

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.739	Target Price	QR1.883
Implied Upside	8.3%		

3Q2024 Beats Estimates; Bottom-Line Increased on Lower CoR

Doha Bank (DHBK) reported a net profit of QR258.1mn in 3Q2024, growing by 9.9% YoY (+28.4% QoQ). Profitability came ahead of our estimate of QR247.9mn (variation of +4.1%). The beat was due to lower provisions vs. our estimate (variation of -4.3%) as net operating income was in-line with our estimate (variation of +0.2%). **A material drop in credit provisions drove YoY bottom-line as revenue declined due to margin compression and a sharp drop in insurance income.** Net operating income dropped by 20.9% due to a 46bps margin compression, 92.7% drop in insurance income and a 10.4% increase in opex; a 40.3% decline net credit provisions countered the bank's weak net operating performance, which led to a 9.9% increase in profitability. On the other hand, fees and f/x income were strong YoY (fees: +16.8%; f/x: +15.7%). The sequential surge in earnings was attributable to flattish net operating income countered by a 21.9% drop in credit provisions. 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 50% discount to its 2024e BV. **We maintain our Accumulate rating and QR1.883 PT for the time being.**

Highlights

- **DHBK reported net profit of QR258.1mn in 3Q2024, growing by 9.9% YoY (+28.4% QoQ).** Profitability beat our estimate of QR247.9mn (variation of +4.1%).
- **Margins contracted YoY, but was flattish sequentially.** NIMs contracted by 46bps YoY to 2.06% as growth in CoFs materially outpaced yields on IEAs. Net interest income declined by 8.2% YoY (+5.3% sequentially)
- **CoR significantly improved YoY.** DHBK's 9M2024 annualized CoR improved from 169bps in 9M2023 to 118bps. Net credit provisions declined by 40.3% YoY (-21.9% QoQ), which contributed to the growth in the bottom-line. Pre-provisions net income declined by 20.9% YoY (flattish sequentially).
- **RoE remains weak and significantly below CoE.** 9M2024 annualized RoE came in at 8.8% vs. 8.3% in 9M2023.
- **C/I ratio remains higher than its peers.** C/I ratio stood at 38.0% in 3Q2024 vs. 30.5% in 3Q2023 (2Q2024: 35.6%). C/I remains elevated due to weak revenue emanating from margin compression.
- **Asset quality remains under pressure; NPLs continue to increase.** DHBK's NPLs increased 3.4%/7.5% to QR4.9bn in 3Q2024 vs. 2Q2024/FY2023. However, the NPL ratio remained flat sequentially at 7.43% (FY2023: 7.36%) due to loan growth. On the other hand, the coverage ratio for Stage 3 loans increased sequentially to 67% vs. 66% in 2Q2024 (FY2023: 59%), which is a positive. Stage 2 loans contribute 30% to total loans (highest vs. its peers), which remains a concern; coverage of Stage 2 loans is a low 7%.
- **Net loans increased sequentially & YTD, while deposits were flattish.** Net loans increased by 3.7% QoQ (+5.4% YTD) to QR61.1bn in 3Q2024. Moreover, deposits slightly moved up by 0.6% sequentially (+0.6% YTD) to QR51.9bn.
- **De-risking the loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended 3Q2024 with a CET1 ratio of 13.0% and a Tier-1 ratio of 18.1%.

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 0.5x and 8.9x/7.2x, 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)	9.6	8.9	7.2	6.1
BVPS (QR)	3.37	3.49	3.66	3.85
P/B (x)	0.5	0.5	0.5	0.5
RoE (%)	5.6	5.8	7.0	7.9
DPS (QR)	0.075	0.075	0.100	0.175
Dividend Yield (%)	4.3	4.3	5.8	10.1

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.739
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	1.865/1.333
3-m Average Volume (mn)	4.4
Mkt. Cap. (\$ bn/QR bn)	1.5/5.4
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	14.9
1-Year Total Return (%)	+27.3
Fiscal Year End	December 31

Source: Bloomberg (as of October 22, 2024), *Qatar Exchange (as of October 22, 2024); Note: FO is foreign institutional ownership

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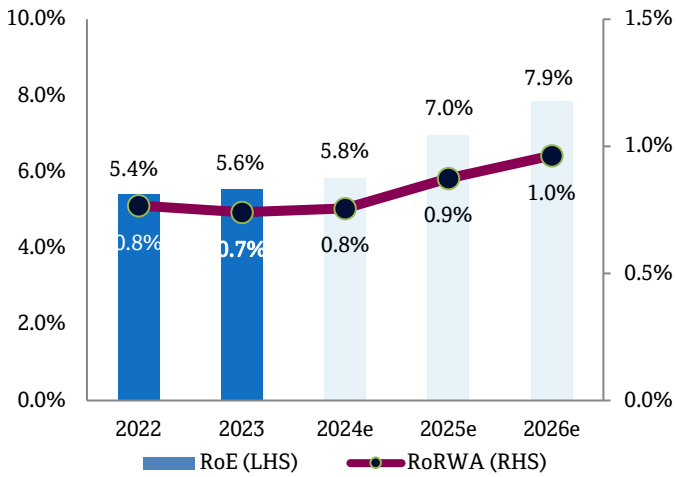
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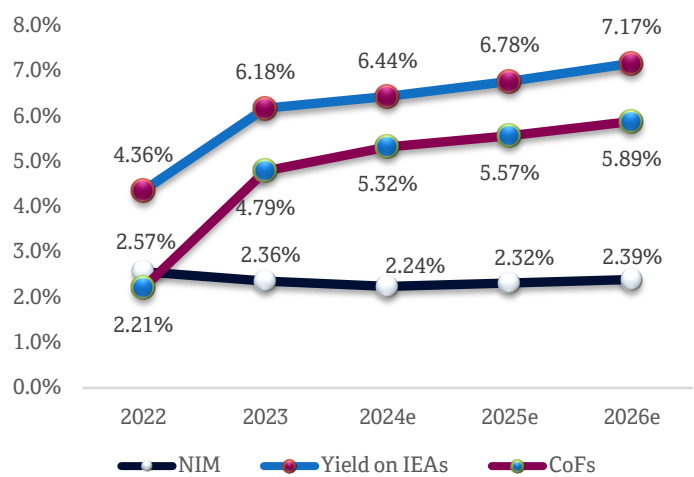
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RoE Remains <CoE During Forecast Horizon; RoRWAs are Weak

