

## Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.962	Target Price	QR3.810
Implied Upside/(Downside)	(3.8%)		

### Stock Still Remains Around Fair Value; Stay Market Perform

After FY2023 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 13.2%, 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.

- **2023 net profit was driven by a large drop in net credit provisions as revenue was weak on the account of margin pressure; we increase our 2024 net income by 2.5% to QR1.35bn, while we maintain our 2025 earnings at QR1.52bn.** DUBK reported a net profit of QR1.20bn for FY2023, increasing by 1.4% YoY (in-line with our estimate of QR1.23bn; variation of -2.3%). Net operating income declined by 14.5% YoY to QR1.64bn (in-line with estimate) as a result of significant margin pressure and an increase in opex.
- **NIMs continued their negative trajectory in 2023; 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 declined by 31bps to 1.90% YoY, lowest in its history. We pencil in NIMs of 1.96% (2024), 2.06% (2025) and 2.16% (2026).
- **Tangible RoE remained flat in FY2023; RoE is modeled to make headway in 2025-28e.** Our estimates lead us from 10.3% in 2023 to 11.2% in 2024, 12%/13% in 2025/26 and 13.4% in 2027.
- **We increase our loan book CAGR (2023-28e) from 4.6% to 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 moved up by 2.5% YoY to QR77.6bn. The support in loans was driven by real estate (+10.1% YoY) and retail (+20.9% YoY). Moreover, deposits increased by 4.6% YoY to QR78.0bn in FY2023. Growth in deposits was mainly attributable to the public and retail sectors, while the corporate segment contracted.
- **NPL ratio in FY2023 increased from 5.15/5.02% in FY2022/3Q2023 to 5.38%, resulting in NPL formation.** The bank's NPLs increased sequentially/YoY by 9.8%/7.3% in FY2023. However, it should be noted that a decent chunk of the NPLs are legacy in nature backed by strong collateral. Coverage of Stage 3 loans declined from 83% in FY2022 to 70% at the end of 2023; including collateral, coverage stands at ~95%. Going forward, we still assume asset quality will improve through a combination of recoveries, reversals and prudent underwriting.
- **Significant drop in gross credit provisions and an increase in recoveries YoY almost halved CoR; we maintain our CoR assumptions.** DUBK booked gross provisions of QR457.4mn in 2023 (FY2022: QR742.5mn) vs. recoveries of QR154.7mn (FY2022: QR71.2mn), resulting in a CoR of 38bps (in-line with our estimate) vs. 85bps in FY2022. We 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 now expect the efficiency ratio to decline to 26% by 2028 vs. 24% previously.** DUBK's C/I ratio moved up to 33.0% in FY2023 vs. 28.2% in FY2022. This was due to an 8.3% drop in revenue (mainly due to a contraction in margins) vs. a 7.6% increase in opex. As a result of weak revenue, the bank generated negative JAWs of 15.9% YoY. We expect the bank to generate single- to mid-digit JAWs from 2024 and onwards, driven by a pick-up in revenue and cost control.
- **DUBK maintains healthy capitalization levels and we expect it to remain so. However, if changes to RWAs regarding open f/x positions is implemented as per enhanced Basel III in 1Q2024, it would have an effect on capital (DUBK does not disclose its net US \$ position).** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended FY2023 with CET1/Tier-1 ratios of 14.0%/16.3%.

### 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 1.6/1.6x and 15.4/13.7x, 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	0.257	0.290	0.328
EPS Growth (%)	1.4	12.4	12.6	13.1
P/E (x)	17.3	15.4	13.7	12.1
Tangible BVPS (QR)	2.3	2.4	2.6	2.7
P/TBV (x)	1.7	1.6	1.6	1.5
RoE (%)	10.3	11.2	12.0	12.9
DPS (QR)	0.160	0.180	0.190	0.200
Dividend Yield (%)	4.0	4.5	4.8	5.0

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

### Key Data

Current Market Price (QR)	3.962
Dividend Yield (%)	4.0
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.35/3.02
3-Month Average Volume (mn)	10.85
Mkt. Cap. (\$ bn/QR bn)	5.7/20.7
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.6
12-Month Total Return (%)	41.6
Fiscal Year End	December 31

Source: Bloomberg (as of March 21, 2024), \*QSE (as of March 21, 2024); Note: FO is foreign institutional ownership

