Doha Bank

Flash Note 20 April 2010

Strong Margins; Maintain Buy

- **Stronger-than-expected earnings driven by benign credit costs and stronger margins in 1Q**
- **Credit expansion soft during the quarter, likely to pick up in 2H**
- **Maintain our Buy rating and TP of QAR60.8/share**

Results highlight: Earnings in 1Q10 were QAR315 million, beating our estimates by 43% due to strong margins and lower provisioning charges. Despite soft quarterly credit expansion, improved net interest margin (NIM) supported net interest income during the quarter. NIM expanded 18bps to 3.05% in 1Q10 due to lower funding costs supported by improved liquidity in the system. This is reflected in the 8% QoQ drop in net interest expense despite the increase in deposits. Deposits currently make up 63% of funding versus 58% at the end of 2009.

Another positive surprise is provisioning, both loan book and investment portfolio, which we would attribute partly to seasonal effects as the first quarter is generally the lowest in a normal environment. NPL ratio (non-performing loans to total loans) rose to 3.74% from 3.14% in the previous quarter—within expectations—since NPLs are expected to peak this year (FY10f 4.5%) as the bank continues to cleanse its legacy retail loan book. However, coverage (loan loss reserves to NPL) dropped to 67% in 1Q10 from 84% in 4Q09 as DHB's credit costs remained benign during the quarter. Coverage would increase to 104% when we add risk reserves. The Qatari Central Bank requires banks to maintain reserves amounting to 1.5% of the loan book, which acts as protection against any unexpected asset quality deterioration.

What we think: DHB's underlying performance improved during the quarter, helped by margin expansion, and we believe margins are sustainable. Overall, earnings are positive and we expect lending activities to pick up this year. Better loan growth underpinned by government spending and consequently strong fee income should drive earnings during the rest of the year.

Action: We maintain our Buy recommendation on the stock and our TP of QAR60.8/share. Although first quarter earnings were significantly higher than our expectations, we have not changed our forecasts as we expect loan loss provisioning to be higher during the remainder of the year due to (i) seasonal effects, (ii) a drop in coverage ratio, and (iii) NPLs peaking this year this year.

Valuation and catalyst: The stock offers attractive valuations, trading at a FY10f PB of 1.4x, a 29% discount to its implied PB.

Buy

Target Price (QAR)	60.8
Market Price (QAR)	50.4
Upside	20.6%

Listed On	DSM
Bloomberg	DHBK QD
RIC	DOBK.QA

Market Cap. (QAR mn)	9,549
Market Cap. (USD mn)	2,623

No of Shares (mn)	189.5
Foreign Ownership Limit	25.0%
Foreign Ownership Level	10.0%

Shareholder Structure

Free Float	80.0%
QIA	5.0%
Others	15.0%

Price Performance Chart



KPIs (QAR mn)	New		Old		Consensus	
	FY10f	FY11f	FY10f	FY11f	FY10c	FY11c
Net interest income	1,346.2	1,640.8	1,346.2	1,640.8	-	-
Total income	2,104.4	2,469.4	2,104.4	2,469.4	-	-
Net income	1,043.8	1,519.6	1,043.8	1,519.6	1,182.0	1,399.3
Net interest margin	3.01%	3.01%	3.01%	3.01%	-	-
Gross loans (bn)	29.6	32.5	29.6	32.5	-	-
Cost/Income	32.7%	31.2%	32.7%	31.2%	-	-
Gross LD	93.0%	92.1%	93.0%	92.1%	-	-
EPS	5.51	8.02	5.51	8.02	-	-
DPS	1.10	1.60	1.10	1.60	-	-
Dividend Yield	2.19%	3.18%	2.19%	3.18%	-	-
P/E (x)	9.1	6.3	9.1	6.3	-	-
P/B (x)	1.4	1.1	1.4	1.1	-	-
ROAE	16.4%	19.9%	16.4%	19.9%	-	-
ROAA	2.1%	2.7%	2.1%	2.7%	-	-

