

## Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.568	Target Price	QR3.730
Implied Upside/(Downside)	4.5%	Old Target Price	QR3.810

### Lowering Estimates & PT on Higher CoR; Stay Market Perform

We lower our earnings estimates by an average of 12.5% over 2024-2029e (see page 3) on higher CoR and lower non-funded income than previously estimated. Hence our 5-year (2024-29e) earnings grow by a CAGR of 9.6%. As such, we lower our PT from QR3.810/share to QR3.730/share on DUBK, but maintain our Market Perform rating.

- DUBK's FY2024 net income was in-line with our estimates.** Dukhan Bank (DUBK) reported a net profit (attributable) of QR1.24bn in FY2024, in-line with our estimate of QR1.24bn. The bottom-line increased by only 3.3% YoY driven by margin expansion as net provisions & impairments soared by 36.0%, dwarfing net operating income.
- NIMs expanded YoY in FY2024 as DUBK shed high interest-bearing deposits and repricing of IEAs outpaced CoFs; we forecast a slow recovery of NIMs for 2025, 2026 and 2027. However, there could be upside to our NIMs projection if the Fed cuts rates twice in 2025.** NIMs expanded by 13bps to 2.04% YoY. The expansion in yields was larger than the CoFs. Our forecast for NIMs remain largely unchanged for 2025 and 2026.
- RoE came in at 10.3%, in-line with FY2023; RoE is modeled to increase by less than previously estimated.** Our new estimates lead us to RoEs of 11% in 2025, 11%/12% in 2026/27 and 13% in 2028/29 vs. 12% in 2025, 13% in 2026/27 and 14% in 2028/29, previously.
- We forecast a loan book CAGR (2024-29e) of 7.1% as business activity picks up.** Net loans expanded by 11.1% in 2024 vs. 2023 to QR86.2bn. Moreover, deposits increased by 6.9% in 2024 to QR83.4bn. Loan growth was driven by the retail and corporate segments (ex. real estate and contracting). Real estate/contracting loans decreased by 7.7%/16.2%.
- Asset quality remained stable sequentially but improved YoY in FY2024.** The bank's NPLs remained flat sequentially (-5.8% YoY), resulting in the NPL ratio moving from 4.65% in 3Q2024 to 4.58% in FY2024 (FY2023: 5.38%). However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 loans improved from 69% in 3Q2024 to 73% in FY2024 (FY2023: 70%); including collateral, coverage stands at ~95%. Moreover, Stage 2 loans improved, dropping by 27.8% YoY. Stage 2 loans now contribute 10% to total loans. Going forward, we still assume asset quality will improve through a combination of recoveries, reversals and prudent underwriting.
- Although asset quality improved, CoR increased in FY2024 as DUBK provided buffers across all stages of loans; CoR increased from 38bps in 2023 to 50bps in 2024.** DUBK booked net credit provisions of QR425.1mn vs. QR302.8mn in FY2023. DUBK booked gross provisions of QR812.2mn vs. recoveries of QR387.1mn, netting out 48% of gross provisions. Management is guiding for a CoR of 50 to 60bps in 2025. As such we increase our estimates for CoR to 57bps in 2025 vs. 45bps previously and 55bps in 2026 vs. 50bps. We still estimate CoR to normalize at 50bps over the 2027-29e period.
- We expect the efficiency ratio to decline to 28% by 2029.** DUBK's C/I ratio remained flat at 33.0% in 2024 as revenue and opex moved in lock step. We still expect the bank to generate single-digit JAWs from 2025 and onward, driven by a pick-up in revenue and costs control.
- DUBK maintains healthy capitalization levels and we expect this to remain so.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended FY2024 with CET1/Tier-1 ratios of 14.2%/16.4%.

### Catalysts

- 1) Progress in delivering on growth objectives and earnings acceleration beyond our estimates could drive stock price gains & 2) continuation of recoveries.

### Recommendation, Valuation and Risks

- Recommendation and valuation: We lower our Price Target from QR3.810 to QR3.730, but maintain our Market Perform rating.** DUBK is trading at a 2025/26e P/TB and P/E of 1.5x/1.4x and 14.3x/12.9x, respectively.
- Risks:** 1) Geo-political factors and 2) Unexpected asset quality deterioration.

