RASMALA

20 April 2011

Doha Bank

Profitable, but no growth yet

Doha Bank's 1Q11 numbers comfortably beat our expectations, largely due to a decline in the cost of funding. Although we believe this is sustainable, we trim our longer-term forecasts on weak growth, and retail banking uncertainty.

Hold

Target price
QR57.58 (from QR63.19)

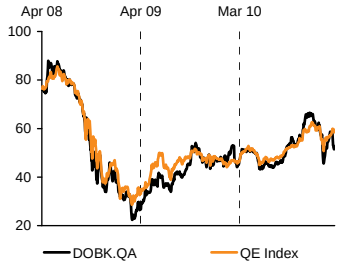
Price
QR52.60

Short term (0-60 days)
n/a

Market view
No Weighting

Price performance

	(1M)	(3M)	(12M)
Price (QR)	51.90	64.00	50.40
Absolute (%)	1.3	-17.8	4.4
Rel market (%)	-3.9	-13.5	-9.4
Rel sector (%)	-3.4	-13.9	-13.6



Market capitalisation
QR10.87bn (€2.08bn)

Average (12M) daily turnover
QR15.16m (€3.06m)

Sector: QE Bank Index
RIC: DOBK.QA, DHBK QD
Priced QR52.60 at close 19 Apr 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)	10.50	10.10	8.39	7.89	7.13
Price/book value (x)	2.02	1.96	1.78	1.68	1.53
Dividend yield (%)	9.07	9.51	8.62	9.31	8.07
Return on avg equity (%)	21.70	21.10	22.80 ▲	21.60	24.20 ▼

Use of ▲ ▼ indicates that the line item has changed by at least 5%. year to Dec, fully diluted
Accounting standard: IFRS
Source: Company data, Rasmala forecasts

Stronger than expected earnings, driven by falling liability yields

Doha Bank's 1Q11 headline net income of QR363m was up 128% qoq and beat our expectations by 22%. The improvement was largely due to better investment income, and a sharp fall in costs and provisioning. However, this was as all as expected, with the surprise coming from continued strong net interest income, driven by the re-pricing of fixed interest deposits, something which Doha Bank believes will continue for at least two quarters.

Upgrading 2011 numbers

We are upgrading our 2011F earnings to QR1,276m and EPS to QR6.27, both ahead of company guidance, largely due to the better-than-expected spreads. In addition, we assume most of that benefit will come early in the first nine months. We do, however, partially offset that spread increase with higher costs and provisioning, reflecting the slight jump in NPLs (from 3.02% to 3.38%).

Loan growth headwinds to abate?

Developments on the balance sheet were significantly weaker than expected, with loans shrinking by 1.6% and sharply underperforming our expectations by 5.3%. We believe the shortfall was across the portfolio. Going forward, we lower our growth expectations on both retail and public sector lending in both 2011-12. This clearly has a negative impact on longer-term profits. The decline in deposits, we believe, primarily reflects Doha Bank's willingness to cede deposits in the absence of loan growth, given the generally liquid banking system. The critical issue for Doha bank is when public sector loan growth will filter to the private sector.

Stable longer-term expectations imply TP change driven by going ex-dividend

Our long-term scenario for Doha Bank is below market growth, but high profitability, and we do not see these results putting that prognosis in jeopardy. We do have some concerns that the regulations on Islamic banking and retail banking may have a negative impact on both growth and profitability, but for the moment, we believe there is insufficient visibility to justify downgrading Doha Bank's earnings potential.

Important disclosures can be found in the Disclosures Appendix.
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Table 1 : Doha Bank 1Q11 results

QR m	1Q10A	4Q10A	1Q11A	1Q11F	Yoy	Qoq	v Est
Balance Sheet							
Loans & Islamic Financing	26,165	26,547	26,114	27,565	-0.2%	-1.6%	-5.3%
Financial instruments	4,194	5,217	6,288	9,096	49.9%	20.5%	-30.9%
Total Assets	**44,405**	**47,230**	**46,423**	**45,871**	**4.5%**	**-1.7%**	**1.2%**
Customer deposits & Islamic Funding	27,223	30,822	28,055	29,494	3.1%	-9.0%	-4.9%
Total Liabilities	**39,139**	**42,142**	**40,261**	**40,486**	**2.9%**	**-4.5%**	**-0.6%**
Net Liquid Assets	3,007	5,330	2,184	227			
Shareholders' Equity	**5,266**	**5,087**	**6,163**	**5,385**	**17.0%**	**21.1%**	**14.4%**
NPL ratio	2.94%	3.02%	3.38%	3.09%			
Income Statement							
Net Interest & Islamic Returns	336	444	441	404	31.0%	-0.8%	9.1%
Core non-interest	138	107	121	125	-12.8%	12.4%	-3.6%
Non-core non-interest	17	(9)	33	13	92.3%	-481.9%	154.7%
Total Non-Interest Income	156	99	154	138	-1.2%	56.0%	11.3%
Total Banking Income	**492**	**542**	**594**	**542**	**20.8%**	**9.6%**	**9.7%**
Total Operating Expenses	(162)	(226)	(186)	(190)	14.9%	-17.6%	-2.0%
Provisioning	(15)	(157)	(45)	(55)	202.6%	-71.6%	-18.2%
Profit before tax	**315**	**159**	**364**	**298**	**15.4%**	**128.3%**	**22.2%**
Tax, Minorities & Appropriations	(0)	(27)	(1)	-	278.8%	-97.2%	#DIV/0!
Attributable Income	**315**	**133**	**363**	**298**	**15.2%**	**173.8%**	**21.9%**
Headline Net Income	**315**	**159**	**363**	**298**	**15.2%**	**128.4%**	**21.9%**
Comprehensive Income	**344**	**160**	**338**	**298**	**-1.8%**	**111.0%**	**13.6%**

