DHBK Alert – 1Q2023 Falls Short of Estimates on NIMs Compression

- **DHBK misses estimates; net profit drops by 48.0% YoY:** Doha Bank (DHBK) reported a net profit of QR208.6mn in 1Q2023 vs. QR401.4mn in 1Q2022 (net loss of QR167.5mn in 4Q2022; we had estimated a 1Q2023 net profit of QR415.1mn. *The drop, on a YoY basis, was attributed to a sharp drop in net interest income (-23.6%) and non-funded income(-19.4%). On a sequential basis, profitability was driven by a sharp drop in provisions & impairments (-65.8%).*

- **Margins compressed beyond our modeled estimates:** DHBK's 1Q2023 (annualized) NIMs dropped by 60bps YoY (flat QoQ) to 2.19% as a result of a large increase in CoFs.

- **CoR and provisions increased.** 1Q2023 CoR (annualized) increased to 135bps (120bps in 1Q2022), while credit provisions in 1Q2023 increased by 7.7% YoY to QR203.8mn vs. QR189.2mn in 1Q2022. Sequentially, credit provisions dropped by 29.5% (in-line with historical trends).

- **Asset quality remains a concern; NPLs are legacy.** DHBK's NPLs remained flat at QR4.0bn YTD. Moreover, the NPL ratio increased from 6.43% in FY2022 to 6.58% in 1Q2023 (mainly due to a reduction in loans). On a positive note, the coverage ratio for Stage 3 loans increased to 65% vs. 61% in FY2022. *DHBK has the largest share of Stage 2 loans as a % of total loans among domestic banks; Stage 2 loans stood at 32% of total loans.*

- **Net loans contracted YTD:** Net loans declined by 2.5% sequentially to QR56.6bn. Moreover, deposits contracted by 3.1% QoQ to QR48.6bn.

- **CET1 requires improvement but Tier-1 position remains healthy.** DHBK ended 1Q2023 with CET1 ratio of 12.9% and a Tier-1 ratio of 18.2%.

- **Recommendation and valuation:** DHBK trades at a P/B of 0.5x on our 2023 estimates. For now, we maintain our Accumulate rating and PT of QR1.883/share.

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QNB FINANCIAL SERVICES

Recommendations		Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price		*Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
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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