

QNBFS Alert – DHBK Displays Solid YoY Growth in 2Q2014

- **DHBK 2Q2014 YoY profitability driven on the back of core banking income aided by investment income.** DHBK reported a net profit of QR387.7mn, broadly inline with our estimate of QR384.3mn (BBG consensus: QR375.8mn and Reuters consensus: QR380.4mn). Net profit grew by 9.8% YoY (down 2.9% QoQ). The robust performance on a YoY basis was mainly attributed to core banking income complimented by investment income. DHBK posted a net interest income of QR490.1mn, increasing by 5.6% YoY (+1.0% QoQ). The bank's annualized NIM continued to remain under pressure (3.0% in 2Q2014 vs. 3.09% in 1Q2014). Moreover fees and commissions surged by 35.1% YoY (+44.3% QoQ) reaching QR137.1mn. On the other hand, weak QoQ profitability was due to a surge in loan loss provisions (QR95.5mn in 2Q2014 vs. QR56.4mn in 1Q2014) coupled with an 18.6% rise in operating expenses (+17.1% YoY).
- **Loans exhibited robust growth QoQ.** Doha Bank's loans and deposits grew by 10.2% (+4.4% QoQ) and 4.6% (+2.3% QoQ) YTD, respectively. Thus, Doha Bank's LDR rested at 102% at the end of 2Q2014 vs. 100% at the end of 1Q2014 (97% at the end of 2013). On the other hand, the bank's investment portfolio receded by 2.4% QoQ (down 16.1% YTD). The decline could be due to debt securities, especially the State of Qatar debt.
- **Valuations remain cheap.** DHBK trades at P/B and P/E of 1.7x and 11.2x on our 2014 estimates, respectively.
- **DHBK has underperformed the sector index YTD (2014):** On a YTD basis, the stock is up 5.5% (total return of 13.3%) vs. the QE All Share Banks & Financial Services Index which is up 45.5% for the same period.

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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