

Qatar Banks: Quality comes at a Price!

We reinitiate coverage on conventional Qatar Banks with an Overweight rating with CBQK (TP: QAR97.5/share) and DHBK (TP: QAR71/share) our top two picks and QNBK (TP: QAR142.25/share) offering modest upside. Qatar's GDP growth should keep registering in the 6% range – higher than GCC peers - with focus on diversification away from hydrocarbons. Consistent asset growth, sustained NIMs above 3% and contained credit costs (0.5%-1.0%) should combine to drive double-digit NPAT CAGR over the medium-term. Following recent capital injections by QIA, Qatari banks in general remain well capitalized; although this may compress near-term ROE, valuation multiples should be protected by potential ramp up in dividend payouts. We expect the conventional Qatari banks to continue trading at a premium to GCC peers and broadly at par with select EM banks where potential QE upgrade to MSCI EM Index and/or increase in foreign ownership limits may unlock further upside. For DHBK and CBQK we believe the market is underrating dividend payout potential where 7.6%+ D/Ys on CY12F are very appealing.

Supportive Macros: While Qatar comes off supernormal GDP growth following a moratorium on hydrocarbon development, GDP growth of ~6% p.a. across the next 5yrs will still be the highest within the GCC. Post completion of its hydrocarbon commercialization program, Qatar will focus on economic diversification through increased manufacturing growth and big-ticket infrastructure outlay (~US\$100bn). Inflation (+1.2%YoY in Mar'12) is under control but the QCB appears alert to liquidity management needs, if required

Well Capitalized Banks: QIA injected US\$2.8bn into the banking system across CY09-CY11 which has bumped the sector's CAR above 22%. Although this may crimp ROEs slightly in the near-term, cash payouts are expected to stay relatively high despite Basel III requirements. Even DHBK (comparatively low CAR of 13.2% in CY11) should be able to sustain high payouts through partial reliance on bonds. QNBK may look to lever up (organically or through M&A) while CBQK should not experience any ROE dip at all.

Strong Operating Metrics: With NIMs likely to stay flattish over the next 3yrs, earnings will be driven by asset growth induced by burgeoning demand from the government/quasi-sovereign entities, which should compensate for tighter rules for personal loans. Systemic asset quality remains in control with NPL ratio of less than 3% while 100%+ coverage (DHBK trails at 73%) implies contained credit costs going forward. All this should trickle down into sustained double-digit profit growth for Qatar Banks.

Investment Perspective: Closure of Islamic banking windows has not had a discernable impact on conventional Qatar Banks while continued high payouts should compensate for trimmed near-term ROEs. Quality comes at a price where Qatari banks will justifiably continue to trade at a premium to GCC peers. Our top two picks are CBQK (CY12F P/B: 1.23x, P/E : 8.93x, D/Y: 8.4%) and DHBK (CY12F P/B: 1.42x, P/E: 8.82x, D/Y: 7.7%) where Dec'12-end target prices offer upside of 32% and 23%, respectively.

Target Price Compositions:				Valuation Multiples:		
	TP	Weight	Blended TP	2011	2012	2013
CBQK	P/B	94.73	50%	47.36	EPS (QAR)	7.61
	P/E	92.68	25%	23.17	PE(x)	9.72
	DDM	107.81	25%	26.95	PB(x)	1.29
	TP	97.50		DY (%)	8.11	8.45
DHBK	P/B	72.61	50%	36.30	EPS (QAR)	6.00
	P/E	64.15	25%	16.04	PE (x)	9.71
	DDM	75.23	25%	18.81	PB (x)	1.70
	TP	71.20		DY (%)	7.72	7.72
QNBK	P/B	158.79	50%	79.39	EPS (QAR)	10.73
	P/E	109.89	25%	27.47	PE (x)	12.51
	DDM	141.53	25%	35.38	PB (x)	1.93
	TP	142.25		DY (%)	3.64	6.00

Equity Research | Qatar

Investment Outline

Sector	Commercial Banks
Stance	Overweight
CBQK Current:	(QAR) 74.00
Target Price:	(QAR) 97.50
Upside	32%
Recommendation	Buy
DHBK Current:	(QAR) 58.30
Target Price:	(QAR) 71.20
Upside	23%
Recommendation	Buy
QNBK Current:	(QAR) 134.20
Target Price:	(QAR) 142.25
Upside	6%
Recommendation	Accumulate

Market Info of Stocks

Ticker	CBQK	DHBK	QNBK
Year End	31-Dec	31-Dec	31-Dec
Closing (21-04-12) (QAR)	74.0	58.3	134.2
No. of Shares (mn)	247.45	206.70	699.73
Market Cap (QAR bn)	18.31	12.05	93.90
Market Cap (US\$ bn)	5.03	3.31	25.78

52 Week Range:

High (QAR)	87.20	67.20	142.73
Low (QAR)	67.60	49.90	121.82
Avg. Volume ('000)	183.42	166.91	196.35
Avg. Value traded (QAR mn)	14.25	10.07	25.55

Share Holding Structure:

Free Float %	75%	83%	50%
--------------	-----	-----	-----

Source: TAIB Research

Raza Jafri, CFA

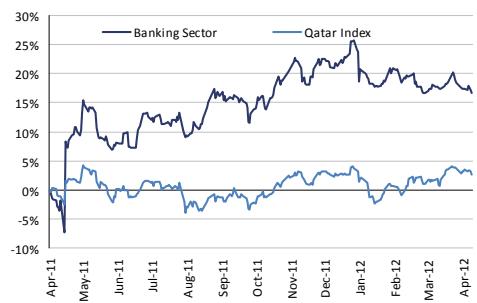
Deputy Head of Research

raza.jafri@taib.com

Tel: +(973) 17 549-499

TAIB Tower, Diplomatic Area
 Post Box 20485, Manama,
 Kingdom of Bahrain

Performance: Qatar Banks vs. QE Index



Source: TAIB Research



Contents

Inside this issue:

Commercial Bank of Qatar Ltd.	Pg:03
Doha Bank Ltd.	Pg:08
Qatar National Bank Ltd.	Pg:13
Analyst Certification	Pg:18
About Us	Pg:19

CBQK: Value for Money or Value Trap?

We reinitiate coverage on CBQK with a Dec'12 target price of QAR97.5/share which offers an upside of 32% (total return potential: 40%). Our bullish investment case is based on projected 11% NPAT CAGR across CY11-CY16F and a continued high payout ratio, which should generate incrementally higher ROE for CBQK across at least the next 5yrs. While we would like to see more domestic loan book diversification for CBQK (Real Estate + Consumer is ~40% of loans), we believe the bank's exposure to Oman and UAE - through NBOB & UAB - should be taken as a positive. These associate banks have been generating consistently higher profits over the last 3yrs and we are particularly excited about NBOB with the Central Bank of Oman set to award Islamic banking licenses. While we have as yet not incorporated this in our financial model, NBOB's high growth potential could significantly enhance upside in the parent. CBQK trades at a CY12F P/B of 1.23x and P/E of 8.93x. These are among the most attractive valuation multiples among Qatari banks where forward D/Y of 8.5% acts as an added sweetener.

Consistent ROE Expansion: From 23.5% in CY07, CBQK's ROE dipped to 13.3% in CY10 before improving to 14.1% in CY11. We believe the bank's ROE will continue to incline, where we expect it to reach 16.9% by CY16F (CY12F-CY16F average: 15.5%). This should be driven by a projected 11% NPAT CAGR across the next 5yrs coupled with a consistent high payouts. The former should be propelled by consistent double digit loan growth, sustained NIMs above 3%, contained credit costs and a flat 30% Cost/Income ratio.

Associates with potential: CBQK has ~40% stakes in UAE's United Arab Bank (UAB) and National Bank of Oman (NBOB). These are two consistently profitable banks with profitability on an uptick; UAB and NBOB posted earnings growth of 7%YoY and 27%YoY, respectively, in CY11. We believe fast-track growth for these associates is a possibility, particularly for NBOB where the central bank intends to issue Islamic banking licenses. This could potentially raise CBQK's earnings estimates going forward.

High D/Y can sustain: CBQK's payout ratio has averaged 77% across the last 5yrs. While we see the payout ratio easing to average 66% across CY12F-CY16F, this should still translate into a highly impressive D/Y. In this regard, while CBQK may have to rollover some debt going forward, CAR should still average in the high teens, comfortable even in view of Basel III requirements.

Valuations & Investment Perspective: Having shed 11.9% CYTD, CBQK trades at a CY12F P/B of 1.23x, P/E of 8.93x and D/Y of 8.4%. These are attractive valuations, particularly in the context of Qatari banks. We recommend a Buy stance on CBQK based on our blended target price of QAR97.5/share. We discount CBQK at 12% given its UAE exposure and relatively concentrated domestic loan book.

