

## Doha Bank (DHBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR1.720	Target Price	QR1.883
Implied Upside	9.4%		

### Asset Quality Remains an Overhang; RoE Remain Below CoE; Market Perform

**Factoring in FY2023 earnings, we increase our 2024 estimates, maintain 2025 and lower 2026 (see page 3). Our changes in estimates are mainly driven by lower CoR; we pencil in a CoR of 146bps (2024e), 140bps (2025e) and 135bps (2026e). We estimate earnings CAGR of 15.1% (2023-28e). We do not expect the bank to generate economic profits in our forecast horizon as RoE is still expected to be below CoE over 2024 to 2028. The stock trades at a 49% discount to its 2024e BV due to asset quality issues. **We maintain our Market Perform rating and QR1.883 PT.** We note that DHBK's beginning BVPS (2024) contributes 172% to our price target (as the present value of interim economic profits is negative).**

#### Highlights

- DHBK reported attributable net profit of QR560.2mn in FY2023 (vs. QR556.2mn in 2022), ahead of our estimate of QR457.2mn due to lower-than-expected provisions and a litigation loss of QR161.6mn; net operating income came in-line at QR1.88bn vs our estimate of QR1.90bn (variation of -1.1%). The YoY flat earnings was attributed to a large drop in provisions & impairments (-28.6%) as it offset a 6.5% drop in net operating income (NIMs contracted by 20bps to 2.36% along with flattish fees and a large decline in f/x income).
- CoR to remain on the high side; management is targeting 120-130bps by 2027; we model management's guidance levels. DHBK generated a 2023 CoR of 145bps vs. 153bps in 2022 (211bps in 2021). CoR for 2024 is estimated to be around 2023's level at 146bps but should steadily drop to 132bps by 2028, which is still on the high side. CoRs remain high as management needs to build further provisions in order to 1) raise coverage of Stage 3 loans from 59% in FY2023 to 85%/90%, 2) possibly raise coverage of stage 2 loans from 5% to 10% and 3) mitigate any unforeseen impairments.
- RoEs will remain weak and significantly below CoE; management is guiding a RoE range of 12%/14% during 2024-2027. FY2023 RoE came in at 5.6% vs. 5.4% in FY2022, in-line with 2018-2022. We estimate RoE to increase from 5.6% to 9.2% by 2028, lower than guidance as we take a conservative approach. We forecast 2024/25 RoEs of 6.7%/6.9%.
- C/I ratio is expected to remain around the mid-30%'s levels but to drop to 30% in 2028. C/I ratio stood at 33.4% in FY2023 (30.7% in FY2022). Going forward, we expect DHBK's C/I ratio to gradually decline to 30%. However, management is guiding to <25% by 2027.
- Asset quality remains a concern; NPLs still on the rise. DHBK's NPLs increased 21.3%/15.0% to QR4.5bn in 2023 vs. 3Q2023/2022. Moreover, the NPL ratio increased from 6.4%/6.2% in 2022/3Q2023 to 7.4% in 2023. Further, the coverage ratio for Stage 3 loans dropped from 61%/72% in 2022/3Q2023 to 59% in 2023 (vs. 51% in FY2021). Stage 2 loans contribute 31% to total loans (highest vs. its peers), which is concerning. In 2023, the bank wrote-off QR924mn, shaving of 1.5% of loans. On average (2019-2023), DHBK wrote-off 15.0% of loans (QR9.8bn). Management is guiding to a NPL ratio of ~7% for 2024 normalizing to 4.5%-5.0% by 2027.
- Net loans again increased sequentially but ended the year flat; we still expect single-digit growth going forward, in-line with management guidance. Net loans increased by 2.3% QoQ to QR58.0bn in 4Q2023 (-0.1% vs. FY2022). Private sector loans gained by 6.4% vs. FY2022, while public sector loans declined by 82.1% on repayment of credit facilities. Deposits expanded by 13.8% sequentially (+2.9% YoY). The growth in deposits was attributable to the public sector. We pencil in a loan book CAGR of 4.7% in 2023-28e, in-line with 4.1% previously as the bank focuses on lending to high quality credit customers.
- De-risking loan book along with optimization of RWAs is helping DHBK maintain its CET1 and Tier-1 positions; management guidance is to maintain a min. CAR of 17%. DHBK ended FY2023 with a CET1 ratio of 13.0% and a Tier-1 ratio of 18.1%. We still estimate CET1 ratio to hover around the ~13% level over our forecast horizon.

