

## Dukhan Bank (DUBK)

Recommendation	Accumulate	Risk Rating	R-3
Share Price	QR3.235	Target Price	QR3.810
Implied Upside/(Downside)	17.8%		

### Attractive Valuation But Needs A Catalyst; Initiate With Accumulate

*Dukhan Bank was incorporated in 2008 under the name of Barwa Bank and commenced operations in 2009 as a full-service Shari'ah-compliant bank. The bank rebranded itself under the name of Dukhan Bank in October 2020, following the merger with International Bank of Qatar ("IBQ") in mid-2019. DUBK stock was listed in mid-February 2023 with a valuation of 1.8x P/B and a price of QR4.35. Since its listing, DUBK stock has sharply corrected and is trading at an attractive P/TB of 1.4x based on our 2023 estimates. Furthermore, the market is pricing in a sustainable RoE of 12.0%, lower than our estimate of 13.6%. Hence, we are of the view that there is room for further upside. As such, we initiate coverage with an Accumulate rating and a PT of QR3.810.*

#### Highlights

- We assume a bottom-line CAGR of 12.3% over 2022-2027e.** The growth in net income should be driven by net interest income (9.0% 5-year CAGR attributable to NIM expansion), strong non-funded income (mainly fees and f/x income) and costs containment.
- Dukhan Bank is a niche bank with a market share of 5.6%; we model in a loan book CAGR (2022-27e) of 6.8%.** DUBK is focused on private banking clients, which it acquired from International Bank of Qatar (IBQ), family businesses/offices and public sector/GREs (23% of total loans). Moreover, loans to the real estate sector expanded by a CAGR (2020-22) of 9.6% and represents 27% of total loans, which is normally the case with Shari'ah-compliant banks; real estate is roughly 50/50 residential and commercial (GRE-related). On the other hand, the bank is not retail-oriented as the retail book grew only by a CAGR of 1.8% (2020-22) and makes up 6% of total loans.
- RoE improvement depends on continued double-digit growth and some improvement in CoR.** RoE is steadily increasing based on our estimates. Lower CoR can boost RoE significantly beyond our estimates.
- We expect NIMs to increase after reaching the lowest level in the bank's operating history at 2.21% in 2022.** This increase should be driven by higher asset yields as assets begin to reprice and lower cost of funding. We expect NIMs to expand from 2.21% (2022) to 2.51% (2027e).
- DUBK has room to improve its asset quality.** The bank's NPLs grew by 50.4% in 2021 and 24.2% in 2022 to reach NPL ratios of 4.20%/5.15%. However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 Loans significantly improved from 65% in 2021 to 83% at the end of 2022; including collateral coverage, Stage 3 Loans' coverage stood at 95%. *DUBK's Stage 2 Loans, as a % of total loans, is at a healthy level and is one of the lowest among its peers at 14.9%.*
- Cost of risk is at acceptable levels and healthiest among domestic peers.** DUBK enjoys the lowest CoR among its peers. However, we are of the view that CoR could increase steadily as the bank builds precautionary buffers and should normalize at around the ~90bps level.
- C/I has improved from 2018's 38.8% (pre-merger) to 28.2% in 2022; we pencil in a C/I ratio of 26.6%/24.8% in 2023e/24e.** The bank's efficiency ratio significantly improved post-merger driven by QR140mn in cost synergies (equivalent to 20% of cost base). As such, the C/I ratio dropped sharply and we expect the efficiency ratio to improve over our forecast horizon driven by a combination of growth in revenue and costs containment.
- DUBK maintains healthy capitalization levels above the QCB's minimum level.** Management has managed its CET1/Tier-1 position in a steady manner. Hence, we assume the bank's capital position will not deviate from historical levels. DUBK ended 2022 with CET1/Tier-1 ratios of 14.7%/17.2%.

#### 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 assign a Price Target of QR3.810 and an Accumulate rating.** DUBK is trading at a 2023e P/TB and P/E of 1.4x and 13.9x, 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)	14.3	13.9	11.8	10.3
Tangible BVPS (QR)	2.2	2.3	2.4	2.6
P/TBV (x)	1.5	1.4	1.3	1.3
RoE (%)	10.6	10.5	11.9	12.9
DPS (QR)	0.160	0.170	0.180	0.190
Dividend Yield (%)	4.9	5.3	5.6	5.9

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

#### Key Data

Current Market Price (QR)	3.235
Dividend Yield (%)	4.9
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.0/2.70
40-Day Average Volume (000's)	10.3
Mkt. Cap. (\$ bn/QR bn)	4.7/16.9
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	0.83
Return Vs. Listing Price (%)	(25.6)
Fiscal Year End	December 31

Source: Bloomberg (as of April 20, 2023), \*QSE (as of April 20, 2023); Note: FO is foreign ownership

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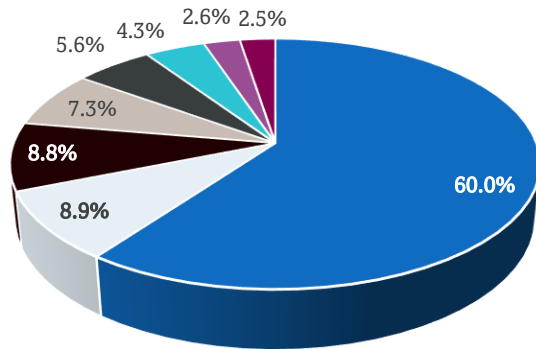
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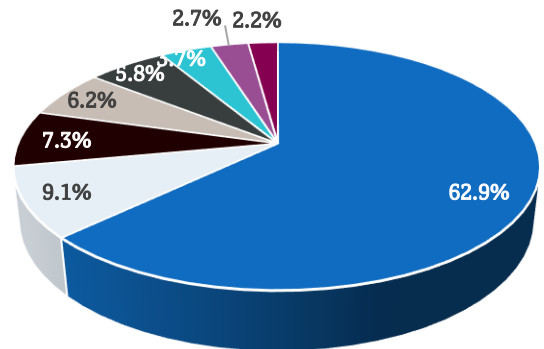
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# Qatar Banking Landscape

5.6% Market Share in Loans...