Investment Outline

CBQK Current:	(QAR) 74.00
Target Price:	(QAR) 97.50
Upside	32%
Recommendation	Buy

CBQK: Shareholding Structure

Name	Type	Holding
Public	General	74.53%
Qatar Holding	Government	16.70%
Others	Corporate	8.77%

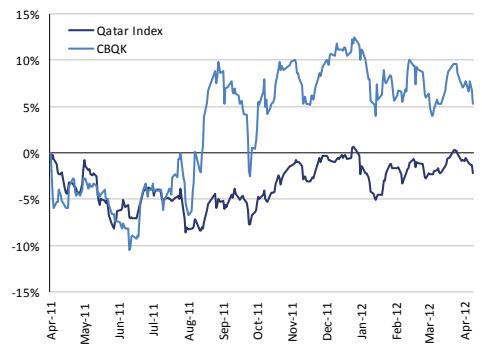
Source: Company Reports

CBQK: Subsidiaries & Associates ownership

National Bank of Oman	34.9%
United Arab Bank	40.0%
Asteco Qatar	30.0%
Gekko L.L.C.	50.0%
Massoun Insurance Services	50.0%

Source: Company Reports

CBQK Price Performance



Source: TAIB Research

CBQK: Valuation Summary

Year End Dec 31	CY11A	CY12F	CY13F	CY14F	CY15F
EPS (QAR)	7.61	8.29	9.04	10.07	11.09
EPS Growth	15%	9%	9%	11%	10%
ROE Total SHEQ (Average)	14.10	14.08	14.67	15.51	16.07
PER (x)	9.72	8.93	8.18	7.35	6.67
P/B Total BVS (x)	1.29	1.23	1.17	1.11	1.04
Market Cap to Deposits	48%	43%	38%	34%	29%
ROE/PB (x)	10.95	11.45	12.51	13.99	15.46
Dividend yield	8%	8%	9%	9%	9%
Payout Ratio	79%	75%	72%	67%	63%

Source: Company Reports, TAIB Research

Consistent ROE Expansion

From 23.5% in CY07, CBQK's ROE dipped to 13.3% in CY10 before improving to 14.1% in CY11. We believe the bank's ROE will continue to incline, where we expect it to reach 16.9% by CY16F (CY12F-CY16F avg: 15.5%). This should be driven by a projected 11% NPAT CAGR across the next 5yrs coupled with a consistent high payout. The former should be propelled by consistent double digit loan growth, sustained NIMs above 3%, contained credit costs and a flat 30% Cost/Income ratio.

ROE Decomposition: We see CBQK's ROE showing consistent expansion, at least over the next 5yrs, to cross 16% from ~14% at present. While higher Net Interest Income should lead to some improvement in ROA, the main kicker for ROE is expected to be higher leverage as focus shifts to balance sheet expansion.

ROE Decomposition

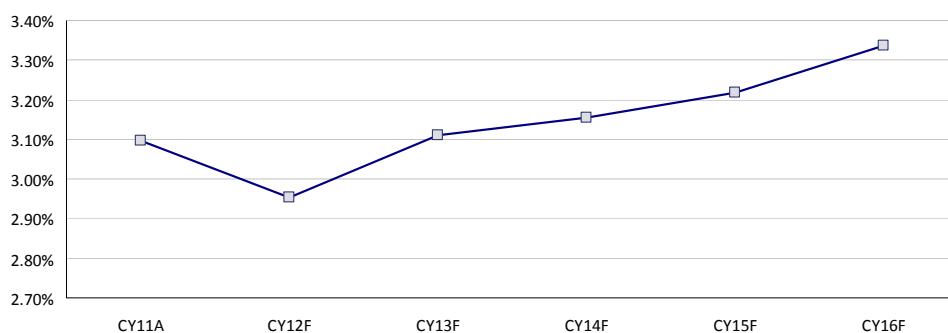
ROE Decomposition	CY11	CY12F	CY13F	CY14F	CY15F
Net Interest Income / Assets	2.9%	2.8%	2.9%	3.0%	3.0%
Non. Int. Income / Assets	1.7%	1.7%	1.7%	1.7%	1.6%
Expenses / Assets	-1.3%	-1.4%	-1.4%	-1.4%	-1.4%
Core Income / Assets	3.3%	3.1%	3.2%	3.2%	3.2%
Provisions / Assets	0.4%	0.3%	0.4%	0.4%	0.4%
Pre tax ROA	2.8%	2.8%	2.9%	2.9%	2.9%
Tax Burden (x)	100.0%	99.7%	99.5%	99.5%	99.5%
ROA	2.8%	2.8%	2.9%	2.9%	2.9%
Leverage (x)	5.02	4.98	5.06	5.29	5.54
ROE	14.1%	14.1%	14.7%	15.5%	16.1%

Source: Company Reports &TAIB Research

Key ROE Drivers

- Loan growth:** Projected to average 12% p.a. over next 5yrs. We see public sector and infrastructure lending gaining loan book share, at the expense of consumer finance with conscious focus on diversification.
- NIMs:** Despite slightly lower % exposure to consumer finance going forward, generally strong credit demand should keep lending yields upward sticky. We see NIMs averaging 3.1%-3.2% across the next 5yrs.
- Credit costs:** We expect credit costs to average 0.6% across CY12F-CY16F, similar to the average across the last 5yrs.
- Cost/Income:** While inflation may incrementally creep up, the Cost/Income ratio should stay sticky in the early 30%. In this regard, CBQK management has indicated that outsourcing for IT/back office operations may potentially save QAR250mn over a 5yr period.

NIMs Trend



Source: Company Reports &TAIB Research

Associates with potential

CBQK has ~40% stakes in UAE's United Arab Bank (UAB) and National Bank of Oman (NBOB). These are two consistently profitable banks with profitability on an uptick; UAB and NBOB posted earnings growth of 7%YoY and 27%YoY, respectively, in CY11. We believe fast-track growth for these associates is a possibility, particularly for NBOB where the central bank intends to issue Islamic banking licenses. This could potentially raise CBQK's earnings estimates going forward.

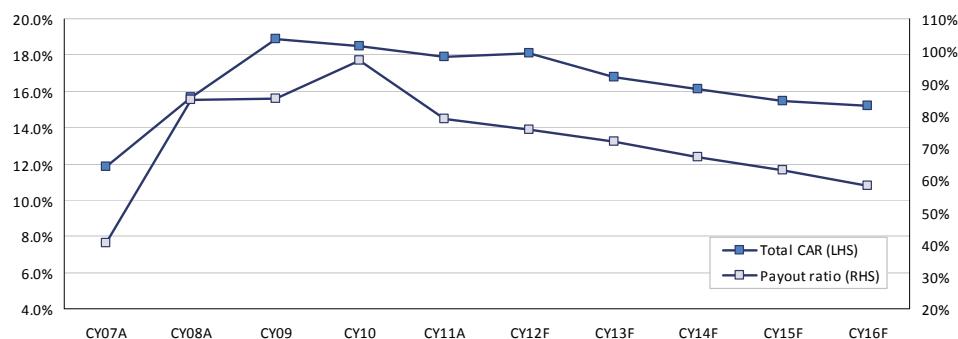
NBOB & Islamic banking: CBQK has a 39.4% stake in NBOB which is the 2nd largest bank in Oman with assets of OMR2.2bn on Dec 31'11. While NBOB's profits have yet to hit peak CY08 levels, the bank has been registering strong growth over the last few years with Net Profit growing by a robust 27%YoY in CY11. Going forward, we see immense positives arising out of proposed introduction of Islamic banking in Oman where NBOB has announced plans to start Islamic banking operations in 2012. In this regard, industry players indicate that Islamic banking could capture an 8%-10% banking market share in Oman over the next 3-5yrs. As such, high growth prospects for NBOB may translate into valuation multiples rerating for the parent, CBQK, alongside higher share of profits going forward.

Stabilization in UAE: CBQK has a 40% stake in Sharjah-based UAB which has posted Net Profit growth of 7%YoY in CY11. This is inline with the 6%-7% profit growth across our sample of UAE banks. As a result, UAB's CY08-CY11 NPAT CAGR has registered at 10%. With UAE growth appearing to be recovering from its trough, news reports indicate that the UAE central bank has lifted the payout ceiling for banks (50% previously). We believe this points to increasing confidence in UAE banks even as the central bank is likely to retain a vigilant stance (e.g. DIB was advised to reduce its CY11 dividend ratio from 15% to 12.5% while caps have been placed on loans made to local governments and their entities—100% of capital base for governments/quasi-sovereign entities and 25% to individual borrowers).

High D/Y can sustain

CBQK's payout ratio has averaged 77% across the last 5yrs. While we see the payout ratio easing to average 67% across CY12F-CY16F, this should still translate into a highly impressive D/Y. In this regard, while CBQK may have to rollover some debt going forward, CAR should still average in the high teens, comfortable even in view of Basel III requirements.