#### Catalysts

- Future stock price gains depend on a resumption of confidence in the bank's performance and realization of management's goals & objectives.

#### Recommendation, Valuation and Risks

- Recommendation and valuation: We maintain our QR1.883 price target and our Market Perform rating.** DHBK is trading at a 2024e/25e P/B and P/E of 0.5x and 7.6x/7.1x, respectively.
- Risks:** 1) Asset quality. 2) Execution risks remain for management's new strategy.

#### Key Financial Data and Estimates

	2023	2024e	2025e	2026e
EPS (QR)	0.181	0.225	0.241	0.283
Growth	0.7	24.7	7.0	17.3
P/E (x)	9.5	7.6	7.1	6.1
BVPS (QR)	3.37	3.52	3.66	3.82
P/B (x)	0.5	0.5	0.5	0.5
RoE (%)	5.6	6.7	6.9	7.7
DPS (QR)	0.075	0.100	0.125	0.175
Dividend Yield (%)	4.4	5.8	7.3	10.2

Source: Company data, QNB FS Research

#### Key Data

Current Market Price (QR)	1.720
Dividend Yield (%)	4.4
Bloomberg Ticker	DHBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DOBK.QA
ISIN	QA0006929770
Sector*	Banks & Fin. Svcs.
52wk High/52wk Low	1.865/1.407
3-m Average Volume (mn)	4.2
Mkt. Cap. (\$ bn/QR bn)	1.5/5.3
Shares Outstanding (mn)	3,100.47
FO Limit* (%)	100.0
Current FO* (%)	13.4
1-Year Total Return (%)	6.1
Fiscal Year End	December 31

Source: Bloomberg (as of February 01, 2024), \*Qatar Exchange (as of February 01, 2024); Note: FO is foreign institutional ownership

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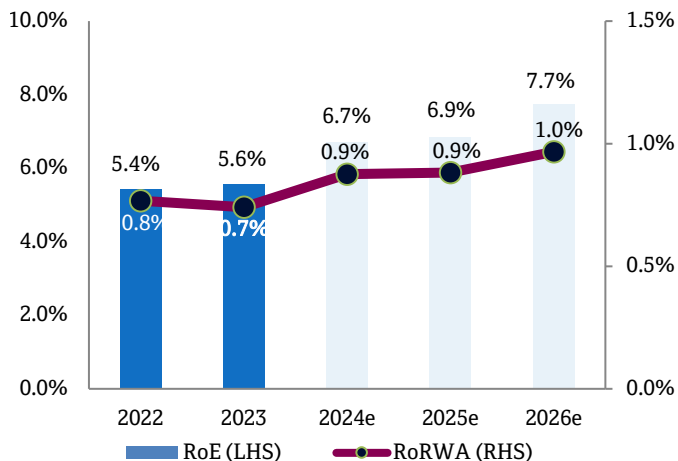
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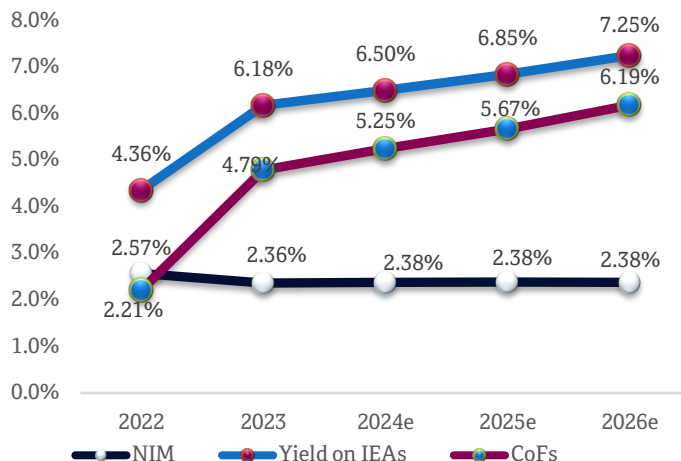
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### RoE Remains <CoE During Forecast Horizon; RoRWAs are Weak

