

Dukhan Bank (DUBK)

Recommendation	Market Perform	Risk Rating	R-3
Share Price	QR3.739	Target Price	QR3.810
Implied Upside/(Downside)	1.9%		

3Q2024 Moderately Misses Estimates on Higher Impairments; MP

DUBK's 3Q2024 modestly falls short of our estimates; net operating income broadly in-line. Dukhan Bank (DUBK) reported a net profit of QR357.3mn in 3Q2024, below our estimate of QR368.5mn (variation of -3.0%), mainly due to higher than expected credit provisions. Revenue came in at QR661.0mn, increasing by 19.9%/6.0 YoY/QoQ. Overall, the results were mixed. Key takeaways from 3Q figures: the bottom-line increased by 3.0%YoY due to margin expansion offsetting weak non-funded income (fees and f/x income were weak). **The sequential drop in the bottom-line was due to a surge in net credit provisions.**

Highlights

- 3Q2024 revenue increased both YoY and sequentially.** Revenue increased by 19.9% YoY due to a 47bps margin expansion offsetting weak non-funded income. Sequentially, revenue increased by 6.0% due to margin expansion and growth in other non-core revenue.
- Tangible RoE remained flat.** DUBK generated a flat RoE (annualized) of 12.6% in 9M2024, which is still positive vis-à-vis its cost of equity.
- NIMs expanded YoY/QoQ in 3Q2024.** NIMs expanded by 47bps YoY (+5bps sequentially) to -2.04% on the back of stronger yields.
- Non-funded income was weak vs. 3Q2023, but positive sequentially.** Non-funded income dropped by 36.1% YoY due to fees (-26.7%) and f/x income (-75.4%). Sequentially, non-funded income increased by 15.9% mainly due to an increase in fees and other non-core revenues.
- Loans continued its positive trajectory.** Net loans expanded by 2.6% sequentially (+9.4% YTD) to QR84.9bn. On the other hand, deposits decreased by 2.7% QoQ (+5.5% YTD) to QR82.3bn in 3Q2024.
- Asset quality improved sequentially and YTD in 3Q2024 driven by recoveries and write-offs.** The bank's NPLs decreased sequentially by 9.2% (-6.1% YTD), resulting in the NPL ratio moving from 5.24% in 2Q2024 to 4.65% in 3Q2024 (FY2023: 5.38%). However, it should be noted that a decent chunk of the NPLs are legacy in nature. Coverage of Stage 3 loans improved from 66% in 2Q2024 to 69% in 3Q2024 (FY2023: 70%).
- CoR (annualized) was negligible in 9M2024 due to strong recoveries.** DUBK booked net credit provisions of QR88.3mn in 3Q2024 vs. reversals of QR4.4mn in 3Q2023 (2Q2024: credit provisions of QR43.6mn). DUBK booked strong recoveries, netting out ~60% of gross provisions. This resulted in a CoR of 24bps.
- The bank's efficiency ratio improved YoY, but remained flat sequentially.** DUBK's C/I ratio decreased from 36.2% in 3Q2023 to 33.5% in 3Q2024 (2Q2024: 33.4%) as revenue gained by 19.9%, while opex increased by 10.8%. Sequentially, C/I ratio remained flat as revenue and opex moved in-line with one another.
- DUBK maintains healthy capitalization levels.** The bank ended 3Q2024 with CET1/Tier-1 ratios of 14.5%/16.6%.

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 2024/25e P/TB and P/E of 1.6x/1.5x and 14.8/12.8x, 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)	16.3	14.8	12.8	11.3
Tangible BVPS (QR)	2.3	2.4	2.6	2.7
P/TBV (x)	1.6	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 (%)	4.3	4.8	5.1	5.3

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

Key Data

Current Market Price (QR)	3.739
DY 1H2024 Annualized (%)	4.3
Bloomberg Ticker	DUBK QD
ADR/GDR Ticker	N/A
Reuters Ticker	DUBK.QA
ISIN	QA000B982PM1
Sector	Banks
52wk High/52wk Low (QR)	4.200/3.445
3-Month Average Volume (mn)	4.4
Mkt. Cap. (\$ bn/QR bn)	5.4/19.6
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.7
12-Month Total Return (%)	5.0
Fiscal Year End	December 31

Source: Bloomberg (as of October 14, 2024), *QSE (as of October 14, 2024); Note: FO is foreign institutional ownership

