

Dukhan Bank (DUBK)

| | | | |
|---------------------------|----------------|--------------|---------|
| Recommendation | Market Perform | Risk Rating | R-3 |
| Share Price | QR3.790 | Target Price | QR3.810 |
| Implied Upside/(Downside) | 0.5% | | |

Stock is Trading at a Premium to Peers; Stay Market Perform

After 1Q2024 results, we maintain our earnings CAGR of 12.3% (2023-28e) and our estimates remain broadly unchanged (see page 3). The stock is trading at a P/TB of 1.6x (in-line with the market) and the market is pricing in a sustainable RoE of 13.0%, in-line with our forecast of 13.5%. As such, we retain our PT of QR3.810/share on DUBK and our Market Perform rating.

- DUBK's 1Q2024 net income was in-line with our estimates.** Dukhan Bank (DUBK) reported a net profit of QR423.0mn in 1Q2024, in-line with our estimate of QR428.0mn (variation of -1.2%). Overall, the results were broadly in-line with our model. The bottom-line increased by 2.2%/117.2% YoY/QoQ.
- NIMs expanded YoY in 1Q2024 as DUBK shed high interest-bearing deposits; we forecast a recovery of NIMs for 2024, 2025 and 2026 – as interest rates decline in 2H2024, margins should expand as deposits reprice downward ahead of loans.** NIMs expanded by 14bps to ~2.11% YoY. The growth in yields was larger than the CoFs. On the other hand, NIMs compressed sequentially by 22bps. We now pencil in NIMs of 2.01% (2024), 2.17% (2025) and 2.28% (2026).
- Annualized 1Q2024 tangible RoE come in at 14.0%, in-line with 1Q2023; RoE is modeled to make headway in 2025-28e.** Our estimates lead us from 10% in 2023 to 11% in 2024, 12%/13% in 2025/26 and 14%/15% in 2027/28.
- We maintain our gross loan book CAGR (2023-28e) at 6.0% as business activity picks up post a 2023 lull after the 2022 World Cup; cut in interest rates should increase lending appetite for DUBK in 2H2024.** Net loans expanded by 4.2% sequentially to QR80.9bn. The support in loans was driven by the public sector (+4.7% YTD) and retail (+10.3% YTD); other segments also contributed positively to overall loan growth. Moreover, deposits inched up by 0.7% QoQ to QR78.5bn in 1Q2024.
- NPL ratio in 1Q2024 slightly improved sequentially, resulting in negative NPL formation.** The bank's NPLs receded sequentially by 1.3%, while the NPL ratio declined from 5.38% in FY2023 to 5.10% in 1Q2024. However, it should be noted that a decent chunk of the NPLs are legacy in nature with strong coverage. Coverage of Stage 3 loans remained flattish at 71% at the end of 1Q2024; including collateral, coverage stands at ~95%. Going forward, we still assume asset quality will improve through a combination of recoveries, reversals and prudent underwriting.
- CoR (annualized) was negligible in 1Q2024 due to a significant drop in gross credit provisions and an increase in recoveries YoY; we maintain our CoR assumptions.** DUBK booked net credit provisions of QR24.7mn vs. QR7.4mn in 1Q2023 (4Q2023: QR252.8mn). DUBK booked gross provisions of QR49.8mn vs. recoveries of QR25.1mn, netting out 50% of gross provisions. This resulted in a CoR of 12bps. We still maintain a CoR of 41bps, 45bps and 50bps in 2024, 25 and 26, respectively. We still estimate CoR to normalize at 50bps in 2026-28.
- We still expect the efficiency ratio to decline to 26% by 2028.** DUBK's C/I ratio remained flat 29.8% as revenue and opex moved in lock step. Sequentially, the C/I ratio improved to 35.0% in 4Q2023 as a result of a 20.1% drop in opex. We still expect the bank to generate single-to-mid-digit JAWs from 2024 and onward, driven by a pick-up in revenue and costs control.
- DUBK maintains healthy capitalization levels and we expect it to remain so. The QCB has not given any indications on whether it will apply enhanced Basel III on f/x positions on RWAs.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended 1Q2024 with CET1/Tier-1 ratios of 14.9%/17.2%.