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* Disclaimer: See page 5

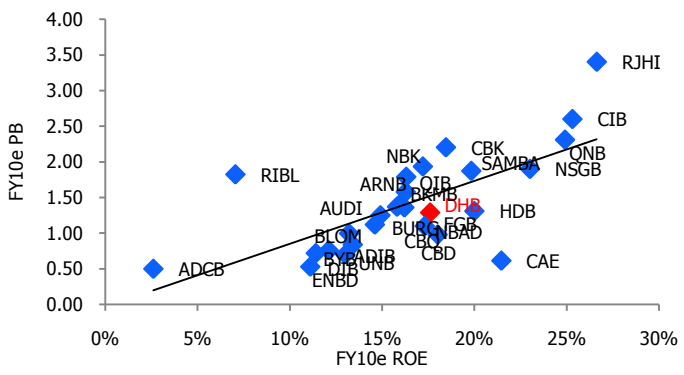
Table 1: Comparison of Actual vs. Estimates

QAR million	1Q10a	1Q09a	YoY	4Q09a	QoQ	1Q10e	Surprise
Net Interest Income	336.2	325.1	3%	315.6	7%	305.3	10%
Non-Interest Income	158.5	225.6	-30%	169.1	-6%	177.4	-11%
Total Income	494.7	550.8	-10%	484.7	2%	482.7	2%
Operating Expense	161.9	156.2	4%	179.3	-10%	181.1	-11%
Operating Profit	332.8	394.5	-16%	305.4	9%	301.6	10%
Provision	17.6	64.9	-73%	182.4	-90%	81.4	-78%
- Loan loss	14.8	7.1	108%	64.9	-77%	61.7	-76%
- Other	2.8	57.7	-95%	117.5	-98%	19.7	-86%
Net Income	315.0	329.7	-4%	122.8	157%	220.2	43%
Cost-to-Income Ratio	33%	28%		37%		38%	
in billion							
Net Loans	26.1	24.2	8%	25.9	1%	26.4	-1%
Deposit	27.2	21.8	25%	26.2	4%	27.1	0%
Shareholder equity	5.3	4.7	14%	5.9	-9%	6.4	-17%

