

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.510	Target Price	QR1.883
Implied Upside	24.7%		

2Q2024 In-Line With Estimates; Bottom-Line Increased on lower CoR and Taxes

Doha Bank (DHBK) reported net profit of QR201.0mn in 2Q2024, growing by 9.6% YoY (-13.1% QoQ). Profitability came in-line with our estimate of QR205.8mn (variation of -2.3%). A material drop in taxes and credit provisions drove YoY bottom-line as revenue declined due margin compression. While net interest income declined by 8.9% (NIMs compressed by 39bps), a 3.3% growth in non-funded income (attributable to dividend income), a 15.2% drop in credit provisions and a 98% drop in taxes (2Q2023: QR31.6mn vs. 2Q2024: QR0.5mn) drove the bottom-line. The sequential drop in earnings was attributable to an increase of 18.2% in net provisions & impairments as net operating income increased by a marginal 1.2%. DHBK trades at a deep discount to its BV as the bank is not expected to generate economic profits in the medium-term as RoE is still expected to be below CoE over 2024 to 2028. The stock trades at a 60% discount to its 2024e BV. **We maintain our Market Accumulate rating and QR1.883 PT.**

Highlights

- **DHBK reported net profit of QR201.0mn in 2Q2024, growing by 9.6% YoY (-13.1% QoQ).** Profitability came in-line with our estimate of QR205.8mn (variation of -2.3%).
- **A drop in taxes, credit provisions and dividend income drove YoY bottom-line.** Although net interest income declined by 8.9% (NIMs compressed by 39bps), a 3.3% growth in non-funded income (attributable to dividend income), a 15.2% drop in credit provisions and a 98% drop in taxes (2Q2023: QR31.6mn vs. 2Q2024: QR0.5mn) drove the bottom-line. The sequential drop in earnings was attributable to an increase of 18.2% in net provisions & impairments as net operating income increased by a marginal 1.2%.
- **Margins contracted both YoY and sequentially.** NIMs contracted by 39/6bps YoY/QoQ as growth in CoFs materially outpaced yields on IEAs.
- **CoR improved YoY.** DHBK's 1H2024 annualized CoR improved from 158bps in 1H2023 to 128bps. Net credit provisions declined by 15.2% YoY, which partially aided the growth in the bottom-line. Pre-provisions net income declined by 10.5% YoY.
- **RoE remains weak and significantly below CoE.** 1H2024 annualized RoE came in at 8.3% vs. 7.8% in 1H2023.
- **C/I ratio remains higher than its peers.** C/I ratio stood at 35.6% in 2Q2024 vs. 32.3% in 2Q2023 (1Q2024: 35.5%). C/I remains elevated due to tepid revenue emanating from margin compression
- **Asset quality remains a concern; NPLs continue to increase.** DHBK's NPLs increased 1.9%/4.0% to QR4.7bn in 2Q2024 vs. 1Q2024/FY2023. However, the NPL ratio remained flat sequentially at 7.46% (FY2023: 7.36%) due to loan growth. On the other hand, the coverage ratio for Stage 3 loans increased sequentially to 66% vs. 62% in 1Q2024 (FY2023: 59%), which is a positive. Stage 2 loans contribute 31% to total loans (highest vs. its peers), which remains a concern; coverage of Stage 2 loans is a low 6%.
- **Net loans increased sequentially, while deposits receded.** Net loans increased by 1.4% QoQ (+1.6% YTD) to QR59.0bn in 2Q2024. On the other hand, deposits declined by 1.2% sequentially (flat YTD) to QR51.6bn.
- **De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended 2Q2024 with a CET1 ratio of 13.4% and a Tier-1 ratio of 18.6%.

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 and our Accumulate rating.** DHBK is trading at a 2024e/25e P/B and P/E of 0.4x and 7.7x/6.2x, respectively.
- **Risks:** 1) Asset quality. 2) Execution risks remain for management's new strategy.

