

DHBK Alert – 2Q2021 Falls Short of Estimates on Elevated CoR; Revenue & Operating Income In-Line

- **DHBK's 2Q2021 earnings misses our estimates.** Doha Bank (DHBK) reported a net profit of QR234.16mn, gaining by 32.6% YoY (-38.4% sequentially), falling short of our estimate of QR336.98mn. The miss was due to larger than expected credit provisions. The QoQ drop in earnings was due to weak figures across the board.
- **Net interest income and cost containment were the main drivers behind earnings.** DHBK's net interest income soared by 16.1% YoY (-8.1% sequentially) to QR607.7mn, in-line with our estimate of QR628.8mn (-3.3% variation). Opex remained flattish YoY (-1.3% QoQ).
- **Non-funded income remained weak.** Fees and f/x did not pick up, resulting in subdued non-funded income, both YoY and sequentially.
- **Margins improved YoY but dropped significantly QoQ, in-Line with our expectations.** DHBK's NIMs increased by 20bps YoY, but sequentially dropped by 30bps to 2.38%. *It should be noted that DHBK's NIM peaked at 2.71% in 1Q2020.*
- **Cost control is aiding the bank's operations; DHBK generated positive JAWS.** DHBK's opex remained flattish YoY while revenue increased by 9.1%, resulting in a 13.7% increase in net operating income. C/I ratio improved, declining from 32.0% in 2Q2020 to 29.1% in 2Q2021 (26.5% in 1Q2021). Moreover, the company generated positive JAWS of 12.7% YoY in 1H2021.
- **CoR remains elevated, credit provisions surged by 30.7% YoY.** DHBK reported provisions for credit losses of QR301.3mn in 2Q2021 vs. QR230.5mn in 2Q2020 (QR230.6mn in 1Q2021). Moreover, 1H2021 CoR (annualized) moved up to 141bps vs 122bps in 1H2020 (164bps in FY2020).
- **Asset quality remains a concern; however, NPL ratio decreased.** DHBK's NPLs increased QoQ by 1.4% (+3.6% YTD) to QR4.3bn. On the other hand, the NPL ratio decreased to 5.64% vs. 5.98% in FY2020 as a result of an increase in loans. However, the coverage ratio for Stage 3 loans decreased to 53% vs. 59% in the previous quarter (54.0% in FY2020); coverage remains very low. Stage 2 & 3 ECLs contribute 30% and 66% (96% collectively) to total ECLs.
- **Net loans continued its positive trajectory.** Net loans increased by 2.3% sequentially to QR72.2bn (+10.3% YTD), while deposits dropped by 7.2% (+7.4% YTD) to QR59.1bn.
- **CET1 and Tier-1 position improved.** DHBK ended 2Q2021 with CET1 ratio of 13.2% (13.0% FY2020) and a Tier-1 ratio of 18.9%.
- **Recommendation and valuation:** DHBK trades at a P/B of 0.8x on our 2021 estimates. For the time being, we maintain our PT of QR2.305.

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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

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

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

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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