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

Standard ratios	Doha Bank					Comm Bank of Qatar			Qatar National Bank		
Performance	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**	**FY11F**	**FY12F**	**FY13F**
Non-int inc/gr op inc (%)	29.5	25.2	24.0	23.8	24.9	30.6	30.4	31.2	21.0	20.6	21.1
Cost/income (%)	37.4	35.3	35.2	35.0	35.0	32.0	33.0	33.0	16.7	19.6	20.6
Costs/average assets (%)	1.55	1.55	1.73	1.62	1.77	1.34	1.35	1.53	0.62	0.73	0.90
Net income growth (%)	0.29	3.74	26.1	11.0	10.6	19.6	16.1	12.0	26.5	31.1	15.1
Net cust loan growth (%)	8.05	2.51	7.37	12.7	13.9	16.2	15.2	15.8	20.6	19.8	20.1
Cust deposit growth (%)	19.8	10.5	0.34	11.2	12.3	15.2	15.4	16.1	17.1	20.8	18.1
Net interest margin (%)	3.53	4.33	4.44	3.89	4.20	3.67	3.50	3.89	3.38	3.29	3.85
Return on avg assets (%)	2.29	2.26	2.66	2.63	2.92	2.95	2.87	3.24	2.95	2.98	3.44
Return on avg equity (%)	21.7	21.1	22.8	21.6	24.2	16.4	16.6	18.7	23.2	20.3	23.5
RORWA (%)	2.59	2.67	2.93	2.76	3.08	3.64	3.38	3.82	5.84	5.77	6.89
				year to Dec			year to Dec				year to Dec
Valuation											
Normalised EPS growth (%)	-12.2	3.74	20.6	6.40	10.6	14.4	11.2	12.0	26.5	31.1	15.1
Reported PE (x)	10.5	10.1	8.39	7.89	7.13	9.06	8.14	7.27	10.5	8.03	6.98
Normalised PE (x)	10.5	10.1	8.39	7.89	7.13	9.06	8.14	7.27	10.5	8.03	6.98
Price/book value (x)	2.02	1.96	1.78	1.68	1.53	1.39	1.32	1.25	1.86	1.61	1.39
Price/adjusted BVPS (x)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	9.07	9.51	8.62	9.31	8.07	8.39	8.89	10.0	2.78	3.88	4.38
				year to Dec			year to Dec				year to Dec

Per share data	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tot adj dil sh, ave (m)	189.5	189.5	198.1	206.7	206.7
Pre-prov prof/share (QAR)	5.81	6.99	7.68	7.85	8.54
Reported EPS (QAR)	5.01	5.20	6.27	6.67	7.38
Normalised EPS (QAR)	5.01	5.20	6.27	6.67	7.38
Book value per sh (QAR)	26.0	26.8	29.5	31.3	34.4
Dividend per share (QAR)	4.77	5.00	4.53	4.90	4.25
Dividend cover (x)	1.08	1.11	1.36	1.40	1.79
				year to Dec	

Solvency	**FY09A**	**FY10A**	**FY11F**	**FY12F**	**FY13F**
Tier 1 capital ratio (%)	11.5	11.0	12.3	11.5	11.1
Total CAR (%)	14.4	13.6	14.3	13.5	13.0
Equity/assets (%)	10.7	10.8	12.6	12.1	11.9
Net cust loans/dep (%)	92.8	86.1	92.2	93.5	94.8
Rep NPL/gr cus adv (%)	0.00	0.00	0.00	0.00	0.00
Tot prov/rep NPLs (%)	0.00	0.00	0.00	0.00	0.00
Bad debts/advances (%)	0.48	1.14	0.83	0.62	0.53
					year to Dec

Priced as follows: DOBK.QA - QR52.60; COMB.QA - QR73.00; QNBK.QA - QR146.10
Source: Company data, Rasmala forecasts

Valuation methodology

Stage 1 (2010-2013)			2010	2011	2012	2013
Explicit Dividends	Net CF to shareholders		947	200	1,012	878
	NPV Stage 1	**1,641**	2,589	1,823	1,803	878