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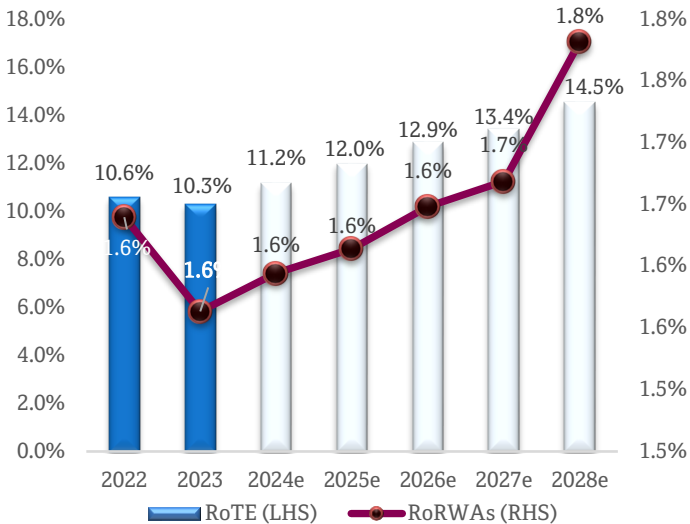
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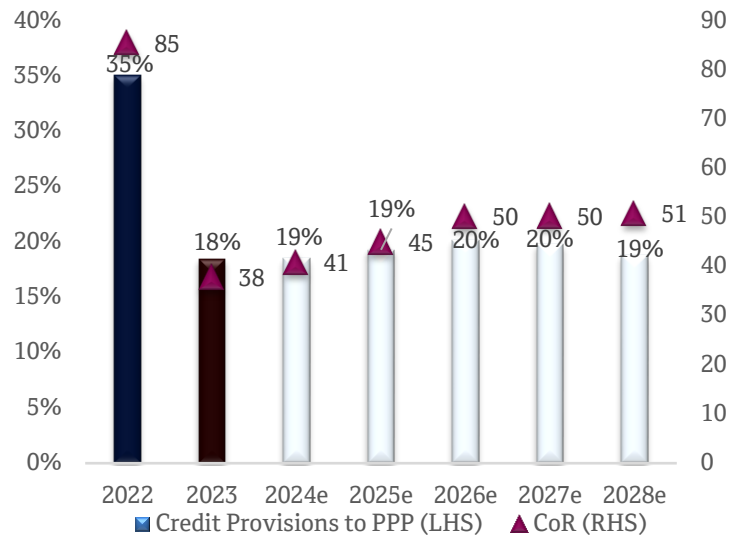
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### RoE/RoRWAs to Steadily Improve...

