

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.892	Target Price	QR3.810
Implied Upside/(Downside)	(2.1%)		

Stock is Hovering Around Fair Value; Stay Market Perform

After 9M2023 results, we maintain our earnings CAGR of 12.3% (2022-27e). Since we initiated coverage on Wednesday, 26 April 2023, the stock has rallied by 20.3%. Moreover, the stock is trading at a P/TB of 1.7x (in-line with the market) and the market is pricing in a sustainable RoE of 13.4%, in-line with our forecast of 13.6%. As such, we retain our PT of QR3.810/share on DUBK and our Market Perform rating.

- 9M2023 net profit was driven by a large drop in credit provisions as revenue was weak on the account of margin pressure; our 2023 net income remains unchanged at QR1.23bn while we lower our 2024 earnings by 8% to QR1.31bn which is still a growth of 7.2%. DUBK reported a net profit of QR1.11bn for 9M2023, increasing by 2.5% YoY. Net operating income declined by 19.0% YoY as a result of significant margin pressure.
- NIMs continued their negative trajectory in 9M2023; we forecast weak NIMs for 2023, 2024 and 2025. NIMs declined by 48bps to ~1.77% YoY. The growth in CoFs was greater than the growth in yields on interest earning assets. We pencil in NIMs of 1.76% (2023), 1.77% (2024) and 1.91% (2025) vs. 2.19%, 2.33% and 2.40% previously.
- Tangible RoE is modeled to make headway in 2025-27e. Our estimates leads us from 10.6% in 2023 to 13.3%/14.9% in 2026/27.
- We lower our loan book CAGR (2022-27e) from 6.8% to 4.6% due to de-risking and soft business activity; upside risk to our estimates is a decent cut in interest rates. Net loans inched up by 0.9% sequentially (flat YTD) to QR75.8bn. The support for loans came from 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% vs. FY2022) to QR77.0bn in 3Q2023.
- NPL ratio in 9M2023 was flat at 5.0% vs. FY2022 and a decent chunk of the NPLs are legacy in nature; on a positive note, NPL formation was negative. The bank's NPLs were flat sequentially in 3Q2023 and down 2.2% vs. FY2022. Coverage of Stage 3 loans declined from 83% in FY2022 to 69% at the end of 3Q2023 and 2Q2023. Going forward, we still assume asset quality will improve through a combination of recoveries, reversals and prudent underwriting.
- Recoveries were significant vs credit provisions (74% % of gross provisions), resulting in net recoveries aiding the bottom-line in 9M2023; we revise our CoR assumptions lower vs. previously. DUBK booked gross credit provisions of QR195.4mn vs. recoveries of QR145.4mn (resulting in net credit provisions of QR50.0mn) in 9M2023 vs. net credit provisions of QR389.3mn in 9M2022. 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. We now pencil in a CoR of 36bps, 40bps and 44bps vs. 87bps, 90bps and 91bps in 2023, 24 and 25, respectively. We forecast CoR to normalize to 50bps in 2026/27 with a coverage ratio of 165%.
- We still estimate the efficiency ratio to decline to 24% by 2027. DUBK's C/I ratio moved up to 32.2% in 9M2023 vs. 27.8% in 9M2022 (FY2022: 28.2%). This was due to a 13.7% drop in revenue vs. flat opex. As a result of weak revenue, the bank generated negative JAWs of 13.7% YoY. We expect the bank to generate negative JAWs of 10.6% for 2023, followed by positive JAWs from 2024 and onward, driven by a pick-up in revenue.
- DUBK maintains healthy capitalization levels and we expect it to remain so. 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% (interim profits are not included in quarterly Tier-1 calculations).

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 2023/24e P/TB and P/E of 1.7/1.6x and 16.6/15.5x, respectively.
- Risks: 1) Geo-political factors and 2) Unexpected asset quality deterioration.

Key Financial Data and Estimates

	2022	2023e	2024e	2025e
Attributable EPS (QR)	0.226	0.234	0.251	0.290
EPS Growth (%)	1.8	3.7	7.2	15.4
P/E (x)	17.2	16.6	15.5	13.4
Tangible BVPS (QR)	2.2	2.3	2.4	2.5
P/TBV (x)	1.8	1.7	1.6	1.5
RoE (%)	10.6	10.6	10.9	12.1
DPS (QR)	0.160	0.170	0.180	0.190
Dividend Yield (%)	4.1	4.4	4.6	4.9

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

Key Data

Current Market Price (QR)	3.892
Dividend Yield (%)	4.1
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)	11,222.9
Mkt. Cap. (\$ bn/QR bn)	5.6/20.4
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.1
Return vs. Listing Price (%)	(10.5)
Fiscal Year End	December 31