and 5.8% in Deposits

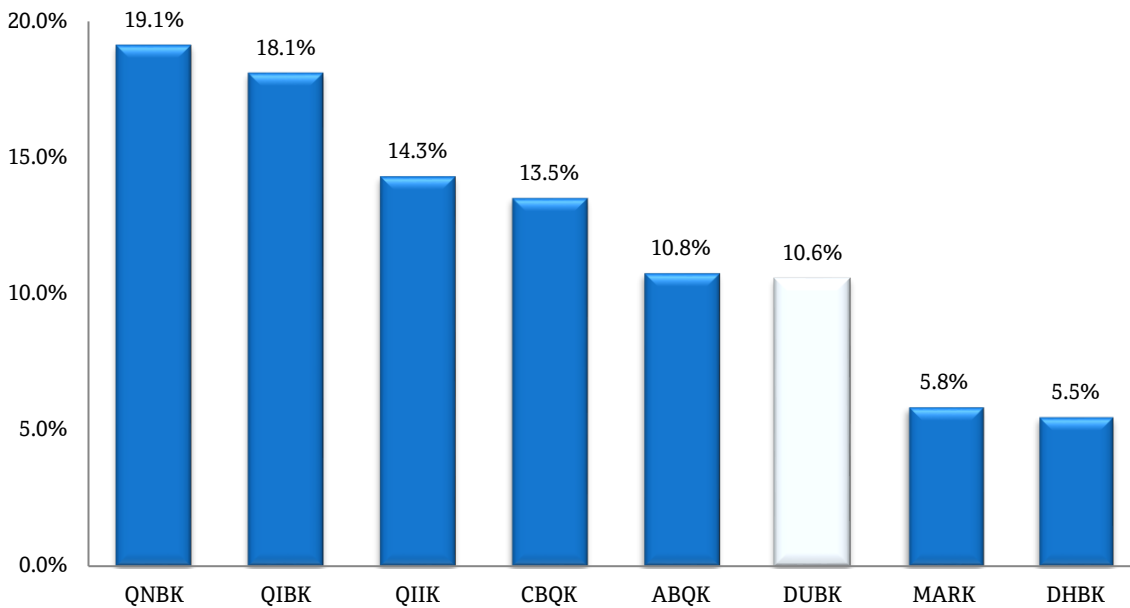


- QNBK
- QIBK
- MARK
- CBQK
- DUBK
- DHBK
- QIIK
- ABQK

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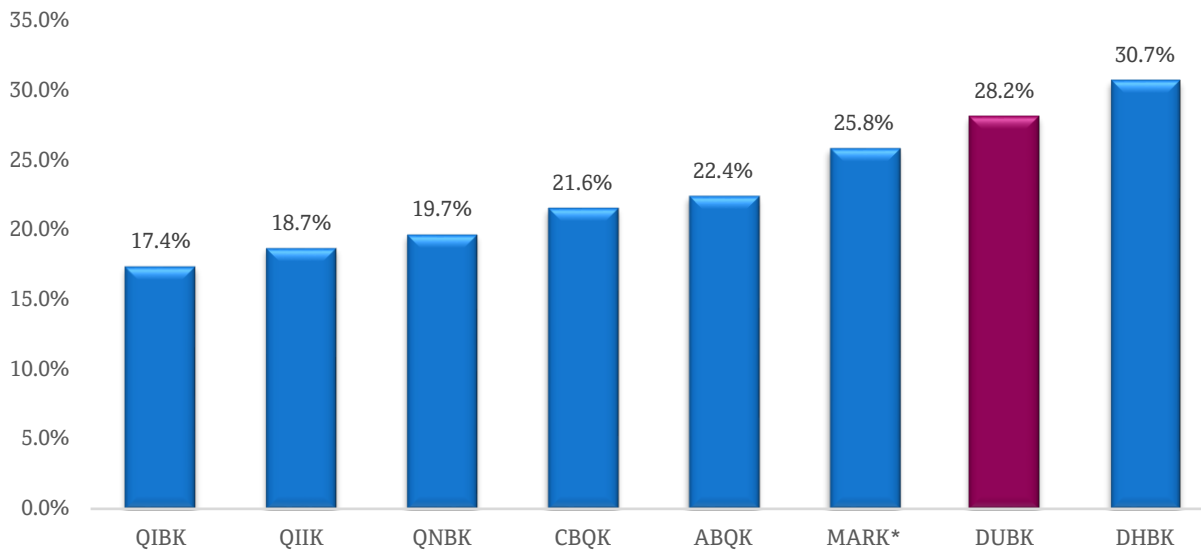
Source: Company data, QNB FS Research