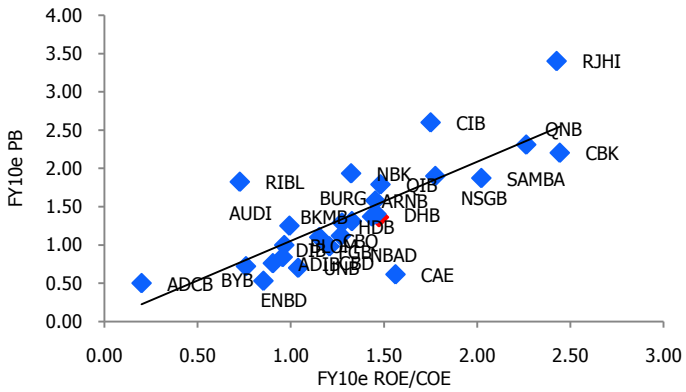
Source: Company reports, HC Brokerage

Chart 1: Valuation

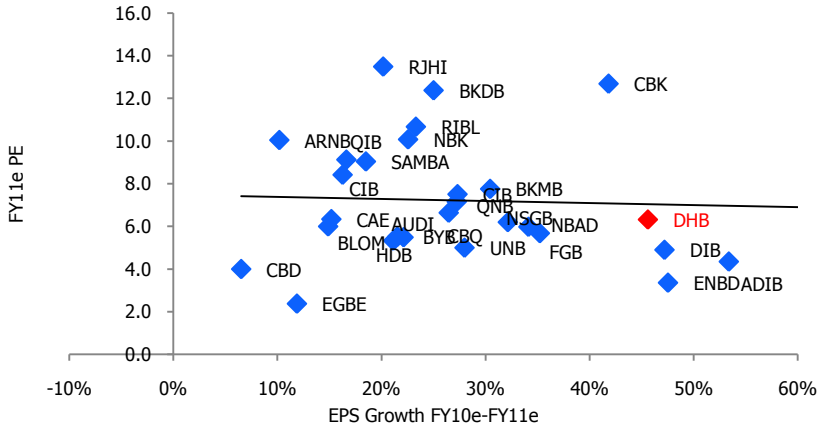
FY10e PB vs. ROE



FY10e PB vs. ROE/COE



FY11e PE vs. EPS growth



Source: Bloomberg, HC Research

Financial Statements

QAR million	2009a	2010f	2011f	2012f	2013f	2014f
Income Statement						
Interest Income	2,473.7	2,807.3	3,324.3	3,696.0	4,146.8	4,649.8
Interest Expense	1,232.9	1,461.0	1,683.4	1,861.8	2,059.3	2,289.6
Net Interest Income	**1,240.7**	**1,346.2**	**1,640.8**	**1,834.2**	**2,087.5**	**2,360.2**
Fees and Commissions	412.1	453.3	498.6	548.5	603.3	663.7
FX Income	75.2	79.0	83.0	87.1	91.5	96.0
Investment Income	221.0	161.2	179.5	201.0	225.1	252.2
Other Income	95.9	64.7	67.5	70.5	73.8	77.2
Non-interest Income	**804.3**	**758.2**	**828.6**	**907.1**	**993.7**	**1,089.1**
Total Income	**2,045.0**	**2,104.4**	**2,469.4**	**2,741.3**	**3,081.3**	**3,449.3**
Total Operating Expenses	658.5	724.4	771.9	849.0	963.2	1,093.9
Pre-provision Income	1,386.5	1,380.1	1,697.5	1,892.3	2,118.1	2,355.4
Provisions	411.3	336.0	177.5	160.4	138.2	153.2
Associate and Other Income	(0.7)	0.2	0.2	0.2	0.2	0.2
Pre-tax Income	**974.5**	**1,044.2**	**1,520.2**	**1,732.0**	**1,980.1**	**2,202.5**
Income Taxes	0.9	0.4	0.7	0.7	0.8	0.9
Net Income After Tax	**973.6**	**1,043.8**	**1,519.6**	**1,731.3**	**1,979.3**	**2,201.6**
Minority Interest	-	-	-	-	-	-
Net Income	**973.6**	**1,043.8**	**1,519.6**	**1,731.3**	**1,979.3**	**2,201.6**
Balance Sheet						
Assets						
Cash Due from Central Bank	10,753.8	13,455.9	15,395.6	17,782.9	20,565.6	23,700.6
Due from Banks	4,413.7	5,291.2	5,926.1	6,637.2	7,433.7	8,325.8
Investments	3,825.5	4,232.9	4,740.9	5,309.8	5,947.0	6,660.6
Gross Loans	**26,881.6**	**29,569.8**	**32,526.8**	**35,779.4**	**39,357.4**	**43,293.1**
NPL Provisions	717.1	779.0	719.6	637.5	526.7	423.8
Net Loans	**25,895.9**	**28,790.8**	**31,807.1**	**35,142.0**	**38,830.7**	**42,869.3**
Other Assets	550.8	862.5	1,025.2	1,081.9	1,137.4	1,273.8
Net Fixed Assets	570.5	633.3	658.9	687.1	718.1	752.1
Total Assets	**46,010.2**	**53,266.5**	**59,553.9**	**66,640.8**	**74,632.3**	**83,582.3**
Liabilities						
Total Deposits	**27,890.4**	**31,795.9**	**35,309.4**	**39,257.7**	**43,705.2**	**48,727.9**
Due to Banks	10,488.9	11,663.6	13,106.3	14,110.5	15,681.4	17,436.3
Borrowings	824.9	824.9	824.9	824.9	824.9	824.9
Other Liabilities	955.3	1,584.8	1,621.0	2,302.2	2,560.5	2,837.5
Total Liabilities	**40,159.4**	**45,869.2**	**50,861.6**	**56,495.2**	**62,771.9**	**69,826.5**
Shareholder Equity	**5,850.8**	**7,042.6**	**8,399.5**	**9,877.3**	**11,565.2**	**13,431.1**

Rating Scale

Recommendation	Upside
Buy	Greater than 20%
Hold	-5% to 20%
Sell	Less than -5%

Disclaimer

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