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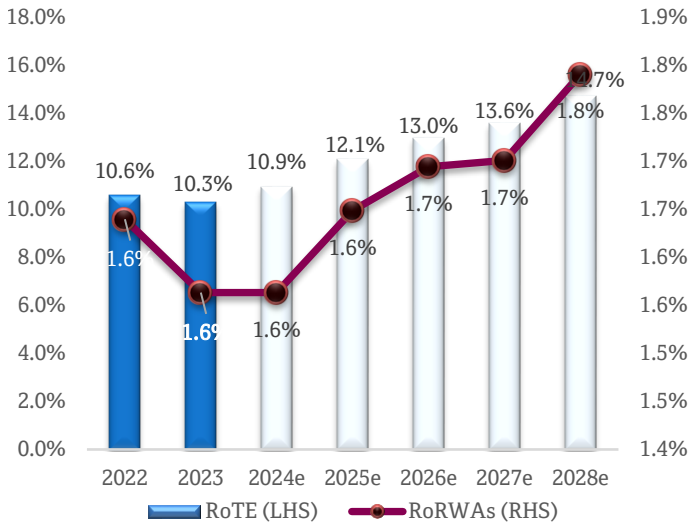
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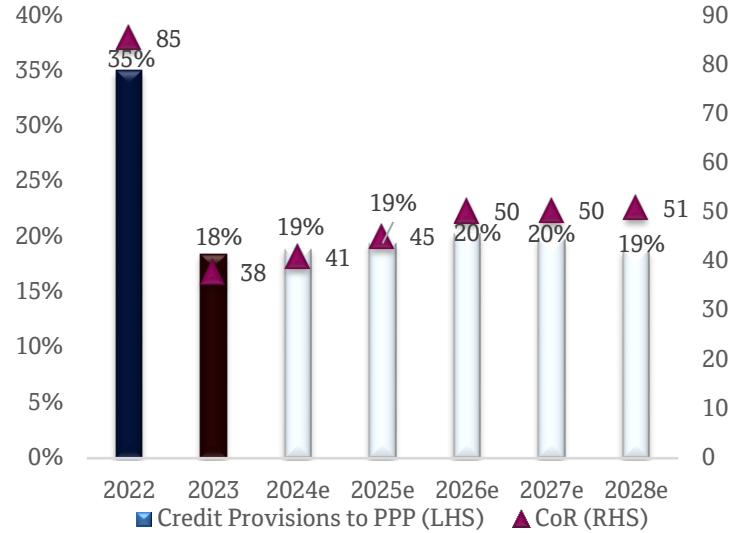
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RoE/RoRWAs to Steadily Improve...

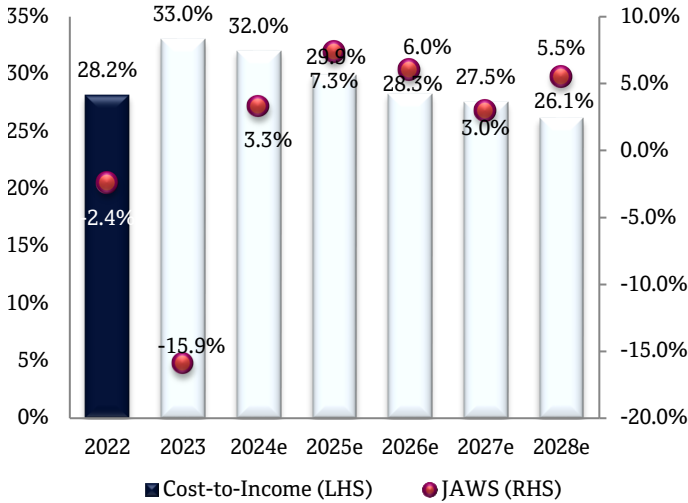


Source: Company data, QNB FS Research

CoR Normalizes at 50bps

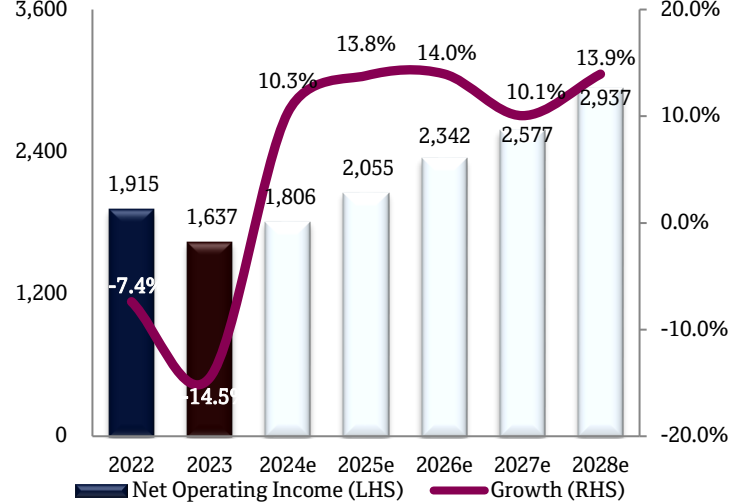


Efficiency to Markedly Improve With Positive JAWs

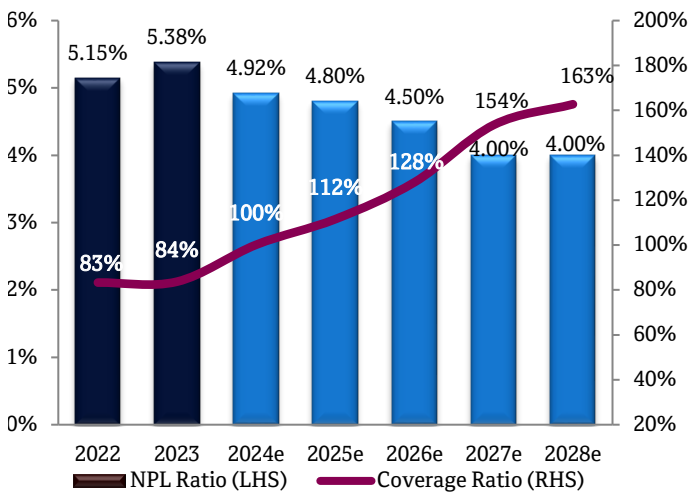


Source: Company data, QNB FS Research

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 Declined (Coverage is 95% incl. Collateral)

3Q2024	Stage 1	Stage 2	Stage 3	Total
Gross Loans	72,802,915	11,290,327	4,103,723	88,196,965
ECLs	102,637	379,769	2,825,961	3,308,367
Staging of Loans (%)	82.5%	12.8%	4.65%	
Staging of ECLs (%)	3.1%	11.5%	85.4%	
Coverage Ratio	0.1%	3.4%	68.9%	

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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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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