

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.849	Target Price	QR3.810
Implied Upside/(Downside)	(1.0%)		

Stock Has Rallied Since Initiating Coverage; Further Upside Capped

After 1Q2023 results, we maintain our earnings CAGR of 12.3% (2022-27e). Since we initiated coverage on Wednesday, 26 April 2023, the stock has rallied by 14.6%. Moreover, the stock is trading at a P/TB of 1.7x (in-line with the market) and the market is pricing in a sustainable RoE of 13.3%, in-line with our forecast. As such, we retain our PT of QR3.810/share on DUBK. The 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 sharply corrected, but has significantly recovered some of its losses. Hence, we are of the view that there is limited room for further upside. As such, we change our rating from Accumulate to Market Perform

Highlights

- DUBK's 1Q2023 bottom-line increased YoY and sequentially as a result of a sharp drop in provisions.** Dukhan Bank (DUBK) reported a net income of QR414.0mn in 1Q2023, increasing by 5.6%/140.3% YoY/QoQ. The YoY increase in profitability was driven by an 83.6% drop in provisions and impairments as revenue was weak (-16.2%) as a result of margin pressure. Sequentially, earnings surged due to an 89.6% drop in provisions & impairments.
- Revenue declined by 16.2% YoY as a result of margin pressure.** Net interest & investment income declined by 21.7%/6.0% YoY/QoQ to QR481.0mn. NIM contracted by 47bps/11bps YoY/QoQ to ~1.96% as result of the increase in CoFs outpacing yields.
- Loans and deposits both contracted sequentially, most likely due to public sector repayments of credit facilities.** Net loans receded by 2.0% sequentially to QR74.1bn. Moreover, deposits contracted by 6.1% QoQ to QR70.0bn in 1Q2023. We maintain our 6.8% loan book CAGR (2022-27e).
- NIMs continued its negative trajectory in 1Q2023.** NIMs declined by 47/11bps to ~1.96% YoY/QoQ. The growth in CoFs was larger than the growth in yields on interest earning assets.
- NPL ratio in 1Q2023 was flat at 5.15% vs. FY2022; on a positive note, NPL formation was negative.** 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 declined from 83% in FY2022 to 69% at the end of 1Q2023.
- Net credit provisions significantly dropped as a result of recoveries.** DUBK booked gross credit provisions of QR120.9mn in 1Q2023 vs. recoveries of QR113.6mn, resulting in net credit provisions of QR7.4mn vs. net credit provisions of QR179.8mn in 1Q2022 (4Q2022: QR281.9mn). Hence, CoR was practically Obps. However, we are still of the view that CoR could increase steadily as the bank builds precautionary buffers and should normalize at around the ~90bps level.
- The bank's efficiency ratio weakened due to weak revenue.** DUBK's C/I ratio moved up to 29.6% in 1Q2023 vs. 23.7% in 1Q2022 (4Q2022: 29.2%). We still expect the efficiency ratio to significantly improve over our forecast horizon driven by a combination of growth in revenue and costs containment.
- DUBK maintains healthy capitalization levels.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended 1Q2023 with CET1/Tier-1 ratios of 15.1/17.6%. Hence, we maintain our assumption that the bank's capital position will not deviate from historical levels.

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 maintain our Price Target of QR3.810 but change our rating from Accumulate to Market Perform.** DUBK is trading at a 2023e P/TB and P/E of 1.7x and 16.5x, 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)	17.0	16.5	14.1	12.3
Tangible BVPS (QR)	2.2	2.3	2.4	2.6
P/TBV (x)	1.7	1.7	1.6	1.5
RoE (%)	10.6	10.5	11.9	12.9
DPS (QR)	0.160	0.170	0.180	0.190
Dividend Yield (%)	4.2	4.4	4.7	4.9

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

Key Data

Current Market Price (QR)	3.849
Dividend Yield (%)	4.2
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.00/2.70
3-Month Average Volume (mn)	14,608.7
Mkt. Cap. (\$ bn/QR bn)	5.5/20.1
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	3.2
Return Vs. Listing Price (%)	(11.5)
Fiscal Year End	December 31

Source: Bloomberg (as of June 08, 2023), *QSE (as of June 08, 2023); Note: FO is foreign ownership

