

## Doha Bank (DHBK)

Recommendation	<b>ACCUMULATE</b>	Risk Rating	<b>R-3</b>
Share Price	<b>QR57.00</b>	Target Price	<b>QR67.00</b>
Implied Upside	<b>17.5%</b>		

### Changing Estimates; Reducing Target Price to QR67.00

**DHBK is Qatar's 3rd largest conventional bank with a market share of ~7% in both loans and deposits (2013).** DHBK was known for solely being a retail bank with retail loans representing ~42% of its loan book in 2008. However, more recently the bank has shifted its strategy by tapping other sectors of the economy, such as contracting and real estate. As of 9M2014, loans to contractors made up ~17% of DHBK's loan portfolio vs. ~10% in 2008. During the same period, retail loans dropped from ~42% to ~23%.

#### Highlights

- **We estimate net income to grow by a CAGR of 7.0% (2013-2016e).** We expect net interest income along with net fees and commissions to drive future growth in profitability. We pencil in CAGRs (2013-2016e) of 9.9% and 15.6% for net interest income and fees and commissions, respectively. We base our assumptions on NIM compression in 2014 and stabilization from 2015 and onward. Fees are expected to grow as the bank finances prime contractors (as opposed to subcontractors) and infrastructure related projects. DHBK is expected to end 2014 with a net income of QR1.4bn, or a healthy growth of 7.0%. This growth comes on the back of a 6.6% growth in net interest income, 22.0% growth in fees and 57.8% growth in investment gains. On the other hand, we foresee core banking income (excluding investment income and dividends) growing by a decent 11.6% in 2014. Going forward, we estimate modest NIM compression (~5bps) in 2015 due to competitive market conditions. As such, net interest income is forecasted to grow by 9.6% only. Hence, we forecast a growth of 6.4% in 2015 earnings. Regarding 2016, net income is modeled to grow by 7.6% on the back of higher loan growth, expansion in NIMs and growth in fees. On the efficiency side, we maintain the cost-to-income, on average, in the mid-30s. We foresee DHBK expanding its loans and deposits by CAGRs (2013-2016e) of 14.6% and 13.3%, respectively

#### Catalysts

- **Generous dividends and clarity on asset quality:** 1) For 2014, we expect DHBK to pay a cash dividend of QR4.50 (yield of 7.9%) or QR4.00 (yield of 7.0%), which should help the stock rally in the short term; 2) bonus shares are also a possibility, which local retail take to heart and 3) clarity on asset quality regarding certain contracting loans.

#### Recommendation, Valuation and Risks

- **Recommendation and valuation: We change DHBK to an Accumulate from Outperform with a price target of QR67.00 vs. QR74.00 previously.** DHBK trades at a FY2015e P/B of 1.5x.
- **Risks:** 1) Declining oil prices remains the biggest risk to DHBK and the banking sector and 2) exposure to retail and contracting segments.

#### Key Financial Data and Estimates

	2013	2014e	2015e	2016e
EPS (QR)	5.08	5.44	5.78	6.22
EPS Growth (%)	0.59	6.99	6.37	7.63
P/E (x)	11.5	10.5	9.9	9.2
BVPS (QR)	35.88	36.39	37.07	38.69
P/B (x)	1.6	1.6	1.5	1.5
DPS (QR)	4.50	4.50	4.00	3.50
Dividend Yield (%)	7.9	7.9	8.0	6.1

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

#### Key Data

Current Market Price (QR)	57.00
Dividend Yield (%)	7.9
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector	Banks & Financial Services
52wk High/52wk Low (QR)	68.30/53.00
3-m Average Volume ('000)	386.2
Mkt. Cap. (\$ bn/QR bn)	4.0/14.7
Shares Outstanding (mn)	258.4
FO Limit* (%)	25.0
Current FO* (%)	12.3
1-Year Total Return (%)	4.8
Fiscal Year End	December 31

Source: Bloomberg (as of December 10, 2014), \*Qatar Exchange (as of December 10, 2014); Note: FO is foreign ownership

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## Revising Estimates

**We adjust some of our assumptions for 2014 and 2015 and reduce our price target.** We decrease our net interest income for 2014 on the back of ~22bps compression in NIMs while maintaining the same loan growth at 13.0%. We further decrease NIMs in 2015 since we assume moderate margin pressure along with lower-than-expected loan growth. Previously we had assumed a 17.3% growth in loans for 2015. However, we revise the loan growth to 15.0%. Our changes in estimates is based on our cautious outlook on 2015. The change in non-interest income is mainly attributed to better-than-expected fees and investment gains. We have significantly lowered our investment gains estimate for 2015 as we believe this is not a sustainable way of generating income. We pencil in a CAGR of 7.0% (2013-2016e) for net income (in line with 7.6% growth in 2010-2013) vs. 17.4% previously. We arrive at the new growth rate by taking a cautious stance on net interest income due to heavy competition in the banking sector. As such we lower our net interest income forecast along with the NIM. Moreover, we forecast higher provisions going forward due to the bank's historical track record of NPLs.

