

DHBK Alert – 3Q2021 In-Line; Core Banking Income Improved; Maintain Accumulate

- **DHBK's 3Q2021 earnings come in-line with estimates.** Doha Bank (DHBK) reported a net profit of QR277.5mn, moving up by 2.5% YoY (+18.5% sequentially), in-line with our estimate of QR287.4mn (-3.5% variation). Core banking income (excluding investment income and losses) was strong, increasing by 7.1% and 10.2%, YoY and QoQ, respectively.
- **Net income only grew by 2.5% YoY due a drop in provisions countering investment losses.** Net operating income declined by 1.2% YoY (+5.6% QoQ) due to investment losses. However, a 4.5% drop in provisions and impairments lead to the 2.5% YoY growth in the bottom-line. Excluding, investment income and losses, net profit would have surged by 30.9% and 36.9% YoY and sequentially.
- **Non-funded income (excluding investment income) was pretty strong, driven by f/x income.** Fees were flat YoY (+13.7% sequentially). F/X income surged YoY from QR16.1mn in 3Q2020 to QR38.5mn in 3Q2021, resulting in a 15.6% YoY increase in non-funded income (excluding investment income & losses). On a sequential basis, fees were the primary drivers in non-funded income. DHBK booked investment losses of QR176mn in 3Q2021 vs. gains of QR45.2mn in 3Q2020.
- **Margins remained flat YoY but improved significantly QoQ.** DHBK's NIMs remained flat YoY, but sequentially expanded by 30bps to 2.71%. *DHBK was able to achieve this by managing CoFs.*
- **CoR remains elevated as expected.** 9M2021 CoR (annualized) moved up to 160bps (1H2021: 141bps) vs. 134bps in 1H2020 (164bps in FY2020).
- **Asset quality remains a concern.** DHBK's NPLs decreased QoQ by 6.5% (-3.1% YTD) to QR3.5bn. We believe this is a result of write-offs (as of 3Q2021, DHBK has written off QR1.20bn in loans which is ~1.6% of total loans). On the other hand, the NPL ratio increased to 5.83% vs 5.64% in 2Q2021 (5.98% in FY2020) as a result of a sharp drop in loans. However, the coverage ratio for Stage 3 loans increased to 88% vs 53% in the previous quarter (54.0% in FY2020); coverage improved due to write-offs and a 57% increase YTD of Stage 3 ECLs. Coverage of Stage 2 loans remains low at 5.6%.
- **Net loans were weak.** Net loans contracted by 10.2% sequentially to QR64.8bn (-0.9% YTD), while deposits moved up by 1.3% QoQ (+8.8% YTD) to QR59.9bn.
- **CET1 and Tier-1 position improved.** DHBK ended 3Q2021 with CET1 ratio of 13.1% (13.0% FY2020) and a Tier-1 ratio of 18.7%.
- **Recommendation and valuation:** DHBK trades at a P/B of 0.9x on our 2021 estimates. For the time being, we maintain our PT of QR3.151 and Accumulate rating.

Shahan Keushgerian

+974 4476 6509 | shahan.keushgerian@qnbfs.com.qa

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, CAIA

Head of Research

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian

Senior Research Analyst

+974 4476 6509

shahan.keushgerian@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNB FS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C. ("QNB"). QNB FS 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 QNB FS 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 QNB FS 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, QNB FS 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. QNB FS 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 QNB FS.