### Key Financial Data and Estimates

	2024	2025e	2026e	2027e
Attributable EPS (QR)	0.236	0.249	0.277	0.310
EPS Growth (%)	3.3	5.3	11.5	11.6
P/E (x)	15.1	14.3	12.9	11.5
Tangible BVPS (QR)	2.3	2.5	2.6	2.7
P/TBV (x)	1.5	1.5	1.4	1.3
RoE (%)	10.3	10.7	11.4	12.1
DPS (QR)	0.160	0.170	0.200	0.210
Dividend Yield (%)	4.5	4.8	5.6	5.9

Source: QNB FS Research, Company data; EPS is based on current shares outstanding including treasury shares

### Key Data

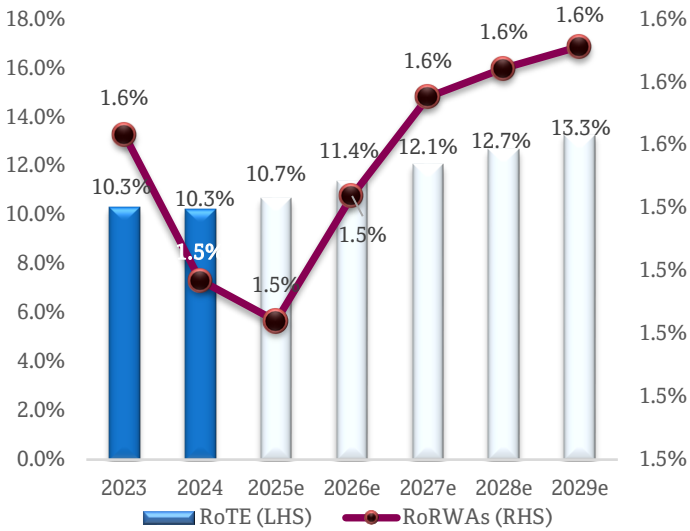
Current Market Price (QR)	3.568
Dividend Yield (%)	4.5
Bloomberg Ticker	DUBK QD
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.079/3.279
3-Month Average Volume (mn)	5.9
Mkt. Cap. (\$ bn/QR bn)	5.1/18.7
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.6
12-Month Total Return (%)	(4.7)
Fiscal Year End	December 31

Source: Bloomberg (as of March 19, 2025), \*QSE (as of March 19, 2025); Note: FO is foreign institutional ownership

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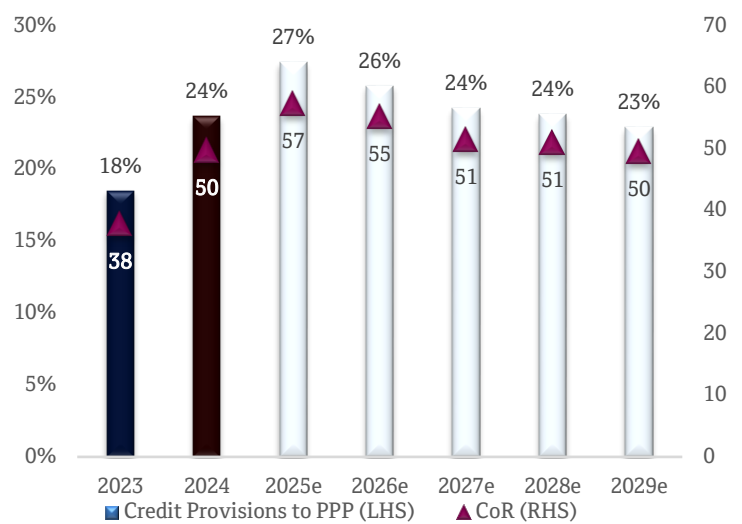
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### RoE/RoRWAs to Steadily Improve...

