

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.552	Target Price	QR3.810
Implied Upside/(Downside)	7.3%		

3Q2023 In-Line; Drop in Prov. & Impairments Offset Margin Pressure

DUBK's 3Q2023 comes in-line with our estimates as lower-than-expected net provisions and impairments offset weak operating income. Dukhan Bank (DUBK) reported a net profit of QR346.8mn in 3Q2023, in-line with our estimate of QR350.1mn (variation of -1.0%). The bottom-line increased by 3.4% YoY, while exhibited flat performance sequentially. Key takeaways from 3Q figures is margin pressure, strong fee income and significantly low/negligible net provisions and impairments. **Net-net, the bottom-line YoY and sequentially was aided by immaterial provisions and impairments offsetting weak revenue and margin pressure.**

- **Revenue declined by 7.6% YoY (-2.5% QoQ) as a result of margin pressure.** Net interest & investment income declined by 16.8%/9.2% YoY/QoQ to QR407.7mn. On the other hand, fees and commissions income was positive, surging by 97.9% YoY (+15.4% QoQ).
- **NIMs continued its negative trajectory in 3Q2023.** NIMs declined by 43/26bps to ~1.58% YoY/QoQ. The growth in CoFs was larger than the growth in yields on interest earning assets. Moreover, 9M2023 annualized NIMs came in at 1.73% vs. 2.29% in 9M2022, a compression of 56bps.
- **Loans were supported by the corporate segment.** Net loans inched up by 0.9% sequentially (flat YTD) to QR75.8bn. The support in loans was driven by the corporate sector (excluding real estate and contracting) as other segments declined or remained flat. On the other hand, deposits expanded by 7.3% QoQ (+3.3% YTD) to QR77.0bn in 3Q2023. Hence, DUBK's simple LDR improved to 98% vs. 105% in 2Q2023 (FY2022: 102%). Growth in deposits on an YTD basis was mainly attributable to the public and retail sectors, while the corporate segment contracted.
- **NPL ratio in 3Q2023 was flat at 5.0% vs. 2Q2023 and FY2022; on a positive note, NPL formation was negative.** The bank's NPLs were flat sequentially in 3Q2023 and down 2.2% vs. FY2022. However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 loans declined from 83% in FY2022 to 69% at the end of 3Q2023 and 2Q2023.
- **Recoveries were greater than credit provisions resulting in net recoveries that aided the bottom-line.** DUBK booked gross credit provisions of QR14.7mn vs. recoveries of QR19.1mn (resulting in net recoveries of QR4.4mn) in 3Q2023 vs. net credit provisions of QR68.4mn in 3Q2022 and QR47.1mn in 2Q2023. Hence, 9M2023 annualized CoR came in at only 8bps vs. 66bps in 9M2022. However, it should be noted that quarterly CoR is not indicative of fiscal year CoR.
- **The bank's efficiency ratio weakened due to weak revenue.** DUBK's C/I ratio moved up to 36.2% in 3Q2023 vs. 34.3% in 3Q2022 (2Q2023: 31.2%). Total revenue declined by 7.6%, while operating expenses only receded by 2.5%. Thus, the increase in the C/I ratio. As a result of weak revenue, the bank generated negative JAWs on a 9M basis YoY.
- **DUBK maintains healthy capitalization levels.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended 3Q2023 with CET1/Tier-1 ratios of 14.1%/16.5%.

Catalysts

- **Progress in delivering on growth objectives and earnings acceleration beyond our estimates could drive stock price gains.**

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR3.810 and our Market Perform.** DUBK is trading at a 2023e P/TB and P/E of 1.5x and 15.2x, respectively.
- **Risks:** 1) Geo-political factors and 2) Unexpected asset quality deterioration.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.227	0.235	0.276	0.316
EPS Growth (%)	1.8	3.3	17.3	14.7
P/E (x)	15.7	15.2	13.0	11.3
Tangible BVPS (QR)	2.2	2.3	2.4	2.6
P/TBV (x)	1.6	1.5	1.5	1.4
RoE (%)	10.6	10.5	11.9	12.9
DPS (QR)	0.160	0.170	0.180	0.190
Dividend Yield (%)	4.5	4.8	5.1	5.3