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

Shahan Keushgerian

+974 4476 6509

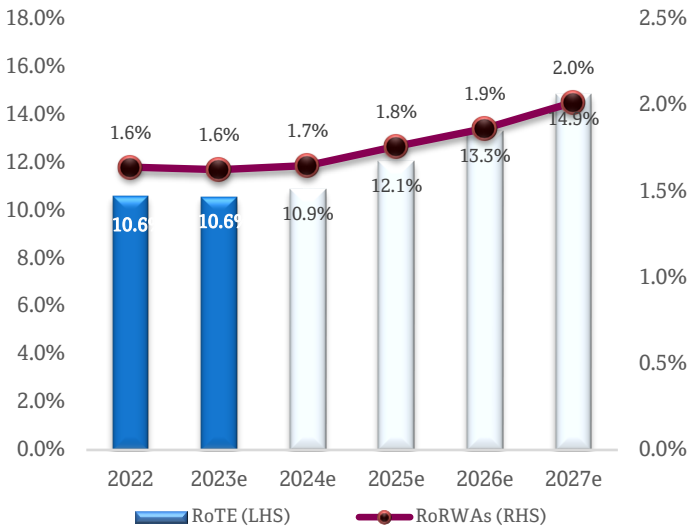
shahan.keushgerian@qnbfs.com.qa

Saugata Sarkar, CFA, CAIA

+974 4476 6534

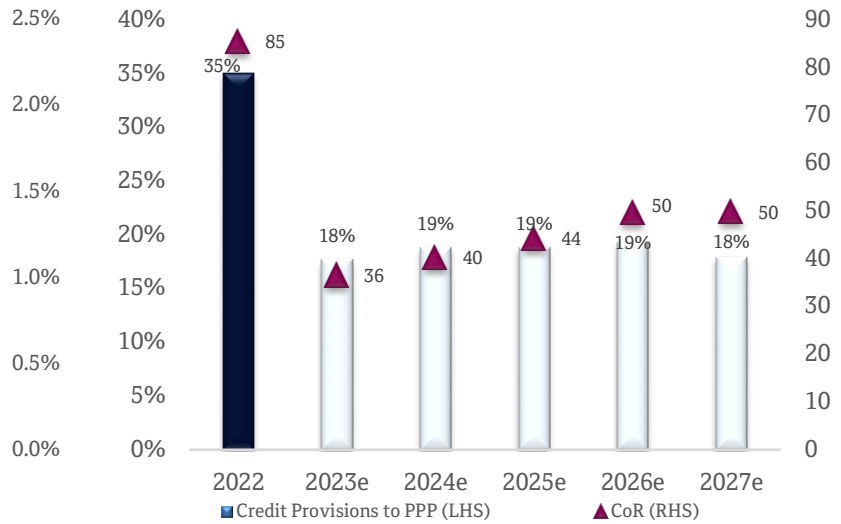
saugata.sarkar@qnbfs.com.qa

RoE/RoRWAs to Steadily Improve...