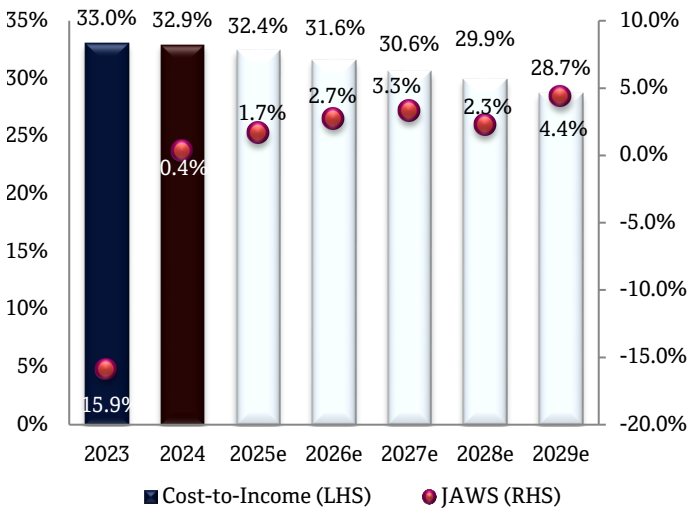


Source: Company data, QNB FS Research

### CoR Normalizes at 50bps

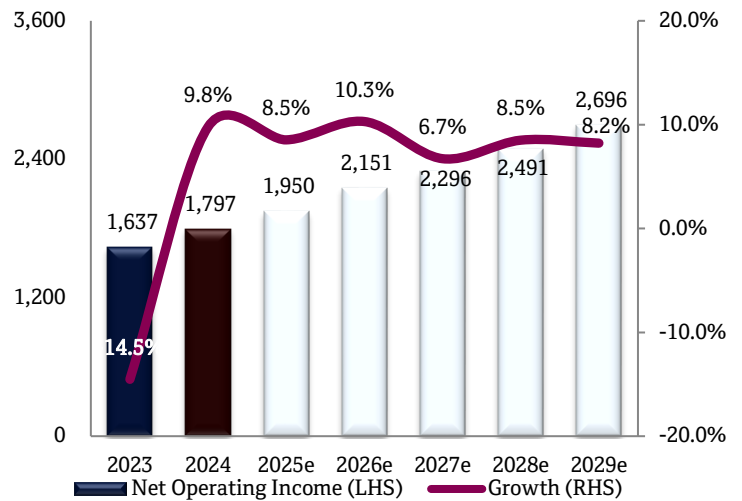


### Efficiency to Improve With Positive JAWs

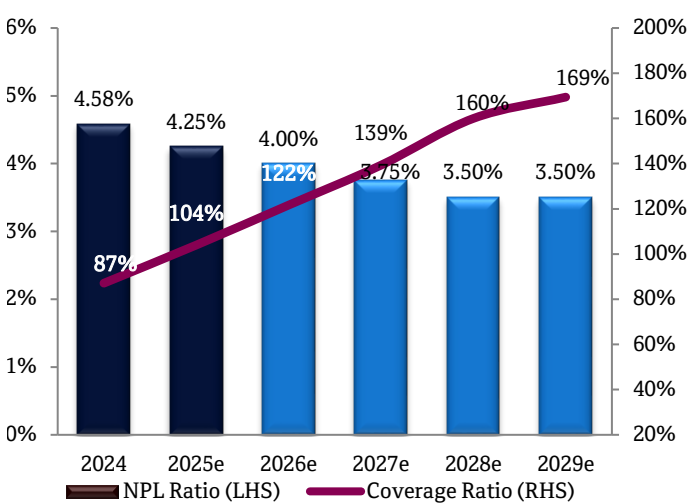


Source: Company data, QNB FS Research

### Leading to Healthy Growth in Net Operating Income



### NPLs to Improve With Recoveries & Prudent Underwriting



Source: Company data, QNB FS Research

### Stage 3 Loans Coverage Improved (Coverage is ~95% incl. Collateral)

FY2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	77,116,953	8,564,460	4,114,891	89,796,304
ECLs	118,516	456,725	3,008,694	3,583,935
Staging of Loans (%)	85.9%	9.5%	4.58%	
Staging of ECLs (%)	3.3%	12.7%	83.9%	
Coverage Ratio	0.2%	5.3%	73.1%	