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 maintain our Price Target of QR3.810 and our Market Perform.** DUBK is trading at a 2024/25e P/TB and P/E of 1.6x/1.5x and 15.0x/13.0x, respectively. DUBK is trading at a premium to its peers on 2024e P/TB; QIBK (1.5x), MARK (1.0x), DHBK (0.4x), CBQK (0.8x) and QNBK (1.3x; based on BBG consensus).
- Risks:** 1) Geo-political factors and 2) Unexpected asset quality deterioration.

Key Financial Data and Estimates

| | 2023 | 2024e | 2025e | 2026e |
|-----------------------|-------|-------|-------|-------|
| Attributable EPS (QR) | 0.229 | 0.252 | 0.291 | 0.330 |
| EPS Growth (%) | 1.4 | 10.1 | 15.6 | 13.1 |
| P/E (x) | 16.6 | 15.0 | 13.0 | 11.5 |
| Tangible BVPS (QR) | 2.3 | 2.4 | 2.6 | 2.7 |
| P/TBV (x) | 1.6 | 1.6 | 1.5 | 1.4 |
| RoE (%) | 10.3 | 10.9 | 12.1 | 13.0 |
| DPS (QR) | 0.160 | 0.180 | 0.190 | 0.200 |
| Dividend Yield (%) | 4.2 | 4.7 | 5.0 | 5.3 |

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

Key Data

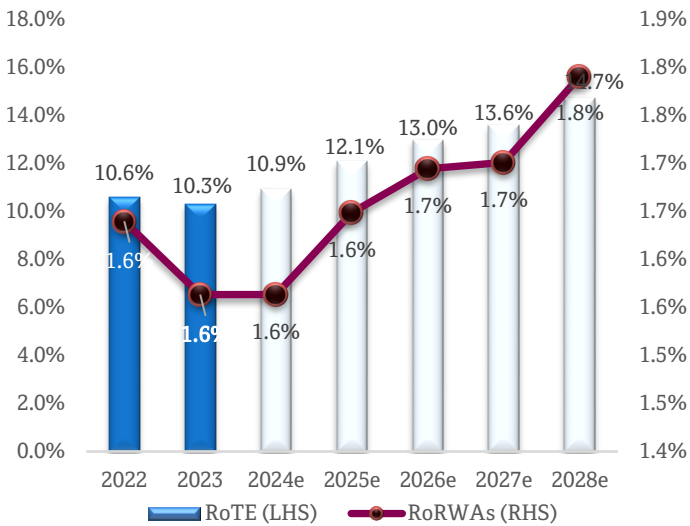
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|-------------------------------|--------------|
| Current Market Price (QR) | 3.790 |
| Dividend Yield (%) | 4.2 |
| Bloomberg Ticker | DUBK QD |
| ADR/GDR Ticker | N/A |
| Reuters Ticker | DUBK.QA |
| ISIN | QA000B982PM1 |
| Sector | Banks |
| 52wk High/52wk Low (QR) | 4.35/3.51 |
| 3-Month Average Volume (mn) | 12.6 |
| Mkt. Cap. (\$ bn/QR bn) | 5.4/19.8 |
| Shares Outstanding (mn) | 5,234.1 |
| FOL Limit (%) | 49.0 |
| Current Institutional FO* (%) | 5.6 |
| 12-Month Total Return (%) | 8.8 |
| Fiscal Year End | December 31 |

Source: Bloomberg (as of May 20, 2024), *QSE (as of May 20, 2024); Note: FO is foreign institutional ownership