**Based on our revised estimates, the WEV method yields a price target of QR67.0 vs. QR74.00 previously. The only change we made to the assumptions in our valuation model is assuming a sustainable ROE of 16.0% vs. 17.0% previously. Despite falling oil prices, Qatar remains relatively insulated compared to its GCC neighbors. However, if oil prices remain depressed for an extended period, our estimates could be revised downward.**

### Scenario Analysis

Scenario Analysis	Bear	Base	Bull
Sustainable RoAE	15%	16%	17%
G	3.0%	3.5%	4.5%
Ke	11.0%	10.5%	10.0%
<b>P/B</b>	<b>1.51</b>	<b>1.80</b>	<b>2.29</b>
<b>Fair Value</b>	<b>55.92</b>	<b>66.62</b>	<b>84.94</b>

Source: QNBFS estimates

### Major Estimate Changes

	2014e			2015e		
	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,070	1,936	-6.5	2,358	2,112	-10.4
Non Interest Income	751	899	19.7	809	933	15.3
Net Operating Income	1,822	1,818	-0.2	2,094	1,924	-8.1
Net Income	1,403	1,404	0.1	1,685	1,494	-11.3

Source: QNBFS estimates

### 4Q2014 Estimate

	4Q2013	3Q2014	4Q2014	Change QoQ (%)	Change YoY (%)
Net Interest Income	471	489	472	(3.4)	0.2
Non Interest Income	175	225	198	(11.9)	13.5
Net Operating Income	371	452	407	(9.9)	9.7
Net Income	236	348	269	(22.7)	14.3

Source: Company data, QNBFS estimates

## Detailed Financial Statements

Income Statement (In QR mn)	2013	2014e	2015e	2016e
Net Interest Income	1,822	1,936	2,112	2,421
Fees & Commissions	405	495	569	626
FX Income	89	92	97	100
Dividend Income	27	36	35	36
Gains from Investment Securities	122	193	142	112
Other Income	76	83	90	83
Non-Interest Income	719	899	933	958
Total Income	2,541	2,835	3,044	3,378
Operating Expenses	(917)	(1,017)	(1,120)	(1,237)
Net Provisions & Investment Impairment	(306)	(405)	(421)	(524)
Net Profit Before Taxes	1,318	1,413	1,503	1,618
Tax	(5)	(9)	(9)	(10)
<b>Net Profit</b>	<b>1,313</b>	<b>1,404</b>	<b>1,494</b>	<b>1,608</b>

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

Balance Sheet (In QR mn)	2013	2014e	2015e	2016e
<b>Assets</b>				
Cash & Balances with Central Bank	3,436	3,476	3,198	3,092
Interbank Loans	9,180	10,268	11,268	12,374
Net Investments	11,704	9,709	10,639	11,856
Net Loans	41,109	46,672	53,659	61,869
Other Assets	781	943	1,083	1,247
Net PP&E	759	748	726	703
<b>Total Assets</b>	<b>66,970</b>	<b>71,817</b>	<b>80,574</b>	<b>91,140</b>
<b>Liabilities</b>				
Interbank Deposits	7,720	7,654	9,368	10,631
Customer Deposits	42,522	46,350	53,302	61,830
Term Loans	3,031	3,399	3,128	3,128
Other Liabilities	2,426	3,013	3,198	3,555
Tier 1 Perpetual Note	2,000	2,000	2,000	2,000
<b>Total Liabilities</b>	<b>57,699</b>	<b>62,415</b>	<b>70,996</b>	<b>81,144</b>
<b>Shareholder's Equity</b>				
Share Capital	2,584	2,584	2,584	2,584
Statutory Reserves	4,311	4,311	4,311	4,311
Risk Reserves	961	1,073	1,234	1,423
Other Reserves	(48)	(6)	(6)	(6)
Proposed Dividends	1,163	1,163	1,033	904
Retained Earnings	301	277	423	780
<b>Total Shareholder's Equity</b>	<b>9,271</b>	<b>9,402</b>	<b>9,579</b>	<b>9,996</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>66,970</b>	<b>71,817</b>	<b>80,574</b>	<b>91,140</b>

Source: Company data, QNBFS estimates

**Key Ratios**

	2013	2014e	2015e	2016e
<b>Profitability (%)</b>				
NIM	3.3	3.1	3.0	3.0
Spread	2.8	2.7	2.6	2.6
RoAE	15.6	15.0	15.7	16.4
RoAA	2.1	2.0	2.0	1.9
RoRWA	2.2	1.9	1.8	1.7
<b>Efficiency (%)</b>				
Cost-to-Income (Headline)	36.1	35.9	36.8	36.6
Cost-to-Income (Core)	37.9	38.5	38.6	37.9
<b>Liquidity (%)</b>				
LDR	96.7	100.7	100.7	100.1
Loans/Assets	61.4	65.0	66.6	67.9
Cash & Interbank Loans-to-Total Assets	18.8	19.1	18.0	17.0
<b>Asset Quality (%)</b>				
NPL Ratio	3.00	3.34	3.30	3.00
Coverage Ratio	96.7	100.4	103.5	106.5
Cost of Risk	0.8	0.9	0.8	0.8
<b>Capitalization (%)</b>				
Tier 1 Ratio	14.3	14.4	13.0	12.0
CAR	15.9	15.9	14.5	13.5
<b>Growth (%)</b>				
Net Interest Income	8.5	6.3	9.1	14.6
Total Operating Income	5.0	11.6	7.4	11.0
Net Income	0.6	7.0	6.4	7.6
Loans	21.7	13.5	15.0	15.3
Deposits	23.6	9.0	15.0	16.0

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

<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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