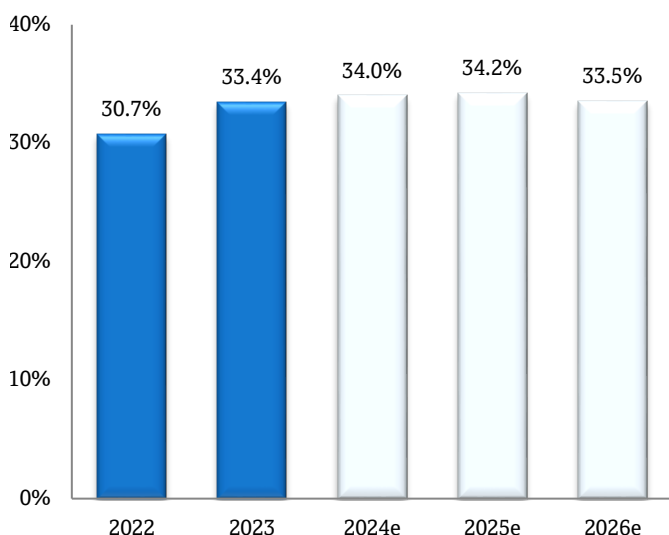


Source: Company data, QNB FS Research

### While Margins to Remain Flat

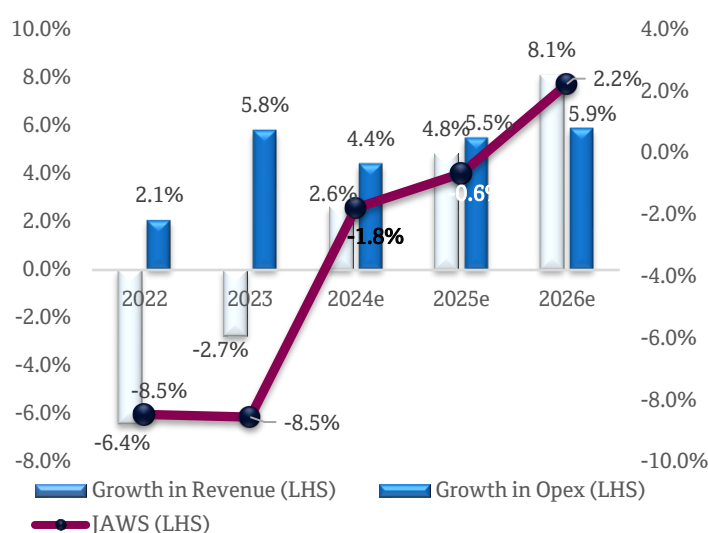


### C/I Ratio to Hover @ Current Levels as Revenue & Opex Move in Lock Step

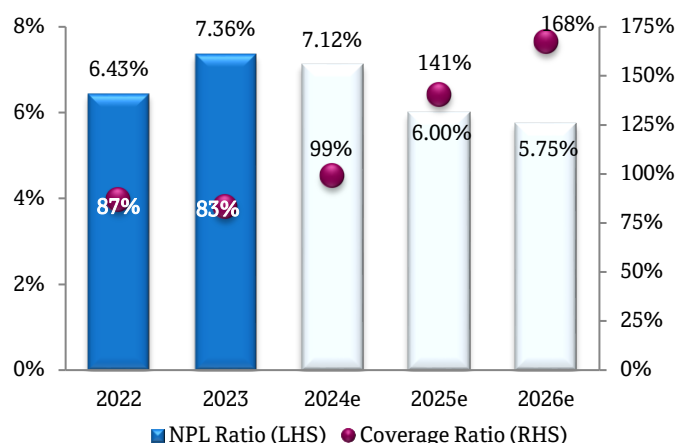


Source: Company data, QNB FS Research

### While Generating Positive JAWS Post 2025



### NPL Ratio Spiked; Contracting & RE Loans Remain Problematic



Source: Company data, QNB FS Research

### Stage 2 Highest Domestically; Coverage of Stage 3 Loans Low

FY2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	37,791,453	19,454,371	4,549,890	61,795,714
ECLs	92,255	999,945	2,693,838	3,786,038
Stages % of Loans	61.2%	31.5%	7.36%	
Stages % ECLs	2.4%	26.4%	71.2%	
Coverage Ratio	0.2%	5.1%	59.2%	

