

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.900	Target Price	QR3.810
Implied Upside/(Downside)	(2.3%)		

1Q2024 In-Line; NIM Expansion Aided Bottom-line; Market Perform

DUBK's 1Q2024 comes in-line with our estimates. Dukhan Bank (DUBK) reported a net profit of QR423.0mn in 1Q2024, in-line with our estimate of QR428.0mn (variation of -1.2%). Overall, the results were broadly in-line with our model. The bottom-line increased by 2.2%/117.2% YoY/QoQ. Key takeaways from 1Q figures is margin expansion offset muted non-funded income (fees and f/x income were weak). **The sequential surge in the bottom-line was due to an 85.5% drop in provisions & impairments while net operating income only grew by 1.8%.**

Highlights

- **Revenue increased by 3.7% YoY (-5.9% QoQ) as a result of margin expansion, while non-funded income was muted.** Net interest & investment income increased by 20.0% YoY to QR577.3mn. On the other hand, non-funded-income dropped by 48.3% due to muted fees and f/x income. Opex increased by 4.2% YoY, resulting in net operating income increasing by 3.6% to QR460.1mn. The surge in earnings sequentially was due to a large drop in net credit provisions and impairments.
- **Tangible RoE remained flat.** DUBK generated a flat RoE (annualized) of 14.0% in 1Q2024, which is still positive vis-à-vis its cost of equity.
- **NIMs expanded YoY in 1Q2024 as DUBK shed high interest-bearing deposits.** NIMs expanded by 14bps to ~2.11% YoY. The growth in yields was larger than the CoFs. On the other hand, NIMs compressed sequentially by 22bps.
- **Non-funded income was weak vs. 1Q2023, but positive sequentially.** Non-funded income dropped by 48.3% YoY due to fees (-17.3%), f/x income (-42.2%) and other income (-92.2%). Sequentially, non-funded income increased by 28.5% mainly due to a 55.5% increase in fees and profit from associates (vs. a loss from associates in 4Q2023).
- **Loans increased sequentially, driven by the public and retail segments.** Net loans expanded by 4.2% sequentially to QR80.9bn. The support in loans was driven by the public sector (+4.7% YTD) and retail (+10.3% YTD); other segments also contributed positively to overall loan growth. Moreover, deposits inched up by 0.7% QoQ to QR78.5bn in 1Q2024.
- **NPL ratio in 1Q2024 slightly improved sequentially, resulting in negative NPL formation.** The bank's NPLs receded sequentially by 1.3%, while the NPL ratio declined from 5.38% in FY2023 to 5.10% in 1Q2024. However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 loans remained flattish at 71% at the end of 1Q2024.
- **CoR (annualized) was negligible in 1Q2024.** DUBK booked net credit provisions of QR24.7mn vs. QR7.4mn in 1Q2023 (4Q2023: QR252.8mn). DUBK booked gross provisions of QR49.8mn vs. recoveries of QR25.1mn, netting out 50% of gross provisions. This resulted in a CoR of 12bps
- **The bank's efficiency ratio remained flat YoY but improved sequentially.** DUBK's C/I ratio remained flat 29.8% as revenue and opex moved in lock step. Sequentially, C/I ratio improved 35.0% in 4Q2023 as a result of a 20.1% drop in opex.
- **DUBK maintains healthy capitalization levels.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended 1Q2024 with CET1/Tier-1 ratios of 14.9%/17.2%.

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	0.257	0.290	0.328
EPS Growth (%)	1.4	12.4	12.6	13.1
P/E (x)	17.0	15.2	13.5	11.9
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	11.2	12.0	12.9
DPS (QR)	0.160	0.180	0.190	0.200
Dividend Yield (%)	4.1	4.6	4.9	5.1

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

Key Data

Current Market Price (QR)	3.900
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)	4.35/3.17
3-Month Average Volume (mn)	11.6
Mkt. Cap. (\$ bn/QR bn)	5.6/20.4
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.6
12-Month Total Return (%)	+25.5
Fiscal Year End	December 31

Source: Bloomberg (as of April 22, 2024), *QSE (as of April 22, 2024); 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

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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