Doha Bank

Flash Note 28 January 2010

4Q09 Review - Legacy Cleansing

- **Lower-than-expected earnings due to rise in provisioning**
- **Core operating performance stable, likely to improve with stronger economic activities expected this year**
- **Maintain our Buy recommendation, reduce target price to QAR60.8**

Results highlight: Earnings were 42% lower than street estimates and 39% lower than our estimates on the back of higher-than-expected provisioning on both, the investment portfolio and loan book. Impairment charges on financial investments during the quarter included one-off write-offs amounting to QAR67 million. Excluding these non-recurring events, earnings would have been only 6% lower than our estimates.

Retail legacy loans led to an increase in loan loss provisioning as the bank increased its coverage ratio to 84% from 77% in the previous quarter, on prudent terms. We believe the bank will see additional provisioning in the coming quarters as it attempts to cleanse its legacy retail loans. Positively, corporate segment's asset quality improved during the quarter/year and is fully provided for. Corporate represents 47% of the loan portfolio while retail 30%.

Net interest income was stronger than expected due to margin improvement. Net interest margin increased by 30 bps to 2.9%, supported by pricing power and improved liquidity conditions. Although competition is likely to mitigate loan pricing power in the market, going forward, margins are likely to be maintained due to continuous improvement in funding costs.

What we think: Leaving one-off provisioning charges aside, we find current quarter earnings resilient with stable core operating performance. Despite the high level of loan provisioning expected this year as the bank tries to clean up its book, we believe earnings will be driven by fee income and credit expansion. Focus on contracting, SME, government, and the retail segment/sector would drive earnings. Expected additional provisioning on its legacy retail loan book will help the bank rid of its problematic loans—a positive in the longer run, in our view.

Action: We maintain our Buy recommendation, but reduce our TP to QAR60.8 from QAR64.6 on revision of earnings estimates. We raise our loan loss provisioning to factor in the balance sheet cleansing exercise.

Valuation and catalyst: Stock offers attractive valuations trading at a FY10f PB of 1.3x, a 25% discount to the Qatar sector average and a 18% discount to its implied PB. Any government bailout package for bad retail loans similar to the real estate portfolio last year and international expansion would act as catalysts to the stock.

KPIs (QAR mn)	New		Old		Consensus	
	FY10f	FY11f	FY10f	FY11f	FY10c	FY11c
Net interest income	1,451.0	1,638.3	1,544.5	1,701.9	-	-
Total income	2,209.1	2,466.9	2,389.4	2,598.9	2,196.0	2,362.0
Net income	1,047.9	1,520.3	1,451.8	1,692.9	1,182.0	1,399.3
Net interest margin	3.01%	3.01%	3.1%	3.1%	-	-
Gross loans (bn)	29.6	32.5	28.7	31.5	-	-
Cost/Income	32.7%	31.2%	29.5%	28.9%	-	-
Gross LD	93.0%	92.1%	90.0%	92.5%	-	-
EPS	5.53	8.02	7.66	8.94	-	-
DPS	1.11	1.60	1.53	1.79	-	-
Dividend Yield	2.27%	3.30%	3.15%	3.67%	-	-
P/E (x)	8.8	6.1	6.4	5.5	-	-
P/B (x)	1.3	1.1	1.5	1.2	-	-
ROAE	16.4%	19.9%	19.4%	21.7%	-	-
ROAA	2.1%	2.7%	2.3%	2.8%	-	-

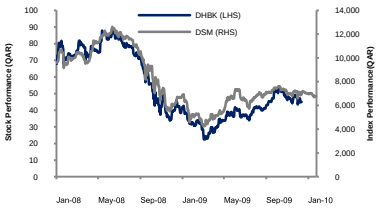
Buy

Target Price (QAR)	60.8
Market Price (QAR)	48.7
Upside	24.8%
Listed on	DSM
Bloomberg	DHBK QD
RIC	DOBK.QA
Market Cap. (QAR mn)	8,735.6
Market Cap. (USD mn)	2,399.9
No of Shares (mn)	181
Foreign Ownership Limit	25.0%
Foreign Ownership Level	10.2%

