Analyst Comment

April 19, 2011

DOHA BANK (DHBK.QA)

12-Month Fair Value: QR 62
Recommendation: Accumulate - Risk Level: 4
Last Close (19 April 2011): QR 52.6

- Doha Bank (Doha) reported a record high net profit of QR 363 million in 1Q2011, 15% above 1Q2010 and 128% above the weak net profit recorded in 4Q2010. Operating income also reached a record high of QR 601 million in 1Q2011, 21% over 1Q2010, 8% over 4Q2010, and 9.8% ahead of our forecast mainly due to higher than forecasted investment earnings and also higher than expected net interest income.

- Net interest income continued to be strong, increasing by 34% year-over-year (YoY) but dropping by 1% from the record high achieved in 4Q2010. Net fee and commission income continues to be under pressure dropping by 28% YoY and slightly (1%) quarter-on-quarter (QoQ). Investment earnings strongly supported operating income, standing at QR 39 million, the highest quarterly level since 2Q2009 and more than 4 times the quarterly average of FY2010. Costs expanded by 15% YoY but dropped by 18% Q-o-Q, resulting in a decrease in the cost-to-income ratio to 31% in 1Q2011 from 34.5% in FY2010.

- Loan growth was weak, with net loans decreasing by 1.6% in 1Q2011. Doha's deposits continued to show sharp volatility, dropping by 9% in 1Q2011 following a 9% increase in 4Q2010. This increased Doha's loans-to-deposits ratio to 93% as of March 2011 from 86% in December 2010. Doha's non-performing loans (NPLs) increased by 9% in 1Q2011 bringing up the NPL ratio to 4.35% as of March 2011 from 3.94% in December 2010. Loan provisioning charges, as expected, dropped compared with the average quarterly figure in FY2010 (QR 78 million) but remained high, standing at QR 45 million in 1Q2011. This safeguarded the NPL coverage ratio at 89% as of March 2011 compared with 92% as of December 2010.

- Overall, we believe this is a mixed set of results for Doha. Operating income came ahead of our forecasts mainly due to higher than forecasted investment earnings and also higher than expected net interest income. On the other hand, loan growth was weak, although that was largely in-line with our view for Doha's loan growth in FY2011. The increase in NPLs and provisioning trends in 1Q2011 were in-line with our view for Doha for FY2011. Our fair value per share for Doha (QR 62) is 18% above the bank's latest closing price; hence our recommendation on the stock is "Accumulate."

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Related Research

- Banking Strategy Note - 05 April 2011

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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