

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR58.00	Target Price	QR63.3
Implied Upside	9.1%		

2Q2012 Net Income Misses Estimates; Downgrading to Market Perform

2Q2012 net income misses estimates; Downgrading to Market Perform. Doha Bank (DHBK) reported net profit of QR350.0mn for 2Q2012, down 10.2% QoQ from QR390.0mn in 1Q2012. The results missed our estimate of QR371.3mn and Bloomberg consensus net income of QR361.5mn. The primary reason for the miss was increased provisions relative to our forecast, as well as lower net interest income. On an YTD basis, the stock has underperformed the Banking & Financial Services Index; the stock is down 2.90% (total return) versus the sector index, which is up 1.98%. DHBK's stock price has rallied recently on the run-up to 2Q2012 results and the stock currently offers a potential upside of 9.1% to our target price of QR63.3. Hence, we downgrade our recommendation from Accumulate to Market Perform. On the valuation front, DHBK is trading at a P/E ratio of 9.2x and P/B ratio of 1.6x on our 2012 estimates. Going forward, we feel investors would like to see improvement from operations (net interest income), which has been absent in 1H2012 for DHBK. However, private sector is showing signs of credit off take, and we expect DHBK to benefit from this trend.

Financial Results and Key Takeaways

- 2Q2012 interest income and income from Islamic financing activities was QR554.4mn, down 1.1% YoY (down 3.7% QoQ). Interest expense and unrestricted investment depositors' share of profit was QR144.3mn, up 15.2% YoY (up 5.2% QoQ). This combination of lower income and higher expense resulted in net interest income and income from Islamic financing activities declining by 5.8% YoY (down 6.5%) to QR410.1mn for 2Q2012 (our estimate was QR416.8mn).
- Net income from insurance activities was QR3.9mn, down 37.3% YoY and 41.8% QoQ.
- Net income from financial investments was QR77.3mn, up 441.8% YoY and 86.0% QoQ. Investment in financial instruments also increased to QR8.7bn from QR7.9bn at the end of 1Q2012.
- Combined impairment on loans and advances and financial investments came at QR46.6mn; declining by 1.5% YoY but up 25.8% QoQ. The higher provisioned reduced the flow to the bottom-line.
- The loan to deposit ratio increased to 97.8% in 2Q2012 from 94.2% at the end of 1Q2012 (96.9% at the end of 2011). Loan book improved by only 0.4% QoQ while deposits declined by 3.3% QoQ. On an YTD basis, the loan book declined by 3.4% and deposits were also down by 4.3%.

Key Data:

Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	QOBK.QA
ISIN	QA0006929770
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	67.20/49.90
3-m Average Volume ('000)	61.1
Mkt. Cap. (\$ bn/QR bn)	3.3/12.0
Shares Outstanding (mn)	206.7
FOL Limit* (%)	18.81
Current FO* (%)	6.6
1-Year Total Return (%)	21.81
Fiscal Year End	Dec. 31

Source: Bloomberg (as of July 18, 2012), *Qatar Exchange

Broker Recommendations

Recommendation	Number
Buy	6
Hold	6
Sell	0

Source: Bloomberg

Abdullah Amin. CFA

+974 4476 6569
abdullah.amin@qnbfs.com.qa

Saugata Sarkar

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

DHBK Income Statement (In QR mn)	2Q2011	1Q2012	2Q2012	Change YoY (%)	Change QoQ (%)
Interest income and income from Islamic financing activities	561	576	554	(1.1)	(3.7)
Interest expense and unrestricted investment depositors' share of profit	(125)	(137)	(144)	15.2	5.2
Net interest income and net income from Islamic financing activities	435	439	410	(5.8)	(6.5)
Net fee and commission income	90	82	81	(10.1)	(1.3)
Impairment losses on loans and advances (net) and on financial investments	(47)	(37)	(47)	(1.5)	25.8
Net profit	339	390	350	3.1	(10.2)
DHBK Balance Sheet (In QR mn)	2011	1Q2012	2Q2012	Change YTD (%)	Change QoQ (%)
Loans, advances and financing activities to customers	30,704	29,543	29,667	(3.4)	0.4
Total assets	52,420	52,353	51,873	(1.0)	(0.9)
Customer deposits and unrestricted investment accounts	31,699	31,365	30,339	(4.3)	(3.3)
Total shareholders' equity	7,081	6,573	6,953	(1.8)	5.8

Source: Company reports

Recommendations	
<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>	
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	
<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
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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Contacts

Ahmed M. Shehada

Head of Trading
Tel: (+974) 4476 6535
ahmed.shehada@qnb.com.qa

Keith Whitney

Head of Sales
Tel: (+974) 4476 6533
keith.whitney@qnb.com.qa

Saugata Sarkar

Head of Research
Tel: (+974) 4476 6534
saugata.sarkar@qnb.com.qa

Sahbi Kasraoui

Manager – HNWI
Tel: (+974) 4476 6544
sahbi.alkasraoui@qnb.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666
PO Box 24025
Doha, Qatar