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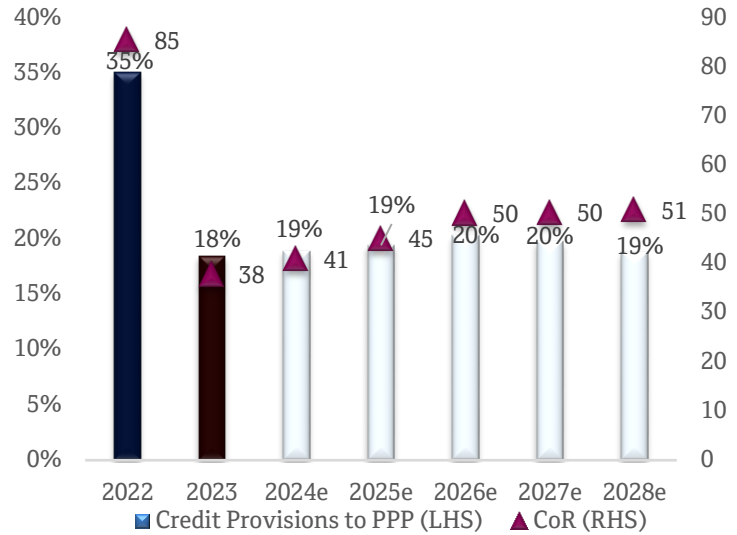
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RoE/RoRWAs to Steadily Improve...