Shareholder Structure

Free Float	80.0%
QIA	5.0%
Others	15.0%

Price Performance Chart



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* Disclaimer: See page 5

Table 1: Comparison (quarterly) of Actual vs. Estimates

QAR million	4Q09a	4Q08a	YoY	3Q09a	QoQ	4Q09e	Surprise
Net Interest Income	315.6	285.5	11%	280.0	13%	282.9	12%
Non-Interest Income	169.1	67.4	151%	168.9	0%	171.0	-1%
Total Income	484.7	352.9	37%	448.9	8%	453.9	7%
Operating Expense	179.3	156.5	15%	167.0	7%	165.4	8%
Operating Profit	305.4	196.4	55%	281.9	8%	288.5	6%
Provision	182.4	82.8	120%	76.4	139%	87.3	109%
- Loan loss	64.9	40.2	62%	14.2	358%	39.5	64%
- Other	117.5	42.6	176%	62.2	89%	47.8	146%
Net Income	122.8	112.7	9%	204.5	-40%	201.9	-39%
Cost to Income Ratio	37%	44%		37%		36%	
in billion							
Net Loans	26.2	24.0	9%	25.0	5%	25.9	1%
Deposit	26.2	23.3	12%	26.5	-1%	27.1	-3%
Shareholder equity	5.9	4.9	19%	5.3	10%	5.9	-1%

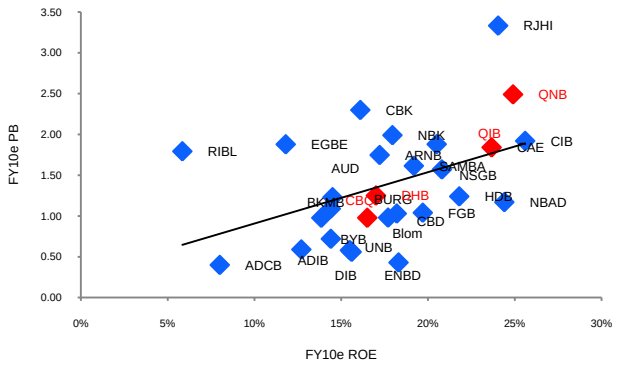
Table 2: Comparison (annual) of Actual vs. Estimates

QAR million	FY09a	FY08a	YoY	FY09e	Surprise
Net Interest Income	1,240.7	1,107.5	12%	1,208.0	3%
Non-Interest Income	804.3	568.0	42%	806.2	0%
Total Income	2,045.0	1,675.5	22%	2,014.2	2%
Operating Expense	658.5	539.8	22%	644.5	2%
Operating Profit	1,386.5	1,135.7	22%	1,369.7	1%
Provision	411.3	188.5	118%	316.2	30%
- Loan loss	126.3	56.9	122%	100.9	25%
- Other	285.0	131,5	117%	215.3	32%
Net Income	973.6	946.5	3%	1,053.0	-8%
Cost to Income	32%	32%		32%	
in billion					
Net loans	26.2	24.0	9%	25.9	1%
Deposit	26.2	23.3	12%	27.1	-3%
Shareholder equity	5.9	4.9	19%	5.9	-1%