Key Financial Data and Estimates

	2023	2024e	2025e	2026e
EPS (QR)	0.181	0.196	0.243	0.287
Growth	0.7	8.7	23.8	18.2
P/E (x)	8.4	7.7	6.2	5.3
BVPS (QR)	3.37	3.49	3.66	3.85
P/B (x)	0.4	0.4	0.4	0.4
RoE (%)	5.6	5.8	7.0	7.9
DPS (QR)	0.075	0.075	0.100	0.175
Dividend Yield (%)	5.0	5.0	6.6	11.6

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.510
Dividend Yield (%)	5.0
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	1.865/1.333
3-m Average Volume (mn)	4.7
Mkt. Cap. (\$ bn/QR bn)	1.3/4.7
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	14.4
1-Year Total Return (%)	(4.5)
Fiscal Year End	December 31

Source: Bloomberg (as of July 21, 2024), *Qatar Exchange (as of July 21, 2024); Note: FO is foreign institutional ownership

Shahan Keushgerian

+974 4476 6509

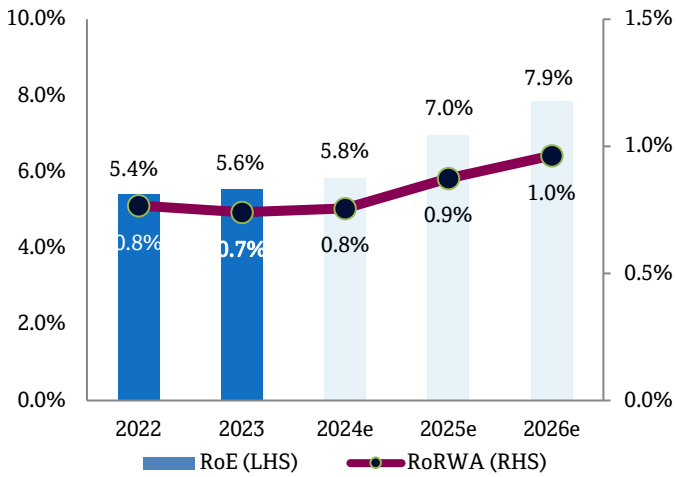
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

