Doha Bank (DHB)

Company Note

22 July 2009

2Q09 Earnings Review – Bond Repurchasing Boosts Bottom Line

Buy

- **Net income rose by 4% to QAR317 million in 2Q09, 14% above our expectations. Gains stemming from the repurchase of debt securities offset lower than expected net interest income.**
- **We revise our FY09e earnings upwards by 9% to QAR1,120 million based on higher than expected non-interest income.**
- **We reiterate our "Buy" recommendation and increase our Target Price (TP) to QAR64.60 from QAR63.77.**

DHB reported 2Q09 net income of QAR317 million, up 4% from 2Q08 and 14% above our expectations. Earnings were helped by non-interest income, increasing by 26% YoY and 68% above our expectations. Net interest income, however, was 13% lower than our expectations, as the margins during 2Q09 slightly declined to 3.10% from 3.20% in 1Q09 and were below our expectation of 3.24%. Non-interest income was mainly driven by repurchase of subordinated debt securities, which helped offset the decline in income from the bank's investment portfolio. We estimate the bond repurchase to have added QAR131 million, the difference between the reduction in debt level and the purchase consideration. The bank is left with QAR851 million in subordinated debt and should continue its repurchasing activity in the coming quarters, given benign market conditions.

Operating income (excluding loan loss charges) was 405 million, up 22% YoY. Loan loss charges, however, were QAR40 million in 2Q09 vs. QAR9 million in 2Q08 and QAR7 million in 1Q09, weighing on YoY earnings growth. Our provisioning estimate was at QAR45 million, given the bank's retail tilt amid the current economic environment. Non-performing loans to total loans (NPL ratio) increased to 3.05% during the quarter from 2.83% in 1Q09. We have already modeled in an NPL ratio of 3.5% for FY09e and FY10e and as such are comfortable with the current level of increase in bad loans and related charges.

During the quarter, DHB sold off QAR1.7 billion of real estate loans to the government. Adjusting for this, the loan book grew by 4% quarterly and we remain positive on loan book expansion during the rest of the year, as the bank can resume real estate lending activities. The bank ceased lending to the real state sector in 2Q08, since its real estate loan portfolio exceeded the statutory limit of 15% of deposits. In 2Q09, deposits increased by 7% quarterly, further supporting real estate lending activities. Therefore, we have increased our loan growth assumption for FY09e to 7% from the previous 5%. Nonetheless, we expect the increase in deposit to put some pressure on margins in the coming quarters as well.

We have raised our FY09e earnings estimate by 9% to QAR1,120 as we expect non-interest income to increase in 2H09. Although bond repurchasing cannot go on forever, it will offset the temporary decline seen in investment income. Additionally, higher loan growth during the latter part of the year, would help earnings. Overall, we find 2Q09 results to be comfortable with core operations remaining solid.

We reiterate our "Buy" recommendation and increase our TP to QAR64.60 from QAR63.77. Our TP provides an upside of 66.5%. The stock is trading at a 14% discount to its implied FY09E PB multiple of 1.6x.

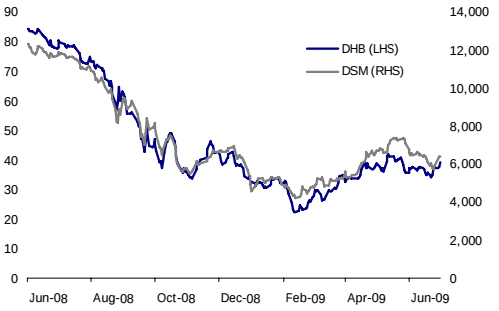
Target Price (QAR)	**64.60**
Market Price (QAR)	38.80
Upside	66.5%
Listed On	DSM
Bloomberg Code	DHBK QD
RIC	DOBK.QA
Market Cap. (QARm)	7,108
Market Cap. (USDm)	1,953
Number of Shares (m)	181
Foreign Ownership Limit	25.0%
Foreign Ownership Level	7.65%
Daily Turnover (QARm)	13.8
Daily Turnover (USDm)	3.8