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

Key Data

Current Market Price (QR)	3.552
Dividend Yield (%)	4.5
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.35/2.70
3-Month Average Volume (mn)	10,701.9
Mkt. Cap. (\$ bn/QR bn)	5.1/18.6
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.1
Return Vs. Listing Price (%)	(18.3)
Fiscal Year End	December 31

Source: Bloomberg (as of October 29, 2023), *QSE (as of October 29, 2023); Note: FO is foreign institutional ownership

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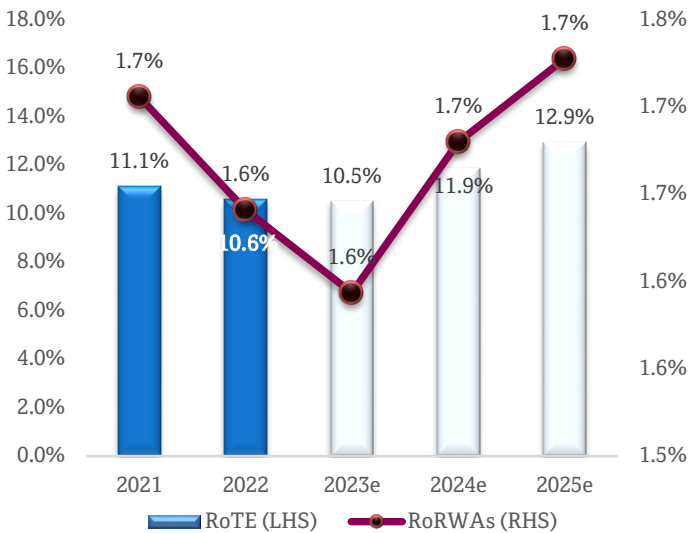
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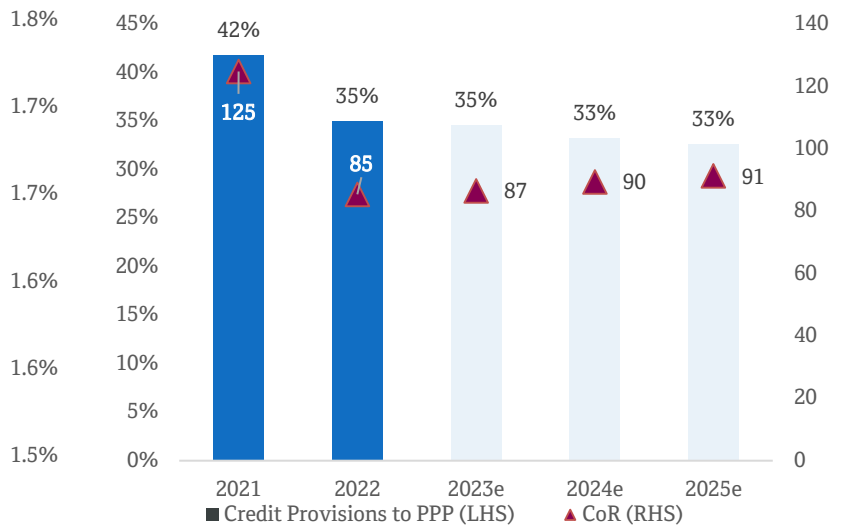
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RoE/RoRWAs to Steadily Improve...