### Change in Estimates

(In QR mn)	2024e			2025e			2026e		
	Old	New	Change	Old	New	Change (%)	Old	New	Change
Net Interest Income	2,213	2,237	1.1	2,361	2,366	0.2	2,581	2,507	(2.9)
Non-Interest Income	693	667	(3.7)	733	678	(7.4)	712	785	10.2
Total Revenue	2,906	2,904	(0.1)	3,094	3,045	(1.6)	3,293	3,292	(0.0)
Opex	(953)	(988)	3.6	(970)	(1,042)	7.4	(1,025)	(1,103)	7.6
Net Operating Income	1,953	1,917	(1.9)	2,124	2,003	(5.7)	2,268	2,189	(3.5)
Net Provisions & Impairments	1,110	952	(14.3)	1,120	985	(12.0)	1,002	1,032	3.0
Net Income (Reported)	798	912	14.2	950	962	1.2	1,198	1,095	(8.6)
Net Income (Attributable)	588	698.8	18.9	736	748	1.6	978	877	(10.3)

Source: QNB FS Research

### Detailed Financial Statements

Income Statement (In QR mn)	2021	2022	2023	2024e	2025e	2026e
<b>Net Interest Income</b>	<b>2,585</b>	<b>2,322</b>	<b>2,148</b>	<b>2,237</b>	<b>2,366</b>	<b>2,507</b>
Fees & Commissions	303	371	376	414	443	496
FX Income	154	153	105	120	126	137
Other Income	65	63	39	133	109	152
<b>Non-Interest Income</b>	<b>522</b>	<b>587</b>	<b>520</b>	<b>667</b>	<b>678</b>	<b>785</b>
<b>Total Revenue</b>	<b>3,107</b>	<b>2,909</b>	<b>2,668</b>	<b>2,904</b>	<b>3,045</b>	<b>3,292</b>
Operating Expenses	(876)	(894)	(946)	(988)	(1,042)	(1,103)
<b>Net Operating Income</b>	<b>2,231</b>	<b>2,015</b>	<b>1,722</b>	<b>1,917</b>	<b>2,003</b>	<b>2,189</b>
Net Provisions	(1,485)	(1,201)	(857)	(952)	(985)	(1,032)
<b>Net Profit Before Tax</b>	<b>746</b>	<b>814</b>	<b>865</b>	<b>965</b>	<b>1,018</b>	<b>1,157</b>
Tax	(43)	(48)	(95)	(53)	(56)	(62)
<b>Net Profit (Reported/Headline)</b>	<b>704</b>	<b>765</b>	<b>769</b>	<b>912</b>	<b>962</b>	<b>1,095</b>
Interest on Tier-1 Note	(197)	(190)	(190)	(190)	(190)	(190)
Social & Sports Contribution Fund	(18)	(19)	(19)	(23)	(24)	(27)
<b>Attributable Net Profit</b>	<b>490</b>	<b>556</b>	<b>560</b>	<b>699</b>	<b>748</b>	<b>877</b>
<b>EPS</b>	<b>0.158</b>	<b>0.179</b>	<b>0.181</b>	<b>0.225</b>	<b>0.241</b>	<b>0.283</b>