Ownership Structure*

Free Float	80.0%
Qatar Investment Authority	5.0%
Others	15.0%

*Source: Zawya Dow Jones

Price Performance Chart



Key Performance Indicators

Fiscal Year	New		Old		Consensus	
	09E	10E	09E	10E	09C	10C
NII (QARm)	1,303.2	1,482.8	1,293	1,436	-	-
Total Income (QARm)	2,072.1	2,195.8	1,903	2,074	-	-
Net Income (QARm)	1,119.5	1,323.5	1,023	1,230	-	-
NIM	3.28%	3.39%	3.30%	3.29%	-	-
Gross Loans (QARb)	26.3	28.4	25.8	27.9	-	-
Cost/Income	28.4%	29.4%	31.0%	31.2%	-	-
Gross L/D	108.6%	111.7%	115.6%	111.6%	-	-
EPS	6.19	7.32	5.66	6.80	-	-
DPS	1.24	1.46	1.13	1.36	-	-
Dividend Yield	3.19%	3.77%	2.92%	3.51%	-	-
P/E (x)	6.3	5.3	6.9	5.7	-	-
P/B (x)	1.4	1.2	1.5	1.2	-	-
ROAE	22.8%	24.1%	21.0%	23.0%	-	-
ROAA	2.7%	2.9%	2.5%	2.7%	-	-

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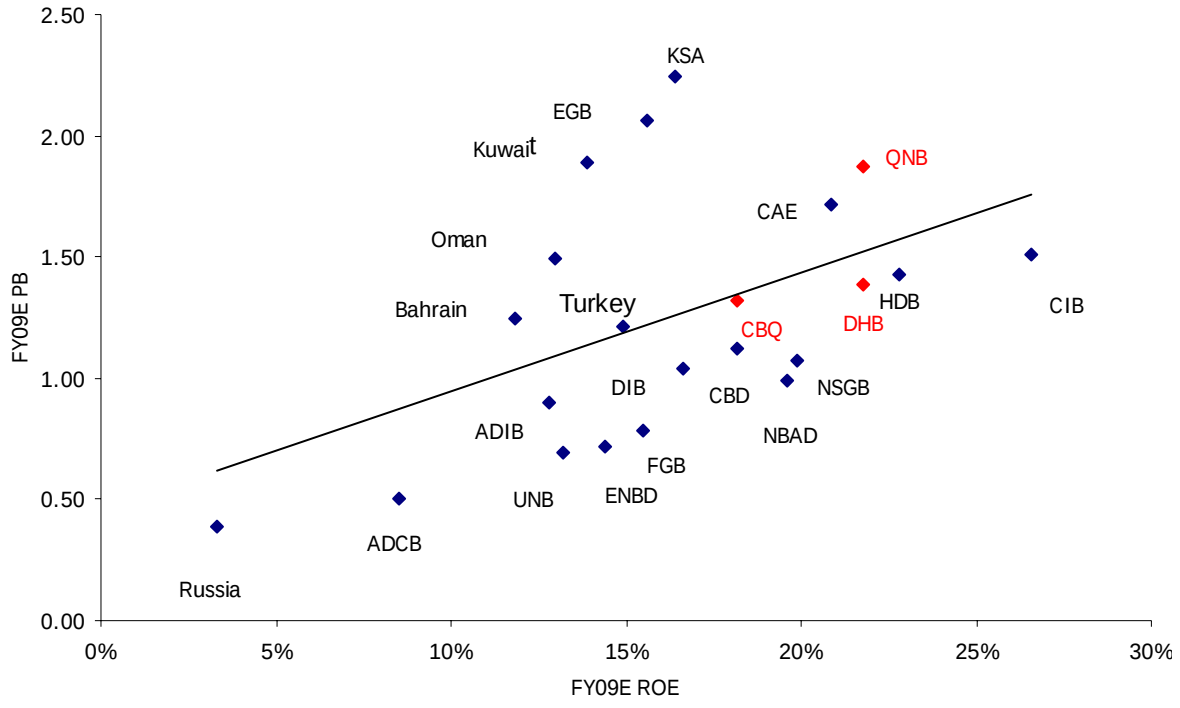
Table 1: DHB – 2Q09 Earnings vs. Our Estimates

QAR'000	2Q09	2Q08	YoY	1Q09	QoQ	2Q09F*	Surprise
Net interest income	320,008	279,613	14%	325,136	-2%	367,887	-13%
Non interest income	240,622	190,846	26%	225,614	7%	143,373	68%
Total income	560,630	470,459	19%	550,750	2%	511,260	10%
Operating expenses	155,930	139,895	11%	156,212	0%	147,359	6%
Operating Profit	404,700	330,564	22%	394,538	3%	363,901	11%
Provisions	87,631	24,868	252%	64,860	35%	85,230	3%
Net income	316,675	305,223	4%	329,678	-4%	278,671	14%
Net loans	23,613,821	23,385,312	1%	24,241,302	-3%	24,460,480	-3%
Deposits	23,398,422	24,994,998	-6%	21,809,352	7%	20,892,008	12%
Equity	5,053,745	4,771,672	6%	4,650,349	9%	4,929,020	3%