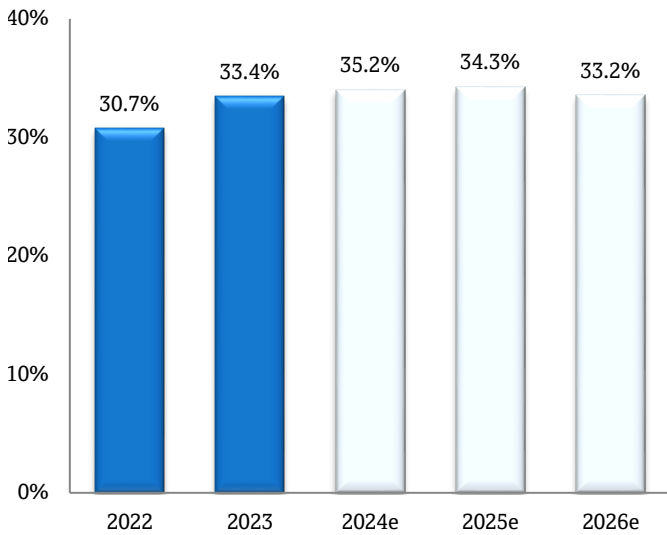


Source: Company data, QNB FS Research

While Margins to Steadily Improve

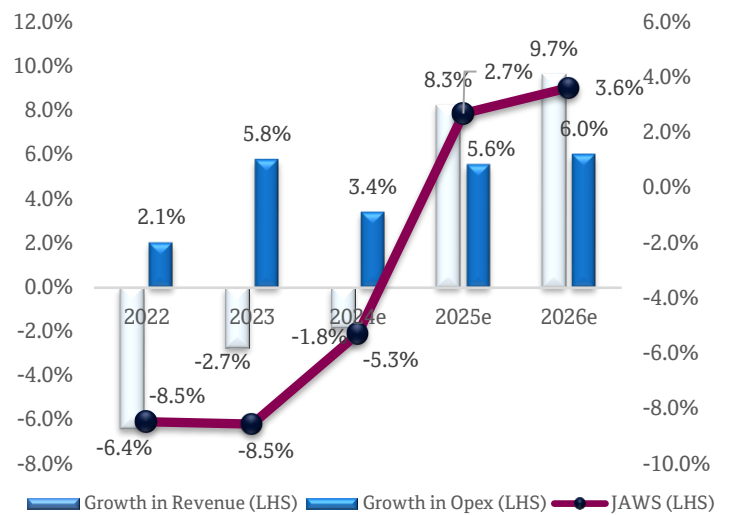


C/I Ratio to Hover @ Current Levels as Revenue & Opex Move in Lock Step

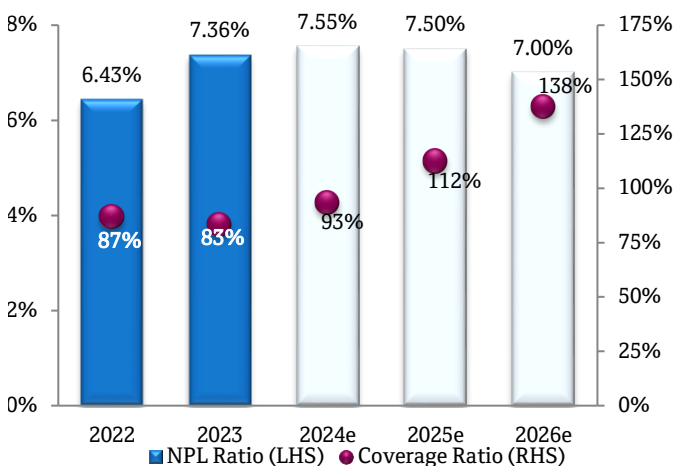


Source: Company data, QNB FS Research

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

3Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	40,993,846	19,965,272	4,890,837	65,849,955
ECLs	134,853	1,305,548	3,269,619	4,710,020
Stages % of Loans	62.3%	30.3%	7.43%	
Stages % ECLs	2.9%	27.7%	69.4%	
Coverage Ratio	0.3%	6.5%	66.9%	

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

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