

QNBFS Alert – DHBK 2Q2017 Earnings In-Line; Profitability Drops on Higher Prov.

- **2Q2017 earnings in-line.** Doha Bank (DHBK) reported a net profit of QR351.1mn in 2Q2017, in-line with our expectation of QR339.8mn (variation of +3.3%).
- **Bottom-line drop sequentially and YoY was solely driven by a surge in provisions, while the growth in net operating income was attributed to the growth in revenue outpacing opex.** DHBK reported net income of QR351.1mn vs. QR364.4mn in 1Q2017, declining by 3.6% QoQ (QR354.2mn in 2Q2016, -0.9% YoY). The surge in provisions to QR122.1mn vs. QR86.4mn in 1Q2017 (QR59.4mn in 2Q2016) prevented growth in the bottom-line both sequentially and YoY basis. Non-funded income declined by 12.5% QoQ mainly due to a 16% drop in fees and 64% drop in investment income.
- **Spreads finally widened, which is a positive.** Net interest income increased by 9.8% QoQ (+9.2% YoY) to QR571.9mn. DHBK net interest margin expanded by 24bps and 10bps QoQ and YoY to 2.76%, respectively. The widening of the spread sequentially was due to yield on assets gaining by 25bps while cost of funds remaining stable. On a YoY basis the improvement in the NIM was a result of yields expanding by 37bps vs. +27bps for cost of funds.
- **Efficiency improved, resulting in positive JAWs.** Opex grew by 1.3% QoQ (+0.9% YoY) to QR274.9mn, resulting in the C/I ratio to recede to 36.7% vs. 37.5% in 1Q2017 (39.6% in 2Q2016). DHBK also generated positive JAWS of 2.2% and 7.9% QoQ and YoY, respectively.
- **NPL ratio stable.** DHBK's asset quality remained stable with the bank's NPL ratio moving to 3.1% from 3.0% in 1Q2017 (3.27% in 4Q2016). On the other hand, the coverage ratio decreased to 112% vs. 126% in 1Q2017 (120% in 4Q2016), but still remains fine.
- **Loans remained muted while deposits improved.** Net loans were flat QoQ & YTD at QR59.2bn, while deposits moved up by 3.7% QoQ (flat YTD) vs. a 3.1% drop QoQ in 1Q2017. Hence, the LDR improved to 106% vs. 110% in 1Q2017 (106% at the end of 2016). *We are still of the view that the LDR needs to go down below 100% at the cost of expensive deposits.*
- **Capitalization remains at healthy levels.** DHBK ended 2Q2017 with a CAR of 17.0% (post rights issue) vs. 14.8% in 1Q2017 (15.4% at the end of 2016).
- **Recommendation and valuation:** DHBK trades at a P/E and P/TB of 10.7x and 0.9x on our 2017 estimates, respectively.

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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