

Doha Bank (DHBK)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.639	Target Price	QR1.883
Implied Upside	14.9%		

RoE Below CoE Remains an Overhang on the Stock; Stay Accumulate

Factoring in 1Q2023 earnings, we lower our 2023 and 2024 estimates by 5.0% and 3.4% to QR650.1mn and QR778.5mn, respectively. Our changes in estimates are mainly driven by higher CoR and tightening of spreads; we pencil in a CoR of 162bps (2023e), 144bps (2024e) and 130bps (2025e). Our new earnings estimates (2022-27e) are expected to lead to an average RoE generation of 10.15% (10.95% previously) over our forecast horizon vs. low-to-mid-single digit RoEs since 2016. We expect the bank to generate economic profits from 2028 and onward. Hence, RoE is still expected to be below CoE over 2023 to 2027. The stock trades at a 48% discount to its 2023e BV due to asset quality issues. As such, DHBK has significantly underperformed its peers. **We maintain our Accumulate rating and QR1.883 PT. We note that DHBK's beginning BVPS (2023) contributes 176% to our price target (as the present value of economic profits is negative).**

Highlights

- DHBK reported attributable net profit of QR208.6mn in 1Q2023 vs. QR401.4mn in 1Q2022 (net loss of QR167.5mn in 4Q2022). The drop, on a YoY basis, was attributed to a sharp drop in net interest income (-23.6%) and non-funded income (-19.4%).** We lower our 2023 and 2024 estimates by 5.0% and 3.4% to QR650.1mn and QR778.5mn, respectively. Changes in estimates are mainly driven by higher CoR and lower net interest income (tightening of spreads).
- CoR to remain on the high side; management is targeting 120-130bps by 2027; 1Q2023 CoR increased to 135bps vs. 120bps in 1Q2022.** DHBK generated a 2022 CoR of 153bps vs. 211bps in 2021 (196bps in 2020). 2023 CoR is estimated to be around ~160bps (in-line with guidance), steadily dropping to 121bps by 2027 (still on the high side) as management needs to build further provisions in order to 1) raise coverage of Stage 3 loans from 65% in 1Q2023 to 85% and 2) mitigate any unforeseen impairments.
- RoE continues to remain weak and significantly below CoE; 1Q2023 annualized RoE came in at 8.3%.** RoE came in at 5.4% in FY2022, in-line with 2018-2021. We estimate RoE to increase ~1ppt every year to 11.0% by 2027. We forecast 2023/24 RoE of 6.2%/7.1%
- C/I ratio is expected to remain around the 30% levels.** C/I ratio stood at 35.5%/28.0% in 1Q2023/22 (30.7% in FY2022). Going forward, we expect DHBK's C/I ratio to hover around the 30% levels. However, management is guiding to <25% by 2027.
- Asset quality remains a concern as management may further downgrade Stage 2 loans; NPLs are legacy.** DHBK's NPLs remained flat at QR4.0bn in 1Q2023 vs. FY2022, as the majority of NPLs are of a legacy nature. Moreover, the NPL ratio increased from 6.43% in FY2022 to 6.58% in 1Q2023 (this is mainly due to a reduction in loans). Further, the coverage ratio for Stage 3 loans increased from 61% in FY2022 to 65% in 1Q2023 (vs. 51% in FY2021); DHBK is targeting 85% coverage of Stage 3 loans. Stage 2 loans contribute 32% to total loans, highest vs. its peers. On average (2019-2022), DHBK wrote-off 13.0% of loans (QR8.9bn). Management is guiding for an NPL ratio of 6.0% for 2022 and 4.5-5% in 2024-2027.
- Net loans continue to recede on the back of government repayments; we still expect single digit growth going forward, in-line with management guidance.** Net loans declined by 2.5% to QR56.6bn in 1Q2023 vs. FY2022. On the other hand, private sector loans displayed flat performance. We pencil in a loan book CAGR of 5.0% (unchanged) in 2022-27e as the bank's lending appetite picks up after completing its de-risking exercise.
- De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions.** DHBK ended 1Q2023 with a CET1 ratio of 12.9% and a Tier-1 ratio of 18.2%. We still estimate CET1 ratio to hover ~13% level in our forecast horizon.