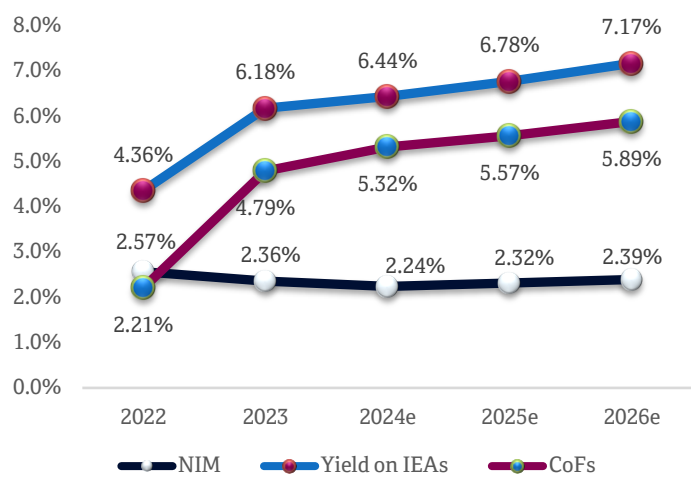
saugata.sarkar@qnbfs.com.qa

RoE Remains <CoE During Forecast Horizon; RoRWAs are Weak

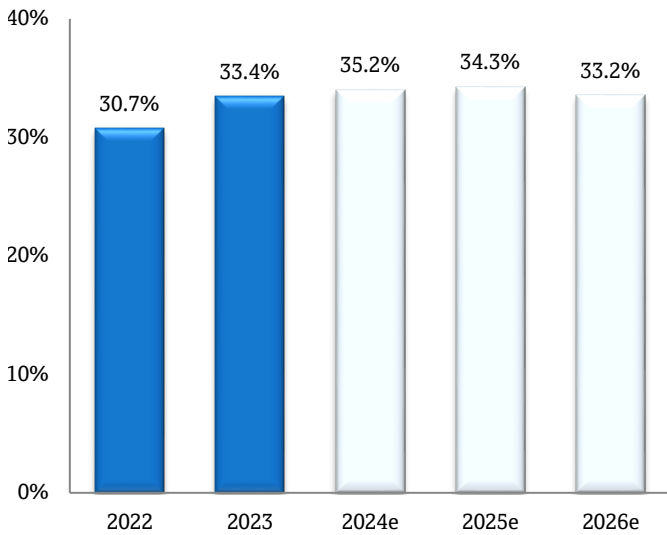


Source: Company data, QNB FS Research

While Margins to Steadily Improve

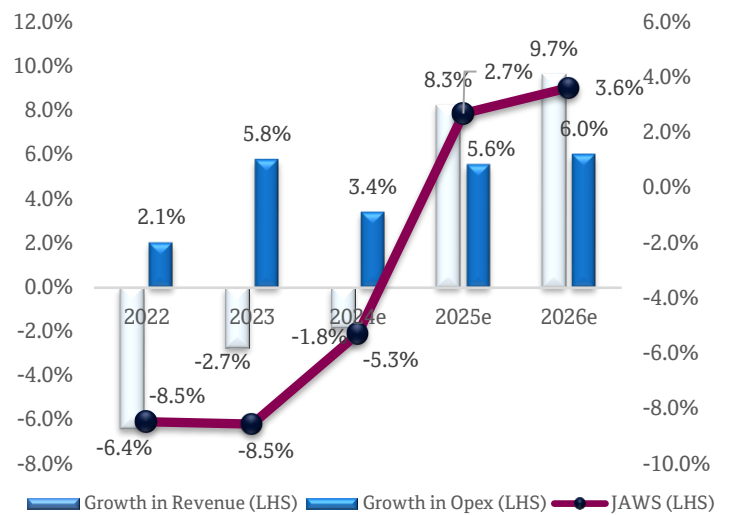


C/I Ratio to Hover @ Current Levels as Revenue & Opex Move in Lock Step

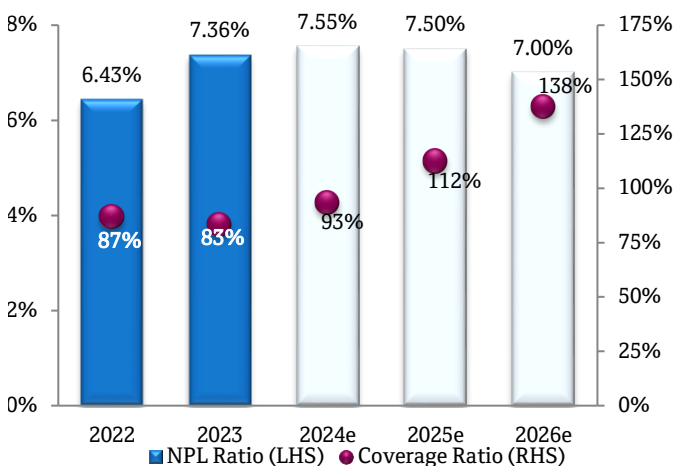


Source: Company data, QNB FS Research

While Generating Positive JAWS Post 2024



NPL Ratio Spiked; Contracting & RE Loans Remain Problematic



Source: Company data, QNB FS Research

Stage 2 Highest Domestically; Coverage of Stage 3 Improving

2Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	38,766,741	19,880,662	4,731,127	63,378,530
ECLs	127,925	1,191,581	3,105,922	4,425,428
Stages % of Loans	61.2%	31.4%	7.46%	
Stages % ECLs	2.9%	26.9%	70.2%	
Coverage Ratio	0.3%	6.0%	65.6%	

Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Net Interest Income	2,585	2,322	2,148	2,133	2,349	2,575
Fees & Commissions	303	371	376	390	414	430
FX Income	154	153	105	120	126	137
Other Income	65	63	39	135	119	157
Non-Interest Income	522	587	520	645	659	724
Total Revenue	3,107	2,909	2,668	2,778	3,008	3,299
Operating Expenses	(876)	(894)	(946)	(978)	(1,033)	(1,095)
Net Operating Income	2,231	2,015	1,722	1,799	1,975	2,203
Net Provisions	(1,485)	(1,201)	(857)	(932)	(950)	(1,032)
Net Profit Before Tax	746	814	865	867	1,024	1,172
Tax	(43)	(48)	(95)	(48)	(56)	(63)
Net Profit (Reported/Headline)	704	765	769	820	968	1,108
Interest on Tier-1 Note	(197)	(190)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(19)	(19)	(20)	(24)	(28)
Attributable Net Profit	490	556	560	609	754	891
EPS	0.158	0.179	0.181	0.196	0.243	0.287