Potential for RoE to Increase; We Expect DUBK to Generate RoE of 14.6% in 2027e



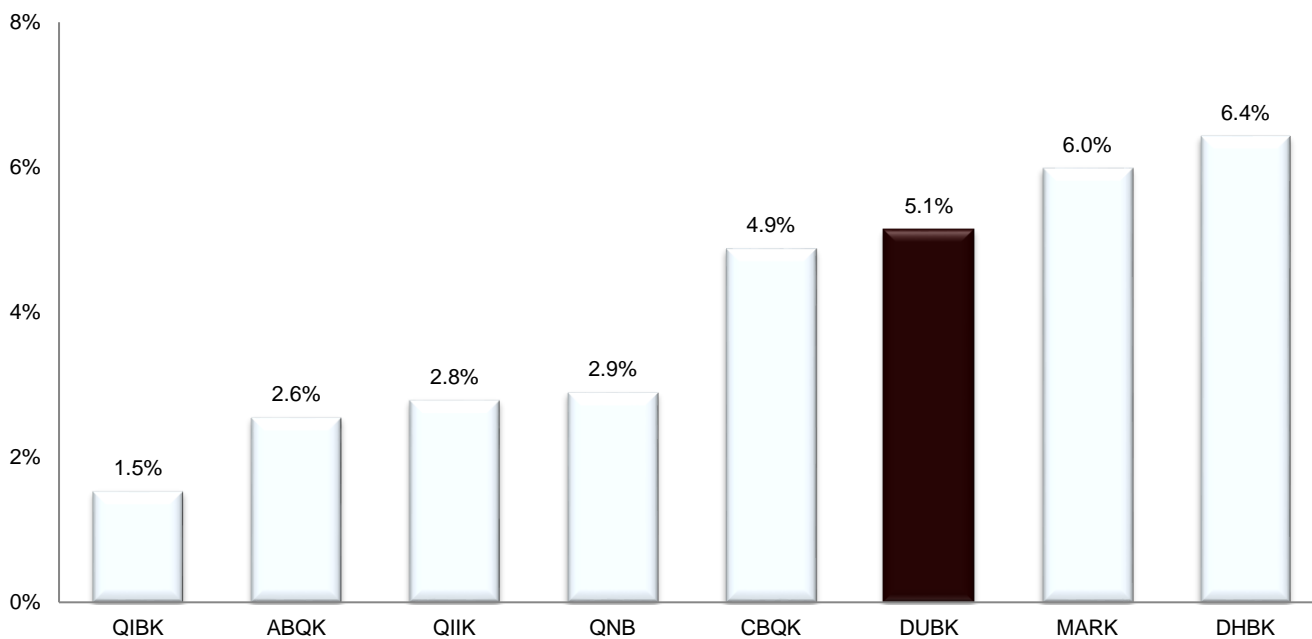
Source: Company data, QNB FS Research

**We Expect The Efficiency Ratio to Further Improve to ~25%/23% by 2024e/25e; Pre-Merger C/I was at ~39%**



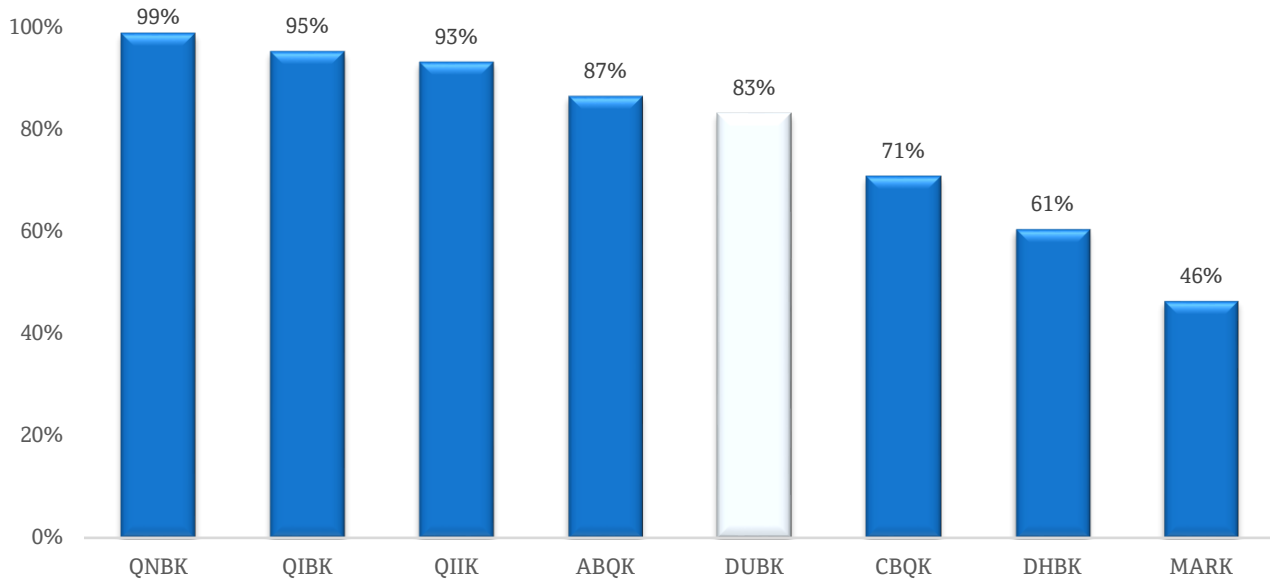
Source: Company data, QNB FS Research

**Asset Quality Position is Manageable and Has Room for Improvement**



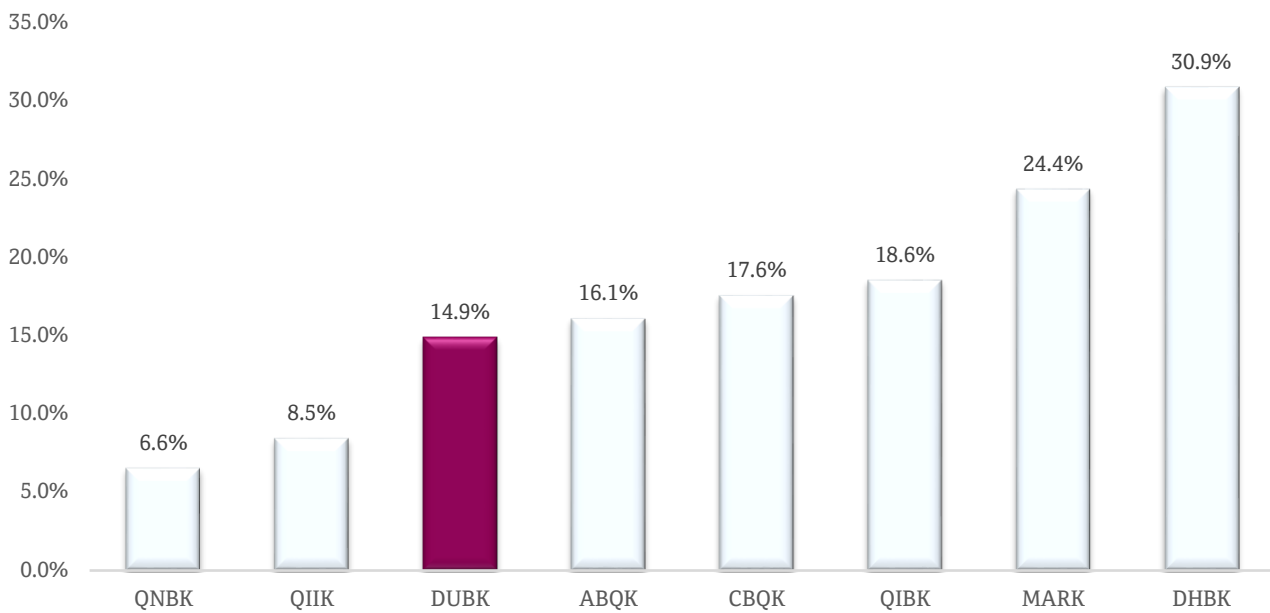
Source: Company data, QNB FS Research

**We Expect Coverage Ratio of Stage 3 Loans to Steadily Increase to 100%**



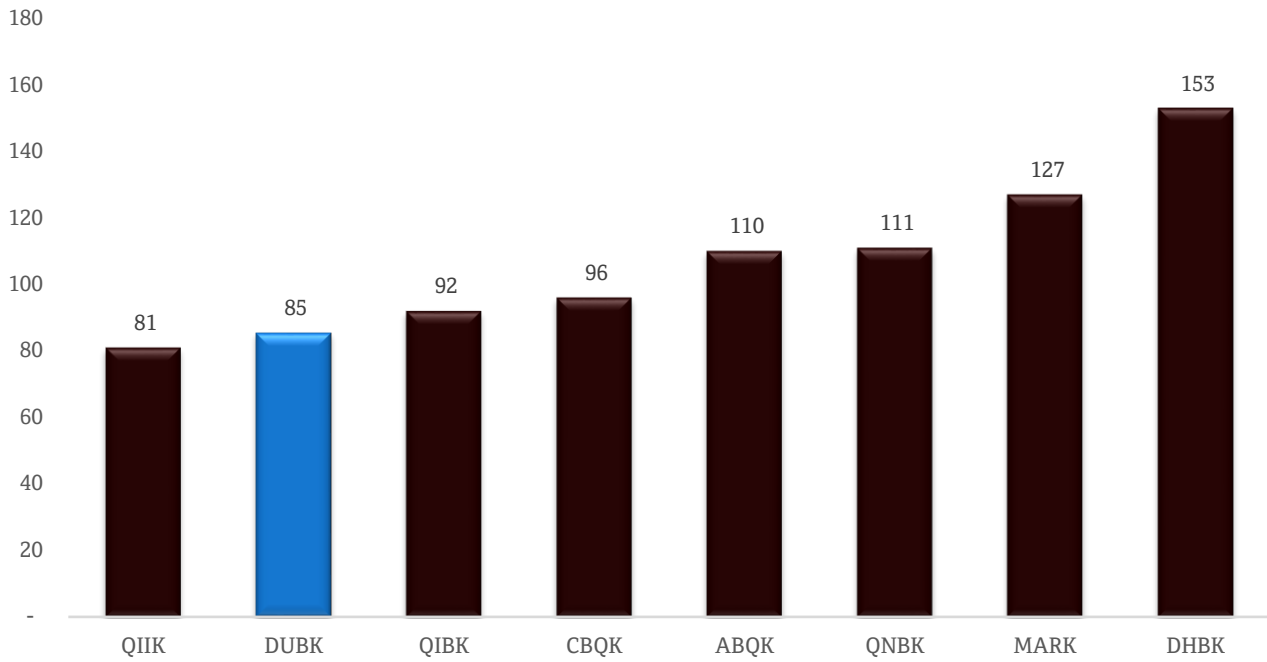
Source: Company data, QNB FS Research

**DUBK's Stage 2 Loans as a % of Total Loans is at a Healthy Level**



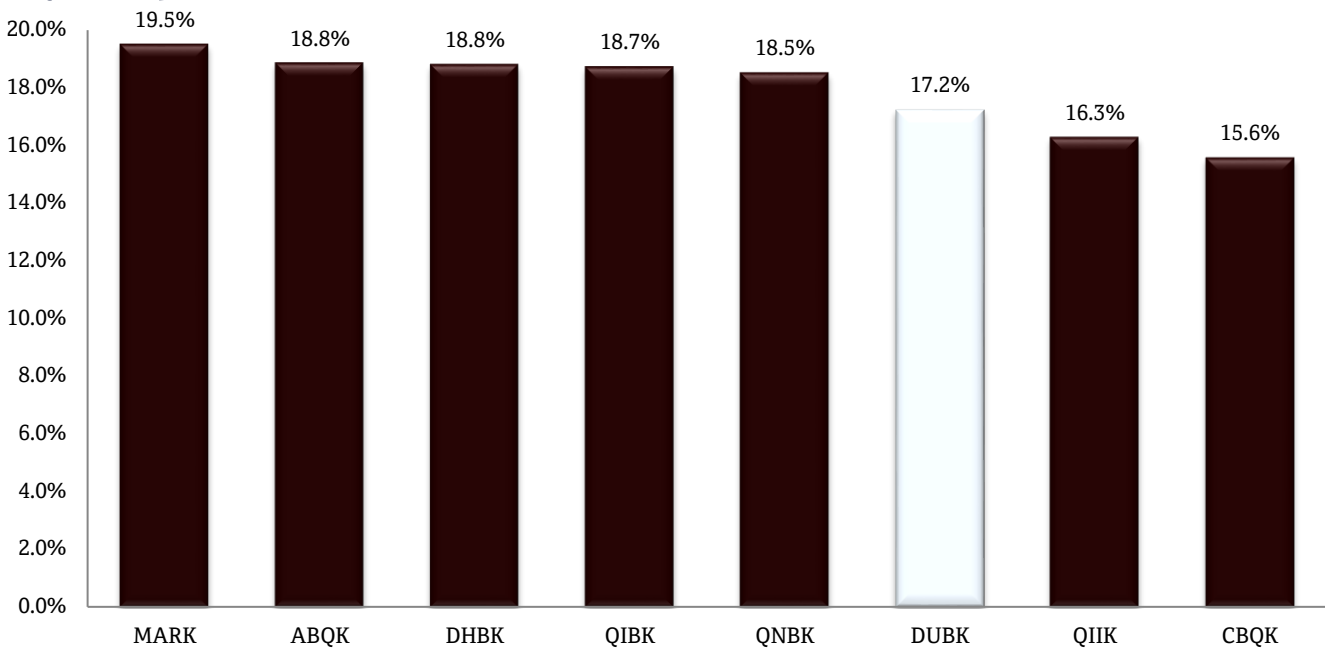
Source: Company data, QNB FS Research

### DUBK Enjoys Lower CoR Vs. Its Peers



Source: Company data, QNB FS Research

### Strong Tier-1 Capital Position



Source: Company data, QNB FS Research

## Valuation

### We value DUBK using the Residual Income Model (RI) based on a fundamental P/B:

We derive DUBK's fair value by employing the RI valuation technique (*based on a fundamental P/B*), which is calculated based on the sum of its beginning book value, present value of interim residuals (net income minus equity charge) and the present value of the terminal value (we apply a fundamental P/B multiple based on the Gordon Growth Model to the ending book value at the end of our forecast horizon). We derive the P/B from the Gordon Growth Model:  $P/B = (RoE-g)/(Ke-g)$ . This model uses sustainable return on equity (RoE) based on the median over our forecast period, cost of equity (Ke) and expected long-term growth in earnings (g) to arrive at fundamental/justified P/B. **Based on this method, we arrive at a fundamental P/B of 1.7x.**

We add Qatar's 10-year CDS rate of 0.73% to the 10-year US government bond yield (3.45%) to arrive at a risk free rate of 4.2%. We factor in an adjusted beta of 1.0x. Finally, we add a local equity risk premium of 7.0% to arrive at a Ke of 11.18%. However, we use a Ke of 10.0% for the terminal year.

