

## Dukhan Bank – Q1-23 Earnings Call Transcripts

**Date:** 8 May 2023

**Time:** 14:30 Doha Time

### Executives from Dukhan Bank:

1. Ahmed Hashem - Acting Group Chief Executive Officer
2. Osama Abu Baker - Group Chief Financial Officer
3. Zohaib Ahmed - Head of Reporting & Budgeting and IRO

Operator:	<p>Hello and welcome to the Dukhan Bank First Quarter 2023 Financial Results Conference Call. I would like to advise all participants that this call is being recorded. Thank you.</p> <p>I'd now like to welcome Shahan Keushgerian to begin the conference. Shahan, over to you.</p>
Shahan Keushgerian [QNBFS]:	<p>Thank you, Gavin. Hello, everyone. I want to welcome you to Dukhan Bank's First Quarter 2023 Financial Results Conference Call. On this call from the Bank's management, we have Ahmed Hashem, Acting Group CEO, Osama Abu Baker, Group CFO, and Zohaib Ahmed, Head of Reporting &amp; Budgeting and IRO. So as usual, we will conduct this call with first management reviewing the company's results, followed by a Q&amp;A session.</p> <p>I will now turn the call over to Ahmed. Please go ahead, Sir.</p>
Ahmed Hashem [Dukhan Bank]:	<p>Salam Alaikum, everyone, and good afternoon. Thank you for joining Dukhan Bank's First Quarter 2023 Investor Call. At the start, I will briefly touch on the macro environment followed by highlights of the first quarter results. Later, my team will share the details with you and take your questions and answers towards the end of this call.</p> <p>As explained in our previous call, Qatar's economy remained resilient and continued to prosper significantly in 2022, was better than expected GDP growth, especially in the fourth quarter was extraordinary due to hosting the FIFA World Cup, which posted the non-hydrocarbon sector as well. The budget surplus, because of the improved physical position and mid-higher hydrocarbon revenues with oil price stabilizing above the \$70.00 level resulted in ample liquidity in the system. However, things were a bit slower in the first quarter, obviously expected after such a mega event. But we are optimistic about 2023 as Qatar is working on a couple of mega projects including the North Field expansion, that's around \$29 billion, and the Ras Laffan Petrochemical Project, that's another \$6 billion, which would obviously help the economy to grow during the years to come.</p> <p>The demand for LNG is expected to stay strong due to the opening up of markets post-COVID-19 and considering its moderate environmental effect. Further, the tourism sector has also picked up slightly, which has seen a major influx post-World Cup as well.</p> <p>Regarding the first quarter performance, it was another quarter with many achievements, especially considering our listing on the Qatar Stock Exchange earlier this February. We managed to deliver a noteworthy performance despite challenging environments. Our</p>

	<p>total income grew by 34% to QR 1.4 billion as compared to last year's first quarter. Net profit for the period increased by 5.6% from last year's same quarter to QR 414 million. Total assets at the end of the first quarter were QR 102 billion, mainly comprising financing assets at QR 74 billion, followed by investment securities amounting to QR 20 billion. The regulatory loan-to-deposit ratio was at 104%, showing a strong liquidity position.</p> <p>Now by ending here, I will now let Osama and Zohaib share the details on the first quarter performance followed by your questions and answers.</p>
<p>Osama Abu Baker [Dukhan Bank]:</p>	<p>Thank you, Ahmed, and welcome everyone. As mentioned by Ahmed earlier, it was a challenging quarter, but despite that, our total income grew by 34% to QR 360 million from last year's first quarter to QR 1.4 billion. Which resulted in an increase in the net profit of the bank by 5.6% from QR 392 million to QR 414 million in the first quarter of 2023. Total assets stand at QR 1.2 billion, which mainly comprises financing assets of 73% at QR 74 billion, followed by investments portfolio at 20% amounting to QR 20 billion. The balance sheet is mainly funded by customer deposits of approximately 70%. Customer deposits stood at QR 70 billion.</p> <p>Secondly, the second source of funding is the market funding of around 15%, amounting to QR 15 billion. As mentioned earlier, the LDR was maintained at 104% at the end of the first quarter.</p> <p>We continue to protect our margins and control our cost of funds. The net profit margin was maintained at 2% consistent to the Q4 2022 ratio. We expect a near end to the rising of cost of funds cycle, which brought unprecedented change in the Fed rate policy to fight rising inflationary pressures. Considering the breakup of total income, the financing and investments income was up by QR 348 million or 38% year-on-year to reach QR 1.3 billion, this is around 89% of the total income. Then, net fee and commission income were marginally higher from Q1 2022 to QR 59 million, while FOREX and other income was higher by QR 11 million to QR 91 million from last year's same quarter. This is mainly due to QR 50 million recoveries from fully written-off bad debts.</p> <p>The net impairment charge was QR 30 million during the first quarter of 2023. However, it was about QR 144 million, if we ignore QR 114 million of cash recoveries from provided-for accounts versus QR 182 million gross charges booked during Q1 of 2022. The reduction was due to an increase in the adequate coverage of Stage 2 and Stage 3 accounts. The bank has consistently recorded higher provisions in the past to increase its post-collateral NPL coverage to 100% level as the target, which stands above 90% currently.</p> <p>Our forecast for the end of 2023 remained unchanged as of now, which was to maintain an impairment charge near close to the year-end of 2022, around QR 660 million net of cash recoveries. Approximately QR 100 million resulting in the cost of risk of around 80 basis points.</p> <p>The financing book remains well diversified, which covers all sectors in the country, including the government at 23%, real estate at 27%, commercial at 9%, consumer at 6%, contracting at 5%, and industry &amp; manufacturing at around 2%, and services and other about 28%. Further, the staggering of the loan is broadly in line with the industry, with Stage 1 at around 79%, Stage 2 at 16%, Stage 3 NPLs at 5% with decent coverage</p>