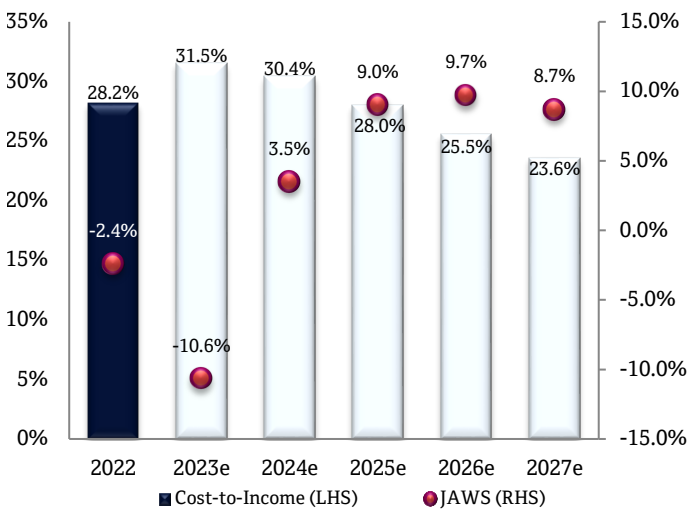


Source: Company data, QNB FS Research

CoR Normalizes at 50bps

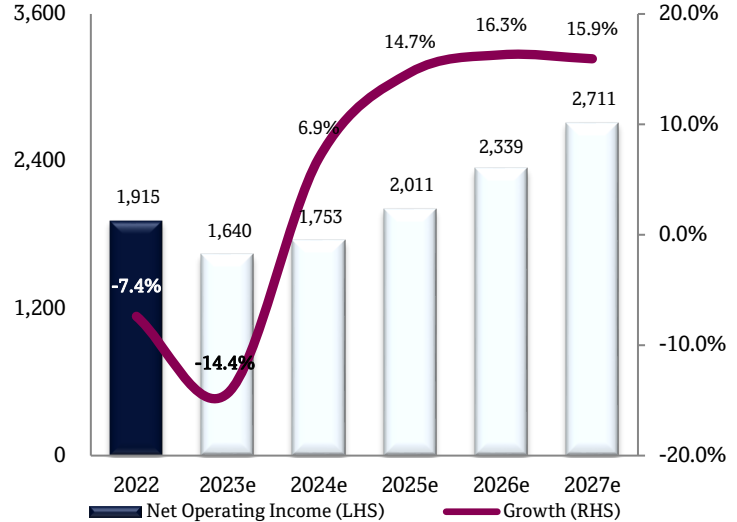


Efficiency to Markedly Improve With Positive JAWs

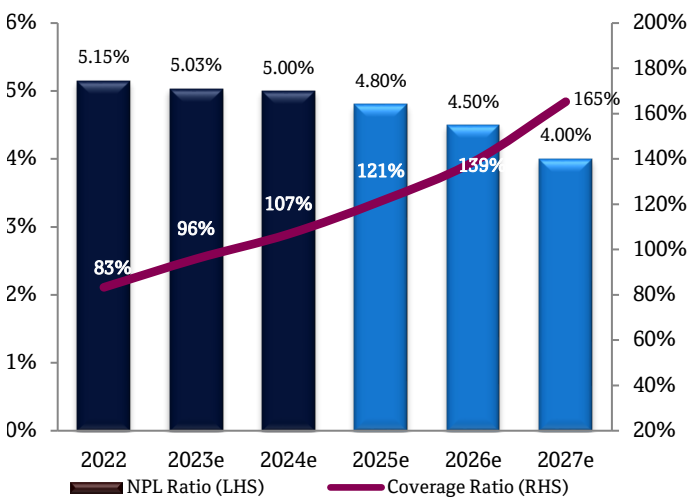


Source: Company data, QNB FS Research

Leading to Strong Net Operating Income



Majority of NPLs are Legacy (RE are 25% of Loans; 50% of Which GRE)



Source: Company data, QNB FS Research

Stage 3 Loans Coverage Low (Coverage is 90% incl. Collateral)

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	2026e
Net Interest Income	2,358	2,345	2,143	1,765	1,842	2,028	2,313
Fees & Commissions	188	159	211	306	352	395	402
FX Income	143	170	223	147	170	201	245
Other Income	33	176	88	174	156	167	181
Non-Interest Income	364	505	522	628	678	763	828
Total Revenue	2,723	2,850	2,665	2,393	2,521	2,791	3,141
Operating Expenses	(749)	(782)	(750)	(754)	(767)	(780)	(802)
Net Operating Income	1,974	2,067	1,915	1,640	1,753	2,011	2,339
Net Provisions & Impairments	(955)	(872)	(660)	(307)	(330)	(379)	(451)
Net Profit Before Taxes and Non-Recurring Items	1,018	1,195	1,255	1,333	1,423	1,632	1,888
Taxes	(1)	(2)	(2)	(2)	(2)	(3)	(3)
Non-Recurring Items	(450)	-	-	-	-	-	-
Net Profit (Reported/Headline)	567	1,193	1,253	1,331	1,421	1,629	1,884
Payment on Tier-1 Sukuk	-	(33)	(71)	(71)	(71)	(71)	(71)
Social & Sports Contribution Fund				(33)	(36)	(41)	(47)
Net Profit (Attributable)	567	1,160	1,182	1,226	1,314	1,517	1,766
EPS (including treasury shares)	0.108	0.222	0.226	0.234	0.251	0.290	0.337

Source: Company data, QNB FS Research

Balance Sheet (In QR mn)	2020	2021	2022	2023e	2024e	2025e	2026e
Cash & Balances with Central Bank	3,368	7,246	6,425	4,293	5,819	6,949	6,906
Interbank Loans	5,892	5,559	1,500	11,506	5,562	5,819	4,427
Net Investments	16,661	20,800	20,432	19,883	20,409	22,793	24,616
Net Loans	58,537	75,222	75,677	76,704	79,452	83,123	88,533
Investment In Associates	84	63	64	64	64	65	65
Other Assets	309	431	866	1,227	858	1,081	974
Net PP&E	372	280	264	233	210	196	183
Investments In Real Estate	3	135	135	135	135	135	135
Goodwill	443	443	443	443	443	443	443
Other Intangibles	628	549	471	392	314	235	157
Total Assets	86,297	110,727	106,276	114,879	113,265	120,839	126,439
Liabilities							
Interbank Deposits	18,948	16,755	14,871	19,914	13,693	16,229	15,736
Customer Deposits	53,882	77,426	74,545	78,049	81,951	86,868	92,080
Term Loans	0	0	0	0	0	0	0
Tier-1 Perpetual Sukuk	-	1,821	1,821	1,821	1,821	1,821	1,821
Other Liabilities	1,963	2,559	2,523	2,185	2,459	1,998	2,099
Total Liabilities	74,793	98,561	93,761	101,969	99,924	106,916	111,737
Total Shareholders' Equity	11,504	12,166	12,515	12,910	13,341	13,923	14,702
Total Liabilities & Shareholders' Equity	86,297	110,727	106,276	114,879	113,265	120,839	126,439
Risk Weighted Assets	65,091	70,985	73,065	77,658	81,551	90,629	98,622
Interest Earning Assets	78,100	96,962	94,321	104,598	102,557	108,663	114,365
Interest Bearing Liabilities	65,494	87,981	81,165	81,573	80,893	92,673	98,609