### Valuation Methodologies

Fundamental P/B		RI Based on Fundamental P/B	
Sustainable RoE (%)	13.6	Beginning Tangible BVPS (2023) (QR)	2.22
Terminal Cost of Equity (%)	10.00	Present Value of Interim Residuals (QR)	0.36
Terminal Growth Rate (%)	5.0	Present Value of Terminal Value (QR)	1.23
Fundamental P/B	1.7x	Current Market Price (QR)	3.235
		12-Month Target Price (QR)	3.810
		Upside/(Downside) Potential (%)	17.8

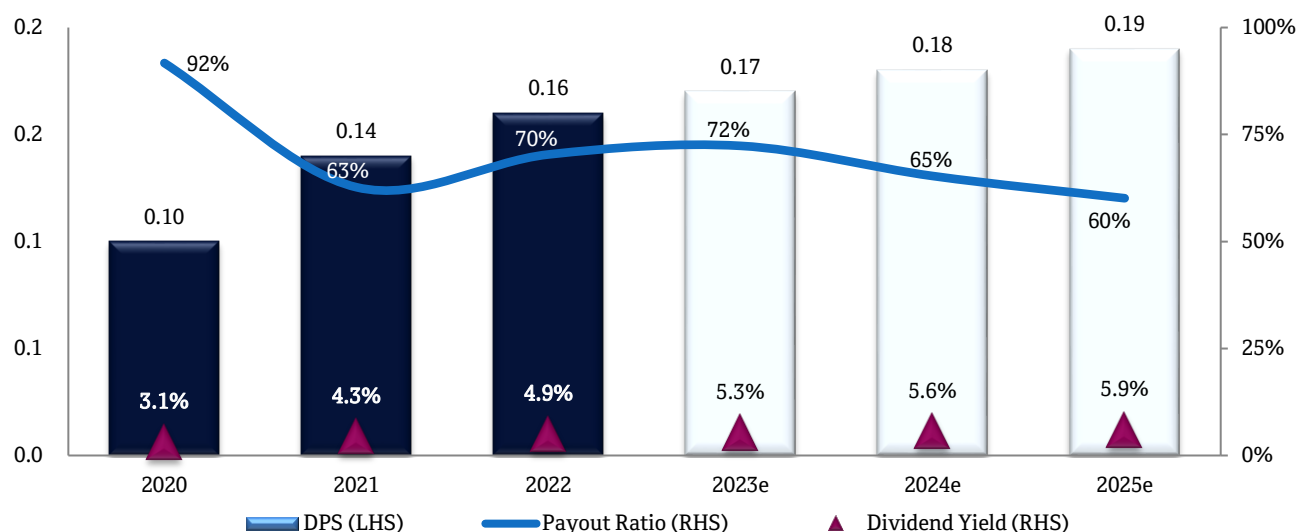
Source: QNB FS Research

### Forecast

	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	Terminal
Beginning Tangible BVPS	2.22	2.31	2.43	2.58	2.76	2.98	3.22	3.47	3.74	4.03
Attributable EPS	0.23	0.27	0.31	0.35	0.40	0.43	0.46	0.48	0.50	0.53
DPS	0.16	0.17	0.18	0.19	0.200	0.19	0.20	0.21	0.22	0.23
Adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ending Tangible BVPS	2.31	2.43	2.58	2.76	2.98	3.22	3.47	3.74	4.03	4.32
Equity Charge	0.25	0.26	0.27	0.29	0.31	0.33	0.36	0.39	0.42	0.40
<b>Residual Income</b>	<b>-0.01</b>	<b>0.02</b>	<b>0.04</b>	<b>0.07</b>	<b>0.09</b>	<b>0.10</b>	<b>0.10</b>	<b>0.09</b>	<b>0.08</b>	<b>0.13</b>
Terminal Value (Based on Fundamental P/B)										3.11
<b>Discounted Interim Residuals</b>	<b>-0.01</b>	<b>0.01</b>	<b>0.03</b>	<b>0.04</b>	<b>0.06</b>	<b>0.05</b>	<b>0.05</b>	<b>0.04</b>	<b>0.03</b>	<b>0.05</b>
<b>Discounted Terminal Value</b>										<b>1.23</b>

Source: QNB FS Research

### Attractive Dividend Yield



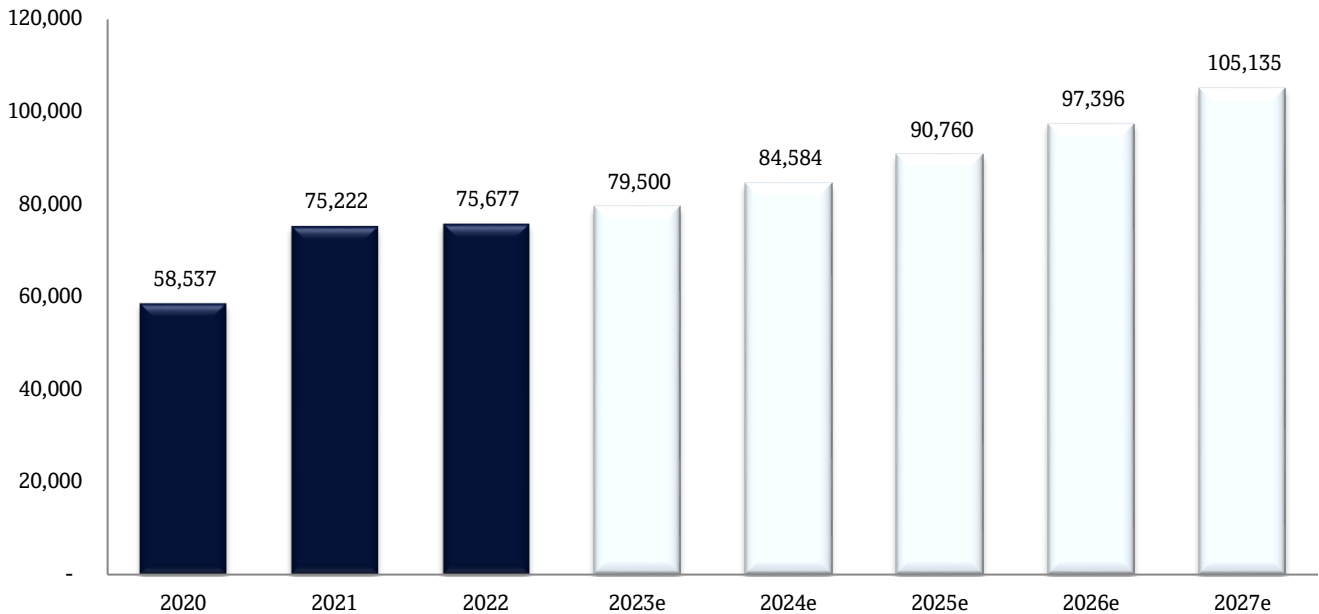
Source: Company Data, QNB FS Research

## Key Forecasts

### Loan Portfolio

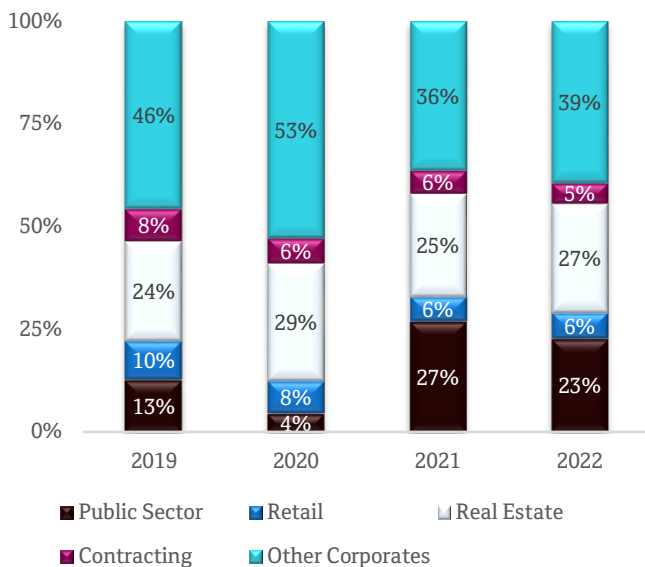
**Dukhan Bank is a niche bank with a market share of 5.6%; we model in a loan book CAGR (2022-27e) of 6.8%.** DUBK is focused on private banking clients, which it acquired from International Bank of Qatar (IBQ), family businesses/offices and public sector/GREs (23% of total loans). Moreover, loans to the real estate sector expanded by a CAGR (2020-22) of 9.6% and represents 27% of total loans, which is normally the case with Shari'ah-compliant banks; real estate is roughly 50/50 residential and commercial (GRE-related). On the other hand, the bank is not retail-oriented as the retail book grew only by a CAGR of 1.8% (2020-22) and makes up 6% of total loans.