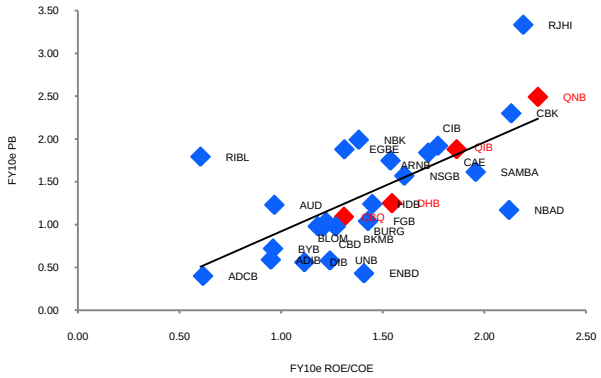
Source: Company reports, HC Brokerage

Chart 1: Valuation

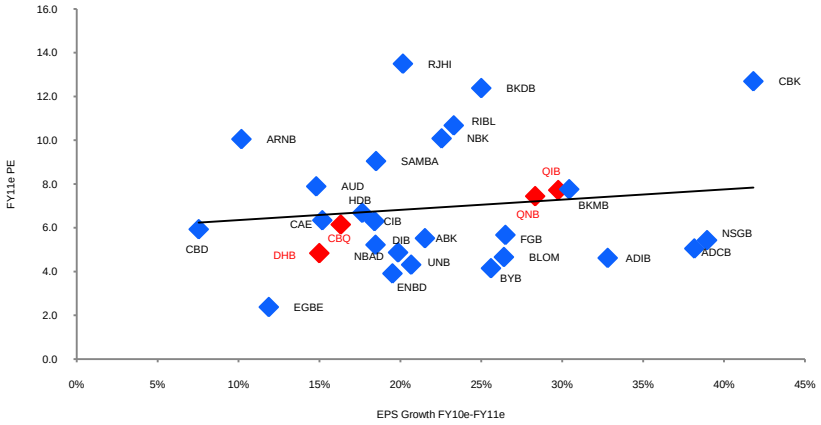
FY10e PB vs. ROE



FY10e PB vs. ROE/COE



FY11e PE vs. EPS growth



Source: Bloomberg, HC Brokerage

Financial Statements

QAR million	2008a	2009a	2010f	2011f	2012f	2013f
Income Statement						
Interest Income	2,239.5	2,473.7	2,913.3	3,324.5	3,696.2	4,147.2
Interest Expense	1,132.0	1,232.9	1,462.4	1,686.2	1,864.6	2,062.0
Net Interest Income	**1,107.5**	**1,240.7**	**1,451.0**	**1,638.3**	**1,831.7**	**2,085.2**
Fees and Commissions	339.9	412.1	453.3	498.6	548.5	603.3
FX Income	56.4	75.2	79.0	83.0	87.1	91.5
Investment Income	107.6	221.0	161.2	179.5	201.0	225.1
Other Income	64.1	95.9	64.7	67.5	70.5	73.8
Non-interest Income	**568.0**	**804.3**	**758.2**	**828.6**	**907.1**	**993.7**
Total Income	**1,675.5**	**2,045.0**	**2,209.1**	**2,466.9**	**2,738.8**	**3,079.0**
Total Operating Expenses	539.8	658.5	721.4	768.5	845.4	959.2
Pre-provision Income	1,135.7	1,386.5	1,487.7	1,698.3	1,893.4	2,119.8
Provisions	188.5	411.3	439.5	177.5	160.4	138.2
Associate and Other Income	(0.3)	(0.7)	0.2	0.2	0.2	0.2
Pre-tax Income	**946.9**	**974.5**	**1,048.4**	**1,521.0**	**1,733.2**	**1,981.8**
Income Taxes	0.4	0.9	0.4	0.7	0.7	0.8
Net Income After Tax	**946.5**	**973.6**	**1,047.9**	**1,520.3**	**1,732.5**	**1,981.0**
Minority Interest	-	-	-	-	-	-
Net Income	**946.5**	**973.6**	**1,047.9**	**1,520.3**	**1,732.5**	**1,981.0**
Balance Sheet						
Assets						
Cash Due from Central Bank	2,552.0	10,753.8	13,207.5	15,210.5	17,623.4	20,380.8
Due from Banks	7,949.8	4,413.7	5,291.2	5,926.1	6,637.2	7,433.7
Investments	3,379.8	3,825.5	4,232.9	4,740.9	5,309.8	5,947.0
Gross Loans	**24,812.5**	**26,881.6**	**29,569.8**	**32,526.8**	**35,779.4**	**39,357.4**
NPL Provisions	563.5	717.1	882.5	823.1	741.0	630.2
Net Loans	**23,9657**	**25,895.9**	**28,687.3**	**31,703.6**	**35,038.5**	**38,727.2**
Other Assets	660.1	550.8	862.5	1,025.2	1,081.9	1,137.4
Net Fixed Assets	495.5	570.5	630.4	654.8	681.6	711.2
Total Assets	**39,003.0**	**46,010.2**	**52,911.7**	**59,261.1**	**66,372.4**	**74,337.1**
Liabilities						
Total Deposits	**23,276.7**	**27,890.4**	**31,795.9**	**35,309.4**	**39,257.7**	**43,705.2**
Due to Banks	8,160.6	10,488.9	11,738.6	13,183.8	14,185.7	15,754.9
Borrowings	1,232.1	824.9	824.9	824.9	824.9	824.9
Other Liabilities	1,420.9	955.3	1,588.0	1,622.7	2,305.4	2,563.6
Total Liabilities	**34,090.2**	**40,159.4**	**45,947.3**	**50,940.8**	**56,573.7**	**62,848.6**
Shareholders' Equity	**4,912.8**	**5,850.8**	**6,964.4**	**8,320.4**	**9,798.8**	**11,488.6**

Rating Scale

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

Disclaimer

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