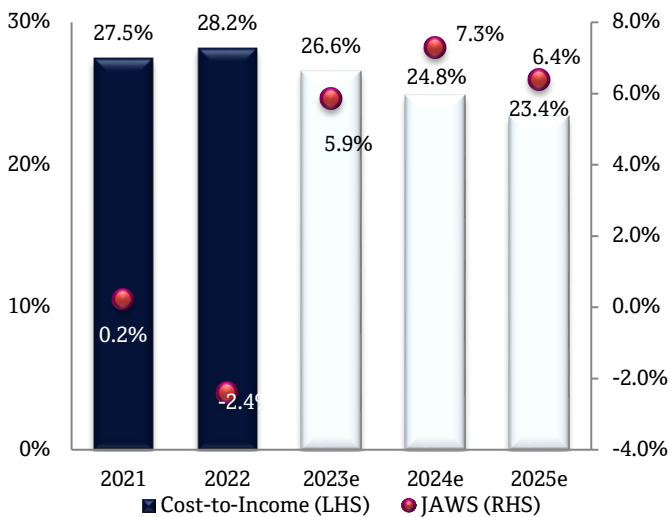


Source: Company data, QNB FS Research

CoR Normalizes



Efficiency to Improve

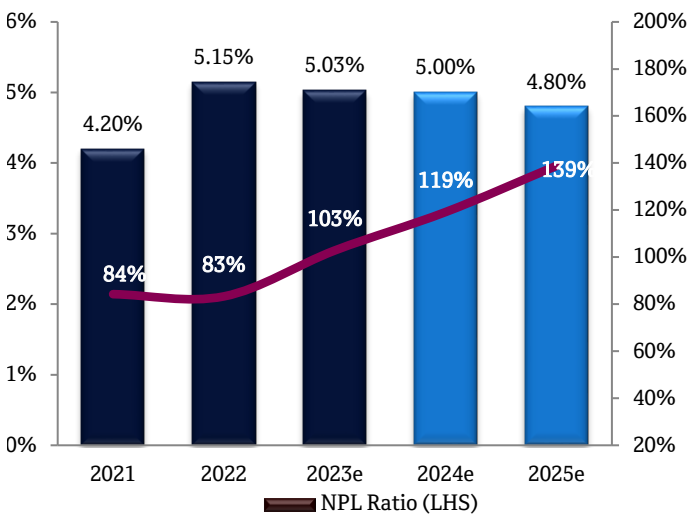


Source: Company data, QNB FS Research

Leading to Strong Net Operating Income



Majority of NPLs are Legacy



Source: Company data, QNB FS Research

Stage 3 Loans Require More Provisions

3Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	64,277,643	11,025,180	3,981,039	79,283,862
ECLs	101,553	617,314	2,744,747	3,463,614
Staging of Loans (%)	81.1%	13.9%	5.0%	
Staging of ECLs (%)	2.9%	17.8%	79.2%	
Coverage Ratio	0.2%	5.6%	68.9%	

Detailed Financial Statements

Income Statement (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Net Interest Income	2,358	2,345	2,143	2,182	2,486	2,739
Fees & Commissions	188	159	211	236	248	273
FX Income	143	170	223	235	251	271
Other Income	33	176	88	119	116	128
Non-Interest Income	364	505	522	589	616	672
Total Revenue	2,723	2,850	2,665	2,772	3,102	3,412
Operating Expenses	(749)	(782)	(750)	(736)	(770)	(798)
Net Operating Income	1,974	2,067	1,915	2,035	2,331	2,613
Net Provisions & Impairments	(955)	(872)	(660)	(708)	(787)	(853)
Net Profit Before Taxes and Non-Recurri	1,018	1,195	1,255	1,327	1,544	1,760
Taxes	(1)	(2)	(2)	(2)	(3)	(3)
Non-Recurring Items	(450)	-	-	-	-	-
Net Profit (Reported/Headline)	567	1,193	1,253	1,325	1,542	1,757
Payment on Tier-1 Sukuk	-	(33)	(71)	(71)	(71)	(71)
Social & Sports Contribution Fund				(33)	(39)	(44)
Net Profit (Attributable)	567	1,160	1,182	1,221	1,432	1,642
EPS (based on adjustment for treasury shares)	0.109	0.223	0.227	0.235	0.276	0.316