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2021	2022	2023	2024e	2025e	2026e
Cash & Balances with Central Bank	5,887	3,668	4,842	4,332	4,230	4,913
Interbank Loans	5,365	8,651	5,497	6,031	5,695	5,335
Net Investments	25,083	24,964	30,386	30,698	35,075	37,209
Net Loans	62,667	58,079	58,010	60,310	63,274	66,693
Other Assets	1,412	1,618	1,901	2,001	1,593	1,346
Net PP&E	689	665	619	569	566	563
<b>Total Assets</b>	<b>101,103</b>	<b>97,645</b>	<b>101,255</b>	<b>103,941</b>	<b>110,433</b>	<b>116,061</b>
<b>Liabilities</b>						
Interbank Deposits	22,511	19,239	23,908	22,888	24,150	24,071
Customer Deposits	50,356	50,130	51,573	54,151	57,942	61,419
Term Loans	11,629	11,408	8,517	9,283	10,676	12,277
Other Liabilities	2,351	2,790	2,813	2,708	2,318	2,457
Tier-1 Perpetual Notes	4,000	4,000	4,000	4,000	4,000	4,000
<b>Total Liabilities</b>	<b>90,847</b>	<b>87,566</b>	<b>90,811</b>	<b>93,030</b>	<b>99,085</b>	<b>104,223</b>
<b>Total Shareholders' Equity</b>	<b>10,256</b>	<b>10,079</b>	<b>10,444</b>	<b>10,910</b>	<b>11,348</b>	<b>11,838</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>101,103</b>	<b>97,645</b>	<b>101,255</b>	<b>103,941</b>	<b>110,433</b>	<b>116,061</b>
Risk Weighted Assets	71,898	73,175	78,094	81,593	87,794	93,661

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2021	2022	2023	2024e	2025e	2026e
<b>Profitability (%)</b>						
RoE (Attributable)	5.0	5.4	5.6	6.7	6.9	7.7
RoAA (Attributable)	0.7	0.8	0.8	0.9	0.9	1.0
RoRWA (Attributable)	0.7	0.8	0.7	0.9	0.9	1.0
NIM (% of IEAs)	2.80	2.57	2.36	2.38	2.38	2.38
NIM (% of RWAs)	3.60	3.20	2.84	2.80	2.79	2.76
NIM (% of AAs)	2.53	2.34	2.16	2.18	2.21	2.21
Spread	2.6	2.1	1.4	1.3	1.2	1.1
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	28.2	30.7	33.4	34.0	34.2	33.5
Cost-to-Income (Core)	28.4	31.0	35.7	35.3	35.3	34.9
<b>Liquidity (%)</b>						
LDR (stable sources of funds)	101	94	97	95	92	90
Loans/Assets	62.0	59.5	57.3	58.0	57.3	57.5
Cash & Interbank Loans-to-Total Assets	11.1	12.6	10.2	10.0	9.0	8.8
Deposits to Assets	49.8	51.3	50.9	52.1	52.5	52.9
Wholesale Funding to Loans	54.5	52.8	55.9	53.3	55.0	54.5
IEAs to IBLs	1.2	1.2	1.3	1.3	1.3	1.3
<b>Asset Quality (%)</b>						
NPL Ratio	5.83	6.43	7.36	7.12	6.00	5.75
NPL to Shareholders' Equity	37.3	39.3	43.6	42.3	36.5	35.9
NPL to Tier 1 Capital	39.5	40.6	44.9	43.6	37.6	36.9
Coverage Ratio	77.5	87.0	83.2	99.0	140.6	167.5
ALL/Average Loans	4.4	5.4	6.1	7.2	8.7	9.9
Cost of Risk (%)	211	153	145	146	140	135
<b>Capitalization (%)</b>						
CET1 Ratio	13.5	13.3	13.0	13.0	12.5	12.3
Tier-1 Ratio	19.0	18.8	18.1	17.9	17.1	16.5
CAR	20.2	19.9	19.2	19.0	18.3	17.7
Tier-1 Leverage (x)	13.5	14.1	14.0	14.0	13.6	13.3
<b>Growth (%)</b>						
Net Interest Income	11.4	-10.2	-7.5	4.2	5.8	5.9
Non-Interest Income	-15.4	12.4	16.2	-2.1	1.6	15.7
Total Revenue	5.8	-6.4	-2.7	2.6	4.8	8.1
Opex	1.0	2.1	5.8	4.4	5.5	5.9
Net Operating Income	7.8	-9.7	-6.5	1.8	4.5	9.3
Net Income (Headline/Reported)	0.1	8.8	0.5	18.5	5.5	13.8
Net Income (Attributable)	1.5	13.6	0.7	24.7	7.0	17.3
Loans	-4.3	-7.3	-0.1	4.0	4.9	5.4
Deposits	-8.5	-0.4	2.9	5.0	7.0	6.0
Assets	-2.4	-3.4	3.7	2.7	6.2	5.1
RWAs	0.0	1.8	6.7	4.5	7.6	6.7

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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