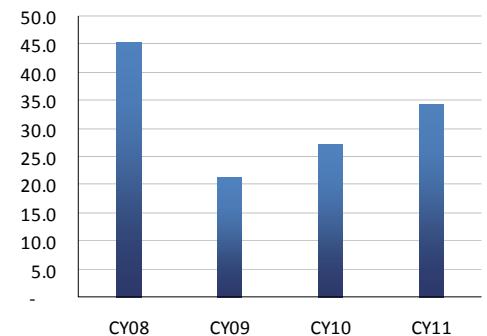
CAR vs. Payout ratio



Source: Company Reports, TAIB Research

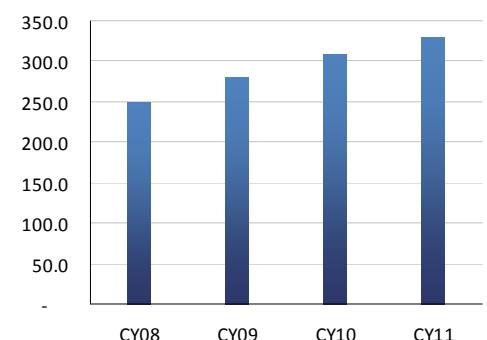
15%+ CAR to sustain: With CBQK maintaining an 80%+ payout over the last 3yrs, the bank's CAR has trimmed from 18.9% in CY09 to 17.9% in CY11. While we expect CBQK to post incrementally higher dividends going forward, payout ratio may conceivably contract to less than 70% across the next 5yrs in view of tighter Basel III requirements. Nevertheless, CBQK is still trading at an

Profit trend for Nat. Bank of Oman (OMR mn)



Source: Company Report

Profit trend for United Arab Bank (AED mn)



Source: Company Report

attractive CY12F dividend yield of 8.5% while, at the same time, higher common equity requirements entail consistent 20%+ bonus payouts over the next 3-4yrs. That said, CBQK may have to rollover some Tier-II capital where we have incorporated this in our financial model.

Valuations & Investment Perspective

We value CBQK on Justified P/B (TP: QAR94.73/share; 50% weight), Justified P/E (TP: QAR92.68/share; 25% weight) and DDM (QAR107.81/share; 25% weight) under a discounting factor of 12% (risk-free rate of 4.5%, beta of 1 and equity risk premium of 7.5%) and terminal growth rate of 6%. Our slightly higher risk premium is on account of a concentrated domestic loan book and exposure to UAE, where the banking environment is still relatively risky viz. the GCC.

Blended TP (QAR)			
	TP	Weight	Blended TP
P/B	94.73	50%	47.36
P/E	92.68	25%	23.17
DDM	107.81	25%	26.95
TP			97.49



Source: Bloomberg, TAIB Research

Commercial Bank of Qatar Ltd.

TAIB Securities WLL
research@taib.com
(973) 17 549-499

April 23, 2012

CBQK: Annual Databank

Valuation Statistics

Year End Dec 31	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
EPS (QAR)	7.61	8.29	9.04	10.07	11.09	12.49
EPS Growth	15%	9%	9%	11%	10%	13%
PER (x)	9.72	8.93	8.18	7.35	6.67	5.93
Total BVS (QAR)	57.51	60.20	63.09	66.77	71.20	76.79
P/B Total BVS (x)	1.29	1.23	1.17	1.11	1.04	0.96
ROE/PB Total SHEQ (x)	10.95	11.45	12.51	13.99	15.46	17.51
Net Loans to Deposits	110%	108%	107%	104%	103%	101%
Yield on earning assets	4.89%	4.80%	4.93%	4.97%	5.25%	5.57%
Cost of Funds	1.79%	1.85%	1.82%	1.81%	2.03%	2.23%
NIMs	3.10%	2.95%	3.11%	3.16%	3.22%	3.34%
Growth in Loan Book (Net)	24%	10%	12%	11%	14%	15%
Growth in Deposits (incl. UIA)	14%	11%	13%	14%	16%	17%
Market Cap to Deposits	48%	43%	38%	34%	29%	25%
Cost/Income	29%	31%	31%	31%	31%	30%
ROE Total SHEQ (Average)	14.1%	14.1%	14.7%	15.5%	16.1%	16.9%
ROA (average)	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%
DPS (QAR)	6.00	6.25	6.50	6.75	7.00	7.25
Dividend yield	8.1%	8.4%	8.8%	9.1%	9.5%	9.8%
Payout Ratio	79%	75%	72%	67%	63%	58%

Source: Company Reports, TAIB Research

Income Statement

(In QARmn)	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
Interest Income	2,876	3,072	3,357	3,731	4,399	5,226
Interest Expense	939	1,047	1,131	1,219	1,538	1,909
Net Interest Income	1,938	2,025	2,225	2,511	2,861	3,317
Net Fees and Commission	753	809	870	935	1,005	1,080
Net gains from dealing in Fx	130	139	150	161	173	186
Gains from investments	136	147	158	169	182	196
Share of Profit of associates	203	226	251	279	310	345
Total Operating Income	3,067	3,243	3,540	3,930	4,393	4,971
General/Admin expenses	762	876	963	1,060	1,192	1,341
Provisions/(Recoveries)	239	252	271	303	375	448
Net Profit Before Taxes	1,884	2,061	2,249	2,505	2,757	3,106
Taxes	-	10	11	13	14	16
Net Profit	1,884	2,050	2,238	2,492	2,743	3,090
Net Profit for Shareholders	1,884	2,050	2,238	2,492	2,743	3,090

Source: Company Reports, TAIB Research

Balance Sheet

(In QARmn)	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
Loans to Customers	41,614	45,633	51,052	56,788	64,924	74,347
Investments	11,733	10,960	11,602	12,447	13,376	13,010
Investments in Associates	3,926	4,144	4,386	4,656	4,955	5,288
Total Assets	71,540	73,430	80,837	89,040	100,044	111,644
Customer Deposits	37,989	42,172	47,771	54,507	63,247	73,857
Borrowings incl. Subordinated Debt	12,205	8,533	8,843	8,540	8,758	7,324
Total Liabilities	57,310	58,533	65,225	72,519	82,424	92,642
Paid up Share Capital	2,474	2,474	2,885	3,444	4,067	4,616
Statutory Reserve	8,741	8,741	8,741	8,741	8,741	8,741
Retained Earnings	211	349	122	211	525	1,191
Total SHEQ	14,230	14,896	15,612	16,521	17,619	19,002
Total Liabilities & SHEQ	71,540	73,430	80,837	89,040	100,044	111,644

Source: Company Reports, TAIB Research

CBQK Overview

With assets of QAR72bn (US\$19.7bn), Commercial Bank of Qatar (CBQK) is the second largest bank in Qatar. Among others, business areas include corporate banking, retail banking (focus on HNW and affluent segments) and the Diners Club franchise in Qatar and Oman through a subsidiary. While government exposure (through quasi-sovereign entities) and consumer loans (18% of total loans) form an important part of the loan book, the single largest exposure is towards real estate (31% of gross loans). This is accentuated through a ~40% in UAE's United Arab Bank (UAB)

Company History

Commercial Bank of Qatar (CBQK) was founded in 1975 as Qatar's first private bank. In 1991, CBQK acquired the Diners Club franchises for Qatar and Oman. In the 2000s, CBQK expanded its footprint in the GCC through stake purchases in the National Bank of Oman (NBOB) and United Arab Bank (UAB). CBQK was the first Qatari bank to list its GDRs and bonds on the London Stock Exchange. In 2010, CBQK's CHF denominated bonds were listed on the Swiss Exchange. Major shareholders in CBQK include Qatar Holdings while QNBK also has a small minority stake.

DHBK: Sustained earnings uptick

We reinitiate coverage on DHBK with a Dec'12 target price of QAR71/share which offers upside of 23% together with a forward dividend yield of 7.7%. After range-bound profits of QAR900mn-QAR1bn over CY07-CY10, DHBK has posted Net Profit of QAR1.25bn (EPS: QAR6.00) in CY11, up a robust 18%YoY largely due to NIM-driven NII growth and lower provisions. We believe this sharp uptick in profitability is sustainable where we conservatively see a 10% Net Profit CAGR across the next 5yrs. While the average CY12F-CY16F payout ratio may register in the mid-60%, ROE should bottom out at 17% by CY13F before depicting consistent improvement. DHBK trades at a CY12F P/B of 1.42x and P/E of 8.82x where our revised target price of QAR71/share implies a Buy stance. Similar to CBQK, we believe the market is under-rating DHBK's dividend payout capacity where partial utilization of DHBK's subordinated debt program will be more than sufficient to keep minority shareholders interested over the medium-term. Street talk of DHBK potentially converting into a full-fledged Islamic bank should be taken as a long-term positive, in our view, with Qatari Islamic banks trading at a premium to conventional peers.

Sustainable uptick in profitability: After range-bound profits of QAR900mn-QAR1bn over CY07-CY10, DHBK has posted Net Profit of QAR1.25bn (EPS: QAR6.00) in CY11, up a robust 18% YoY largely due to NIM-driven NII growth (+16%YoY) and lower provisions (-17%YoY). We believe this uptick in earnings growth is sustainable where we conservatively project a 10% Net Profit CAGR over the next 5yrs driven by higher NII and contained credit costs even after accounting for higher coverage (73% in CY11).

