

DHBK Alert – 3Q2020 Margin Expansion Offset by Elevated Provisions

- **DHBK's 3Q2020 exceeds estimates; however, drop in bottom-line was a result of weak non-funded income and elevated provisions.** Doha Bank (DHBK) reported a net income of QR270.8mn, dropping by 9.7% YoY (+53.3% sequentially), beating our estimate of QR227.1mn (+19% variation). The beat was due to higher than expected margin expansion and provisions & impairments. Non-funded income and opex came in-line with expectations.
- **Cost control is aiding the bank's operations; generated positive JAWS.** DHBK's opex dropped by 5.5% YoY vs. a flat revenue, resulting in a 2.5% increase in net operating income. C/I ratio improved, declining from 31% in 3Q2019 to 29% in 2Q2020 (32% in 2Q2020). Moreover, in 9M2020 the company generated positive JAWS of 9.9%.
- **CoR remains elevated.** DHBK reported provisions for credit losses of QR300.0mn in 3Q2020 vs. QR261.6mn in 3Q2019 (QR410.4mn in 1H2020), increasing by 14.7% YoY (+30.2% QoQ). Moreover, 9M2020 CoR (annualized) moved up to 141bps vs 137bps in 9M2019 (171bps in FY2019).
- **Spreads and margins expanded on a YoY basis and sequentially.** DHBK's net interest income grew by 18.1% YoY to QR630.3mn (which was a positive surprise) resulting in an expansion in net interest margin. Net interest margin gained by 44bps YoY (50bps QoQ) to 2.69%. The expansion in the spread YoY & sequentially was due to management of cost of funds.
- **Asset quality remains a concern.** DHBK's NPLs declined QoQ by 5.3% and 8.0% YTD to QR3.8bn. Moreover, the NPL ratio decreased to 5.63% vs. 5.95% in 2Q2020 (5.81% FY2019). However, the coverage ratio for Stage 3 loans dropped to 73% vs. 80% in the previous quarter (86% in FY2019). Stage 2 & 3 ECLs contribute 31% and 66% (97% collectively) to total ECLs. Moreover, Stage 2 loans contributes 29% to total loans vs. 27% in FY2019. The bank's contracting portfolio & GCC exposure remains a challenge. *DHBK wrote off QR1.9bn of loans which is equivalent to ~3% of total loans.*
- **Net loans picked up sequentially but remains down YTD.** Net loans increased by 1.1% QoQ (-4.0% YTD) to QR63.1bn. On the other hand, deposits remained flattish sequentially (-4.5% YTD) at QR55.8bn.
- **Recommendation and valuation:** DHBK trades at a P/E and P/TB of 13.8x and 0.8x on our 2020 estimates, respectively. For the time being, we maintain our PT of QR2.305. *However, we may change our estimates shortly.*

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

Zaid Al Nafsoosi, CMT, CFTe

Senior Research Analyst

+974 4476 6535

zaid.alnafsoosi@qnbfs.com.qa

Mehmet Aksoy, PhD

Senior Research Analyst

+974 4476 6589

mehmet.aksoy@qnbfs.com.qa

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