Doha Bank

Company Note
3 November 2009

3Q09 Review – Benign credit costs

Buy

- **Third quarter earnings were QAR204 million, in line with our expectations. Profits were driven by strong fee income and benign credit costs.**
- **In order to comply with the regulatory requirements of the Qatar central bank, the bank increased its deposit base during the quarter.**
- **We reiterate our Buy recommendation on the stock and maintain our target price (TP) at QAR64.60.**

Doha Bank (DHB) reported 3Q09 net income of QAR204.5 million vs. our expectation of QAR208.9 million, 20% and 35% lower than 3Q08 and 2Q09, respectively. Higher loan loss provisioning led to the drop in yearly profits, while a one-off gain from bond buy-back boosted earnings in the second quarter. Loan book grew by 6% to QAR25.6 billion from the previous quarter with credit expansion primarily driven by contracts on government projects. Yet, net interest income was 6% lower than our estimates as the net interest margin shrank to 3.1% from 3.3% in the second quarter. Earnings, however, were helped by strong fee income which rose by 15% quarterly to QAR99 million vs. our expectation of QAR78 million.

Increase in loan book and trade finance activities were behind the stronger-than-expected fee income as the bank continues to focus on it. Fee income represents approximately 60% of non-interest income in the third quarter. Another positive development during the quarter was lower-than-expected loan loss provisioning of QAR14 million vs. our estimate of QAR40 million. Non-performing loans to total loans (NPL ratio) rose slightly to 3.25% from 3.05% in the previous quarter. Meanwhile, coverage ratio (loan loss provision/NPL) dropped to 77% from 81% in the second quarter. Despite the benign credit environment which led to lower provisioning levels in the third quarter, NPLs and, consequently, provisioning are expected to increase in the coming quarters. Management expects NPLs to peak mid next year, given the current economic environment. We have modeled in an NPL ratio of 3.5% and 4% for FY09e and FY10e, respectively.

During the quarter, as discussed above, net interest margin shrank as the bank slightly changed its funding strategy with a bias towards deposits. This is necessary to meet the regulatory requirement of the Qatar Central Bank (QCB) regarding liquidity and lending ratio. QCB requires banks to maintain the credit ratio at a maximum of 90%. We estimate DHB's credit ratio at 97% in 2Q09 and 103% in 1Q09. Hence, the bank increased deposits by 13% to QAR26 billion. Following the increase in deposits, the credit ratio had dropped to 89% at the end of 3Q09. Currently, deposits represent 61% of the total funding base as opposed to 55% at the end of the second quarter. However, this is likely to put pressure on margins, as we already saw in the third quarter, since the deposit market is still competitive though better. It appears the bank may not tap the bond market this year as it had sought deposits to comply with the QCB requirement. Liquidity improved with loan to deposit ratio falling to 97% from 103% in 2Q09 and 114% in 1Q09.

Operating expenses were 23% higher than our expectations with the cost to income ratio at 37% compared with 28% in the previous quarter and our forecast of 31%. Third quarter's operating expenses were affected by a one-off provision related to an operational loss. Note the 2Q09 cost to income ratio was positively influenced by the one-off gain included in non-interest income.

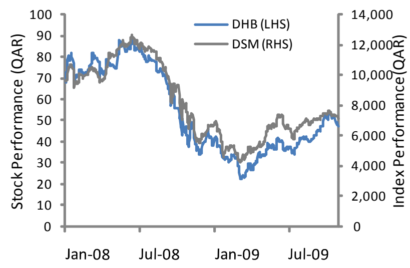
We maintain our Buy recommendation and our TP of QAR64.60, giving an upside potential of 40%. The stock offers attractive valuation trading at a FY10e PB multiple of 1.4x vs. FY10e ROE of 24%, a 19% and 15% discount to its implied PB and Qatar sector average, respectively. Overall, the third quarter earnings were good, notably lower loan loss provisioning given its retail tilt in the loan portfolio, and robust loan growth in a slow macro environment.