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 and Accumulate rating.** DHBK is trading at a 2023e P/B and P/E of 0.5x and 7.8x, respectively.
- Risks:** 1) Asset quality. 2) Execution risks remain for management's new strategy.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
EPS (QR)	0.179	0.210	0.251	0.295
Growth	13.6	16.9	19.7	17.5
P/E (x)	9.1	7.8	6.5	5.6
BVPS (QR)	3.25	3.39	3.54	3.68
P/B (x)	0.5	0.5	0.5	0.4
RoE (%)	5.4	6.5	7.4	8.3
DPS (QR)	0.075	0.100	0.150	0.175
Dividend Yield (%)	4.6	6.1	9.2	10.7

Source: Company data, QNB FS Research

Key Data

Current Market Price (QR)	1.639
Dividend Yield (%)	4.6
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	2.829/1.528
3-m Average Volume (mn)	3,670.2
Mkt. Cap. (\$ bn/QR bn)	1.4/5.1
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	11.4
1-Year Total Return (%)	(31.1)
Fiscal Year End	December 31

Source: Bloomberg (as of May 30, 2023), *Qatar Exchange (as of May 30, 2023); Note: FO is foreign ownership

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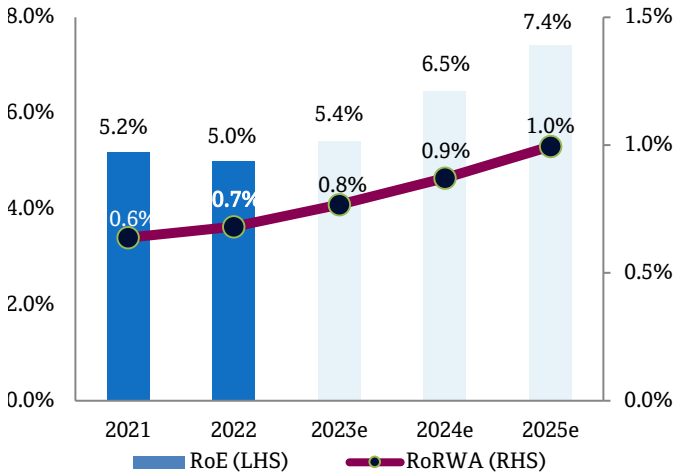
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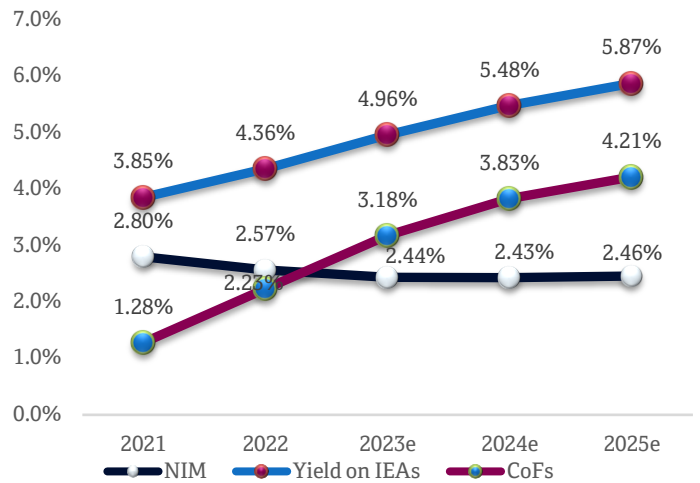
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RoE Remains <CoE During Forecast Horizon; RoRWAs is Weak