Stage 2 (2014-23)			Model Numbers			
			ROTCE1	Growth	Capital Req'd	RWA
Modelled Dividends	Excess Capital	721				
	Modelled Dividends	6,622	22%	10%	6,397	58,003
	NPV Stage 2	**5,361**				

Stage 3 (2024+)			Model Numbers		
			ROTCE2	Growth	Capital Req'd
Terminal Value	2023	19,165			
	NPV Stage 3	**4,901**	12%	5%	16,591

Total NPV		
	Stage 1 (2010-2013)	1,641
	Stage 2 (2014-23)	5,361
	Stage 3 (2024+)	4,901
	NPV	11,903
	Shares	207
	Price Target	**57.58**
	Price	**52.60**
	Upside/(Downside)	**9%**

COE	
US RFR	3.31%
Country Risk Spread	3.00%
Sector Risk Spread	2.50%
Stock Spread	2.25%
Discount Rate	11.06%

Source: Company data, Rasmala forecasts

Company description — Hold

Doha Bank (DB), incorporated in 1978, is the fourth-largest bank in Qatar, with 8% asset market share in lending. It provides a comprehensive range of wholesale and Islamic banking products while maintaining its core focus on retail, treasury, investments and bancassurance divisions. The bank serves its 160,000-plus retail and c3,000 corporate clients with 28 conventional branches, four Islamic branches, 11 e-branches, 11 pay offices, two mobile units in Doha and one mobile unit in Dubai, with 117 ATMs.

Price relative to country



Strategic analysis — Average SWOT company score: 3

Strengths 3

Doha Bank is the fourth-largest bank in Qatar, with its strong foothold in the retail banking segment. As a result, the bank has the second-largest physical franchise in Qatar and maintains the highest interest spreads among the conventional banks.

Weaknesses 2

From a growth perspective, Doha Bank is over-reliant on the retail sector, which is going through a period of deleveraging. Weaknesses for Doha Bank include retail lending concentration (35% of loans) and a higher-than-universe average cost-income and NPL ratio.

Opportunities 2

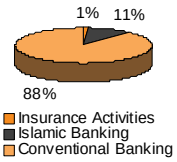
Key opportunities for Doha Bank are SME and HNW penetration, capturing the Islamic banking market share by re-branding Doha Islamic and generating higher off-balance-sheet fee income supported by the robust international expansion plans.

Threats 3

The main threat is that spreads will be affected by higher competition. Doha Bank is the highest cost competitor and is therefore the most leveraged to declining prices.

Scoring range is 1-5 (high score is good)

Profit before tax, 1Q11



Source: Company data

Market data

Headquarters
Doha Bank Building, Grand Hamad Street, P.O. Box 3818, Al Doha, Qatar

Website
www.dohabank.com.qa

Shares in issue
206.7m

Freefloat
84%

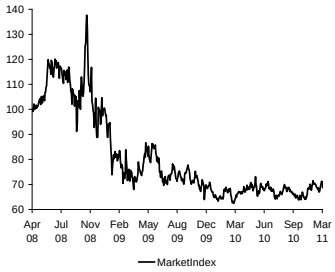
Majority shareholders
Qatar Investment Authority (17%)

Country view: Qatar

MENA markets are showing characteristics of a text book case of loss aversion. This is expected given the magnitude of losses investors experienced since 2008, with 2009 lagging emerging markets by a fairly wide margin. Rising oil prices and budget surpluses drove asset prices across the region higher resulting in a real-estate bubble that has negatively impacted speculators and the banking system. Bubbles do pop and recover over time if there is a legal system in place that enables the transfer of assets. The bad news is such a mechanism did not exist. The good news is that with the creation or RERA and the possibility of Strata Law, this could change and facilitate the transfer of properties from speculators to real investors.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to M East & Africa



Competitive position — Average competitive score: 4+

Supplier power 5+

The lack of significant regulatory control allows the banks to change contract arrangements (such as the base rate). This substantially increases the supplier power for all banks in Qatar.

Barriers to entry 3+

Strong local government ownership in most banks, coupled with branch limits for foreign banks, keeps barriers to entry high for this sector.

Customer power 4+

Retail customer power is weak, but corporates and the public sector could be more demanding if they were more price-sensitive.

Substitute products 2+

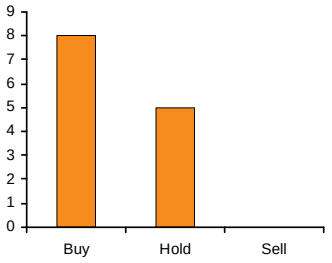
We believe the availability of substitute products (capital markets and wholesale lending) is on the rise, but it is currently unclear to what extent Qatar will favour its own banking system.

Rivalry 4+

Competition among local banks is low in Qatar. However, low growth rates have forced banks to look for growth wherever they can find it, and that may spark greater competition.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

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: QR52.60, 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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