DUBK Alert – Significant Drop in Provisions Drove Bottom-Line as DUBK Faced Margin Pressure; Accumulate

- **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.
- **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%).
- **Asset quality marginally improved.** NPL ratio remained flat at 5.1% in 1Q2023 vs FY2022, mainly due to a drop in loans. At the same time, NPLs decreased by 2.0% sequentially. On the other hand, coverage of Stage 3 loans declined from 83% in FY2022 to 69% in 1Q2023. Having said this, total ECLs declined by 17.4% QoQ.
- **Recoveries vs. credit provisions aided DUBK**. 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 0bps.
- **Net loans and deposits declined sequentially.** Net loans receded by 2.0% sequentially to QR74.1bn. Moreover, deposits contracted by 6.1% QoQ to QR70.0bn in 1Q2023.
- **DUBK maintains a strong capital position.** The bank ended 1Q2023 with a CET1/Tier-1 ratios of 15.1/17.6%.
- **Valuation and recommendation.** DUBK trades at a P/TB of 1.4x and a P/E of 14.1x on our 2023 estimates. We maintain our Accumulate 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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