ROE to bottom in CY13F: Tier-I and Total ROE are projected to average 23.3% and 17.4%, respectively, over CY12F-CY16F, where ROE should depict a sustainable uptrend post CY13F. We see DHBK's US\$2bn EMTN program as more than sufficient to keep capital strength intact in the near-term, with further bond issues enabling the bank to maintain an average payout of 63% across CY12F-CY16F vs. an average of 80% across the previous 5yrs. We see DHBK increasing its asset base by 85% by CY16F, slightly lower than management projections.

Shariah-compliant banking? According to recent media reports, DHBK is considering a proposal by shareholders to convert into a full-fledged Islamic bank where a BoD meeting may soon be set up to make the call. While we would view the proposed conversion into an Islamic bank as a long-term positive (Qatari Islamic banks on average trade at a premium of 3%-10% vs. conventional peers), it would likely lead to near-term volatility and potential immediate loss of operating efficiency.

Valuations & Investment Perspective: Having shed 9.05% CYTD, DHBK trades at a CY12F P/B of 1.42x, P/E of 8.82x and D/Y of 7.7%. These are attractive valuations, particularly in terms of dividend yield. We recommend a Buy stance on DHBK based on our blended target price of QAR71/share. DHBK is discounted at 12.5% given low CAR cushion, below-par coverage and relative opaqueness over medium-term strategic direction.

DHBK: Valuation Summary

Year End Dec 31	CY11A	CY12F	CY13F	CY14F	CY15F
EPS (PkR)	6.00	6.61	7.21	7.89	8.65
EPS Growth	18%	10%	9%	9%	10%
ROE Total SHEQ (average)	18.9%	17.6%	17.0%	17.3%	17.6%
PER (x)	9.91	9.00	8.25	7.54	6.88
P/B Total BVS (x)	1.74	1.45	1.35	1.25	1.16
Market Cap to Deposits	39%	35%	31%	27%	23%
ROE/PB (x)	10.90	12.18	12.60	13.82	15.19
Dividend yield	8%	8%	8%	8%	9%
Payout Ratio	75%	68%	66%	63%	61%

Source: Company Reports, TAIB Research

Investment Outline

DHBK Current:	(QAR) 58.30
Target Price:	(QAR) 71.20
Upside	23%
Recommendation	Buy

DHBK Subsidiaries & Associates ownership

Name	Type	Holding
Public	General	83.33%
Qatar Investment Authority	Government	17%

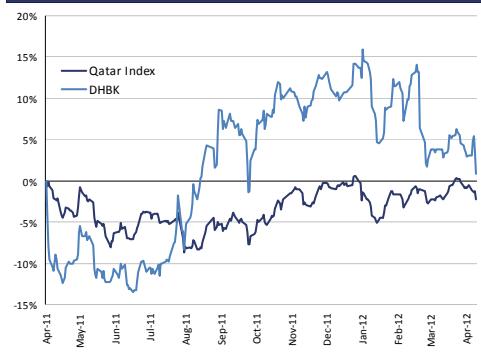
Source: Zawya

DHBK Subsidiaries & Associates ownership

Doha Bank Assurance Co	100%
Dbank Tech	100%
DB Capital	100%
Doha Brokerage and Financial Services	44%

Source: Company Reports

DHBK Price History



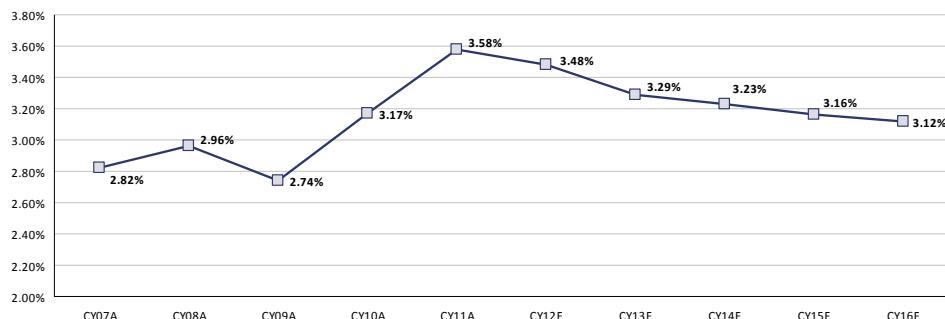
Source: IFA

Sustainable uptick in profitability

After range-bound profits of QAR900mn-QAR1bn over CY07-CY10, DHBK has posted Net Profit of QAR1.25bn (EPS: QAR6.00) in CY11, up a robust 18%YoY largely due to NIM-driven NII growth (+16%YoY) and lower provisions (-17%YoY). We believe this uptick in earnings growth is sustainable where we conservatively project a 10% Net Profit CAGR over the next 5yrs driven by higher NII and contained credit costs even after accounting for higher coverage (73% in CY11).

NIMs to sustain above 3%: We estimate that DHBK's NIMs expanded by 40bps to 3.6% in CY11 where the high proportion of term deposits (70%) worked in the bank's favor in a lower interest rate environment. Going forward, we do not see interest rates picking up before mid-CY14 at the earliest (going by recent US FOMC consensus) which should protect the bank's NIMs even as the proportion of consumer financing in the loan book declines. As such, we project average NIMs of ~3.25% over the next 5yrs which should drive a 13% NII growth CAGR until CY16F.

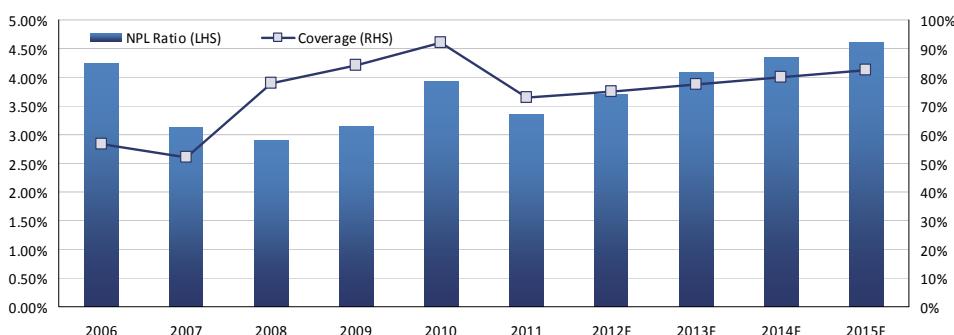
NIMs to contract but stay above 3%



Source: Company Report, TAIB Research

Flattening NPLs: Stock of NPLs reduced by 3%YoY to QAR1.06bn (NPL ratio: 3.4% from 3.9% a year earlier). However, provisioning coverage also reduced to 73% from 92% a year earlier. Going forward, even if NPL accretion resumes and coverage inches up, we do not see credit costs exceeding 0.9%. While this is still relatively high vs. the 0.6% average over the last 5yrs, earnings growth momentum should not stall.

Asset Quality Trend: Coverage has to inch up



Source: Company Reports, TAIB Research

10% Profit CAGR: 18%YoY profit growth in CY11 has enabled DHBK to post CY06-CY11 profit CAGR of 11%. We conservatively expect the bank to post profit CAGR of 10% across the coming 5yrs where upside to estimates arises from 1) potential increase in low-cost deposits in the overall funding mix and 2) lower than projected credit costs.

Loan Book Composition - By Sector	
Govt.	4.5%
Govt. Agencies	4.4%
Industry	1.8%
Commercial	15.8%
Services	3.1%
Contracting	15.0%
Real Estate	21.8%
Personal	32.9%
Others	0.6%
Total	100.0%

Source: Company Reports &TAIB Research

Deposit Mix

By Origin	By Type
Govt.	8.2% Current 25.0%
Govt. Agency	26.1% Savings 4.9%
Individual	40.9% Time 70.1%
Corporate	24.8% Islamic 0.0%
Total	100% Total 100%

Source: Company Reports &TAIB Research

ROE to bottom in CY13F

Tier-I and Total ROE are projected to average 23.3% and 17.4%, respectively, over CY12F-CY16F, where ROE should depict a sustainable uptrend post CY13F. We see DHBK's US\$2bn EMTN program as more than sufficient to keep capital strength intact in the near-term, with further bond issues enabling the bank to maintain an average payout of 63% across CY12F-CY16F vs. an average of 80% across the previous 5yrs. We see DHBK increasing its asset base by 85% by CY16F, slightly lower than management projections.

ROE Decomposition: Following recent 20% additional capital injection from QIA coupled with anticipated lower leverage, ROE for DHBK is projected to compress to ~17% in CY13F from 19% in CY11. However, ROE is projected to pick up beyond CY13F as an expected stronger capital base (partly due to bond issuances) allows the bank to expand its asset base.

Retail lending caps: The QCB has recently tightened regulations on consumer lending which seemingly affect DHBK more considering retail lending occupies almost a 33% share in the bank's loan book. In this regard, while margins are likely to squeeze (rate on personal loans capped at QCB policy lending rate + 1.5%), there does appear to be more room to lend to Qatar nationals (limit of QAR2mn from QAR2.5mn previously but monthly debt service coverage ratio increased to 75% from 50%). As such, while we see trimmer margins for DHBK over the next few years, share of retail loans in the bank's book should remain above 25%, with volume growth to compensate for lower lending yields.