Loans (QR mn) to Exhibit 6.8% CAGR Vs. 8.9% (2020-22)

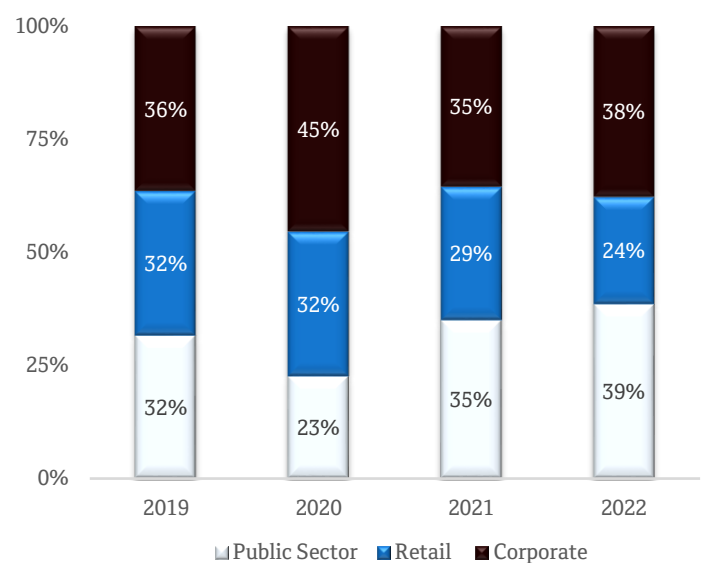


Source: Company data, QNB FS Research

Corporate and Public Sector-Oriented Bank...



With a Stable Deposit Base



Source: Company data, QNB FS Research

### DUBK Enjoys a Healthy Liquidity Position with Liquid Assets to Total Assets of ~30%

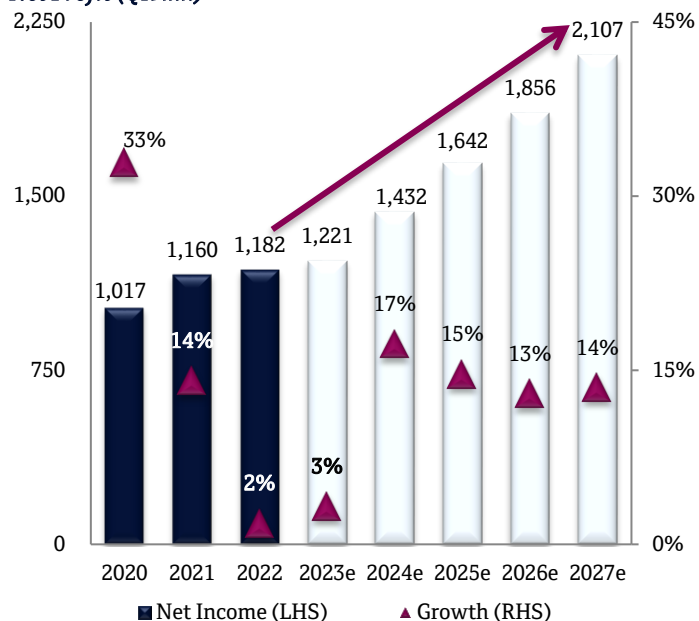


Source: Company data, QNB FS Research

### Operating Performance

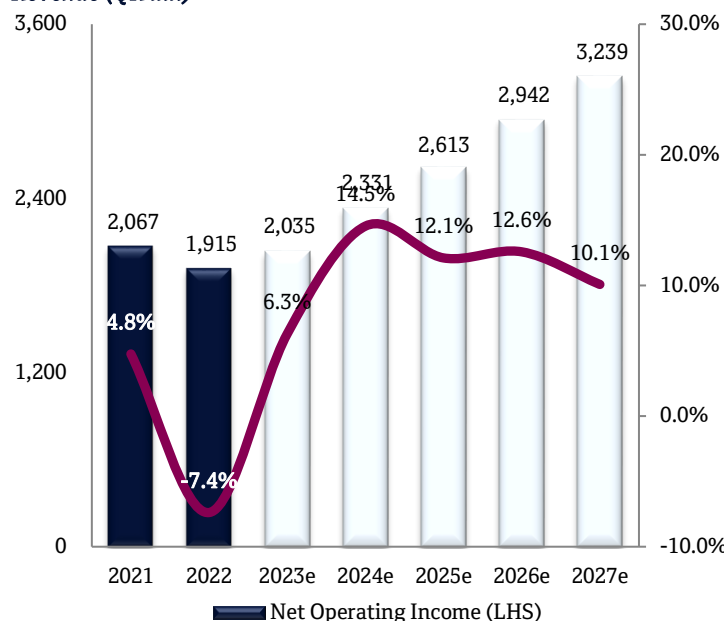
We assume a bottom-line CAGR of 12.3% over 2022-2027e. The growth in net income is expected to be driven by net interest income (9.0% 5-year CAGR attributable to NIM expansion), strong non-funded income (mainly fees and f/x income) and costs containment. Having said this, there could be further upside to our estimates if DUBK reduces provisions and books recoveries ahead of our model expectations. As such, hefty reversals can unlock value, further boosting profitability (RoE should increase) ahead of our estimates.