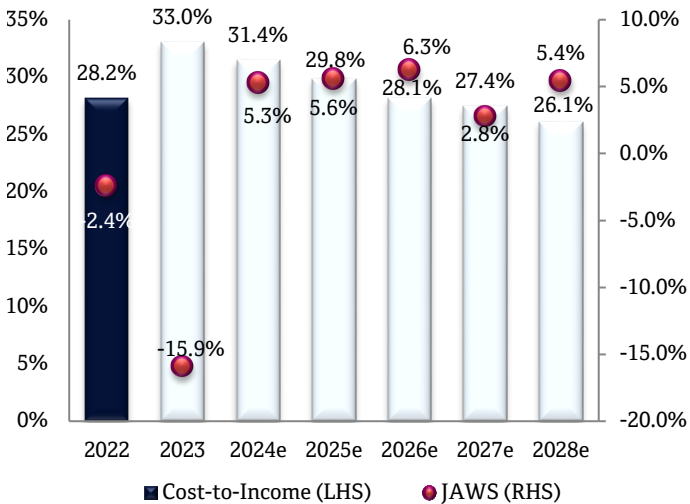


Source: Company data, QNB FS Research

### CoR Normalizes at 50bps

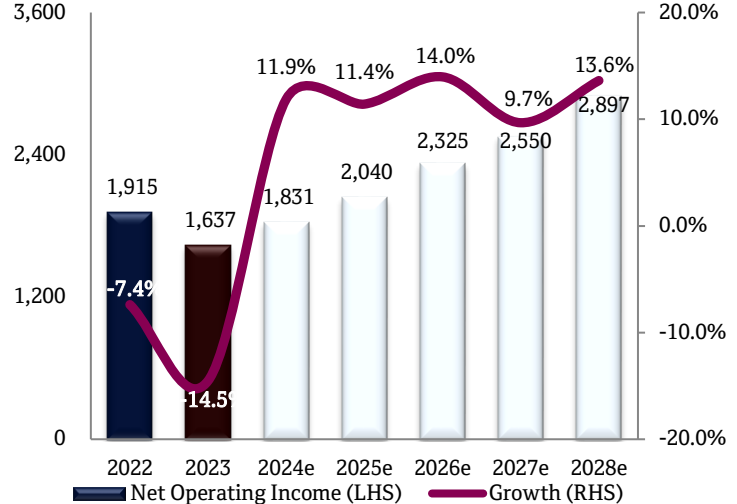


### Efficiency to Markedly Improve With Positive JAWs

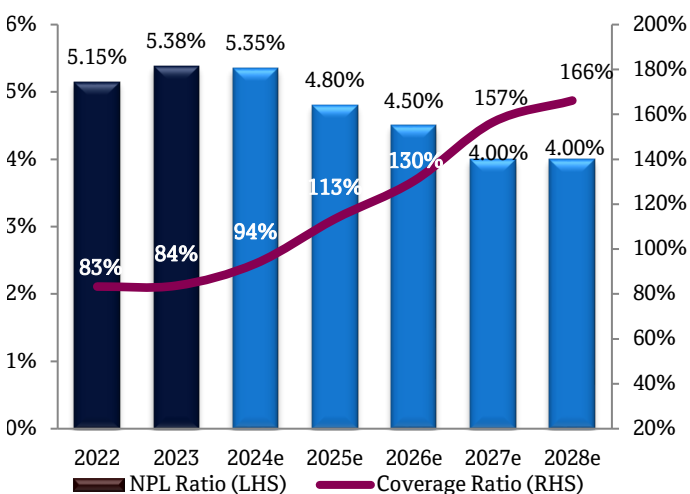


Source: Company data, QNB FS Research

### Leading to Strong Net Operating Income



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



Source: Company data, QNB FS Research

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

FY2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	65,011,281	11,862,588	4,369,405	81,243,274
ECLs	98,159	504,104	3,055,842	3,658,105
Staging of Loans (%)	80.0%	14.6%	5.38%	
Staging of ECLs (%)	2.7%	13.8%	83.5%	
Coverage Ratio	0.2%	4.2%	69.9%	

## Change in Estimates

QRmn	2024e			2025e			2026e		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Net Interest Income	1,842	2,098	13.9	2,028	2,265	11.7	2,313	2,498	8.0
Non-Funded Income	678	572	-15.6	763	642	-15.8	828	738	-10.9
Total Revenue	2,520	2,671	6.0	2,791	2,907	4.2	3,141	3,236	3.0
Opex	767	839	9.4	780	867	11.1	802	911	13.6
Net Operating Income	1,753	1,831	4.5	2,011	2,040	1.5	2,339	2,325	-0.6
Net Provisions & Impairments	330	374	13.4	379	409	7.9	451	489	8.5
Net Profit (Reported/Headline)	1,421	1,455	2.4	1,629	1,629	0.0	1,884	1,833	-2.7
Net Income (Attributable)	1,314	1,346	2.5	1,517	1,516	-0.1	1,766	1,715	-2.9

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	2,098	2,265	2,498
Fees & Commissions	159	211	256	295	354	385
FX Income	170	223	131	155	182	222
Other Income	176	88	130	123	106	131
<b>Non-Interest Income</b>	<b>505</b>	<b>522</b>	<b>518</b>	<b>572</b>	<b>642</b>	<b>738</b>
<b>Total Revenue</b>	<b>2,850</b>	<b>2,665</b>	<b>2,444</b>	<b>2,671</b>	<b>2,907</b>	<b>3,236</b>
Operating Expenses	(782)	(750)	(807)	(839)	(867)	(911)
<b>Net Operating Income</b>	<b>2,067</b>	<b>1,915</b>	<b>1,637</b>	<b>1,831</b>	<b>2,040</b>	<b>2,325</b>
Net Provisions & Impairments	(872)	(660)	(333)	(374)	(409)	(489)
<b>Net Profit Before Taxes and Non-Recurring</b>	<b>1,195</b>	<b>1,255</b>	<b>1,303</b>	<b>1,457</b>	<b>1,631</b>	<b>1,836</b>
Taxes	(2)	(2)	(1)	(2)	(3)	(3)
Non-Recurring Items	-	-	-	-	-	-
<b>Net Profit (Reported/Headline)</b>	<b>1,193</b>	<b>1,253</b>	<b>1,302</b>	<b>1,455</b>	<b>1,629</b>	<b>1,833</b>
Payment on Tier-1 Sukuk	(33)	(72)	(72)	(72)	(72)	(72)
Social & Sports Contribution Fund	-	-	(33)	(36)	(41)	(46)
<b>Net Profit (Attributable)</b>	<b>1,160</b>	<b>1,181</b>	<b>1,198</b>	<b>1,346</b>	<b>1,516</b>	<b>1,715</b>
EPS (including treasury shares)	0.222	0.226	0.229	0.257	0.290	0.328