Tighter retail lending criteria should impact DHBK more than peers

Maximum limits on Credit Facilities against salary:

Loans and Islamic Finance	Qatari Citizen	Non-Qatari Residents
Max. limit on loans and islamic finance including the principal and interest or return	QAR 2million	QAR 400,000. In case the limit exceeds this amount, the excess should be covered by holding the post-retirement benefits for the government employees by an official letter from the place of work. However in all cases, the loan or Islamic finance should not exceed QAR 1million.
Max. period of loan or islamic finance	6years	4years
Max. rate of interest or return	QCB rate + 1.5%	QCB rate + 1.5%
Total monthly obligations against salary	75% of the sum of basic salary and social allowance only	50% of total salary

Source: Qatar Central Bank

Higher leverage post CY13F: DHBK has recently launched a US\$500mn 5yr bond with pricing at 262.5bps over midswaps. At the same time, DHBK has announced a US\$2bn EMTN program. We expect DHBK to continue rolling over maturing debt over the medium-term. This should allow the bank to maintain a 15%+ CAR while still retaining a relatively high payout ratio (avg. 63% across next 5yrs) and depicting a 13% asset CAGR over the medium-term. This should enable sustained ROE uptick post CY13F.

Bond issues should allow space on capital adequacy, leading to incrementally higher dividends

Shariah-compliant banking?

According to recent media reports, DHBK is considering a proposal by shareholders to convert into a full-fledged Islamic bank where a BoD meeting may soon be set up to make the call. While we would view the proposed conversion into an Islamic bank as a long-term positive (Qatari Islamic banks on average trade at a premium of 3%-10% vs. conventional peers), it would likely lead to near-term volatility and potential immediate loss of operating efficiency.

Banking segregation: In Feb'11, the QCB directed conventional banks to wind up existing Islamic banking windows by Dec 31'11. This directive reduces the number of institutions providing Islamic banking services from 12 to 4 – effectively easing the playing field for incumbent Islamic banks. In this regard, initial investor reaction (Islamic banks jumped in Feb'11 at the expense of conventional peers) indicates broader expectations that Islamic banks will rapidly gain market share (at peak, Islamic assets accounted for > 30% of total banking assets). While the process

may take time, going by Dec'11 numbers where Islamic banks have not posted extraordinary balance sheet growth, we believe Qatari Islamic banks are well placed to outpace conventional banks over the medium-term.

Islamic Banks' share prices jumped on separation of Islamic/Conventional Operations



Source: Zawya, TAIB Research

Islamic banks' shares jumped following the announcement of closure of conventional banks' Islamic operations

DHBK in the mix: Recent news reports indicate DHBK is considering a proposal to convert into a full-fledged Islamic bank. Considering DHBK's Islamic deposits were only ~6% of the bank's deposit base, any conversion would be akin to a fresh start for DHBK. While we are cognizant of long-term benefits (Qatari Islamic banks trade at a 3%-10% premium to conventional peers), revamp of systems/operating methodology in the immediate aftermath of conversion may lead to a temporary loss in efficiency. Accordingly, we discount DHBK at a relatively high 12.5% to account for opaqueness in near-to-medium term strategic direction.

Valuations & Investment Perspective

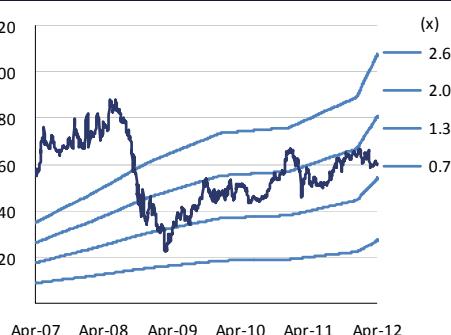
We value DHBK on Justified P/B (TP: QAR72.61/share; 50% weight), Justified P/E (TP: QAR64.15/share; 25% weight) and DDM (QAR75.23/share; 25% weight) under a discounting factor of 12.5% (risk-free rate of 4.5%, beta of 1 and equity risk premium of 8.0%) and terminal growth rate of 6%. Our slightly higher risk premium is on account given low CAR cushion, below-par coverage and relative opaqueness over medium-term strategic direction.

Blended TP (QAR)			
	TP	Weight	Blended TP
P/B	72.61	50%	36.30
P/E	64.15	25%	16.04
DDM	75.23	25%	18.81
TP			71.15

DHBK: P/E (x) Bands



DHBK: P/B (x) Bands



Source: Bloomberg, TAIB Research

DHBK: Annual Databank

Valuation Statistics

Year End Dec 31	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
EPS (QAR)	6.00	6.61	7.21	7.89	8.65	9.58
EPS Growth	18%	10%	9%	9%	10%	11%
PER (x)	9.71	8.82	8.09	7.39	6.74	6.09
Total BVS (QAR)	34.26	41.14	44.13	47.55	51.48	56.10
P/B Total BVS (x)	1.70	1.42	1.32	1.23	1.13	1.04
ROE/PB Total SHEQ (x)	11.12	12.43	12.86	14.11	15.50	17.22
Net Loans to Deposits	97%	97%	95%	93%	93%	92%
Yield on earning assets	4.87%	4.78%	4.61%	4.59%	4.79%	5.01%
Cost of Funds	1.29%	1.30%	1.33%	1.36%	1.63%	1.89%
NIMs	3.58%	3.48%	3.29%	3.23%	3.16%	3.12%
Growth in Loan Book (Net)	16%	11%	11%	14%	14%	14%
Growth in Deposits (incl. UIA)	3%	11%	14%	15%	14%	15%
Market Cap to Deposits	38%	34%	30%	26%	23%	20%
Cost/Income	34%	34.6%	35.3%	35.0%	35.3%	35.6%
ROE Total SHEQ (average)	18.9%	17.6%	17.0%	17.3%	17.6%	17.9%
ROA (Average)	2.5%	2.5%	2.4%	2.3%	2.2%	2.2%
DPS (QAR)	4.50	4.50	4.75	5.00	5.25	5.50
Dividend yield	7.7%	7.7%	8.1%	8.6%	9.0%	9.4%
Payout Ratio	75%	68%	66%	63%	61%	57%

Source: Company Reports, TAIB Research

DHBK Overview

With assets of QAR52.4bn (US\$14.4bn), Doha Bank (DHBK) is the third largest bank in Qatar while it boasts the largest ATM network in Qatar and a customer base in excess of 100k. Over time, the bank has expanded overseas with branches in Kuwait and Dubai, in addition to representative offices in Singapore, Turkey, Japan, China, UK, Germany and South Korea. Relative to peers, DHBK is a more retail-oriented bank as evidenced by the Personal/Consumption loans segment contributing almost one-third of the overall loan book. Recent news flow indicates that DHBK's shareholders have proposed to convert the bank into a full-fledged Islamic bank but a final decision has as yet not

Income Statement

(In QARmn)	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
Interest Income	2,074	2,419	2,753	3,128	3,692	4,349
Interest Expense	511	590	699	825	1,127	1,484
Net Interest Income	1,563	1,829	2,054	2,302	2,565	2,865
Net Fees and Commission	382	410	441	474	509	547
Net gains from dealing in Fx	78	84	97	111	128	147
Gains from investments	57	71	82	92	106	122
Share of Profit of associates	-	-	-	-	-	-
Total Operating Income	2,368	2,583	2,777	3,082	3,422	3,809
General/Admin expenses	737	830	913	1,004	1,129	1,270
Provisions/(Recoveries)	257	293	289	358	408	453
Net Profit Before Taxes	1,246	1,380	1,505	1,647	1,805	2,000
Taxes	5	7	8	8	9	10
Net Profit	1,241	1,373	1,498	1,639	1,796	1,990
Net Profit for Shareholders	1,241	1,366	1,490	1,631	1,787	1,980

Source: Company Reports, TAIB Research

Balance Sheet

(In QARmn)	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
Loans to Customers	30,704	34,092	37,967	43,134	49,064	56,042
Investments	7,577	10,000	12,143	13,890	15,349	17,165
Investments in Associates	11	15	17	19	22	25
Total Assets	52,420	59,060	67,138	76,373	85,834	96,889
Customer Deposits	31,092	34,940	40,104	46,303	52,786	60,836
Borrowings incl. Subordinated Debt	769	1,154	2,308	3,462	4,328	4,977
Total Liabilities	45,339	50,556	58,017	66,545	75,192	85,292
Paid up Share Capital	2,067	2,067	2,410	2,785	3,358	3,807
Statutory Reserve	3,284	3,284	3,284	3,284	3,341	3,386
Retained Earnings	1,137	1,189	1,071	915	984	1,169
Total SHEQ	7,081	8,504	9,122	9,829	10,641	11,596
Total Liabilities & SHEQ	52,420	59,060	67,138	76,373	85,834	96,889

Source: Company Reports, TAIB Research

QNBK: Just about fairly priced

We reinitiate coverage on QNBK, the predominant bank in Qatar, with a target price of QAR142.25/share and an Accumulate stance based on expected upside of 6% (total return potential of 10.5%). Majority owned by Qatar, QNBK operates at a distinct advantage over private sector peers particularly in terms of being more closely aligned with the government's macroeconomic objectives. As such, while QNBK has posted 5yr NPAT CAGR of 30% inline with Qatar's supernormal GDP growth, we project a CY11-CY16F NPAT CAGR of 12% as medium-term GDP growth trajectory normalizes. Upside to medium-term earnings estimates may emanate from inorganic growth where QNBK's recent buyout spree may culminate in potential acquisition of Denizbank where we believe this will be just about value accretive even if the price is US\$6bn. That said, while we like QNBK's market positioning and solid fundamentals, we believe the bank is fairly valued based on 1) robust price performance with the stock up 8.2% in the last 12m, 2) premium valuations (CY12F P/B: 1.93x, P/E: 11.13x) and ROE that appears to be settling in the 18%-19% range vs. the 23.5% average over the last 5yrs.

