Doha Bank (DHBK)

Recommendation	**ACCUMULATE**	**Risk Rating**	**R-3**
Share Price	**QR36.90**	**Current Target Price**	**QR42.00**
Implied Upside	**13.8%**	**Old Target Price**	**QR47.00**

Revising Estimates to Account for Higher Provisions

Doha Bank is Qatar's 3rd largest conventional bank with a market share of ~8% in loans and deposits, respectively (5th 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 flat bottom-line in 2Q2016, led by a sharp drop in provisions.** Doha Bank (DHBK) reported a net profit of QR354.2mn in 2Q2016, implying flat performance and in-line with our estimate of QR348.0mn (variance of +1.8%). However, on a YoY basis, the net profit declined 7.1%. The bank's flat performance was led by a 48.4% drop in provisions. Pre-provision income was down by 11.6% QoQ to QR416.2mn.
- **NIMs remained under pressure.** DHBK posted net interest income of QR523.6mn in 2Q2016 (in-line with our estimate of QR514.0mn; +1.9% variation), increasing by 1.0% QoQ (+4.7% YoY). The bank's NIMs remained under pressure, declining by 3bps and 15bps to ~2.66% QoQ and YoY, respectively. *We still expect NIMs to continue its negative trajectory due to an increase in cost of funds as DHBK competes for deposits. Our net interest income forecasts for 2016, 2017 and 2018 remains broadly unchanged at QR2.10mn, 2.19mn and 2.32mn, respectively.*
- **Opex to remain subdued in the short to medium term.** Opex increased by 10.9% QoQ (+7.7% YoY) to QR272.6mn. Hence the efficiency ratio increased to 39.6% vs. 34.3% in 1Q2016 (37.1% in 2Q2015). However, we expect the bank to manage costs during these weak market conditions. *As such we pencil in growth of 2.7%, 3.9% and 6.2% for 2016, 2017 and 2018, respectively. During this time we estimate the cost-to-income ratio to average 36.9%. We do not foresee this ratio dropping back to the lower 30s (%) in the near future.*
- **NPL ratio improved.** The bank's NPLs dropped by 16.8% QoQ to QR1.66mn, while the NPL ratio decreased to 2.89% vs. 3.38% in 1Q2016 (3.26% in FY2015). It seems that the improvement in the NPL ratio is due to write-offs to the tune of ~QR300mn *Nevertheless, we expect further deterioration in asset quality and maintain. We now expect the NPL ratio to reach 3.00% in 2016 (3.65% previously), followed by 3.15% in 2017 and 3.30% in 2018.*
- **Liquidity improved.** Net loans declined by 2.5% QoQ and 0.3% YTD to QR55.4bn. On the other hand deposits gained by 1.9% QoQ (down 0.7% YTD) to QR52.4bn. As such the bank's LDR improved, declining to 106% vs. 111% in 1Q2016 (105% in FY2015). It appears that the bank is working on improving its liquidity position. *We now expect loans to grow by 4.9% in 2016e. Our estimates for 2017 and 2018 remain unchanged at 7.8% and 9.9%, respectively.*

Catalysts

- **Beyond a stabilization/recovery in oil prices, the following developments could be perceived positively by the market:** 1) Clarity on capital raising could act as a further catalyst, 2) better execution of the bank's strategy and 3) a reduced DPS of QR2.50 in 2016 (vs. QR3.00 in 2015), still implying an attractive dividend yield of 6.8%.

Recommendation, Valuation and Risks

- **Recommendation and valuation:** ***We change our Price Target to QR42.00 vs. QR47.00 previously; maintain Accumulate rating.*** Our change in the price target is due to a lower RoE (12.8%) than we previously forecasted (13.1%). DHBK is trading at a 2016e P/B and P/E of 1.0x and 8.7x, respectively. The stock trades at an expensive PEG of 1.4x
- **Risks:** 1) Depressed oil prices remains the biggest risk for DHBK and the banking sector and 2) Exposure to the retail & contracting segments create concentration risk.

Key Financial Data and Estimates

	FY2015	FY2016e	FY2017e	FY2018e
Attributable EPS (QR)	4.72	3.86	4.26	4.80
EPS Growth (%)	1.2	-18.3	10.4	12.9
P/E (x)	7.8	9.6	8.7	7.7
BVPS (QR)	35.8	36.7	38.4	40.7
P/B (x)	1.0	1.0	1.0	0.9
DPS (QR)	3.00	2.50	2.50	2.75
Dividend Yield (%)	8.1	6.8	6.8	7.5

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

Key Data

Current Market Price (QR)	36.90
Dividend Yield (%)	6.8
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Financial Svcs.
52wk High/52wk Low (QR)	54.30/33.45
3-m Average Volume ('000)	88.4
Mkt. Cap. ($ bn/QR bn)	2.6/9.5
Shares Outstanding (mn)	258.4
FO Limit* (%)	49.0
Current FO* (%)	12.1
1-Year Total Return (%)	(26.2)
Fiscal Year End	December 31

Source: Bloomberg (as of July 27, 2016), *Qatar Exchange (as of July 26, 2016); Note: FO is foreign ownership

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Change In Estimates

	2016e			2017e			2018e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,124	2,100	(1.1)	2,232	2,194	(1.7)	2,366	2,320	(2.0)
Non Interest Income	793	733	(7.6)	841	795	(5.5)	913	873	(4.4)
Net Operating Income	1,888	1,775	(6.0)	2,008	1,889	(5.9)	2,159	2,025	(6.2)
Net Income (Attributable)	1,138	996	(12.4)	1,227	1,100	(10.3)	1,376	1,241	(9.8)

Source: QNBFS Research

The changes to our bottom-line is mainly due to account for higher provisions. We now forecast provisions & impairments at QR508mn in 2016 (QR477mn previously), QR515mn in 2017 (QR505mn previously) and QR505mn (QR503mn previously). Moreover, we model in CoR of 64bps, 66bps and 62bps in 2016, 2017 and 2018, respectively.