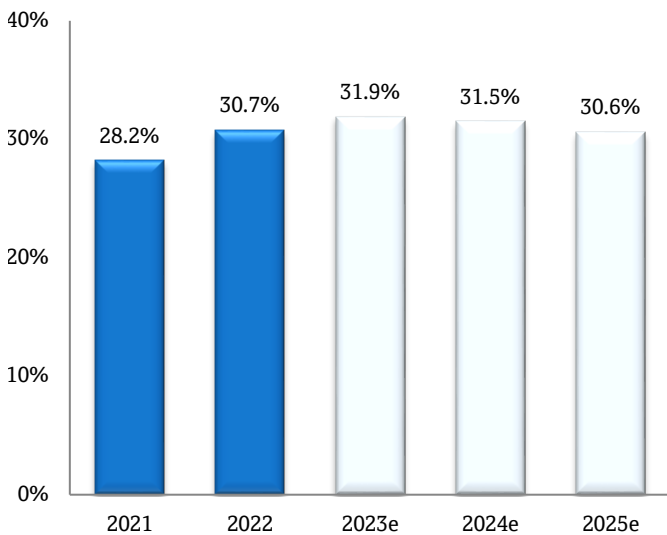


Source: Company data, QNB FS Research

While Margins to Remain Under Pressure on High CoFs

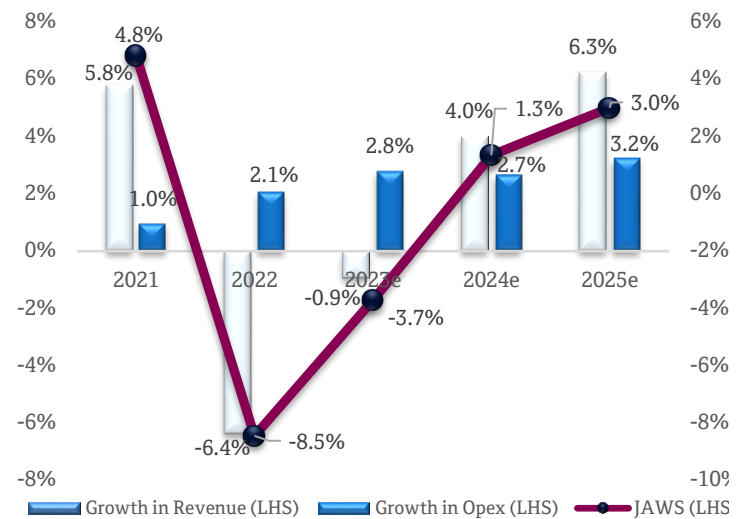


C/I Ratio to Hover @ ~Current Levels as Revenue & Opex Move in Lock Step

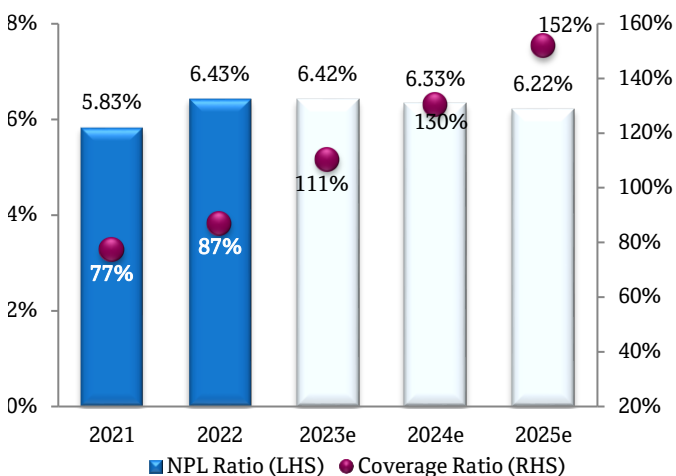


Source: Company data, QNB FS Research

While Generating Marginal JAWS Post 2023



NPL Ratio Spiked Mainly on Contracting & RE Loans



Source: Company data, QNB FS Research

Stage 2 Loans is Highest Domestically

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	36,884,195	19,532,821	3,974,568	60,391,584
ECLs	75,390	1,078,325	2,588,255	3,741,970
Stages % of Loans	61.1%	32.3%	6.6%	
Stages % ECLs	2.0%	28.8%	69.2%	
Coverage Ratio	0.2%	5.5%	65.1%	

Detailed Financial Statements

Change in Estimates

(In QR mn)	2023e			2024e		
	Old	New	Change	Old	New	Change
Net Interest Income	2,244	2,206	(1.7)	2,359	2,286	(3.1)
Non-Interest Income	622	675	8.6	631	710	12.6
Total Revenue	2,866	2,881	0.5	2,990	2,997	0.2
Opex	(891)	(919)	3.1	(896)	(943)	5.3
Net Operating Income	1,975	1,963	(0.6)	2,094	2,054	(1.9)
Net Provisions & Impairments	1,026	1,051	2.4	1,009	1,002	(0.7)
Net Income (Reported)	897	862	(3.9)	1,022	993	(2.8)
Net Income (Attributable)	684	650.1	(5.0)	806	778.5	(3.4)

Source: QNB FS Research

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	2,320	2,585	2,322	2,206	2,286	2,417
Fees & Commissions	304	303	371	390	405	438
FX Income	106	154	153	160	155	168
Other Income	207	65	63	126	150	161
Non-Interest Income	617	522	587	675	710	767
Total Revenue	2,937	3,107	2,909	2,881	2,997	3,184
Operating Expenses	(868)	(876)	(894)	(919)	(943)	(974)
Net Operating Income	2,069	2,231	2,015	1,963	2,054	2,210
Net Provisions	(1,365)	(1,485)	(1,201)	(1,051)	(1,002)	(1,012)
Net Profit Before Tax	704	746	814	912	1,051	1,199
Tax	(1)	(43)	(48)	(50)	(58)	(66)
Net Profit (Reported/Headline)	703	704	765	862	993	1,133
Interest on Tier-1 Note	(203)	(197)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(18)	(19)	(22)	(25)	(28)
Attributable Net Profit	482	490	556	650	778	915
EPS	0.156	0.158	0.179	0.210	0.251	0.295