#### Net Profit (QR mn)



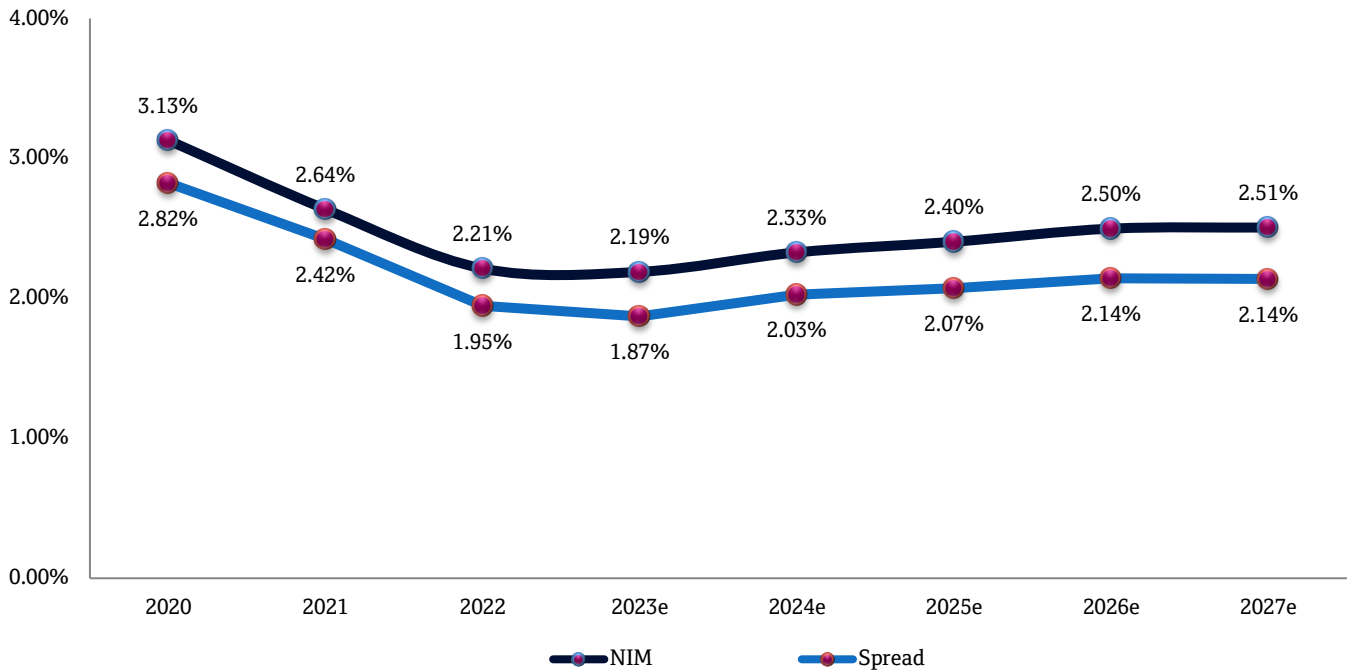
Source: Company data, QNB FS Research

#### Revenue (QR mn)





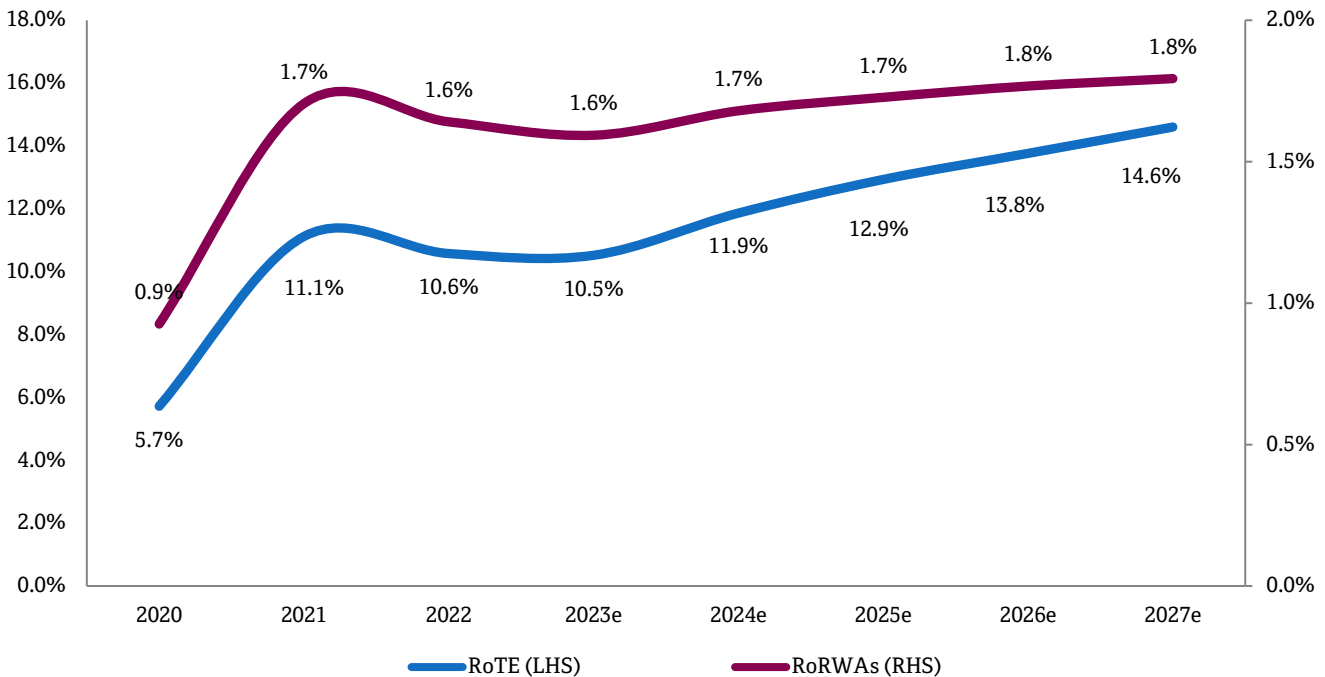
**NIMs to Increase as Loan Growth Picks up and Existing Assets are Repriced**



Source: Company data, QNB FS Research

We expect NIMs to increase after reaching the lowest level in the bank’s operating history at 2.21% in 2022. The increase in NIMs should be driven by higher asset yields as assets begin to reprice and lower cost of funding. We expect NIMs to expand from 2022’s 2.21% to 2.51% in 2027e.

**RoE to Continuously Improve**

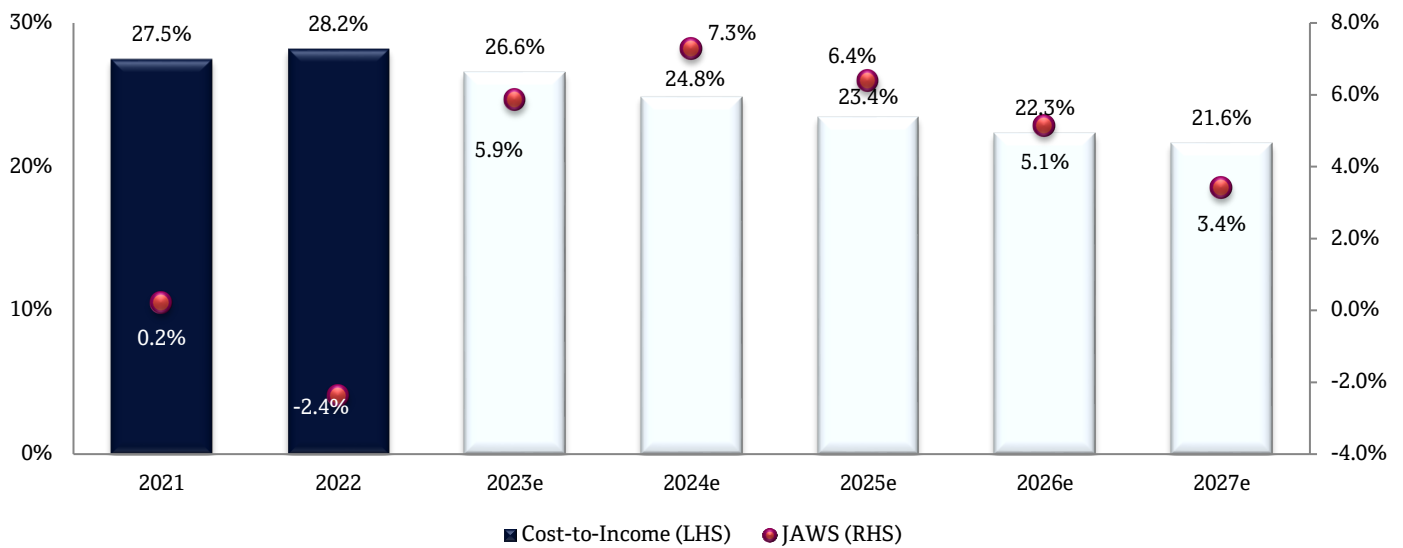


Source: Company data, QNB FS Research; \*RoTE is calculated based on tangible beginning shareholders’ equity

RoE improvement depends on continued double-digit growth and some improvement in CoR. RoE is steadily increasing based on our estimates. Lower CoR can boost RoE significantly beyond our estimates.