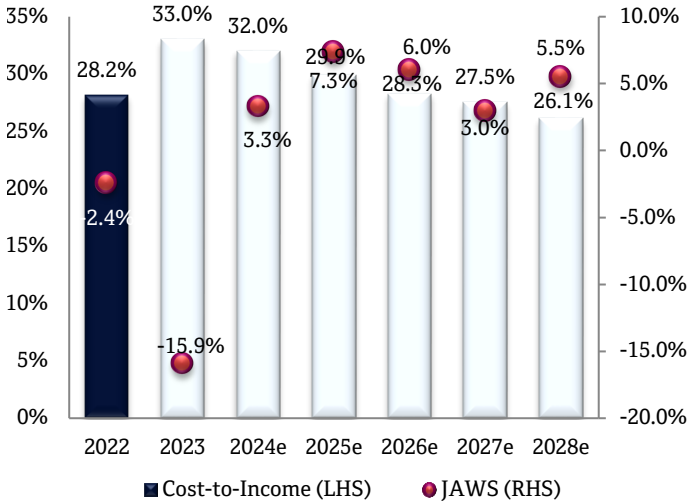


Source: Company data, QNB FS Research

CoR Normalizes at 50bps

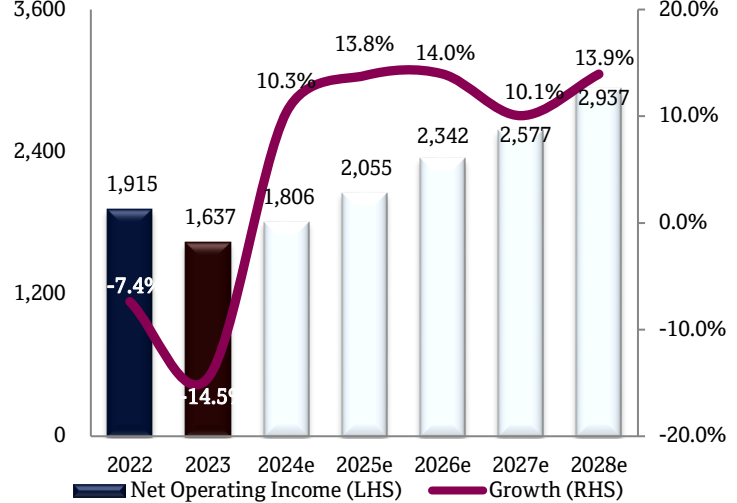


Efficiency to Markedly Improve With Positive JAWs

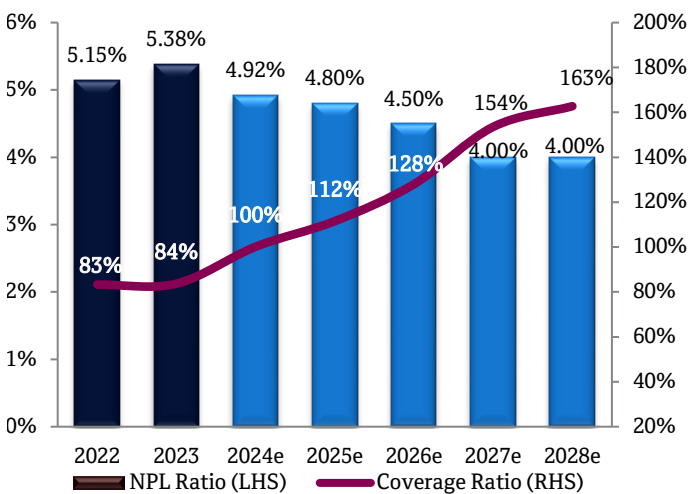


Source: Company data, QNB FS Research

Leading to Strong Net Operating Income



Majority of NPLs are Legacy (RE are 29% of Loans; 50% of Which GRE)



Source: Company data, QNB FS Research

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

| 1Q2024 | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------|------------|------------|-----------|------------|
| Gross Loans | 68,265,173 | 11,946,173 | 4,311,666 | 84,523,012 |
| ECLs | 97,281 | 487,829 | 3,080,706 | 3,665,816 |
| Staging of Loans (%) | 80.8% | 14.1% | 5.10% | |
| Staging of ECLs (%) | 2.7% | 13.3% | 84.0% | |
| Coverage Ratio | 0.1% | 4.1% | 71.5% | |

Change in Estimates

| QRmn | 2024e | | | 2025e | | | 2026e | | |
|--------------------------------|-------|-------|------------|-------|-------|------------|-------|-------|------------|
| | Old | New | Change (%) | Old | New | Change (%) | Old | New | Change (%) |
| Net Interest Income | 2,098 | 2,147 | 2.4 | 2,265 | 2,383 | 5.2 | 2,498 | 2,635 | 5.5 |
| Non-Funded Income | 572 | 509 | -11.0 | 642 | 548 | -14.6 | 738 | 630 | -14.6 |
| Total Revenue | 2,670 | 2,657 | -0.5 | 2,907 | 2,931 | 0.8 | 3,236 | 3,265 | 0.9 |
| Opex | 839 | 851 | 1.4 | 867 | 876 | 1.1 | 911 | 923 | 1.3 |
| Net Operating Income | 1,831 | 1,806 | -1.4 | 2,040 | 2,055 | 0.7 | 2,325 | 2,342 | 0.7 |
| Net Provisions & Impairments | 374 | 377 | 0.8 | 409 | 414 | 1.3 | 489 | 495 | 1.3 |
| Net Profit (Reported/Headline) | 1,455 | 1,427 | -2.0 | 1,629 | 1,638 | 0.5 | 1,833 | 1,843 | 0.6 |
| Net Income (Attributable) | 1,346 | 1,319 | -2.0 | 1,516 | 1,525 | 0.6 | 1,715 | 1,725 | 0.6 |

Source: QNB FS Research

Detailed Financial Statements

| Income Statement (In QR mn) | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Interest Income | 2,345 | 2,143 | 1,926 | 2,147 | 2,383 | 2,635 |
| Fees & Commissions | 159 | 211 | 256 | 249 | 286 | 311 |
| FX Income | 170 | 223 | 131 | 147 | 173 | 211 |
| Other Income | 176 | 88 | 130 | 114 | 89 | 108 |
| Non-Interest Income | 505 | 522 | 518 | 509 | 548 | 630 |
| Total Revenue | 2,850 | 2,665 | 2,444 | 2,657 | 2,931 | 3,265 |
| Operating Expenses | (782) | (750) | (807) | (851) | (876) | (923) |
| Net Operating Income | 2,067 | 1,915 | 1,637 | 1,806 | 2,055 | 2,342 |
| Net Provisions & Impairments | (872) | (660) | (333) | (377) | (414) | (495) |
| Net Profit Before Taxes and Non-Recurring | 1,195 | 1,255 | 1,303 | 1,429 | 1,641 | 1,847 |
| Taxes | (2) | (2) | (1) | (2) | (3) | (3) |
| Non-Recurring Items | - | - | - | - | - | - |
| Net Profit (Reported/Headline) | 1,193 | 1,253 | 1,302 | 1,427 | 1,638 | 1,843 |
| Payment on Tier-1 Sukuk | (33) | (72) | (72) | (72) | (72) | (72) |
| Social & Sports Contribution Fund | - | - | (33) | (36) | (41) | (46) |
| Net Profit (Attributable) | 1,160 | 1,181 | 1,198 | 1,319 | 1,525 | 1,725 |
| EPS (including treasury shares) | 0.222 | 0.226 | 0.229 | 0.252 | 0.291 | 0.330 |