Battling a lower ROAE: With a ~50% domestic market share in terms of balance sheet size, QNBK is the predominant bank in Qatar. We expect the bank to continue being a key beneficiary of expected strong Qatari GDP growth over the medium to longer term (6% p.a. over next 5yrs with upside risk from lifting of hydrocarbon development moratorium/accelerated non-hydrocarbon growth). However, we see ROE slipping to ~18% going forward versus the 23.5% ROAE across the last 5yrs, partly due to recent sizeable capital injection. As such, we are not surprised that QNBK is looking for inorganic growth, to bump up ROE in our view.

Still best-in-class asset quality: While a 5x increase in NPL stock since CY07 would seem to paint an alarming picture, the NPL ratio for QNBK is still just 1.1% while provisioning coverage stands at a high 119%. Going forward, we do not see the NPL ratio exceeding 2%, at least in the next 3yrs-4yrs, where high government and quasi-sovereign exposure (>55% of loans) provides comfort. Nevertheless, risks emanate from exposure in Europe (~13% of assets) alongside exposure to UAE, Syria and Iraq through subsidiaries & associates.

Payout may yet increase: QNBK should deliver 12% NPAT CAGR across CY11-CY16F with impetus from inorganic growth - even for US\$6bn, we find the potential Denizbank acquisition to be just about value accretive. Since QNBK intends to fund acquisitions through a US\$7.5bn EMTN, a strong capital base (CY11 CAR: 22.0%) implies QNBK has ample room to maintain a much higher payout ratio than the 37% average over the last 5yrs. Basel III requirements do not alter our view.

Valuations & Investment Perspective: Having gained 8.1% in the last 12m, outperforming the QE by 8.5%, QNBK trades at a CY12F P/B of 1.93x and P/E of 11.13x. Despite solid fundamentals, we believe premium valuations coupled with a trimmed down ROE limit upside potential in QNBK (TP: QAR142.25/share). We discount QNBK at 11.5% (rf: 4.5%, beta: 1, rp: 7%) where we believe state ownership balances out broader asset quality risks.

QNBK: Valuation Summary

Year End Dec 31	CY11A	CY12F	CY13F	CY14F	CY15F
EPS (QAR)	10.73	12.06	13.41	14.96	16.52
EPS Growth	31.6%	12.4%	11.3%	11.5%	10.4%
ROE Total SHEQ (average)	22.41	18.59	18.43	18.58	18.56
PER (x)	12.51	11.13	10.00	8.97	8.12
P/B Total BVS (x)	2.20	1.93	1.75	1.58	1.43
Market Cap to Deposits	46.9%	41.7%	37.8%	34.0%	30.1%
ROE/PB (x)	10.17	9.62	10.56	11.76	13.00
Dividend yield	2.71%	4.47%	5.22%	5.59%	6.15%
Payout Ratio	33.89%	49.77%	52.19%	50.13%	49.93%

Source: Company Reports, TAIB Research

Investment Outline

QNBK Current:	(QAR) 134.20
Target Price:	(QAR) 142.25
Upside	6%
Recommendation	Accumulate

QNBK: Shareholding Structure

Qatar Investment Authority	50.0%
General Public	50.0%

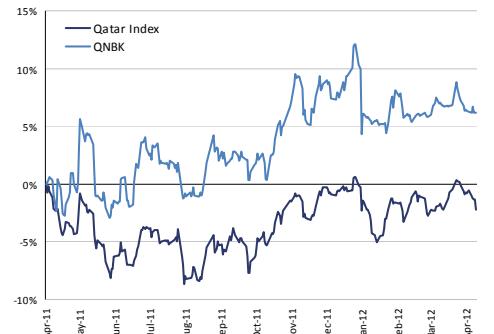
Source: Company Report

QNBK Subsidiaries & Associates ownership

QNB Capital	100%
QNB Financial Services	100%
QNB-Swiss	100%
Ansbacher	100%
Bank Kesawan	70%
Tunisian Qatari Bank	50%
QNB-Syria	51%
Housing Bank for Trade & Finance	35%
Commercial Bank International	24%
Mansour Bank	23%
Al Jazeera Finance Company	20%

Source: Company Report

QNBK Price History



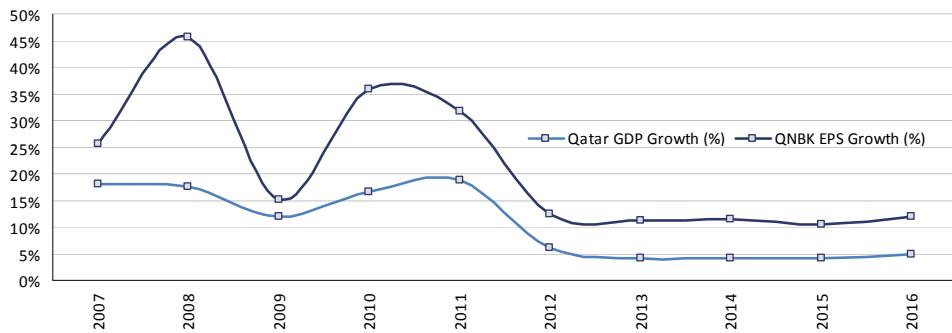
Source: IFA

Battling a lower ROAE

With a ~50% domestic market share in terms of balance sheet size, QNBK is the predominant bank in Qatar. We expect the bank to continue being a key beneficiary of expected strong Qatari GDP growth over the medium to longer term (6% p.a. over next 5yrs with upside risk from lifting of hydrocarbon development moratorium/accelerated non-hydrocarbon growth). However, we see ROE slipping to ~18% going forward versus the 23.5% ROAE across the last 5yrs, partly due to recent sizeable capital injection. As such, we are not surprised that QNBK is looking for inorganic growth, to bump up ROE in our view.

QNBK to grow alongside Qatar: Although closure of the Islamic window could have been a material risk, deposit growth of 21%YoY in CY11 indicates successful conversion of UIAs into conventional deposits. This, in our view, indicates QNBK's entrenched strength, particularly benefits accruing from government ownership (govt/quasi-govt deposits account for ~55% of QNBK's deposits). With QNBK's dynamics closely entwined with Qatar's economic trajectory, moratorium on hydrocarbon development should lead to normalization of GDP growth for Qatar in the medium-term (~6% p.a. over next 5yrs), with annual profit growth for QNBK settling in the early teens. Upside risks arises from lifting of said moratorium/accelerated non-hydrocarbon growth.

QNBK growth more closely tied with Qatar growth



Source: Company Report, TAIB Research

But ROE may taper off: After an average ROE of 23.5% across the last 5yrs, ROE is projected to average 18.3% across CY12F-CY16F. This is due to a 25% rights issue (QAR12.7bn) in CY11 with QNBK aiming to meet Basel III requirements and expand geographically, through both organic growth and M&A. While management track record gives confidence, and Qatar's long-term growth dynamics remain strong, we believe QNBK will be hard pressed to generate 20%+ ROE unless it opts to 1) significantly enhance payouts and/or 2) look for acquisitions in high ROE generating markets. Risks to the bank's return profile may arise from deterioration in cost efficiency - while QNBK has shrugged off the recent 60% increase in salaries for Qatari staff to record a Cost/Income ratio of 15.7% in CY11, such exceptional numbers appear too good to last.