## Efficiency

### DUBK is Turning Into an Efficient Bank

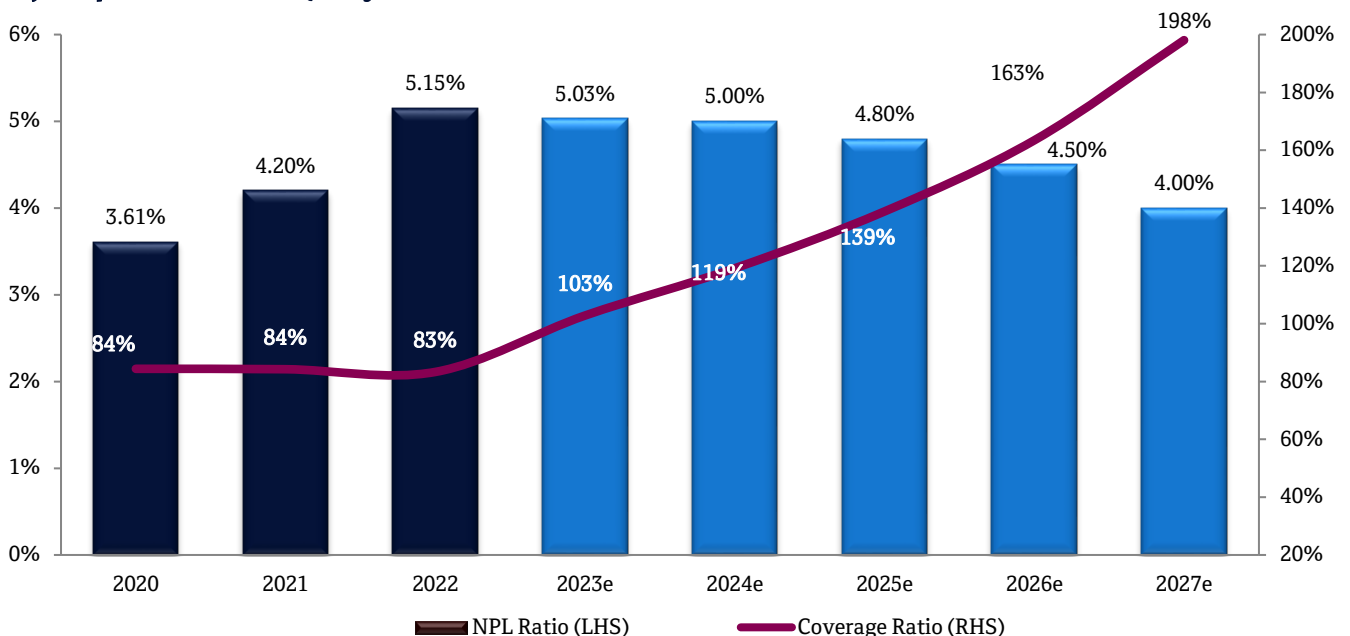


Source: Company data, QNB FS Research

**C/I has improved from 2018's 38.8% (pre-merger) to 28.2% in 2022; we pencil in a C/I ratio of 26.6/24.8% in 2023e/24e.** The bank's efficiency ratio significantly improved post-merger driven by QR140mn in cost synergies (equivalent to 20% of cost base). As such, the C/I ratio dropped sharply and we expect the efficiency ratio to improve over our forecast horizon driven by a combination of growth in revenue and costs containment. Moreover, efficiency is expected to further improve as DUBK is a corporate-oriented bank vs. retail (retail-focused banks tend to have higher C/Is vs. corporate-oriented banks). We also forecast the bank to generate JAWS as growth in revenue outpaces growth in opex (2022-27e).

## Asset Quality

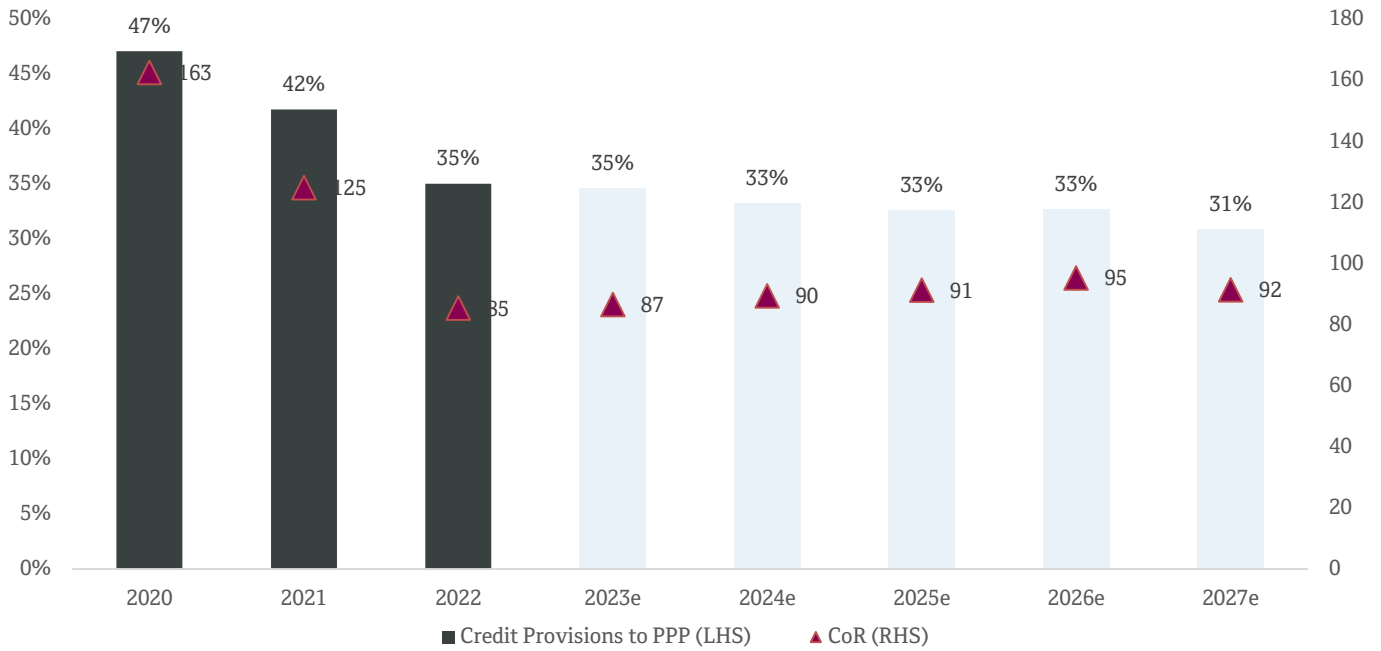
### Room for Improvement in Asset Quality



Source: Company data, QNB FS Research

**DUBK has room to improve its asset quality.** The bank's NPLs grew by 50.4% in 2021 and 24.2% in 2022 to reach NPL ratios of 4.20%/5.15%. However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 Loans significantly improved from 65% in 2021 to 83% at the end of 2022; including collateral coverage, Stage 3 Loans' coverage stood at 95%. DUBK's Stage 2 Loans, as a % of total loans, is at a healthy level and is one of the lowest among its peers at 14.9%.

**CoR Significantly Improved and We Expect it to Normalize at Around the ~90bps Level**

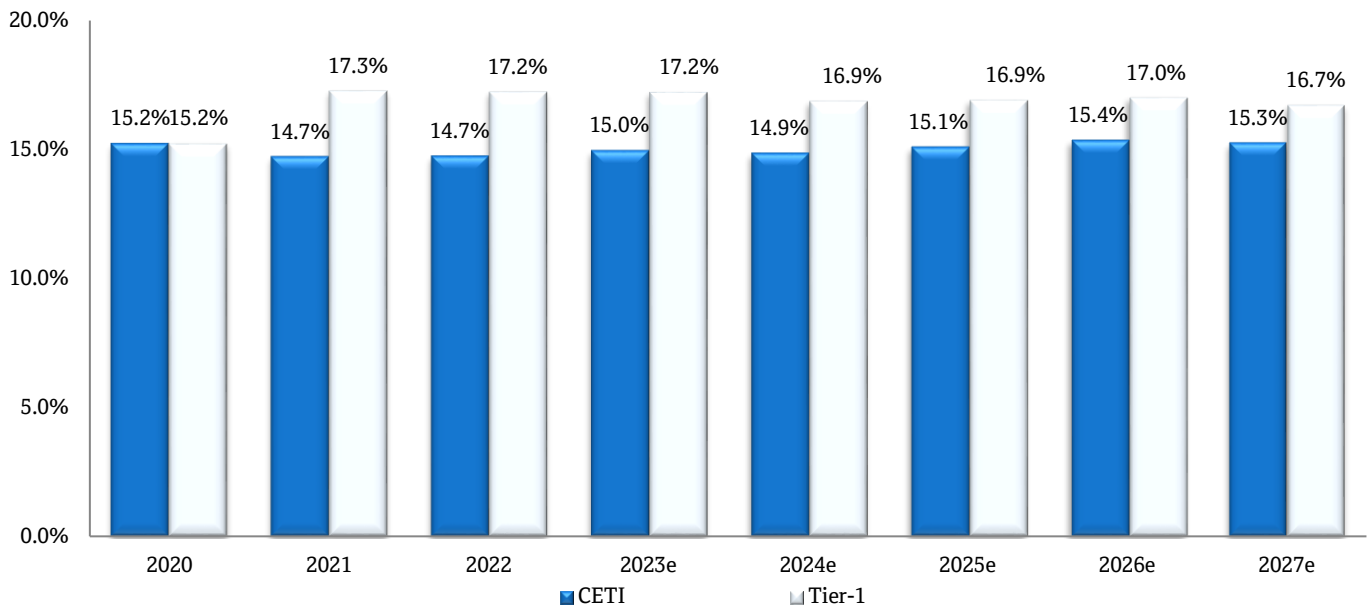


Source: Company data, QNB FS Research

**Cost of risk at acceptable levels and healthiest among domestic peers.** DUBK enjoys the lowest CoR among its peers. However, we are of the view that CoR could increase steadily as the bank builds precautionary buffers and should normalize at around the ~90bps level. Pre-merger CoR was an immaterial single-digit bps, a level which DUBK is unlikely to revert back to.

