8.7
Deposits	6.7	-6.2	4.8	8.0	10.0	12.0
Assets	3.5	2.8	12.6	7.5	7.1	5.8
RWAs	-0.7	-2.2	2.7	5.7	8.5	7.2

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

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