

DHBK Alert – 3Q2017 Operating Income In-Line; Bottom-Line Beats on Lower Prov.

- **3Q2017 earnings on an operating level in-line.** Doha Bank (DHBK) reported a net operating income of QR459.5mn in-line with our estimate of QR451.4mn (variation +1.8%). Total Revenue also came in-line at QR732.9mn vs. our estimate of QR716.4mn (variation of 2.3%). DHBK's reported net profit of QR333.1mn in 3Q2017 beat our estimate of QR295.4mn on the back lower than expected net provisions and impairments.
- **Bottom-line drop sequentially was due to a decline in net interest income coupled with an increase in provisions & impairments; YoY growth was driven by strong net interest income and fees.** DHBK reported net income of QR331.1mn vs. QR351.1mn in 2Q2017, declining by 5.1% QoQ (QR310.6mn in 3Q2016, +7.2% YoY). Net interest income slipped sequentially to QR552.1mn while provisions increased by 3.0% to QR125.8mn (we were expecting provisions of QR155mn). On the other hand, growth in fees (+20.7%) and flat opex prevented a further drop in the bottom-line. Growth in earnings YoY was driven by net interest income (+8.4%) coupled with fees (+17.1%). Provisions increased by 21.3% on a YoY basis.
- **Spreads tightened QoQ vs. expanding in 2Q.** Net interest income decreased by 2.1% QoQ (+8.4% YoY) to QR552.1mn. DHBK's net interest margin contracted by 11bps QoQ (flat YoY) to 2.64%. The tightening of the spread sequentially was due to cost of funds climbing up by 18bps while yield on assets moved up by 3bps. On a YoY basis the NIM was stable as result of yields and cost of funds both growing by ~20bps.
- **Efficiency ratio remained stable QoQ and improved YoY.** Opex dipped by 0.6% QoQ (+3.1% YoY) to QR273.4mn, resulting in a stable C/I ratio at 37% vs. 37% in 2Q2017 (39% in 3Q2016).
- **Asset quality came under some pressure.** DHBK's asset quality worsened with the bank's NPLs gaining by 4.9% QoQ (+8.3% vs. 1Q2017) to QR2.0bn. Moreover, The NPL ratio moved to 3.26% from 3.11% in 2Q2017 (2.99% in 1Q2017). The coverage ratio increased to 121% vs. 112% in 2Q2017 (120% in 4Q2016).
- **Loans remained muted while deposits contracted.** Net loans were flat QoQ & YTD at QR59.0bn, while deposits declined by 6.2% QoQ (down 5.7% YTD). Hence, the LDR was lifted to 112% vs. 106% in 2Q2017 (110% in 1Q2017).
- **Capitalization remains at healthy levels.** DHBK ended 3Q2017 with a CAR of 16.9% (post rights issue in 2Q) 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 10.0x and 0.8x 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

Saugata Sarkar, CFA

Head of Research

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

Mohamed Abo Daff

Senior Research Analyst

+974 4476 6589

mohd.abodaff@qnbfs.com.qa

Zaid Al Nafsoosi, CMT, CFTE

Senior Research Analyst

+974 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.