QNBK needs to lever up to boost returns

ROE Decomposition	CY11	CY12F	CY13F	CY14F	CY15F
Net Interest Income / Assets	3.0%	2.9%	2.9%	3.0%	3.0%
Non. Int. Income / Assets	0.9%	0.8%	0.8%	0.8%	0.8%
Expenses / Assets	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
Core Income / Assets	3.3%	3.1%	3.1%	3.1%	3.2%
Provisions / Assets	0.4%	0.4%	0.4%	0.4%	0.4%
Pre tax ROA	2.9%	2.7%	2.7%	2.7%	2.7%
Tax Burden (x)	99.7%	99.6%	99.5%	99.5%	99.5%
ROA	2.9%	2.7%	2.7%	2.7%	2.7%
Leverage (x)	7.79	6.94	6.80	6.80	6.81
ROE	22.4%	18.6%	18.4%	18.6%	18.6%

Source: Company Report, TAIB Research

Loan Book Composition - By Sector

Govt.	17.0%
Govt. Agency	40.6%
Industry	1.3%
Commerce	2.3%
Services	12.8%
Real Estate	14.0%
Personal	10.4%
Others	1.6%
Total	100%

Source: Company Reports & TAIB Research

Deposit Mix

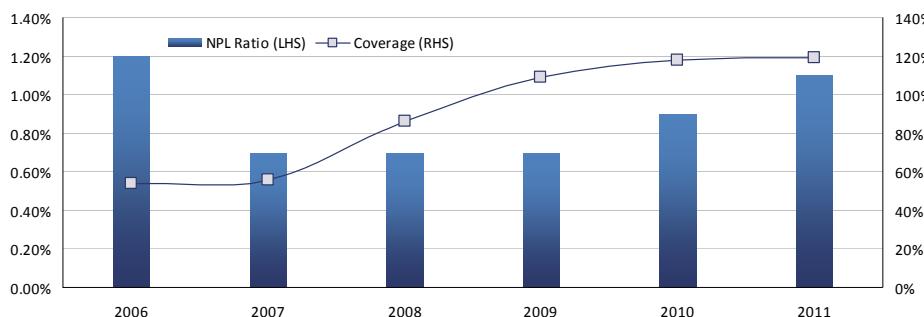
By Origin	By Type	
	Govt.	Current
Govt.	24.4%	33.9%
Govt. Agency	30.9%	1.4%
Individual	15.7%	64.7%
Corporate	29.1%	0.0%
Total	100%	Total
		100%

Source: Company Reports & TAIB Research

Still best-in-class asset quality

While a 5x increase in NPL stock since CY07 would seem to paint an alarming picture, the NPL ratio for QNBK is still just 1.1% while provisioning coverage stands at a high 119%. Going forward, we do not see the NPL ratio exceeding 2%, at least in the next 3yrs-4yrs, where high government and quasi-sovereign exposure (>55% of loans) provides comfort. Nevertheless, risks emanate from exposure in Europe (~13% of assets) alongside exposure to UAE, Syria and Iraq through subsidiaries & associates.

Asset quality trend – NPL ratio vs. coverage



Source: Company Report, TAIB Research

Nascent risks: We factor in average credit costs of 0.7% across CY12F-CY16F vs. average credit costs of 0.3% across the previous 5yrs. That said, risks to overall asset quality emanate from the bank's exposure to 1) Europe which accounts for 13% of assets and 2) high risk banking markets including Iraq, Syria and, to some extent, even UAE.

- **Europe exposure:** This largely includes direct lending and placements with EU banks. Europe's share in QNBK's assets fell from 17% in CY07 to 10% in CY08 (global financial crisis) but has recovered to the 13%-15% range since then. Sustained high exposure to Europe places QNBK at relatively higher risk from potential fallout if EU debt problems persist (recent EUR1tn of 3yr funds by the ECB provides a degree of respite).
- **High risk markets:** QNBK has exposure to Mansour Bank (Iraq), Syria (QNB-Syria) and UAE (Commercial Bank International). While the Iraq and Syria presence is likely to be relatively small, CBI posted a 62%YoY profit decline in 9MCY11 and 'share of profit from associates' for QNBK has dropped by 23%YoY in CY11.

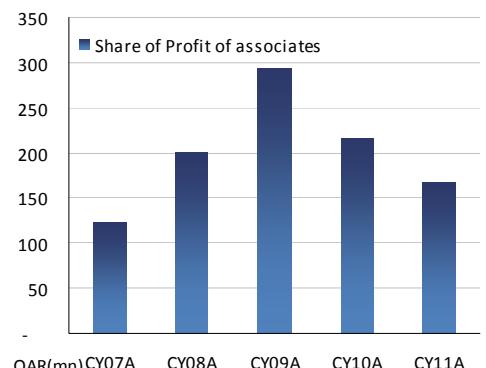
Payout may yet increase

QNBK should deliver 12% NPAT CAGR across CY11-CY16F with impetus from inorganic growth - even for US\$6bn, we find the potential Denizbank acquisition to be just about value accretive. Since QNBK intends to fund acquisitions through a US\$7.5bn EMTN, a strong capital base (CY11 CAR: 22.0%) implies QNBK has ample room to maintain a higher payout ratio than the 37% average over the last 5yrs. Basel III requirements do not alter our view.

Denizbank acquisition: Several major GCC banks (e.g. National Commercial Bank of Saudi Arabia, National Bank of Kuwait) have taken positions in the Turkish banking sector over the last few years and QNBK is attempting to do the same. In our view, considering that Denizbank has robust ROAE of ~26%, this deal appears appealing for QNBK even if it has to issue bonds under the EMTN program and writes off any goodwill. Pricing is reportedly an issue which may break talks but we believe even a takeover valued at US\$6bn (acquisition multiple of 2.5x) would be just about value accretive as combined ROAE would rise to ~24% vs. base-case average ROAE of 18.3% for QNBK across the next 5yrs. Pricing is an issue though, with news reports indicating QNBK is not willing to pay more than 1x-1.2x P/B (1x multiple implies an acquisition price of ~US\$2.5bn).

Despite risks, 120% coverage provides comfort on asset quality.

Share of Profit of Associates



Source: Company Report, TAIB Research

QNBK & Denizbank BS and P&L

CY11 (QARbn)	QNB	Denizbank	QNB + Deniz*
Loans	193.94	54.88	248.83
Assets	301.96	85.66	374.51
Deposits	200.12	51.53	251.65
Liabilities	259.32	76.78	336.10
Equity	42.64	8.88	38.42
Branches	334	600	934
Staff	7,000	10,826	17,826
NPL Ratio	1.1%	2.8%	1.5%
Coverage	119%	116%	118%
CAR	22.0%	14.7%	20.4%
L/D	97%	107%	99%

* Adjusted for assumed US\$3.6bn goodwill

Source: Company Reports, TAIB Research

No crimp on dividends: Our base-case estimate for average CY12F-CY16F CAR stands in excess of 21%, much above higher Basel III capital requirements (even after both 2.5% capital conservation buffer & 2.5% countercyclical buffer). Considering that base-case ROAE is projected to compress, we believe QNBK may opt for a sustainably higher payout ratio than the 37% average across the last 5yrs. Moreover, provided QNBK funds the proposed Denizbank program through its US\$7.5bn EMTN program, there should not be any crimp on dividends. If internal cash is used however, potential CAR compression to ~15% levels may imply that QNBK only sustains current cash payout levels.

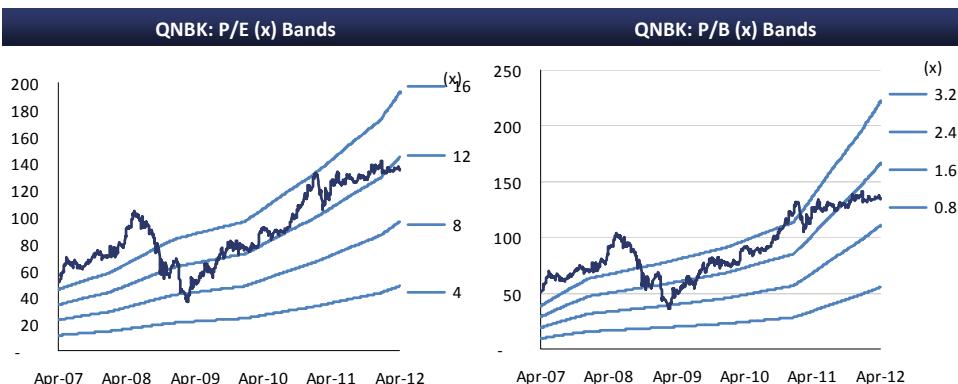
Summarized Profit and Loss			
CY11 QARbn	QNB	Denizbank	QNB + Deniz
NII	7.80	3.60	11.40
Op Income	10.18	5.18	15.36
NPAT	7.51	2.03	9.54
ROAA	2.9%	2.7%	2.9%
ROAE	22.4%	25.6%	23.9%

Source: Company Reports, TAIB Research

Valuations & Investment Perspective

We value QNBK on Justified P/B (TP: QAR158.79/share; 50% weight), Justified P/E (TP: QAR109.9/share; 25% weight and DDM (QAR141.5/share; 25% weight) under a discounting factor of 11.5% (risk-free rate of 4.5%, beta of 1 and equity risk premium of 7%) and terminal growth rate of 6%. Upside to valuations may arise from potential ramp up in dividend payouts, which would boost both ROAE and DDM-based valuations. Potential value-accretive Denizbank acquisition leading to a bump up in ROE may unlock further medium-term upside.

