

## Doha Bank (DHBK)

Recommendation	MARKET PERFORM	Risk Rating	R-3
Share Price	QR36.35	Current Target Price	QR53.00
Implied Upside	45.8%		

### 4Q2015 Earnings Drop QoQ Due To Impairments and OPEX

Doha Bank is Qatar's 3<sup>rd</sup> largest conventional bank with a market share of 7.6% and 6.6% in loans and deposits, respectively (5<sup>th</sup> largest among all listed banks). DHBK was known for solely being a retail bank with retail loans representing ~42% of its loan book in 2008. However, the bank has shifted its strategy by tapping other sectors of the economy such as contracting and real estate. As of FY2015, loans to contractors made up ~17% of its loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~19%. The bank has recently become more cautious about lending to contractors; it plans to target prime contractors as opposed to subcontractors. Going forward, DHBK intends on approaching contractors with a consortium of banks rather than engage in bilateral lending.

#### Highlights

- **DHBK reported net income of QR231.4mn in 4Q2015, falling short of our estimate due to higher than expected investment impairments.** Net income dropped by 32.1% QoQ, but climbed up by 3.5% YoY.
- **Net provisions, investment impairments and OPEX hindered the bottom-line.** DHBK reported net interest income of QR522.6mn, in-line with our estimate of QR525.7mn. Net interest income inched up by 0.9% QoQ (+9.5% YoY). NIMs remained under pressure and dropped to ~2.74% vs. 2.76% in 3Q2015 (2.88% in 4Q2014). Non-interest income came in at QR196.2mn, in-line with our estimate of QR195.5mn. Non-interest income grew by 9.8% QoQ (down 10.0% YoY), driven by robust performance from fees & commissions (+31.7% QoQ, down 2.4% YoY). As expected, net provisions surged by 108.5% QoQ (down 19.1% YoY) to 151.5mn. Moreover, investment impairments also increased to QR57.0mn (+50.5% and 332.8% QoQ and YoY, respectively)
- **Cost-to-income ratio ticked up in FY2015.** DHBK's OPEX gained by 15.5% QoQ (+5.6% YoY) to QR281.6mn. Cost-to-income jumped to 39.2% vs. 35.0% in 3Q2015 (38.4% in 4Q2014). On an annual basis (FY2015), the efficiency ratio moved to 36.7% vs. 35.7% in 2014.
- **The bank announced cash DPS of QR3.00/share vs. QR4.00/share in 2014; implying a yield of 8.3%.** The announced DPS is lower than our model but generally in-line with our expectations given pressure on capitalization and tough outlook on 2016.
- **Net Loans and deposits displayed strong growth.** Net loans grew by 2.2% QoQ (+14.5% YoY) to QR55.6bn. Deposits followed suit and increased by 1.4% QoQ (+14.8% YoY) to QR52.8bn. The main driver of deposits growth in 2015 is attributed to the public sector which expanded by 27.9% YoY. DHBK's FY2015 LDR was on the high side at 105% vs. 106% in 2014. DHBK needs to bring down its LDR ratio below 100% by the end of 2017. As such we expect funding pressure on the bank.
- **Asset quality deteriorated.** DHBK's NPL ratio deteriorated in FY2015, increasing to 3.26% vs. 3.10%. The coverage ratio remained healthy at 109% vs. 114% in 2014. On the other hand the CoR substantially improved, declining to 54bps vs. 95bps.
- **CAR decent for the time being.** DHBK generated a CAR of 15.8%. We are of the view that the bank needs to raise capital in order to grow and maintain strong capitalization.

#### Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market: Visible progress in management's strategy:** 1) Clarity on capital raising could act as a further catalyst (Based on our estimates, the bank needs to raise capital to the tune of QR3bn.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We keep our Price Target of QR53.00 for now.** We will revise our PT and 2016, 2017 and 2018 estimates after meeting management.
- **Risks:** 1) Declining oil prices remains the biggest risk for DHBK and the banking sector, 2) Exposure to the retail & contracting segments create concentration risk and 3) LDR requirement from the QCB could create short-term issues.

#### Key Financial Data and Estimates

	FY2014	FY2015	FY2016e	FY2017e
Attributable EPS (QR)	4.66	4.77	4.71	5.42
P/E (x)	7.8	7.7	7.6	6.6
P/B (x)	1.0	1.0	1.0	0.9
DPS (QR)	4.00	3.00	2.75	2.50
Dividend Yield (%)	11.0	8.3	7.6	6.9

Source: Company data, QNBFS estimates; Note: All data based on current number of shares

#### Key Data

Current Market Price (QR)	36.35
Dividend Yield (%)	7.6
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Financial Services
52wk High/52wk Low (QR)	59.30/33.45
3-m Average Volume ('000)	196.6
Mkt. Cap. (\$ bn/QR bn)	2.6/9.4
Shares Outstanding (mn)	258.37
FO Limit* (%)	49.0
Current FO* (%)	12.0
1-Year Total Return (%)	(33.5)

Fiscal Year End December 31

Source: Bloomberg (as of January 25, 2016), \*Qatar Exchange (as of January 25, 2016); Note: FO is foreign ownership

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### Recommendations

*Based on the range for the upside / downside offered by the 12 - month target price of a stock versus the current market price*

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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