## Change in Estimates

QRmn	2025e			2026e			2027e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	2,383	2,414	1.3	2,635	2,641	0.2	2,936	2,822	-3.9
Non-Funded Income	548	471	-14.1	630	504	-20.1	478	485	1.5
Total Revenue	2,931	2,885	-1.6	3,265	3,145	-3.7	3,414	3,308	-3.1
Opex	876	935	6.7	923	993	7.6	978	1,012	3.5
Net Operating Income	2,055	1,950	-5.1	2,342	2,151	-8.2	2,436	2,296	-5.8
Net Provisions & Impairments	414	538	30.0	495	585	18.2	532	557	4.7
Net Profit (Reported/Headline)	1,638	1,409	-14.0	1,843	1,563	-15.2	2,042	1,736	-15.0
Net Income (Attributable)	1,525	1,302	-14.6	1,725	1,452	-15.8	1,919	1,782	-7.1

Source: QNB FS Research

## Detailed Financial Statements

Income Statement (In QR mn)	2022	2023	2024	2025e	2026e	2027e
Net Interest Income	2,143	1,926	2,209	2,414	2,641	2,822
Fees & Commissions	211	256	256	261	256	252
FX Income	223	131	49	68	83	81
Other Income	88	130	165	142	164	153
<b>Non-Interest Income</b>	<b>522</b>	<b>518</b>	<b>469</b>	<b>471</b>	<b>504</b>	<b>485</b>
<b>Total Revenue</b>	<b>2,665</b>	<b>2,444</b>	<b>2,679</b>	<b>2,885</b>	<b>3,145</b>	<b>3,308</b>
Operating Expenses	(750)	(807)	(882)	(935)	(993)	(1,012)
<b>Net Operating Income</b>	<b>1,915</b>	<b>1,637</b>	<b>1,797</b>	<b>1,950</b>	<b>2,151</b>	<b>2,296</b>
Net Provisions & Impairments	(660)	(333)	(453)	(538)	(585)	(557)
<b>Net Profit Before Taxes and Non-Recurring</b>	<b>1,255</b>	<b>1,303</b>	<b>1,343</b>	<b>1,412</b>	<b>1,566</b>	<b>1,739</b>
Taxes	(2)	(1)	(1)	(2)	(3)	(3)
Non-Recurring Items	-	-	-	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>1,253</b>	<b>1,302</b>	<b>1,343</b>	<b>1,409</b>	<b>1,563</b>	<b>1,736</b>
Payment on Tier-1 Sukuk	(72)	(72)	(72)	(72)	(72)	(72)
Social & Sports Contribution Fund	-	(33)	(34)	(35)	(39)	(43)
<b>Net Profit (Attributable)</b>	<b>1,181</b>	<b>1,198</b>	<b>1,237</b>	<b>1,302</b>	<b>1,452</b>	<b>1,620</b>
EPS (including treasury shares)	0.226	0.229	0.236	0.249	0.277	0.310

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2022	2023	2024	2025e	2026e	2027e
Cash & Balances with Central Bank	6,425	3,645	3,639	3,781	4,334	4,369
Interbank Loans	1,500	11,072	5,811	6,488	5,950	6,401
Net Investments	20,432	19,971	19,882	20,704	22,337	23,992
Net Loans	75,677	77,585	86,212	92,686	99,165	106,684
Investment In Associates	64	32	10	11	11	12
Other Assets	866	900	663	741	803	875
Net PP&E	264	242	830	792	768	774
Investments In Real Estate	135	135	135	135	135	135
Goodwill	443	443	443	443	443	443
Other Intangibles	471	392	314	235	157	78
<b>Total Assets</b>	<b>106,276</b>	<b>114,417</b>	<b>117,940</b>	<b>126,016</b>	<b>134,104</b>	<b>143,763</b>
<b>Liabilities</b>						
Interbank Deposits	14,871	19,582	14,308	15,743	16,835	18,063
Customer Deposits	74,545	78,002	83,351	90,019	96,320	104,026
Term Loans	-	-	2,933.14	2,933.14	2,933.14	2,933.14
Tier-1 Perpetual Sukuk	1,821	1,821	1,821	1,821	1,821	1,821
Other Liabilities	2,523	2,120	2,569	2,070	2,196	2,341
<b>Total Liabilities</b>	<b>93,761</b>	<b>101,525</b>	<b>104,981</b>	<b>112,587</b>	<b>120,106</b>	<b>129,184</b>
<b>Total Shareholders' Equity</b>	<b>12,515</b>	<b>12,893</b>	<b>12,958</b>	<b>13,429</b>	<b>13,998</b>	<b>14,580</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>106,276</b>	<b>114,417</b>	<b>117,940</b>	<b>126,016</b>	<b>134,104</b>	<b>143,763</b>
<b>Risk Weighted Assets</b>	<b>73,065</b>	<b>80,139</b>	<b>82,942</b>	<b>90,228</b>	<b>97,896</b>	<b>107,823</b>
Interest Earning Assets	95,373	106,909	110,904	118,711	126,338	135,900
Interest Bearing Liabilities	81,165	81,175	85,010	90,692	97,788	109,419

