

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.820	Target Price	QR3.810
Implied Upside/(Downside)	(0.3%)		

2Q2024 Misses Estimates on Higher Opex and Other Impairments

DUBK's 2Q2024 falls short of our estimates; revenue in-line. Dukhan Bank (DUBK) reported a net profit of QR361.1mn in 2Q2024, below our estimate of QR397.0mn (variation of -9.0%), mainly due to higher than expected opex and other impairments (credit provisions were in-line). Revenue came in at QR623.7mn, in-line with our estimate of QR629.0mn (variation of -0.8%). Overall, the results were mixed. The bottom-line increased by 4.2%YoY but dropped by 14.6% QoQ. Key takeaways from 2Q figures is margin expansion offset muted non-funded income (fees and f/x income were weak). **The sequential drop in the bottom-line was due to decline in revenue, increase in opex and a 45.0% surge in net provisions and impairments.**

Highlights

- **2Q2024 revenue increased YoY, but weakened sequentially.** Revenue increased by 10.3% YoY due to a 16bps margin expansion offsetting weak non-funded income. Sequentially, revenue receded by 4.8% due to margin pressure.
- **The board announced an interim DPS of QR0.08.** This corresponds to an annualized yield of 4.2%.
- **Tangible RoE remained flat.** DUBK generated a flat RoE (annualized) of 13.0% in 1H2024, which is still positive vis-à-vis its cost of equity.
- **NIMs expanded YoY in 2Q2024 but compressed QoQ.** NIMs expanded by 16bps to ~1.99% YoY, but declined by 12bps sequentially.
- **Non-funded income was weak vs. 2Q2023, but positive sequentially.** Non-funded income dropped by 32.0% YoY due to fees (-23.3%) and f/x income (-60.8%). Sequentially, non-funded income increased by only 1.8% mainly due to a 20.6% increase in fees.
- **Loans continued its positive trajectory.** Net loans expanded by 2.3% sequentially (+6.6% YTD) to QR82.7bn. Moreover, deposits increased by 7.7% QoQ (+8.4% YTD) to QR84.6bn in 2Q2024.
- **NPL ratio in 2Q2024 moved up sequentially, but remains below FY2023.** The bank's NPLs increased sequentially by 4.8% (+3.3% YTD), resulting in the NPL ratio moving from 5.10% in 1Q2024 to 5.24% in 2Q2024 (FY2023: 5.38%). However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 loans dropped from 72% in 1Q2024 to 66% in 2Q2024.
- **CoR (annualized) was negligible in 1H2024 due to strong recoveries.** DUBK booked net credit provisions of QR43.6mn in 2Q2024 vs. QR47.0mn in 2Q2023 (1Q2023: QR24.7mn). DUBK booked gross provisions of QR182.1mn vs. recoveries of QR138.5.1mn, netting out 76% of gross provisions. This resulted in a CoR of 16bps.
- **The bank's efficiency ratio slightly elevated YoY and sequentially.** DUBK's C/I ratio increased from 31.2% in 2Q2023 to 33.4% in 2Q2024 (1Q2024: 29.8%) as revenue gained by 10.3%, while opex increased by 18.1%. Sequentially, C/I ratio also elevated for the same reasons mentioned above.
- **DUBK maintains healthy capitalization levels.** The bank ended 2Q2024 with CET1/Tier-1 ratios of 14.6%/16.9%.

Recommendation, Valuation and Risks

- **Recommendation and valuation: We maintain our Price Target of QR3.810 and our Market Perform rating.** DUBK is trading at a 2024e P/TB and P/E of 1.6x and 15.2x, respectively.
- **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)	16.7	15.2	13.1	11.6
Tangible BVPS (QR)	2.3	2.4	2.6	2.7
P/TBV (x)	1.7	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	5.2

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

Key Data

Current Market Price (QR)	3.820
DY 1H2024 Annualized (%)	4.2
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.35/3.445
3-Month Average Volume (mn)	12.0
Mkt. Cap. (\$ bn/QR bn)	5.5/20.1
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.6
12-Month Total Return (%)	(2.1)
Fiscal Year End	December 31

Source: Bloomberg (as of July 15, 2024), *QSE (as of July 15, 2024); Note: FO is foreign institutional ownership