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e
Cash & Balances with Central Bank	3,368	7,246	6,425	7,112	6,003	6,483
Interbank Loans	5,892	5,559	1,500	3,975	4,229	3,630
Net Investments	16,661	20,800	20,432	21,862	23,611	25,485
Net Loans	58,537	75,222	75,677	79,500	84,584	90,760
Investment In Associates	84	63	64	65	65	66
Other Assets	309	431	866	795	846	545
Net PP&E	372	280	264	235	206	175
Investments In Real Estate	3	135	135	135	135	135
Goodwill	443	443	443	443	443	443
Other Intangibles	628	549	471	392	314	235
Total Assets	86,297	110,727	106,276	114,513	120,436	127,957
Liabilities						
Interbank Deposits	18,948	16,755	14,871	18,162	18,076	18,563
Customer Deposits	53,882	77,426	74,545	79,018	84,549	91,313
Term Loans	0	0	0	0	0	0
Tier-1 Perpetual Sukuk	-	1,821	1,821	1,821	1,821	1,821
Other Liabilities	1,963	2,559	2,523	2,608	2,536	2,100
Total Liabilities	74,793	98,561	93,761	101,608	106,982	113,797
Total Shareholders' Equity	11,504	12,166	12,515	12,905	13,453	14,161
Total Liabilities & Shareholders' Equity	86,297	110,727	106,276	114,513	120,436	127,957
Risk Weighted Assets	65,091	70,985	73,065	80,159	90,327	99,807

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
Profitability (%)						
RoE	5.7	11.1	10.6	10.5	11.9	12.9
RoAA	0.7	1.2	1.1	1.1	1.2	1.3
RoRWAs	0.9	1.7	1.6	1.6	1.7	1.7
NIM (% of IEAs)	3.13	2.64	2.21	2.19	2.33	2.40
NIM (% of RWAs)	3.85	3.45	2.97	2.85	2.92	2.88
NIM (% of AAs)	2.89	2.38	1.97	1.98	2.12	2.21
Spread	2.82	2.42	1.95	1.87	2.03	2.07
Efficiency (%)						
Cost-to-Income (Headline)	27.5	27.5	28.2	26.6	24.8	23.4
Cost-to-Income (Core)	27.7	28.1	28.6	27.3	25.4	23.9
Liquidity (%)						
LDR	109	97	102	101	100	99
Loans/Assets	67.8	67.9	71.2	69.4	70.2	70.9
Liquid Assets-to-Total Assets	30.0	30.3	26.7	28.8	28.1	27.8
Deposits to Assets	62.4	69.9	70.1	69.0	70.2	71.4
Wholesale Funding to Loans	32.4	22.3	19.7	22.8	21.4	20.5
IEAs to IBLs	119	110	116	113	114	114
Asset Quality (%)						
NPL Ratio	3.6	4.2	5.1	5.0	5.0	4.8
NPL's to Shareholders' Equity	18.9	26.9	32.5	32.6	33.3	32.9
NPL to Tier-1 Capital	22.0	26.7	32.3	30.4	29.4	27.6
Coverage Ratio	84.4	84.3	83.3	102.8	119.2	138.8
ALL/Average Loans	2.9	3.6	4.0	5.0	5.8	6.5
Cost of Risk (bps)	163	125	85	87	90	91
Capitalization (%)						
CET1 Ratio	15.2	14.7	14.7	15.0	14.9	15.1
Tier-1 Ratio	15.2	17.3	17.2	17.2	16.9	16.9
CAR	16.4	18.4	18.3	18.3	18.0	18.0
Leverage (x)	7.5	9.1	8.5	8.9	9.0	9.0
Growth (%)						
Net Interest Income	62.2	-0.6	-8.6	1.8	13.9	10.2
Non-Interest Income	-2.1	38.7	3.4	12.8	4.5	9.2
OPEX	4.9	4.4	-4.1	-1.9	4.6	3.6
Net Operating Income	77.4	4.8	-7.4	6.3	14.5	12.1
Net Income (Attributable)	-25.9	104.8	1.8	3.3	17.3	14.7
Loans	12.7	28.5	0.6	5.1	6.4	7.3
Deposits	12.5	43.7	-3.7	6.0	7.0	8.0
Assets	11.9	28.3	-4.0	7.8	5.2	6.2
RWAs	13.6	9.1	2.9	9.7	12.7	10.5

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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