20 July 2011

Doha Bank

Some positives

Hold

Target price
QR57.58

Price
QR51.90

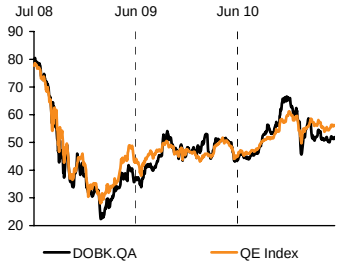
Short term (0-60 days)
n/a

Market view
No Weighting

Doha Bank is exposed to the high-regulation, low-growth area of retail lending, so we were expecting weak growth and pressure on fee income. There was not much of a surprise on operating income, but loan growth was solid and provisioning was better than we forecast, providing a short-term positive.

Price performance

	(1M)	(3M)	(12M)
Price (QR)	51.60	51.50	44.40
Absolute (%)	0.6	0.8	16.9
Rel market (%)	-0.9	3.2	-3.6
Rel sector (%)	-1.8	2.2	-8.1



Market capitalisation
QR10.73bn (€2.09bn)

Average (12M) daily turnover
QR15.42m (€2.08m)

Sector: QE Bank Index
RIC: DOBK.QA, DHBK QD
Priced at close of business 18 Jul 2011.
Source: Bloomberg

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Reported PTP (QRm)	974.5	1,013	1,276	1,417	1,567
Reported net profit (QRm)	973.6	1,054	1,276	1,417	1,567
Reported EPS (QR)	5.01	5.20	6.27	6.67	7.38
Normalised EPS (QR)	5.01	5.20	6.27	6.67	7.38
Dividend per share (QR)	4.77	5.00	4.53	4.90	4.25
Normalised PE (x)	10.36	9.99	8.28	7.78	7.04
Price/book value (x)	2.00	1.93	1.76	1.66	1.51
Dividend yield (%)	9.20	9.63	8.73	9.44	8.18
Return on avg equity (%)	21.70	21.10	22.80	21.60	24.20

Accounting standard: IFRS
year to Dec, fully diluted
Source: Company data, Rasmala forecasts

Headline net income beat due to lower provisioning

Headline net income for 2Q11 of QR339m rose 13.2% yoy, falling 6.5% qoq, but still beating our expectations primarily due to a low provisioning number. This low provisioning number was related to improved NPLs on both a reported and calculated basis, after a negative drift in 1Q11, which may have been due to a rebound in retail NPLs as guided by the bank.

Loan growth also better than expected

Doha Bank is limited by its exposure primarily to the retail sector and its lack of a strong public sector strategy. Nevertheless, qoq loan growth of 6.1% in 2Q11 was only modestly behind sector leader QNB, with contracting and government lending, with the latter being very definitely not in our forecast. Islamic financing also surprised us positively, shrinking only 7.7% qoq. Elsewhere on the balance sheet, funding largely kept pace, while the movement on reserves boosted comprehensive income, but we found little else of note.

Revenue mix a shade pale due to asset yield

Funding costs continued to fall, even more than we expected, but this was more than compensated for by a decline in the asset yield. The result was a decline in net interest income of 1.2% qoq against our flat expectations, perhaps due to regulations. This modest shortfall was compensated for by lower-quality FX earnings. Modest cost increases of 3.4% undershot our expectations by 2.2%, resulting in operating earnings falling 7.3% qoq, but beating our forecast by 0.5%.

On the balance of things, these results shifted the balance of risk positively

We believe there were more positives than negatives in these results, with loan growth and loan quality better than we forecast (on a second look). Asset yields have taken a tumble, most probably due to regulation, but we don't at the moment believe this outweighs the positives. Nevertheless, none of these variances are particularly material on a longer-term basis, unless Doha Bank's public sector loan growth is here to stay. We don't expect this yet. We maintain our Hold recommendation with a target price of QR57.6.

Important disclosures can be found in the Disclosures Appendix.
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Some positives

Table 1 compares 2Q10 and 2Q11 results.