Detailed Financial Statements

Ratios	FY2015	FY2016e	FY2017e	FY2018e
Profitability (%)				
RoAE (Attributable)	13.2	10.6	11.3	12.1
RoAA (Attributable)	1.7	1.4	1.4	1.5
RoRWA (Attributable)	1.6	1.2	1.3	1.4
NIM (% of IEAs)	2.81	2.63	2.52	2.48
NIM (% of RWAs)	2.76	2.62	2.64	2.56
NIM (% of AAs)	2.58	2.41	2.31	2.27
Spread	2.3	2.2	2.1	2.2
Efficiency (%)				
Cost-to-Income (Headline)	36.7	37.4	36.8	36.6
Cost-to-Income (Core)	37.6	38.0	37.6	37.8
Liquidity (%)				
LDR	105.4	105.8	103.6	99.0
Loans/Assets	66.8	64.0	63.6	65.5
Cash & Interbank Loans-to-Total Assets	16.7	19.2	18.9	15.1
Deposits to Assets	63.3	60.5	61.4	66.2
Wholesale Funding to Loans	26.6	34.1	34.0	25.7
IEAs to IBLs	142.6	130.0	125.0	119.1
Asset Quality (%)				
NPL Ratio	3.26	3.00	3.15	3.30
NPLs to Shareholder's Equity	20.3	19.2	20.8	22.6
NPLs to Tier 1 Capital	24.7	20.6	22.2	24.2
Coverage Ratio	109.1	123.1	123.7	121.0
ALL/Average Loans	3.8	3.8	4.0	4.2
Cost of Risk	54	64	66	62
Capitalization (%)				
Tier 1 Ratio	14.5	16.0	15.4	14.5
CAR	14.8	16.3	15.7	14.9
Tier 1 Capital to Assets	13.9	14.1	13.4	13.1
Tier 1 Capital to Loans	20.9	22.0	21.1	20.0
Tier 1 Capital to Deposits	22.0	23.2	21.9	19.8
Leverage (x)	9.0	9.6	10.0	10.0
Growth (%)				
Net Interest Income	5.5	2.6	4.5	5.7
Net Operating Income	-1.7	0.8	5.5	6.8
Net Income (Attributable)	1.0	-18.3	10.4	12.9
Loans	14.5	4.9	7.8	9.9
Deposits	14.8	4.5	10.0	15.0

Source: Company data, QNBFS estimates

Income Statement (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Net Interest Income	**2,048**	**2,100**	**2,194**	**2,320**
Fees & Commissions	497	499	528	571
FX Income	98	96	101	110
Other Income	170	139	165	193
Non-Interest Income	**764**	**733**	**795**	**873**
Total Revenue	**2,812**	**2,834**	**2,989**	**3,193**
Operating Expenses	(1,031)	(1,058)	(1,100)	(1,168)
Net Operating Income	**1,781**	**1,775**	**1,889**	**2,025**
Net Provisions & Impairments	(403)	(508)	(515)	(505)
Net Profit Before Tax	**1,378**	**1,268**	**1,374**	**1,520**
Tax	(5)	(6)	(6)	(7)
Net Profit (Headline/Reported)	**1,374**	**1,262**	**1,368**	**1,513**
Interest on Tier-1 Note	(120)	(240)	(240)	(240)
Social & Sports Contribution Fund	(34)	(26)	(28)	(32)
Attributable Net Profit	**1,219**	**996**	**1,100**	**1,241**

Source: Company data, QNBFS estimates

Balance Sheet (In QR mn)	FY2015	FY2016e	FY2017e	FY2018e
Assets				
Cash & Balances with Central Bank	3,563	4,687	4,246	5,580
Interbank Loans	10,385	12,830	14,456	10,360
Net Investments	12,198	13,631	15,555	18,518
Net Loans	55,615	58,319	62,850	69,067
Other Assets	757	826	858	1,011
Net PP&E	786	806	834	849
Total Assets	**83,304**	**91,098**	**98,800**	**105,387**
Liabilities				
Interbank Deposits	8,776	11,446	11,665	7,091
Customer Deposits	52,767	55,141	60,655	69,754
Term Loans	6,040	8,437	9,703	10,673
Other Liabilities	2,464	2,603	2,851	3,348
Tier-1 Perpetual Note	4,000	4,000	4,000	4,000
Total Liabilities	**74,047**	**81,627**	**88,874**	**94,866**
Total Shareholders' Equity	**9,257**	**9,620**	**10,201**	**10,931**
Total Liabilities & Shareholders' Equity	**83,304**	**91,098**	**98,800**	**105,387**

Source: Company data, QNBFS estimates

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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