Blended TP (QAR)			
TP	Weight	Blended TP	
P/B	158.79	50%	79.39
P/E	109.89	25%	27.47
DDM	141.53	25%	35.38
TP		142.25	



Source: Bloomberg, TAIB Research

QNBK: Annual Databank

Valuation Statistics

Year End Dec 31	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
EPS (PkR)	10.73	12.06	13.41	14.96	16.52	18.50
EPS Growth	32%	12%	11%	12%	10%	12%
PER (x)	12.51	11.13	10.00	8.97	8.12	7.25
Total BVS (QAR)	60.93	69.41	76.89	84.93	94.03	104.38
P/B Total BVS (x)	2.20	1.93	1.75	1.58	1.43	1.29
ROE/PB Total SHEQ (x)	10.17	9.62	10.56	11.76	13.00	14.58
Net Loans to Deposits	97%	96%	97%	97%	97%	96%
Yield on earning assets	4.34%	4.23%	4.25%	4.28%	4.59%	4.87%
Cost of Funds	1.31%	1.28%	1.30%	1.31%	1.58%	1.85%
NIMs	3.04%	2.96%	2.96%	2.97%	3.00%	3.03%
Growth in Loan Book (net)	47%	11%	12%	11%	13%	13%
Growth in Deposits (incl. UIA)	21%	12%	10%	11%	13%	14%
Market Cap to Deposits	47%	42%	38%	34%	30%	26%
Cost/Income	15.7%	16.5%	16.5%	16.3%	16.2%	16.1%
ROE Total SHEQ (average)	22.4%	18.6%	18.4%	18.6%	18.6%	18.7%
ROA (average)	2.9%	2.7%	2.7%	2.7%	2.7%	2.7%
DPS (QAR)	3.64	6.00	7.00	7.50	8.25	9.00
Dividend yield	2.7%	4.5%	5.2%	5.6%	6.1%	6.7%

Source: Company Reports, TAIB Research

Income Statement

In (QARmn)	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
Interest Income	10,695	12,649	13,988	15,595	18,513	22,028
Interest Expense	2,896	3,352	3,735	4,176	5,588	7,327
Net Interest Income	7,799	9,297	10,253	11,419	12,925	14,701
Net Fees and Commission	1,297	1,422	1,561	1,714	1,882	2,067
Net gains from dealing in Fx	515	541	568	596	626	657
Gains from investments	312	327	344	361	379	398
Share of Profit of associates	166	179	192	211	227	244
Total Operating Income	10,184	11,872	13,038	14,437	16,193	18,241
General/Admin expenses	1,409	1,762	1,938	2,132	2,398	2,698
Provisions/(Recoveries)	1,035	1,352	1,453	1,559	1,828	2,158
Net Profit Before Taxes	7,578	8,521	9,481	10,575	11,677	13,079
Taxes	24	43	47	53	58	65
Net Profit	7,554	8,479	9,433	10,522	11,619	13,013
Net Profit for Shareholders	7,509	8,436	9,386	10,469	11,561	12,948

Source: Company Reports, TAIB Research

Balance Sheet

In (QARmn)	CY11A	CY12F	CY13F	CY14F	CY15F	CY16F
Loans to Customers	193,943	215,329	240,196	267,051	302,102	341,922
Investments	50,383	52,725	55,481	61,533	63,827	69,867
Investments in Associates	4,703	4,867	5,190	5,558	5,942	6,488
Total Assets	301,955	330,710	365,060	404,634	448,568	506,997
Customer Deposits	200,123	225,057	248,647	276,534	312,317	356,565
Borrowings incl. Subordinated Debt	13,972	7,335	7,885	8,477	4,238	4,556
Total Liabilities	259,320	282,141	311,255	345,206	382,769	433,957
Paid up Share Capital	6,361	6,997	8,693	10,580	12,684	14,427
Statutory Reserve	21,179	21,815	23,510	25,397	27,501	29,244
Retained Earnings	6,970	7,469	7,356	7,997	9,845	12,091
Total SHEQ	42,635	48,570	53,804	59,428	65,799	73,040
Total Liabilities & SHEQ	301,955	330,710	365,060	404,634	448,568	506,997

Source: Company Reports, TAIB Research

QNBK Overview

Qatar National Bank (QNBK) is the largest bank in Qatar with an asset base of QAR302bn (US\$83bn) and market capitalization of QAR94bn (US\$26bn). In terms of market shares, QNBK has a ~50% market share in Qatar based on balance sheet size. Some regional peers include EMIRATES NBD, NCB, NBAD and SAMBA. QNBK's banking offerings include retail, corporate, treasury, private banking, asset & wealth management, financial advisory (QNB Capital) and Brokerage (QNB Financial Services). Being a government-owned bank, the bulk of QNBK's balance sheet is driven by the government with more than 50% of both the loan book and the deposit

Company History

Qatar National Bank (QNBK) was incorporated in 1964 as Qatar's first locally owned commercial bank and was listed on the Qatar Stock Exchange in 1997. 50% owned by Qatar (through the Qatar Investment Authority), QNBK today is the largest bank in Qatar and, through its network of subsidiaries and associates, operates in 24 countries. Being closely aligned with the Qatar government, QNBK's balance sheet is skewed towards sovereign and quasi-sovereign exposure. While QNBK has historically focused on organic growth, primarily inside Qatar, it has embarked on a program of foreign acquisitions over the last 5yrs.

Analyst Certification

I, Raza Jafri, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is/or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. I further certify that I do not have any beneficial holding of the specific securities that I have recommendations on in this report.

TAIB Ratings Definitions

Buy	> 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to < -5% potential
Reduce	< 5% to < -20% downside potential
Sell	< -20% downside potential

TAIB Securities WLL

TAIB Tower, Diplomatic Area
Post Box 20485, Manama,
Kingdom of Bahrain

Phone: (973) 17 549-499
Fax: (973) 17 531-213
E-mail: research@taib.com

About US:

TAIB Securities, a leading Bahrain based international brokerage firm and a subsidiary of TAIB Bank, services a wide range of customer segments allowing the local and institutional investors make the right decisions through insightful research coverage, access to global markets and a client focused sales and dealing team.

TAIB's long term association with the capital markets and the primary markets across the world has provided it with deep insights into their functioning. TAIB undertakes a plethora of services for the high net worth and institutional investors in the GCC region based on trust integrity and research. We provide access to capital markets in the MENA region, emerging markets like India and Russia, Asia Pacific, UK & other European markets, and the American markets.

Both the individual and the institutional investors – whether active or infrequent – can trade with a broker or using state-of-the-art online trading platforms. TAIB Securities provides investors with many distinct advantages, including:

- Multi-lingual brokers
- State-of-the-art dealing infrastructure and superior execution systems
- Customer centric model
- Portfolio Management, Margin Trading, and more.
- Highly rated proprietary research for GCC equities.

TAIB Research:

Naveed Vakil

Head - GCC Research
Email: naveed.vakil@taib.com

Raza Jaffri

Deputy Head - GCC Research
Email: raza.jaffri@taib.com

Ayub Ansari

Senior Investment Analyst
Email: ayub.ansari@taib.com

Azher Ali Quli

Senior Database Monitor
Email: azher.quli@taib.com

Tariq Mehmood

Database officer
Email: tariq.mehmood@taib.com

Qasim Anwar

Technical Analyst
Email: qasim.anwar@taib.com

Contacts:

TAIB Securities WLL

TAIB Tower, Diplomatic Area
Post Box 20485, Manama,
Kingdom of Bahrain

Phone: (973) 17 549-499
Fax: (973) 17 531-213

E-mail: research@taib.com

DISCLAIMER:

This document, its contents and any related communication (together, the "Communication") does not constitute or form part of any offer to sell or an invitation to subscribe for, hold or purchase any securities or any other investment. This Communication shall not form the basis of or be relied on in connection with any contract or commitment whatsoever. This Communication is not intended to form, and should not form, the basis of any investment decision. This Communication is not and should not be treated as investment research, a research recommendation, an opinion or advice. Recipients should conduct their own independent enquiries and obtain their own professional legal, regulatory, tax or accounting advice as appropriate. Any transaction which a recipient of this Communication may subsequently enter into may only be on the basis of such enquiries and advice, and that recipient's own knowledge and experience. This Communication has been prepared by, and is subject to the copyright of, TAIB Securities WLL and/or the copyright of its licensors. This Communication may not, in whole or in part, be reproduced, transmitted, stored in a retrieval system or translated in any other language in any form, by any means without the prior written consent of TAIB Securities WLL. This Communication is provided for information purposes only, and is confidential and may not be referred to, disclosed, reproduced or redistributed, in whole or in part, to any other person. This Communication is based on current public information.

This Communication is not intended for use or distribution to persons if TAIB Securities WLL is prohibited by any law or jurisdiction from making the information available to such persons. It is the responsibility of the recipient to ensure that its receipt of this document does not breach any relevant restrictions within its jurisdiction.

Whilst TAIB Securities WLL has exercised reasonable care in preparing this material and any views or information expressed or presented are based on sources it believes to be accurate and reliable, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of the facts and data contained herein. This material has been prepared for information purposes only and TAIB Securities WLL and any associated company and their directors, officers and employees are not responsible for any consequences arising from any reliance upon such information. Under no circumstances should this material be treated as an offer or solicitation to offer, to buy or sell any product or enter into any transaction. If you receive information from us which is inconsistent with other information which you have received from us, you should refer this to your TAIB Securities WLL relationship manager for clarification. TAIB Securities WLL reserves the right to make changes and corrections at any time without notice.