KPIs	New		Old		Consensus	
	FY09e	FY10e	FY09e	FY10e	FY09e	FY10e
NII (QAR Mil.)	1,303.2	1,482.8	1,303.2	1,482.8	-	-
Total income (QAR Mil.)	2,072.1	2,195.8	2,072.1	2,195.8	-	-
Net income (QAR Mil.)	1,119.5	1,323.5	1,119.5	1,323.5	-	-
Net interest margin	3.28%	3.39%	3.28%	3.39%	-	-
Gross loans (QAR Bil.)	26.3	28.4	26.3	28.4	-	-
Cost/Income	28.4%	29.4%	28.4%	29.4%	-	-
Gross LD	102.0%	98.0%	102.0%	98.0%	-	-
EPS	6.19	7.32	6.19	7.32	-	-
DPS	1.24	1.46	1.24	1.46	-	-
Dividend Yield	2.69%	3.18%	2.69%	3.18%	-	-
P/E (x)	7.4	6.3	7.4	6.3	-	-
P/B (x)	1.7	1.4	1.7	1.4	-	-
ROAE	22.8%	24.1%	22.8%	24.1%	-	-
ROAA	2.7%	2.9%	2.7%	2.9%	-	-

Target Price (QAR)	64.60
Market Price (QAR)	46.00
Upside	40.4%
Market Cap. (QARm)	8,320
Market Cap. (USDm)	2,286
Listed on	DSM
Bloomberg	DHBK QD
RIC	DOBK.QA
No of Shares (m)	181
Foreign Ownership Limit	25.0%
Foreign Ownership Level	9.6%

Shareholder Structure	
Free Float	80.0 %
Qatar Investment Authority	5.0%
Others	15.0%

Price Performance Chart



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* Disclaimer: See Page 4

Table 1: Comparison of Actual vs. Estimates

QAR'000	3Q09a	3Q08a	YoY change	2Q09a	QoQ change	3Q09e	Surprise
Net interest income	280,015	281,827	-1%	320,008	-12%	296,900	-6%
Non-interest income	168,904	142,359	19%	240,622	-30%	146,919	15%
Total income	448,919	424,186	6%	560,630	-20%	443,819	1%
Operating expenses	167,026	114,965	45%	155,930	7%	135,570	23%
Operating profit	281,893	309,221	-9%	404,700	-30%	308,249	-9%
Provisions	76,351	54,432	40%	87,631	-13%	99,369	-23%
- Loan loss	14,172	4,273	232%	40,092	-65%	40,356	-65%
- Other	62,179	50,159	24%	47,539	31%	59,013	5%
Net income	204,461	254,560	-20%	316,675	-35%	208,880	-2%
Cost/Income	37%	27%		28%		31%	
Net loans	24,985,823	23,589,380	6%	23,613,821	6%	23,819,845	5%
Deposit	26,483,754	23,763,028	11%	23,398,422	13%	24,568,343	8%
Shareholders' equity	5,320,548	4,781,166	11%	5,053,745	5%	5,262,625	1%

Source: Company financials, HC Brokerage

Chart ##: Chart Title

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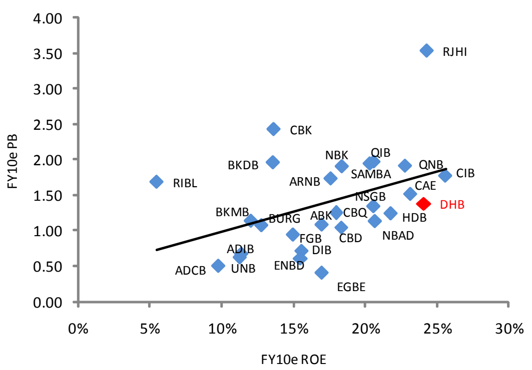

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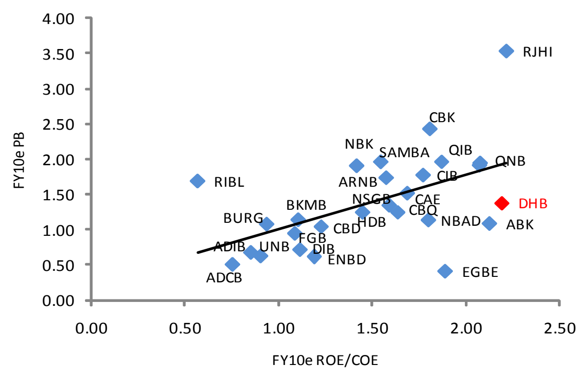
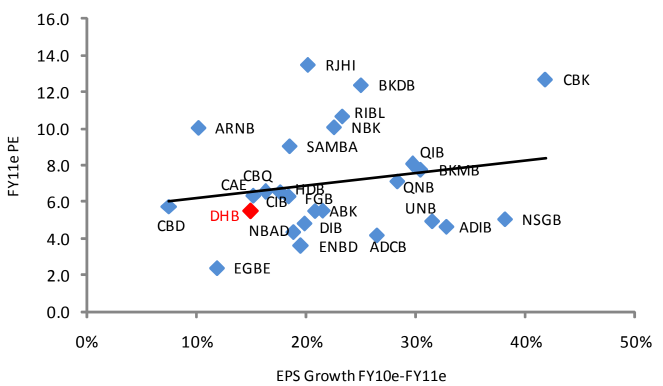