Table 1 : 2Q results comparison

QRm	2Q10A	1Q11A	2Q11A	2Q11F	Yoy	Qoq	Vs Rasmala estimate
Balance sheet							
Loans & Islamic financing	26,570	26,114	27,714	27,031	4.3%	6.1%	2.5%
Interbank assets	4,941	8,762	10,278	7,839	108.0%	17.3%	31.1%
Financial instruments	5,133	6,288	6,605	6,487	28.7%	5.0%	1.8%
Cash & CB deposits	6,993	3,863	3,492	3,784	-50.1%	-9.6%	-7.7%
Other assets	1,263	1,396	1,441	1,562	14.1%	3.2%	-7.7%
Total assets	44,900	46,423	49,530	46,703	10.3%	6.7%	6.1%
Customer deposits & Islamic funding	27,234	28,055	29,197	28,923	7.2%	4.1%	0.9%
Dues to banks	10,378	10,441	11,589	9,545	11.7%	11.0%	21.4%
Capital market liabilities	787	768	768	734	-2.3%	0.1%	4.7%
Other operating items	949	997	1,447	1,028	52.4%	45.1%	40.7%
Total liabilities	39,349	40,261	43,001	40,229			
Net liquid assets	1,556	2,184	2,182	2,079	40.2%	-0.1%	4.9%
Shareholders' equity	5,551	6,163	6,529	6,474	18%	6%	1%
NPL ratio*	2.95%	3.38%	3.15%	3.40%			
Income statement							
Net interest & Islamic returns	359	441	435	441	21.2%	-1.2%	-1.4%
Fees & commissions	103	87	90	89.0	-12.8%	4.0%	1.4%
FX & derivative	14	15	20	14	49.2%	32.3%	49.6%
Other operating income	31	18	14	14	-54.0%	-21.7%	5.2%
Core non-interest	149	121	125	116	-15.7%	3.7%	7.5%
Trading & investments	(4)	33	10	16	-346.4%	-68.8%	-34.1%
Non-core non-interest	(4)	33	10	16	-346.4%	-68.8%	-34.1%
Total non-interest income	144	154	135	132	-6.1%	-11.9%	2.6%
Total banking income	504	594	571	573	13.3%	-4.0%	-0.4%
Total operating expenses	(155)	(186)	(192)	(197)	24.1%	3.4%	-2.2%
Provisioning	(91)	(45)	(38)	(64)	-57.8%	-14.2%	-40.5%
Profit before tax	258	364	340	312	32.0%	-6.5%	8.9%
Tax, minorities & appropriations	(1)	(1)	(1)	(1)	-27.5%	12.1%	-40.2%
Attributable income	257	363	339	311	32.2%	-6.5%	9.1%
Headline net income	300	363	339	311	13.2%	-6.5%	9.1%
Comprehensive income	242	338	366	311	51.4%	8.4%	17.8%

* Estimated net NPL ratio differs from the published gross NPL ratio primarily due to estimated interest in suspense.
Source: Company data, Rasmala forecasts

Income statement

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net interest income	1241	1532	1786	1902	2040
Non-interest income	519.3	516.2	563.9	593.9	676.1
Total income	**1760**	**2048**	**2349**	**2496**	**2716**
Operating costs	-658.5	-723.2	-828.0	-873.5	-950.6
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	0.00	0.00	0.00	0.00
Pre-prov operating profit	1102	1325	1521	1622	1765
Provisions charges	-126.3	-311.8	-245.6	-206.0	-199.2
Post-prov op prof	975.2	1013	1276	1416	1566
Associates (pre-tax)	-0.69	0.20	0.52	0.85	0.89
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**974.5**	**1013**	**1276**	**1417**	**1567**
Taxation	-25.3	-28.5	-34.6	-38.3	-42.3
Minority interests	0.00	0.00	0.00	0.00	0.00
Preference dividends	0.00	0.00	0.00	0.00	0.00
Other post-tax items	24.3	69.4	34.6	38.3	42.3
Reported net profit	**973.6**	**1054**	**1276**	**1417**	**1567**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	974.5	1013	1276	1417	1567
Normalised net profit	973.6	1054	1276	1417	1567

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Net loans to customers	25896	26547	28503	32130	36598
Other int earn assets	8225	8851	14821	15422	16103
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	1121	1453	1280	1544	1868
Total assets	**45996**	**47230**	**48595**	**53595**	**59692**
Total customer deposits	27890	30822	30925	34379	38611
Oth int-bearing liabs	11314	9451	9702	10704	11931
Non int-bearing liab	1870	1869	1862	2041	2033
Total liabilities	**41074**	**42142**	**42490**	**47124**	**52574**
Share capital	4922	5087	6105	6471	7118
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	**4922**	**5087**	**6105**	**6471**	**7118**
Minority interests	0.00	0.00	0.00	0.00	0.00
Total liab & sh equity	**45996**	**47230**	**48595**	**53595**	**59692**
Risk weighted assets	36804	42074	45174	50922	58003
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-466.9	-739.0	-929.2	-1065	-1185
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

QRm	FY09A	FY10A	FY11F	FY12F	FY13F
Risk weighted assets	36804	42074	45174	50922	58003
Reported net profit	973.6	1054	1276	1417	1567
Opening risk assets	38461	36804	42074	45174	50922
Closing risk assets	36804	42074	45174	50922	58003
Change in risk assets	-1657	5270	3100	5748	7081
Capital required	-165.7	527.0	310.0	574.8	708.1
Free capital flow	1139	527.3	966.4	842.2	858.9
Ordinary dividend paid	-904.3	-947.4	-936.9	-1012	-877.7
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	368.6	0.00	737.2	0.00	0.00
Cash flow from financing	-535.7	-947.4	-199.6	-1012	-877.7
Net capital flow	603.6	-420.1	766.8	-170.3	-18.7
Tier 1 capital	4231	4618	5541	5874	6461
Tier 1 capital ratio (%)	11.5	11.0	12.3	11.5	11.1

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Doha Bank (RIC: DOBK.QA, Rec: Hold, CP: QR51.10, TP: QR57.58): We base our valuation on a three-stage DDM: a three-year stage of explicit forecasts, a 10-year stage of trend forecasts and a terminal stage based on GGM. The key downside risk to our target price is that Doha Bank will be shut out of the current public sector lending opportunity, and that it then finds consumer business less profitable. Upside risks are primarily that it manages to carve a niche in public sector lending or that the private sector recovers more aggressively than expected.

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