Source: Company data, QNB FS Research

| Balance Sheet (In QR mn) | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Balances with Central Bank | 7,246 | 6,425 | 3,645 | 3,686 | 4,341 | 5,574 |
| Interbank Loans | 5,559 | 1,500 | 11,072 | 8,178 | 6,052 | 4,613 |
| Net Investments | 20,800 | 20,432 | 19,971 | 19,385 | 21,622 | 23,311 |
| Net Loans | 75,222 | 75,677 | 77,585 | 81,775 | 86,460 | 92,262 |
| Investment In Associates | 63 | 64 | 32 | 35 | 32 | 30 |
| Other Assets | 431 | 866 | 900 | 883 | 951 | 1,015 |
| Net PP&E | 280 | 264 | 242 | 215 | 193 | 180 |
| Investments In Real Estate | 135 | 135 | 135 | 135 | 135 | 135 |
| Goodwill | 443 | 443 | 443 | 443 | 443 | 443 |
| Other Intangibles | 549 | 471 | 392 | 314 | 235 | 157 |
| Total Assets | 110,727 | 106,276 | 114,417 | 115,048 | 120,465 | 127,719 |
| Liabilities | | | | | | |
| Interbank Deposits | 16,755 | 14,871 | 19,582 | 15,488 | 15,861 | 16,179 |
| Customer Deposits | 77,426 | 74,545 | 78,002 | 81,902 | 86,816 | 92,893 |
| Term Loans | - | - | - | - | - | - |
| Tier-1 Perpetual Sukuk | 1,821 | 1,821 | 1,821 | 1,821 | 1,821 | 1,821 |
| Other Liabilities | 2,559 | 2,523 | 2,120 | 2,457 | 1,997 | 2,118 |
| Total Liabilities | 98,561 | 93,761 | 101,525 | 101,668 | 106,495 | 113,011 |
| Total Shareholders' Equity | 12,166 | 12,515 | 12,893 | 13,380 | 13,970 | 14,708 |
| Total Liabilities & Shareholders' Equity | 110,727 | 106,276 | 114,417 | 115,048 | 120,465 | 127,719 |
| Risk Weighted Assets | 70,985 | 73,065 | 80,139 | 88,587 | 96,372 | 107,284 |
| Interest Earning Assets | 96,962 | 94,321 | 106,016 | 106,839 | 111,312 | 117,182 |
| Interest Bearing Liabilities | 87,981 | 81,165 | 81,175 | 81,010 | 92,259 | 98,854 |