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2022	2023	2024	2025e	2026e	2027e
<b>Profitability (%)</b>						
RoE	10.6	10.3	10.3	10.7	11.4	12.1
RoAA	1.1	1.1	1.1	1.1	1.1	1.2
RoRWAs	1.6	1.6	1.5	1.5	1.5	1.6
NIM (% of IEAs)	2.21	1.90	2.04	2.11	2.16	2.15
NIM (% of RWAs)	2.97	2.51	2.71	2.79	2.81	2.74
NIM (% of AAs)	1.97	1.75	1.90	1.98	2.03	2.03
Yield on IEAs	4.06	5.51	5.72	5.83	5.93	6.06
CoFs	2.11	4.50	4.83	4.87	4.90	4.95
Spread	1.95	1.02	0.91	0.98	1.02	1.11
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	28.2	33.0	32.9	32.4	31.6	30.6
Cost-to-Income (Core)	28.6	33.5	33.6	32.9	32.1	31.1
<b>Liquidity (%)</b>						
LDR	102	99	100	100	100	100
Loans/Assets	71.2	67.8	73.1	73.6	73.9	74.2
Liquid Assets-to-Total Assets	26.7	30.3	24.9	24.6	24.3	24.2
Deposits to Assets	70.1	68.2	70.7	71.4	71.8	72.4
Wholesale Funding to Loans	19.7	25.2	20.0	20.2	19.9	19.7
IEAs to IBLs	118	132	130	131	129	124
<b>Asset Quality (%)</b>						
NPL Ratio	5.1	5.4	4.6	4.3	4.0	3.8
NPLs to Shareholders' Equity	32.5	33.9	31.8	30.7	29.8	29.0
NPL to Tier-1 Capital	32.4	33.4	30.2	27.6	25.5	23.5
Coverage Ratio	83.3	83.7	87.1	103.9	121.6	139.3
ALL/Average Loans	4.0	4.2	3.9	4.3	4.8	5.1
Cost of Risk (bps)	85	38	50	57	55	51
<b>Capitalization (%)</b>						
CET1 Ratio	14.7	14.0	14.2	14.5	14.9	15.0
Tier-1 Ratio	17.2	16.3	16.4	16.5	16.7	16.7
CAR	18.3	17.2	17.3	17.5	17.7	17.7
Leverage (x)	8.5	8.9	9.1	9.4	9.6	9.9
<b>Growth (%)</b>						
Net Interest Income	-8.6	-10.1	14.7	9.3	9.4	6.9
Non-Interest Income	3.4	-0.9	-9.3	0.3	7.0	-3.6
OPEX	-4.1	7.6	9.2	6.0	6.3	1.9
Net Operating Income	-7.4	-14.5	9.8	8.5	10.3	6.7
Net Income (Attributable)	1.8	1.4	3.3	5.3	11.5	11.6
Loans	0.6	2.5	11.1	7.5	7.0	7.6
Deposits	-3.7	4.6	6.9	8.0	7.0	8.0
Assets	-4.0	7.7	3.1	6.8	6.4	7.2
RWAs	2.9	9.7	3.5	8.8	8.5	10.1

Source: Company data, QNB FS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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