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	5,887	3,668	4,842	4,332	4,230	4,913
Interbank Loans	5,365	8,651	5,497	6,031	5,695	5,335
Net Investments	25,083	24,964	30,386	32,472	37,115	39,371
Net Loans	62,667	58,079	58,010	60,310	63,274	66,693
Other Assets	1,412	1,618	1,901	2,001	1,593	1,346
Net PP&E	689	665	619	578	584	589
Total Assets	101,103	97,645	101,255	105,723	112,491	118,249
Liabilities						
Interbank Deposits	22,511	19,239	23,908	23,313	24,548	24,259
Customer Deposits	50,356	50,130	51,573	54,151	57,942	61,419
Term Loans	11,629	11,408	8,517	10,731	12,341	14,192
Other Liabilities	2,351	2,790	2,813	2,708	2,318	2,457
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	90,847	87,566	90,811	94,903	101,149	106,326
Total Shareholders' Equity	10,256	10,079	10,444	10,821	11,342	11,923
Total Liabilities & Shareholders' Equity	101,103	97,645	101,255	105,723	112,491	118,249
Risk Weighted Assets	71,898	73,175	78,094	82,993	89,430	95,427
IEAs	91,798	89,136	92,633	97,494	104,893	110,163
IBLs	74,665	71,990	72,806	77,132	84,736	89,800
Tangible BV/share	3.31	3.25	3.37	3.49	3.66	3.85

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2021	2022	2023	2024e	2025e	2026e
Profitability (%)						
RoE (Attributable)	5.0	5.4	5.6	5.8	7.0	7.9
RoAA (Attributable)	0.7	0.8	0.8	0.8	0.9	1.0
RoRWA (Attributable)	0.7	0.8	0.7	0.8	0.9	1.0
NIM (% of IEAs)	2.80	2.57	2.36	2.24	2.32	2.39
NIM (% of RWAs)	3.60	3.20	2.84	2.65	2.72	2.79
NIM (% of AAs)	2.53	2.34	2.16	2.06	2.15	2.23
Spread	2.6	2.1	1.4	1.1	1.2	1.3
Efficiency (%)						
Cost-to-Income (Headline)	28.2	30.7	33.4	35.2	34.3	33.2
Cost-to-Income (Core)	28.4	31.0	35.7	36.7	35.5	34.6
Liquidity (%)						
LDR (stable sources of funds)	101	94	97	93	90	88
Loans/Assets	62.0	59.5	57.3	57.0	56.2	56.4
Cash & Interbank Loans-to-Total Assets	11.1	12.6	10.2	9.8	8.8	8.7
Deposits to Assets	49.8	51.3	50.9	51.2	51.5	51.9
Wholesale Funding to Loans	54.5	52.8	55.9	56.4	58.3	57.7
IEAs to IBLs	1.2	1.2	1.3	1.3	1.2	1.2
Asset Quality (%)						
NPL Ratio	5.83	6.43	7.36	7.55	7.50	7.00
NPL to Shareholders' Equity	37.3	39.3	43.6	45.3	45.7	43.3
NPL to Tier 1 Capital	39.5	40.6	44.9	46.7	47.1	44.6
Coverage Ratio	77.5	87.0	83.2	93.4	112.5	137.6
ALL/Average Loans	4.4	5.4	6.1	7.2	8.7	9.9
Cost of Risk (%)	211	153	145	146	140	135
Capitalization (%)						
CET1 Ratio	13.5	13.3	13.0	12.7	12.3	12.1
Tier-1 Ratio	19.0	18.8	18.1	17.5	16.8	16.3
CAR	20.2	19.9	19.2	18.6	17.9	17.5
Tier-1 Leverage (x)	13.5	14.1	14.0	13.7	13.3	13.2
Growth (%)						
Net Interest Income	11.4	-10.2	-7.5	-0.7	10.1	9.6
Non-Interest Income	-15.4	12.4	16.2	-5.4	2.2	9.9
Total Revenue	5.8	-6.4	-2.7	-1.8	8.3	9.7
Opex	1.0	2.1	5.8	3.4	5.6	6.0
Net Operating Income	7.8	-9.7	-6.5	-4.5	9.8	11.6
Net Income (Headline/Reported)	0.1	8.8	0.5	6.5	18.1	14.5
Net Income (Attributable)	1.5	13.6	0.7	8.7	23.8	18.2
Loans	-4.3	-7.3	-0.1	4.0	4.9	5.4
Deposits	-8.5	-0.4	2.9	5.0	7.0	6.0
Assets	-2.4	-3.4	3.7	4.4	6.4	5.1
RWAs	0.0	1.8	6.7	6.3	7.8	6.7

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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