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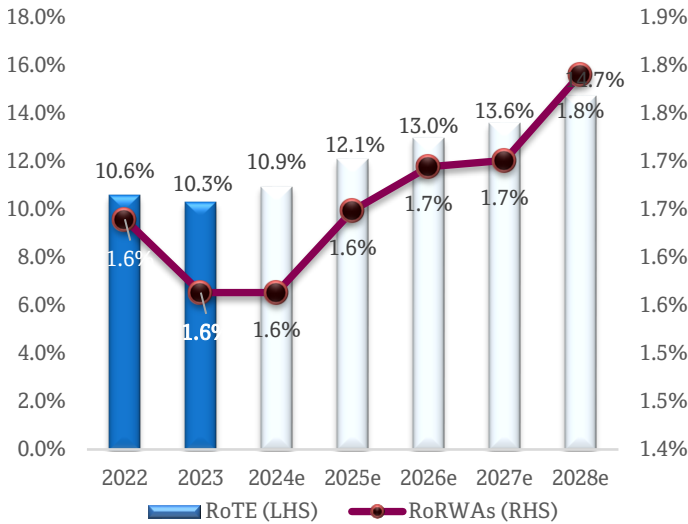
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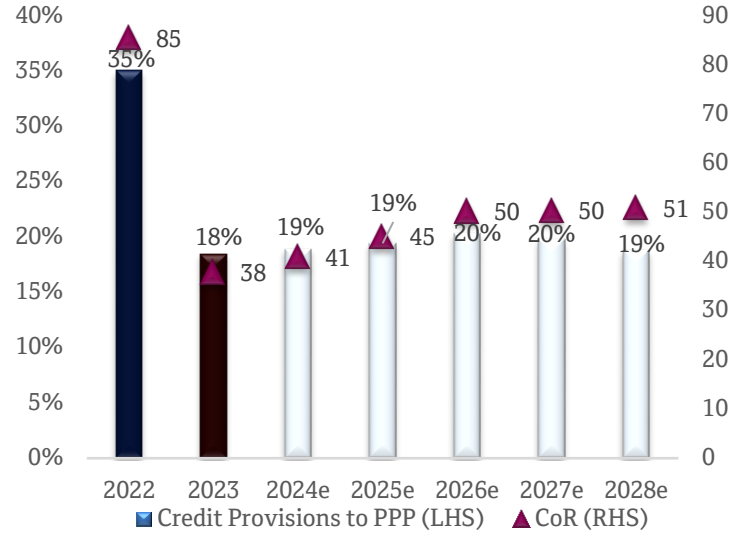
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RoE/RoRWAs to Steadily Improve...

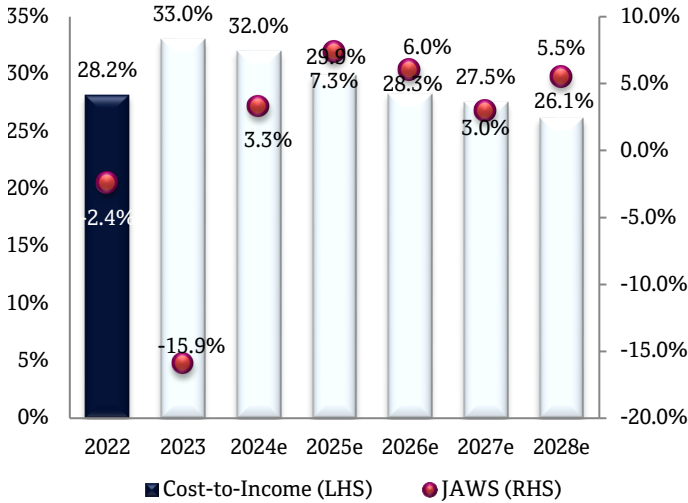


Source: Company data, QNB FS Research

CoR Normalizes at 50bps

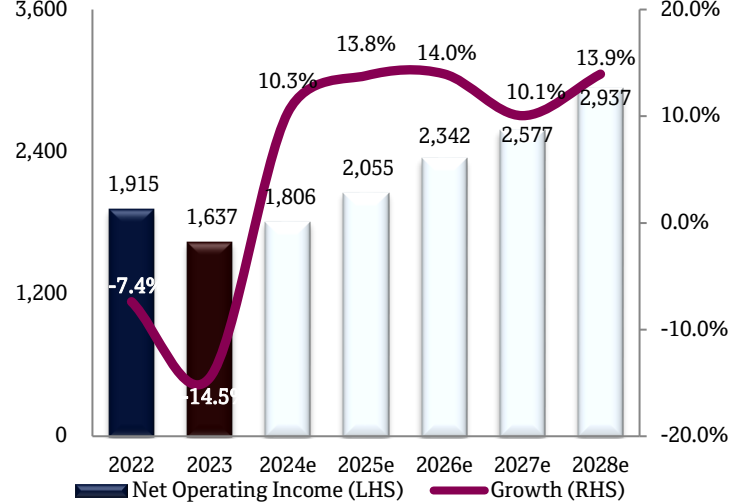


Efficiency to Markedly Improve With Positive JAWs

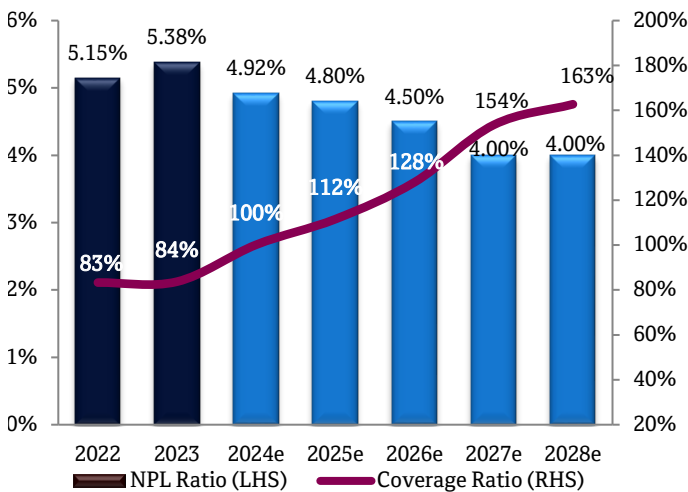


Source: Company data, QNB FS Research

Leading to Strong Net Operating Income



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



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

2Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	70,224,634	11,446,475	4,517,422	86,188,531
ECLs	93,354	432,642	2,963,144	3,489,140
Staging of Loans (%)	81.5%	13.3%	5.24%	
Staging of ECLs (%)	2.7%	12.4%	84.9%	
Coverage Ratio	0.1%	3.8%	65.6%	

Source: Company data, 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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