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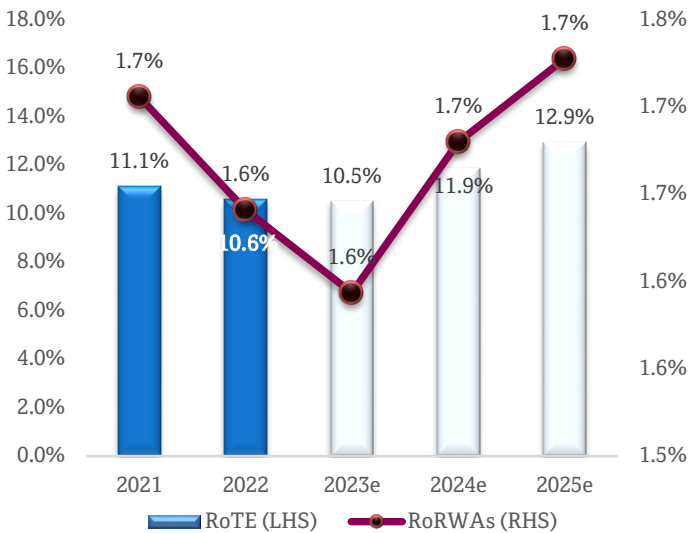
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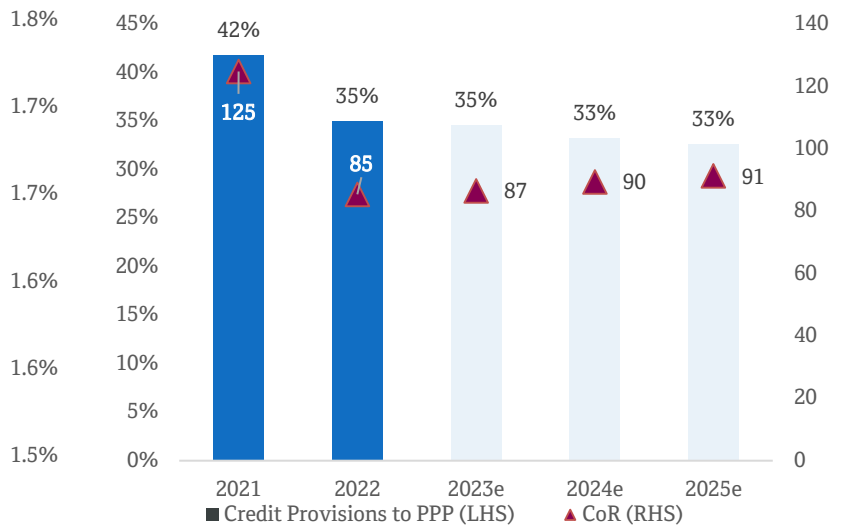
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RoE/RoRWAs to Steadily Improve...

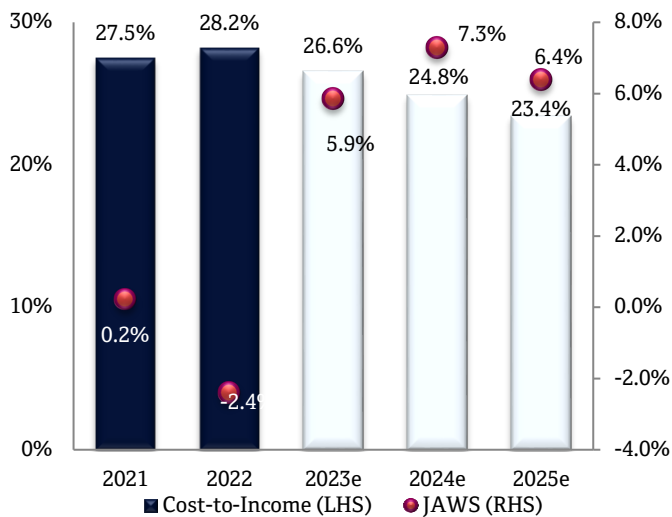


Source: Company data, QNB FS Research

CoR Normalizes



Efficiency to Improve

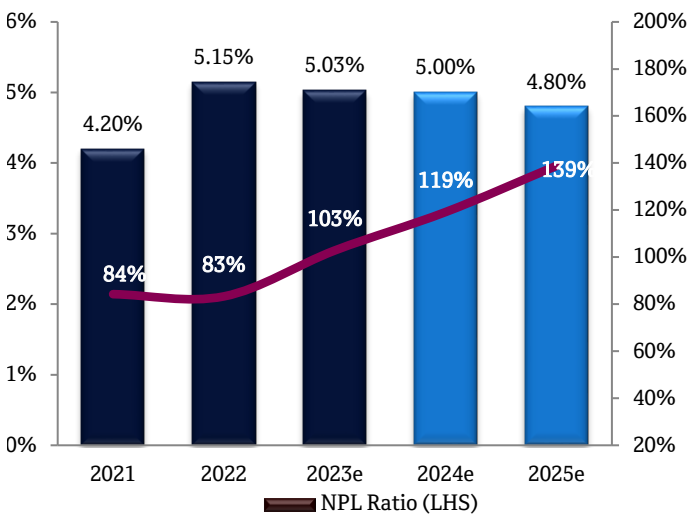


Source: Company data, QNB FS Research

Leading to Strong Net Operating Income



Majority of NPLs are Legacy



Source: Company data, QNB FS Research

Stage 3 Loans Require More Provisions

1Q2023	Stage 1	Stage 2	Stage 3	Total
Gross Loans	61,336,363	12,231,976	3,991,008	77,559,347
ECLs	87,631	589,179	2,735,711	3,412,521
Staging of Loans (%)	79.1%	15.8%	5.15%	
Staging of ECLs (%)	2.6%	17.3%	80.2%	
Coverage Ratio	0.1%	4.8%	68.5%	

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

Source: Company data, QNB FS Research

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