* HC Forecast

Source: DHB reports, HC Brokerage

Chart 1: Trading at an Attractive FY09E PB Multiple of 1.43x vs. the Qatari Sector Average of 1.64x



Source: Bloomberg, HC Brokerage

Financial Statements and Ratios

QAR Million	08A	09E	10E	11E	12E	13E
Income Statement						
Interest Income	2,239.5	2,522.8	2,905.3	3,226.1	3,590.6	3,999.4
Interest Expense	1,132.0	1,219.6	1,422.5	1,595.5	1,708.7	1,882.5
Net Interest Income	**1,107.5**	**1,303.2**	**1,482.8**	**1,630.6**	**1,881.9**	**2,116.9**
Fees & Commissions	339.9	350.1	385.1	423.6	466.0	512.6
FX Income	56.4	62.1	65.2	68.5	71.9	75.5
Investment Income	107.6	255.8	189.2	164.2	212.3	225.9
Other Income	64.1	100.9	73.5	75.5	76.9	79.7
Non-Interest Income	**568.0**	**768.9**	**713.0**	**731.8**	**827.1**	**893.6**
Total Income	**1,675.5**	**2,072.1**	**2,195.8**	**2,362.4**	**2,709.0**	**3,010.5**
Total Operating Expenses	**539.8**	**589.4**	**645.0**	**688.5**	**756.4**	**859.7**
Pre-Provisions Income	**1,135.7**	**1,482.6**	**1,550.8**	**1,673.8**	**1,952.5**	**2,150.8**
Provisions	188.5	362.6	226.9	151.4	164.1	181.1
Associate and other income	(0.3)	-	0.1	0.2	0.2	0.2
Pre-Tax Income	**946.9**	**1,120.0**	**1,324.1**	**1,522.6**	**1,788.6**	**1,969.9**
Income Taxes	0.4	0.5	0.6	0.7	0.8	0.8
Net Income After Tax	**946.5**	**1,119.5**	**1,323.5**	**1,521.9**	**1,787.8**	**1,969.1**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**
Net Income	**946.5**	**1,119.5**	**1,323.5**	**1,521.9**	**1,787.8**	**1,969.1**
Appropriations	-	-	-	-	-	-
Net Income	**946.5**	**1,119.5**	**1,323.5**	**1,521.9**	**1,787.8**	**1,969.1**
Balance Sheet						
Assets						
Cash & Due from Central Bank	2,552.0	1,391.4	2,681.7	3,476.5	5,277.9	6,741.9
Due from Banks	7,949.8	9,438.7	9,798.4	12,157.1	13,615.9	15,249.8
Investments	3,379.8	5,148.4	5,663.2	5,285.7	5,328.0	5,967.3
Gross Loans	**24,812.5**	**26,301.3**	**28,405.4**	**31,245.9**	**34,370.5**	**37,807.5**
NPL Provisions	563.5	668.7	782.3	907.3	1,044.8	1,196.0
Net Loans and Overdrafts	**23,965.7**	**25,632.5**	**27,623.0**	**30,338.6**	**33,325.7**	**36,611.5**
Other Assets	660.1	699.3	769.3	914.4	965.0	1,014.4
Net Fixed Assets	495.6	592.9	658.0	684.6	687.2	718.6
Total Assets	**39,003.0**	**42,903.3**	**47,193.6**	**52,856.8**	**59,199.7**	**66,303.6**
Liabilities						
Total Deposits	**23,276.7**	**24,219.5**	**25,424.7**	**28,449.0**	**32,369.6**	**36,301.0**
Due to Banks	8,160.6	11,703.4	13,342.0	14,553.1	14,785.8	16,096.8
Borrowings	1,232.1	850.9	850.9	850.9	850.9	850.9
Other Liabilities	1,420.9	957.9	1,275.1	1,405.2	2,077.2	2,276.1
Total Liabilities	**34,090.2**	**37,982.6**	**41,143.5**	**45,508.8**	**50,323.4**	**55,766.5**
Shareholders' Equity	**4,912.8**	**4,920.6**	**6,050.1**	**7,348.0**	**8,876.3**	**10,537.1**

Rating Scale	
Recommendation	**Upside**
Buy	Greater than 25%
Hold	0-25%
Sell	Less than 0%

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