**Capitalization**

**Robust Capitalization Levels**



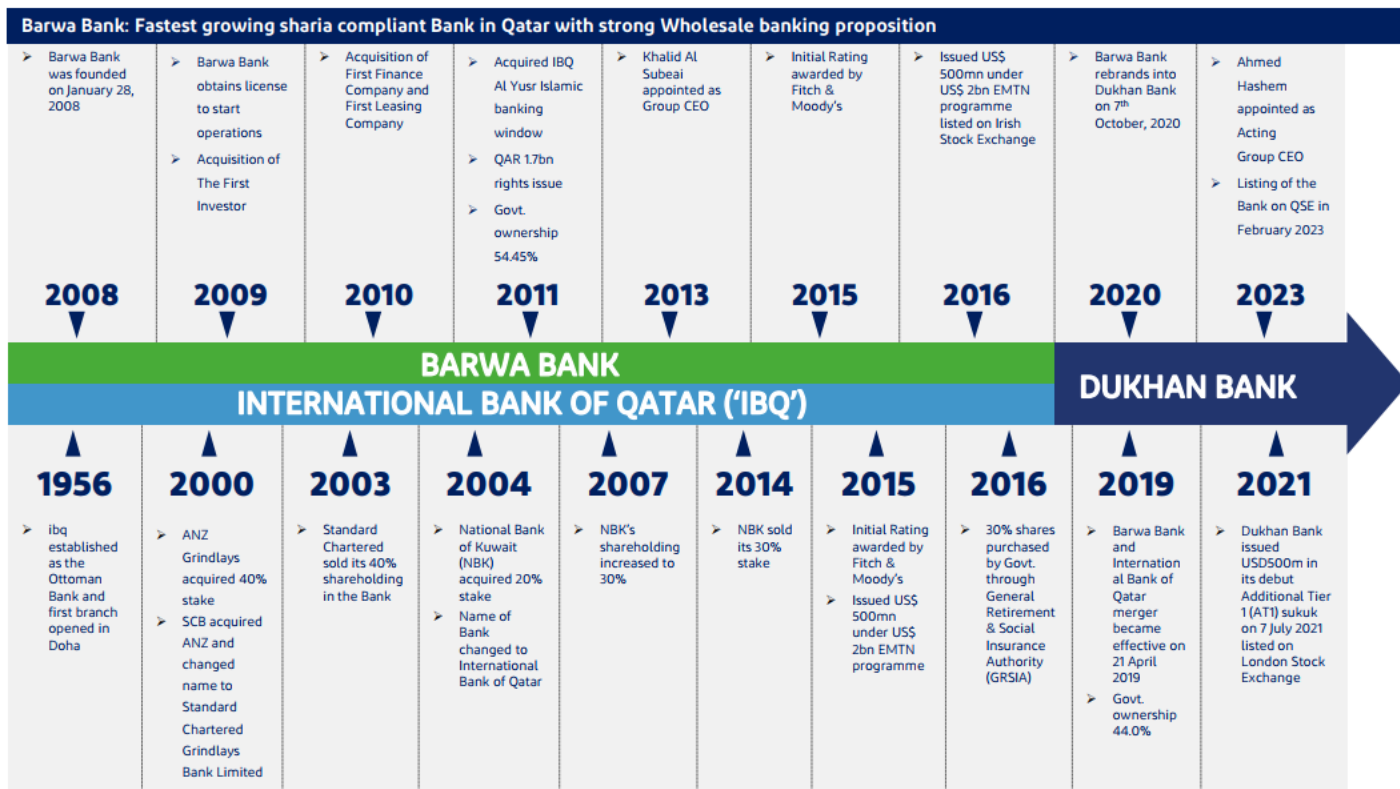
Source: Company data, QNB FS Research

**DUBK maintains healthy capitalization levels above the QCB’s minimum level.** Management has managed its CET1/Tier-1 position in a steady manner. Hence, we assume the bank’s capital position will not deviate from historical levels. DUBK ended 2022 with CET1/Tier-1 ratios of 14.7%/17.2%.

## Company Description

Dukhan Bank was incorporated in 2008 under the name of Barwa Bank Q.P.S.C, and commenced operations in 2009 as a full-service Shari'ah-compliant bank. The bank rebranded itself under the name of Dukhan Bank in October 2020, following the merger with International Bank of Qatar ("IBQ") in mid-2019. **DUBK has a market share of 5.6% and 5.8% in loans and deposits, respectively.**

### History of Dukhan Bank



Source: Company Presentation

### Major Shareholders

Shareholders	Investor Type	Country	Share (%)
GRSIA (Pension Fund)	Sovereign	Qatar	24.52
Brooq Trading Company	Private	Qatar	13.45
Military Pension Fund	Sovereign	Qatar	11.70
Al Sanad Trading Company	Private	Qatar	10.00
Qatar Holding	Sovereign	Qatar	6.96
<b>Total Ownership</b>			<b>66.63</b>

Source: Company Disclosures

## 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
<b>Non-Interest Income</b>	<b>364</b>	<b>505</b>	<b>522</b>	<b>589</b>	<b>616</b>	<b>672</b>
<b>Total Revenue</b>	<b>2,723</b>	<b>2,850</b>	<b>2,665</b>	<b>2,772</b>	<b>3,102</b>	<b>3,412</b>
Operating Expenses	(749)	(782)	(750)	(736)	(770)	(798)
<b>Net Operating Income</b>	<b>1,974</b>	<b>2,067</b>	<b>1,915</b>	<b>2,035</b>	<b>2,331</b>	<b>2,613</b>
Net Provisions & Impairments	(955)	(872)	(660)	(708)	(787)	(853)
<b>Net Profit Before Taxes and Non-Recurri</b>	<b>1,018</b>	<b>1,195</b>	<b>1,255</b>	<b>1,327</b>	<b>1,544</b>	<b>1,760</b>
Taxes	(1)	(2)	(2)	(2)	(3)	(3)
Non-Recurring Items	(450)	-	-	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>567</b>	<b>1,193</b>	<b>1,253</b>	<b>1,325</b>	<b>1,542</b>	<b>1,757</b>
Payment on Tier-1 Sukuk	-	(33)	(71)	(71)	(71)	(71)
Social & Sports Contribution Fund				(33)	(39)	(44)
<b>Net Profit (Attributable)</b>	<b>567</b>	<b>1,160</b>	<b>1,182</b>	<b>1,221</b>	<b>1,432</b>	<b>1,642</b>
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
<b>Total Assets</b>	<b>86,297</b>	<b>110,727</b>	<b>106,276</b>	<b>114,513</b>	<b>120,436</b>	<b>127,957</b>
<b>Liabilities</b>						
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
<b>Total Liabilities</b>	<b>74,793</b>	<b>98,561</b>	<b>93,761</b>	<b>101,608</b>	<b>106,982</b>	<b>113,797</b>
<b>Total Shareholders' Equity</b>	<b>11,504</b>	<b>12,166</b>	<b>12,515</b>	<b>12,905</b>	<b>13,453</b>	<b>14,161</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>86,297</b>	<b>110,727</b>	<b>106,276</b>	<b>114,513</b>	<b>120,436</b>	<b>127,957</b>
<b>Risk Weighted Assets</b>	<b>65,091</b>	<b>70,985</b>	<b>73,065</b>	<b>80,159</b>	<b>90,327</b>	<b>99,807</b>

Source: Company data, QNB FS Research

Ratios/Indicators	2020	2021	2022	2023e	2024e	2025e
<b>Profitability (%)</b>						
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
<b>Efficiency (%)</b>						
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
<b>Liquidity (%)</b>						
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
<b>Asset Quality (%)</b>						
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
<b>Capitalization (%)</b>						
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
<b>Growth (%)</b>						
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>	
<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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