Source: Company data, QNB FS Research

| Ratios/Financial Indicators | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e |
|-------------------------------|-------|------|-------|-------|-------|-------|
| Profitability (%) | | | | | | |
| RoE | 11.1 | 10.6 | 10.3 | 10.9 | 12.1 | 13.0 |
| RoAA | 1.2 | 1.1 | 1.1 | 1.1 | 1.3 | 1.4 |
| RoRWAs | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.7 |
| NIM (% of IEAs) | 2.64 | 2.21 | 1.90 | 2.01 | 2.17 | 2.28 |
| NIM (% of RWAs) | 3.45 | 2.97 | 2.51 | 2.55 | 2.58 | 2.59 |
| NIM (% of AAs) | 2.38 | 1.97 | 1.75 | 1.87 | 2.02 | 2.12 |
| Yield on IEAs | 4.05 | 4.11 | 5.57 | 6.05 | 5.61 | 5.83 |
| CoFs | 1.56 | 2.11 | 4.50 | 5.29 | 4.31 | 4.22 |
| Spread | 2.42 | 1.95 | 1.02 | 0.73 | 1.27 | 1.56 |
| Efficiency (%) | | | | | | |
| Cost-to-Income (Headline) | 27.5 | 28.2 | 33.0 | 32.0 | 29.9 | 28.3 |
| Cost-to-Income (Core) | 28.1 | 28.6 | 33.5 | 32.7 | 30.4 | 28.7 |
| Liquidity (%) | | | | | | |
| LDR | 97 | 102 | 99 | 100 | 100 | 99 |
| Loans/Assets | 67.9 | 71.2 | 67.8 | 71.1 | 71.8 | 72.2 |
| Liquid Assets-to-Total Assets | 30.3 | 26.7 | 30.3 | 27.2 | 26.6 | 26.2 |
| Deposits to Assets | 69.9 | 70.1 | 68.2 | 71.2 | 72.1 | 72.7 |
| Wholesale Funding to Loans | 22.3 | 19.7 | 25.2 | 18.9 | 18.3 | 17.5 |
| IEAs to IBLs | 110 | 116 | 131 | 132 | 121 | 119 |
| Asset Quality (%) | | | | | | |
| NPL Ratio | 4.2 | 5.1 | 5.4 | 4.9 | 4.8 | 4.5 |
| NPLs to Shareholders' Equity | 26.9 | 32.5 | 33.9 | 31.6 | 31.4 | 30.0 |
| NPL to Tier-1 Capital | 26.7 | 32.4 | 33.4 | 29.4 | 27.6 | 25.0 |
| Coverage Ratio | 84.3 | 83.3 | 83.7 | 100.2 | 111.6 | 128.0 |
| ALL/Average Loans | 3.6 | 4.0 | 4.2 | 4.7 | 5.2 | 5.6 |
| Cost of Risk (bps) | 125 | 85 | 38 | 41 | 45 | 50 |
| Capitalization (%) | | | | | | |
| CET1 Ratio | 14.7 | 14.7 | 14.0 | 14.2 | 14.6 | 14.7 |
| Tier-1 Ratio | 17.3 | 17.2 | 16.3 | 16.2 | 16.5 | 16.4 |
| CAR | 18.4 | 18.3 | 17.2 | 17.2 | 17.5 | 17.4 |
| Leverage (x) | 9.1 | 8.5 | 8.9 | 8.6 | 8.6 | 8.7 |
| Growth (%) | | | | | | |
| Net Interest Income | -0.6 | -8.6 | -10.1 | 11.5 | 11.0 | 10.6 |
| Non-Interest Income | 38.7 | 3.4 | -0.9 | -1.6 | 7.6 | 15.0 |
| OPEX | 4.4 | -4.1 | 7.6 | 5.4 | 3.0 | 5.4 |
| Net Operating Income | 4.8 | -7.4 | -14.5 | 10.3 | 13.8 | 14.0 |
| Net Income (Attributable) | 104.8 | 1.8 | 1.4 | 10.1 | 15.6 | 13.1 |
| Loans | 28.5 | 0.6 | 2.5 | 5.4 | 5.7 | 6.7 |
| Deposits | 43.7 | -3.7 | 4.6 | 5.0 | 6.0 | 7.0 |
| Assets | 28.3 | -4.0 | 7.7 | 0.6 | 4.7 | 6.0 |
| RWAs | 9.1 | 2.9 | 9.7 | 10.5 | 8.8 | 11.3 |

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> | |
| OUTPERFORM | Greater than +20% | R-1 | Significantly lower than average |
| ACCUMULATE | Between +10% to +20% | R-2 | Lower than average |
| MARKET PERFORM | Between -10% to +10% | R-3 | Medium / In-line with the average |
| REDUCE | Between -10% to -20% | R-4 | Above average |
| UNDERPERFORM | Lower than -20% | R-5 | Significantly above average |

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