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	6,895	5,887	3,668	3,880	4,074	4,585
Interbank Loans	3,674	5,365	8,651	7,802	8,167	6,602
Net Investments	24,667	25,083	24,964	25,652	27,266	29,256
Net Loans	65,450	62,667	58,079	60,016	62,822	66,023
Other Assets	2,168	1,412	1,618	1,451	1,267	1,398
Net PP&E	686	689	665	662	660	657
Total Assets	103,540	101,103	97,645	99,463	104,256	108,522
Liabilities						
Interbank Deposits	23,037	22,511	19,239	20,005	21,190	19,708
Customer Deposits	55,054	50,356	50,130	51,734	54,321	57,308
Term Loans	8,545	11,629	11,408	10,849	11,499	13,799
Other Liabilities	3,110	2,351	2,790	2,380	2,281	2,292
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
Total Liabilities	93,746	90,847	87,566	88,967	93,291	97,108
Total Shareholders' Equity	9,795	10,256	10,079	10,496	10,965	11,414
Total Liabilities & Shareholders' Equity	103,540	101,103	97,645	99,463	104,256	108,522
Risk Weighted Assets	71,908	71,898	73,175	76,189	80,277	84,213

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE (Attributable)	5.2	5.0	5.4	6.5	7.4	8.3
RoAA (Attributable)	0.7	0.7	0.8	0.9	1.0	1.1
RoRWA (Attributable)	0.6	0.7	0.8	0.9	1.0	1.1
NIM (% of IEAs)	2.42	2.80	2.57	2.44	2.43	2.46
NIM (% of RWAs)	3.07	3.60	3.20	2.95	2.92	2.94
NIM (% of AAs)	2.19	2.53	2.34	2.24	2.24	2.27
Spread	2.1	2.6	2.1	1.8	1.7	1.7
Efficiency (%)						
Cost-to-Income (Headline)	29.5	28.2	30.7	31.9	31.5	30.6
Cost-to-Income (Core)	31.5	28.4	31.0	32.9	32.7	31.9
Liquidity (%)						
LDR (stable sources of funds)	103	101	94	96	95	93
Loans/Assets	63.2	62.0	59.5	60.3	60.3	60.8
Cash & Interbank Loans-to-Total Assets	10.2	11.1	12.6	11.7	11.7	10.3
Deposits to Assets	53.2	49.8	51.3	52.0	52.1	52.8
Wholesale Funding to Loans	48.3	54.5	52.8	51.4	52.0	50.8
IEAs to IBLs	1.2	1.2	1.3	1.3	1.2	1.2
Asset Quality (%)						
NPL Ratio	5.98	5.83	6.43	6.42	6.33	6.22
NPL to Shareholders' Equity	42.0	37.3	39.3	39.5	39.5	39.7
NPL to Tier 1 Capital	43.9	39.5	40.6	40.8	40.8	41.0
Coverage Ratio	81.4	77.5	87.0	110.5	130.4	152.2
ALL/Average Loans	4.8	4.4	5.4	7.3	8.5	9.8
Cost of Risk (%)	196	211	153	162	143	132
Capitalization (%)						
CET1 Ratio	13.0	13.5	13.3	13.3	13.2	13.1
Tier-1 Ratio	18.6	19.0	18.8	18.6	18.2	17.9
CAR	19.8	20.2	19.9	19.7	19.4	19.0
Tier-1 Leverage (x)	12.9	13.5	14.1	14.2	14.0	13.9
Growth (%)						
Net Interest Income	17.1	11.4	-10.2	-5.0	3.6	5.7
Non-Interest Income	-18.7	-15.4	12.4	15.2	5.2	7.9
Total Revenue	7.2	5.8	-6.4	-0.9	4.0	6.3
Opex	-7.2	1.0	2.1	2.8	2.7	3.2
Net Operating Income	14.7	7.8	-9.7	-2.6	4.6	7.6
Net Income (Headline/Reported)	-6.8	0.1	8.8	12.6	15.3	14.0
Net Income (Attributable)	-6.3	1.5	13.6	16.9	19.7	17.5
Loans	-0.5	-4.3	-7.3	3.3	4.7	5.1
Deposits	-5.8	-8.5	-0.4	3.2	5.0	5.5
Assets	-4.3	-2.4	-3.4	1.9	4.8	4.1
RWAs	-9.3	0.0	1.8	4.1	5.4	4.9

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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