

## Dukhan Bank (DUBK)

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

### 4Q2023 Falls Short of Estimates on Higher Provisions; Flat DPS

**DUBK's 4Q2023 falls short of our estimates on higher-than-expected net provisions and impairments as net operating income came in-line.** Dukhan Bank (DUBK) reported a net profit of QR194.8mn in 4Q2023, lower than our estimate of QR223.2mn (variation of -12.7%). Overall, the results were broadly in-line with our model with provisions being the exception. The bottom-line increased by 13.1% YoY, but dropped sequentially by 43.8%. Key takeaways from 4Q figures is a large increase in opex offset margin expansion; fees and f/x income were weak. **Net-net, the bottom-line YoY increased due to 8.4% drop in provisions & impairments vs. flat net operating income.**

- **Revenue increased by 8.9% YoY (+26.3% QoQ) as a result of margin expansion, while non-funded income was muted.** Net interest & investment income increased by 24.2%/55.9% YoY/QoQ to QR635.6mn. On the other hand, non-funded-income dropped by 52.5% and 57.9% YoY and QoQ due to muted fees and f/x income. Opex surged by 30.8% YoY, resulting in flat net operating income of QR452.1mn (in-line with our estimate of QR455.1mn; variation of -0.7%). The drop in earnings sequentially was due to net credit provisions vs. net recoveries in 3Q2023.
- **DPS came below estimates.** The board recommended a flat DPS of 0.160 vs. our estimate of QR0.170, which translates in to a yield of 4.1% and payout ratio of 69%.
- **RoE remained flat.** DUBK generated a flat RoE of 10.3% in FY2023.
- **NIMs expanded in 4Q2023 after contracting over many quarters as DUBK shed interest-bearing deposits.** NIMs expanded by 25/75bps to ~2.32% YoY/QoQ. The growth in yields was larger than the CoFs. On the other hand, FY2023 NIMs came in at 1.90% vs. 2.21% in FY2022, a compression of 31bps.
- **Loans increased YoY and sequentially driven by the real estate and retail segments.** Net loans moved up by 2.3% sequentially (2.5% YoY) to QR77.6bn. The support in loans was driven by real estate (+10.1% YoY) and retail (+20.9% YoY). Moreover, deposits increased by 1.3% QoQ (+4.6% YoY) to QR78.0bn in 4Q2023. Hence, DUBK's simple LDR remained flat sequentially at 99% (which is a positive) vs. 102% in FY2022. Growth in deposits on a YoY basis was mainly attributable to the public and retail sectors, while the corporate segment contracted.
- **NPL ratio in FY2023 increased from 5.02% in 3Q2023 (FY2022: 5.15%) to 5.38%, resulting in NPL formation.** The bank's NPLs increased sequentially/YoY by 9.8%/7.3% in FY2023. 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 70% at the end of 2023.
- **Recoveries were negligible and flat YoY vs. previous quarters; lower gross credit provisions pushed the bottom-line.** DUBK booked net credit provisions of QR252.8mn vs. QR281.9mn, declining by 10.3% YoY (3Q2023: net recoveries of QR4.4mn). Based on FY2023 figures, DUBK booked gross provisions of QR457.4mn (FY2022: QR742.5mn) vs. recoveries of QR154.7mn (FY2022: QR71.2mn), resulting in a CoR of 38bps vs. 85bps in FY2022.
- **The bank's efficiency ratio weakened due to opex outpacing revenue growth.** DUBK's C/I ratio moved up to 35.0% in 4Q2023 vs. 29.2% in 4Q2022 (3Q2023: 36.2%). Total revenue increased by 8.9%, while operating expenses surged by 30.8%. This resulted in the increase in the C/I ratio. As a result of elevated opex, the bank generated negative JAWs in 4Q2023 and FY2023 on a YoY basis.
- **DUBK maintains healthy capitalization levels.** Management has managed its CET1/Tier-1 position in a steady manner. The bank ended FY2023 with CET1/Tier-1 ratios of 14.0%/16.3%.

### 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 15.5x, respectively.
- **Risks:** 1) Geo-political factors and 2) Unexpected asset quality deterioration.

### Key Financial Data and Estimates

	2022	2023	2024e	2025e
Attributable EPS (QR)	0.226	0.229	0.251	0.290
EPS Growth (%)	1.8	1.4	9.7	15.4
P/E (x)	17.3	17.0	15.5	13.5
Tangible BVPS (QR)	2.2	2.3	2.4	2.5
P/TBV (x)	1.8	1.7	1.6	1.5
RoE (%)	10.6	10.3	10.9	12.1
DPS (QR)	0.160	0.160	0.180	0.190
Dividend Yield (%)	4.1	4.1	4.6	4.9

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

### Key Data

Current Market Price (QR)	3.900
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)	4.35/2.70
3-Month Average Volume (mn)	11.4
Mkt. Cap. (\$ bn/QR bn)	5.6/20.4
Shares Outstanding (mn)	5,234.1
FOL Limit (%)	49.0
Current Institutional FO* (%)	5.3
Return Vs. Listing Price (%)	(10.3)
Fiscal Year End	December 31

Source: Bloomberg (as of February 04, 2024), \*QSE (as of February 04, 2024); Note: FO is foreign institutional ownership

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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>	
<b>OUTPERFORM</b>	Greater than +20%	<b>R-1</b>	Significantly lower than average
<b>ACCUMULATE</b>	Between +10% to +20%	<b>R-2</b>	Lower than average
<b>MARKET PERFORM</b>	Between -10% to +10%	<b>R-3</b>	Medium / In-line with the average
<b>REDUCE</b>	Between -10% to -20%	<b>R-4</b>	Above average
<b>UNDERPERFORM</b>	Lower than -20%	<b>R-5</b>	Significantly above average

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