DUBK Alert – Earnings Fall Short of Estimates on Margin Pressure; Market Perform

- **DUBK's 2Q2023 bottom-line falls short of estimates due to margin pressure.** Dukhan Bank (DUBK) reported a net income of QR346.6mn in 2Q2023 vs. our estimate of QR376.7mn (variation of -8.0%). DUBK's net profit decreased by 1.9%/16.3% YoY/QoQ. The YoY decrease in profitability was driven by significant margin pressure. Sequentially, earnings also dropped as a result of margin pressure.
- **Revenue declined by 16.4% YoY (-10.5% QoQ) as a result of margin pressure.** Net interest & investment income declined by 21.0%/6.7% YoY/QoQ to QR448.7mn. NIM contracted by 49bps/13bps YoY/QoQ to ~1.84% as result of the increase in CoFs outpacing yields.
- **The bank's efficiency ratio weakened due to weak revenue.** DUBK's C/I ratio moved up to 31.2% in 2Q2023 vs. 26.7% in 2Q2022 (1Q2023: 29.6%). On a positive note, Opex declined by 2.0% YoY (-5.6% sequentially).
- **Asset quality remained stable.** NPL ratio remained flat at 5.1% in 2Q2023 vs FY2022. At the same time, NPLs were flat sequentially at QR3.99bn. Moreover, coverage of Stage 3 loans remained flat sequentially at 69% in 2Q2023 (FY2022: 83%). Furthermore, ECLs also remained flat QoQ (-16.1% YTD).
- **Recoveries vs. credit provisions continues to help DUBK**. DUBK booked gross credit provisions of QR59.8mn in 2Q2023 vs. recoveries of QR12.7mn, resulting in net credit provisions of QR47.1mn vs. net credit provisions of QR7.4mn in 1Q2023 (2Q2022: QR141.1mn). Hence, 1H2023 (annualized) CoR was an insignificant 28bps.
- **Net loans and deposits moved up sequentially.** Net loans increased by 1.3% sequentially (-0.7% YTD) to QR75.1bn. Moreover, deposits followed suit and increased by 2.4% QoQ (-3.8% YTD) to QR71.7bn in 2Q2023.
- **DUBK maintains a strong capital position.** The bank ended 2Q2023 with a CET1/Tier-1 ratios of 14.8/17.2%.
- **Valuation and recommendation.** DUBK trades at a P/TB of 1.7x and a P/E of 17.2x on our 2023 estimates. We maintain our Market Perform rating and PT of QR3.810/share.

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Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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