FY11e PE vs. EPS Growth (FY10e – FY11e)



Source: Company financials, Bloomberg, HC Brokerage

Financial Statements

QAR Million	2008	2009e	2010e	2011e	2012e	2013e
Income Statement						
Interest income	2,239.5	2,522.8	2,905.3	3,226.1	3,590.6	3,999.4
Interest expense	1,132.0	1,219.6	1,422.5	1,595.5	1,708.7	1,882.5
Net interest income	**1,107.5**	**1,303.2**	**1,482.8**	**1,630.6**	**1,881.9**	**2,116.9**
Fees & Commissions	339.9	350.1	385.1	423.6	466.0	512.6
FX Income	56.4	62.1	65.2	68.5	71.9	75.5
Investment income	107.6	255.8	189.2	164.2	212.3	225.9
Other income	64.1	100.9	73.5	75.5	76.9	79.7
Non-interest income	**568.0**	**768.9**	**713.0**	**731.8**	**827.1**	**893.6**
Total income	**1,675.5**	**2,072.1**	**2,195.8**	**2,362.4**	**2,709.0**	**3,010.5**
Total operating expenses	**539.8**	**589.4**	**645.0**	**688.5**	**756.4**	**859.7**
Pre-provision income	**1,135.7**	**1,482.6**	**1,550.8**	**1,673.8**	**1,952.5**	**2,150.8**
Provisions	188.5	362.6	226.9	151.4	164.1	181.1
Associate and other income	(0.3)	-	0.1	0.2	0.2	0.2
Pre-tax income	**946.9**	**1,120.0**	**1,324.1**	**1,522.6**	**1,788.6**	**1,969.9**
Income taxes	0.4	0.5	0.6	0.7	0.8	0.8
Net income after tax	**946.5**	**1,119.5**	**1,323.5**	**1,521.9**	**1,787.8**	**1,969.1**
Minority interest	-	-	-	-	-	-
Net income	**946.5**	**1,119.5**	**1,323.5**	**1,521.9**	**1,787.8**	**1,969.1**
Balance Sheet						
Assets						
Cash & due from central bank	2,552.0	1,391.4	2,681.7	3,476.5	5,277.9	6,741.9
Due from banks	7,949.8	9,438.7	9,798.4	12,157.1	13,615.9	15,249.8
Investments	3,379.8	5,148.4	5,663.2	5,285.7	5,328.0	5,967.3
Gross loans	**24,812.5**	**26,301.3**	**28,405.4**	**31,245.9**	**34,370.5**	**37,807.5**
NPL provisions	563.5	668.7	782.3	907.3	1,044.8	1,196.0
Unearned profit	**23,965.7**	**25,632.5**	**27,623.0**	**30,338.6**	**33,325.7**	**36,611.5**
Net loans	660.1	699.3	769.3	914.4	965.0	1,014.4
Other assets	495.6	592.9	658.0	684.6	687.2	718.6
Net fixed assets	**39,003.0**	**42,903.3**	**47,193.6**	**52,856.8**	**59,199.7**	**66,303.6**
Total assets						
Liabilities						
Total deposits	**23,276.7**	**24,219.5**	**25,424.7**	**28,449.0**	**32,369.6**	**36,301.0**
Due to banks	8,160.6	11,703.4	13,342.0	14,553.1	14,785.8	16,096.8
Borrowings	1,232.1	850.9	850.9	850.9	850.9	850.9
Other liabilities	1,420.9	957.9	1,275.1	1,405.2	2,077.2	2,276.1
Total liabilities	**34,090.2**	**37,982.6**	**41,143.5**	**45,508.8**	**50,323.4**	**55,766.5**
Shareholders' equity	**4,912.8**	**4,920.6**	**6,050.1**	**7,348.0**	**8,876.3**	**10,537.1**

Rating Scale

Recommendation	Upside
Buy	Greater than 25%
Hold	0-25%
Sell	Less than 0%

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