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	8,075	5,984	4,560
Net Investments	20,800	20,432	19,971	20,691	23,078	24,881
Net Loans	75,222	75,677	77,585	80,754	85,482	91,201
Investment In Associates	63	64	32	28	26	24
Other Assets	431	866	900	872	940	1,003
Net PP&E	280	264	242	221	208	195
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
<b>Total Assets</b>	<b>110,727</b>	<b>106,276</b>	<b>114,417</b>	<b>115,219</b>	<b>120,871</b>	<b>128,171</b>
<b>Liabilities</b>						
Interbank Deposits	16,755	14,871	19,582	15,632	16,249	16,623
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
<b>Total Liabilities</b>	<b>98,561</b>	<b>93,761</b>	<b>101,525</b>	<b>101,812</b>	<b>106,883</b>	<b>113,455</b>
<b>Total Shareholders' Equity</b>	<b>12,166</b>	<b>12,515</b>	<b>12,893</b>	<b>13,407</b>	<b>13,988</b>	<b>14,716</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>110,727</b>	<b>106,276</b>	<b>114,417</b>	<b>115,219</b>	<b>120,871</b>	<b>128,171</b>
<b>Risk Weighted Assets</b>	<b>70,985</b>	<b>73,065</b>	<b>80,139</b>	<b>88,719</b>	<b>99,115</b>	<b>108,946</b>
Interest Earning Assets	96,962	94,321	106,016	106,830	111,638	117,552
Interest Bearing Liabilities	87,981	81,165	81,175	81,973	92,648	99,298

Source: Company data, QNB FS Research

Ratios/Financial Indicators	2021	2022	2023	2024e	2025e	2026e
<b>Profitability (%)</b>						
RoE	11.1	10.6	10.3	11.2	12.0	12.9
RoAA	1.2	1.1	1.1	1.2	1.3	1.4
RoRWAs	1.7	1.6	1.6	1.6	1.6	1.6
NIM (% of IEAs)	2.64	2.21	1.90	1.96	2.06	2.16
NIM (% of RWAs)	3.45	2.97	2.51	2.49	2.41	2.40
NIM (% of AAs)	2.38	1.97	1.75	1.83	1.92	2.01
Yield on IEAs	4.05	4.11	5.57	5.16	4.78	4.96
CoFs	1.56	2.11	4.50	4.16	3.38	3.32
Spread	2.42	1.95	1.02	0.98	1.37	1.59
<b>Efficiency (%)</b>						
Cost-to-Income (Headline)	27.5	28.2	33.0	31.4	29.8	28.1
Cost-to-Income (Core)	28.1	28.6	33.5	32.0	30.4	28.7
<b>Liquidity (%)</b>						
LDR	97	102	99	99	98	98
Loans/Assets	67.9	71.2	67.8	70.1	70.7	71.2
Liquid Assets-to-Total Assets	30.3	26.7	30.3	28.2	27.6	27.3
Deposits to Assets	69.9	70.1	68.2	71.1	71.8	72.5
Wholesale Funding to Loans	22.3	19.7	25.2	19.4	19.0	18.2
IEAs to IBLs	110	116	131	130	120	118
<b>Asset Quality (%)</b>						
NPL Ratio	4.2	5.1	5.4	5.4	4.8	4.5
NPLs to Shareholders' Equity	26.9	32.5	33.9	33.9	31.0	29.6
NPL to Tier-1 Capital	26.7	32.4	33.4	31.6	27.2	24.7
Coverage Ratio	84.3	83.3	83.7	93.5	113.4	130.4
ALL/Average Loans	3.6	4.0	4.2	4.8	5.2	5.7
Cost of Risk (bps)	125	85	38	41	45	50
<b>Capitalization (%)</b>						
CET1 Ratio	14.7	14.7	14.0	14.2	14.2	14.5
Tier-1 Ratio	17.3	17.2	16.3	16.2	16.1	16.2
CAR	18.4	18.3	17.2	17.2	17.1	17.2
Leverage (x)	9.1	8.5	8.9	8.6	8.6	8.7
<b>Growth (%)</b>						
Net Interest Income	-0.6	-8.6	-10.1	8.9	7.9	10.3
Non-Interest Income	38.7	3.4	-0.9	10.6	12.2	14.9
OPEX	4.4	-4.1	7.6	4.0	3.3	5.0
Net Operating Income	4.8	-7.4	-14.5	11.9	11.4	14.0
Net Income (Attributable)	104.8	1.8	1.4	12.4	12.6	13.1
Loans	28.5	0.6	2.5	4.1	5.9	6.7
Deposits	43.7	-3.7	4.6	5.0	6.0	7.0
Assets	28.3	-4.0	7.7	0.7	4.9	6.0
RWAs	9.1	2.9	9.7	10.7	11.7	9.9

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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