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2020	2021	2022	2023e	2024e	2025e	2026e
Profitability (%)							
RoE	5.7	11.1	10.6	10.6	10.9	12.1	13.3
RoAA	0.7	1.2	1.1	1.1	1.2	1.3	1.4
RoRWAs	0.9	1.7	1.6	1.6	1.7	1.8	1.9
NIM (% of IEAs)	3.13	2.64	2.21	1.76	1.77	1.91	2.05
NIM (% of RWAs)	3.85	3.45	2.97	2.34	2.31	2.36	2.44
NIM (% of AAs)	2.89	2.38	1.97	1.60	1.61	1.73	1.87
Yield on IEAs	4.68	4.05	4.11	5.40	5.50	5.83	6.18
CoFs	1.72	1.56	2.11	4.43	4.74	4.75	4.79
Spread	2.82	2.42	1.95	0.91	0.72	1.04	1.32
Efficiency (%)							
Cost-to-Income (Headline)	27.5	27.5	28.2	31.5	30.4	28.0	25.5
Cost-to-Income (Core)	27.7	28.1	28.6	32.4	31.3	28.7	26.1
Liquidity (%)							
LDR	109	97	102	98	97	96	96
Loans/Assets	67.8	67.9	71.2	66.8	70.1	68.8	70.0
Liquid Assets-to-Total Assets	30.0	30.3	26.7	31.1	28.1	29.4	28.4
Deposits to Assets	62.4	69.9	70.1	67.9	72.4	71.9	72.8
Wholesale Funding to Loans	32.4	22.3	19.7	26.0	17.2	19.5	17.8
IEAs to IBLs	119	110	116	128	127	117	116
Asset Quality (%)							
NPL Ratio	3.6	4.2	5.1	5.0	5.0	4.8	4.5
NPLs to Shareholders' Equity	18.9	26.9	32.5	31.3	31.4	30.3	28.8
NPL to Tier-1 Capital	22.0	26.7	32.3	29.2	27.6	25.4	23.0
Coverage Ratio	84.4	84.3	83.3	95.9	106.8	121.4	138.7
ALL/Average Loans	2.9	3.6	4.0	4.5	5.0	5.5	6.0
Cost of Risk (bps)	163	125	85	36	40	44	50
Capitalization (%)							
CET1 Ratio	15.2	14.7	14.7	15.4	16.3	16.4	16.8
Tier-1 Ratio	15.2	17.3	17.2	17.8	18.6	18.4	18.7
CAR	16.4	18.4	18.3	18.9	19.7	19.4	19.7
Leverage (x)	7.5	9.1	8.5	8.9	8.5	8.7	8.6
Growth (%)							
Net Interest Income	62.2	-0.6	-8.6	-17.6	4.4	10.1	14.0
Non-Interest Income	-2.1	38.7	3.4	20.3	8.0	12.5	8.5
OPEX	4.9	4.4	-4.1	0.4	1.8	1.7	2.8
Net Operating Income	77.4	4.8	-7.4	-14.4	6.9	14.7	16.3
Net Income (Attributable)	-25.9	104.8	1.8	3.7	7.2	15.4	16.4
Loans	12.7	28.5	0.6	1.4	3.6	4.6	6.5
Deposits	12.5	43.7	-3.7	4.7	5.0	6.0	6.0
Assets	11.9	28.3	-4.0	8.1	-1.4	6.7	4.6
RWAs	13.6	9.1	2.9	6.3	5.0	11.1	8.8

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

Contacts

QNB Financial Services Co. W.L.L.
 Contact Center: (+974) 4476 6666
info@qnbfs.com.qa
 Doha, Qatar

Saugata Sarkar, CFA, CAIA
 Head of Research
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
 Senior Research Analyst
shahan.keushgerian@qnbfs.com.qa

Phibion Makuwerere, CFA
 Senior Research Analyst
phibion.makuwerere@qnbfs.com.qa

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