	<p>of 5% against Stage 2 and 70% against Stage 3 accounts. However, if we consider eligible collateral benefits, then coverage turns about 90% for the NPLs.</p> <p>The capital adequacy ratio was about 18.8%, which is well above the regulatory requirement of 14.5%. This gives us ample room to grow in the future while maintaining an adequate dividend yield for our investors.</p> <p>Further to update, cash dividends for the year ended 2022 of QR 0.16 per share or 16% of the share capital was approved by the AGM and later paid in the month of April 2023.</p> <p>On segmental breakup, in terms of total assets, Wholesale Banking is 36%, Retail &amp; Private Banking is 38%. And finally, Treasury &amp; Investment grew around 25% of total assets.</p> <p>In terms of total revenue, Wholesale Banking contributes around 48%, Retail &amp; Private Banking contributes 37%, and the remaining 16% is contributed by Treasury &amp; Investment.</p> <p>We expect 2023 to continue to be a challenging year, however, management is confident to deliver another good year by focusing on net interest margin protection and improvement in the second and third quarter liquidity management while sustaining the market share by growing mid-single digits in 2023, as mentioned in our previous investor call.</p> <p>Further, we don't anticipate any material deterioration in the credit quality, and we believe the cost of risk will be stable compared to 2022 along with some expected recoveries as we have seen in the first quarter of 2023.</p> <p>Now, I would like to open the floor for any questions.</p>
Operator:	<p>If you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. That is star one if you wish to ask a question. Once again, if you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. That is star one if you wish to ask a question. And your first question comes from the line of Zohaib Pervez of Al Rayan Investment. Your line is open.</p>
Zohaib Pervez [Al Rayan Investment]:	<p>Thank you for the presentation, gentlemen. You mentioned that the coverage is going to be improved to 100%. Did I hear that correctly? And do you mean the coverage for Stage 3 or the overall like overall coverage? I mean, because right now it's excluding collateral at 68%. That's my question. Thank you.</p>
Osama Abu Baker [Dukhan Bank]:	<p>Yes, what you have heard is correct. We aim to reach coverage of 100% after considering the collateral and for Stage 3 accounts, yes.</p> <p>This is a moving target, really. We hope to reach that as soon as we can, but it is the target for the coming two to three years. Now, if we consider collaterals, we are around 90% coverage, so we are not far from our targets.</p>
Zohaib Pervez [Al Rayan Investment]:	<p>Sounds good. Thank you.</p>
Operator:	<p>Again, if you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. And there are no further questions at this time. So, I'd like to hand it back to Shahan.</p>

Shahan Keushgerian [QNBFS]:	I have a question, gentlemen. Regarding the recent rate hike, do you expect your margins to come under some pressure this year?
Osama Abu Baker [Dukhan Bank]:	Well, margins in general has been under pressure since last year. Our strategy was to defend and protect the NIMs, and we managed to do that in the first quarter. As we have mentioned that we kept it at the same level of the closing of 2022 or the last quarter of 2022, and now we have started increasing this margin. So, we started by protection, defending the margins to be around 2% to 2.1% in the first quarter and the targets for the second and third quarter start to improve the margin to reach by year-end the same level or average of 2.2%, which was the full year 2022 average. So that is our target by the year-end of 2023 to reach 2.2%.
Shahan Keushgerian [QNBFS]:	Okay. Thank you very much.
Osama Abu Baker [Dukhan Bank]:	Pleasure.
Operator:	Your next question comes from the line if Zohaib Pervez of Al Rayan Investment. Your line is open.
Zohaib Pervez [Al Rayan Investment]:	Thank you. Just a follow-up to the last question that Shahan asked. How do you plan to improve your margins? I mean from 2% to 2.4% as you said. How do you plan to do that? I mean, are you going to let go of a higher expensive deposit? Just if you could give us some color on what strategy you're following for that? Thank you.
Osama Abu Baker [Dukhan Bank]:	Well, first of all, we are targeting 2.2% by the year-end, and the action plan will not be in one direction. It will be in too many directions. The first one is to increase the current pricing of the existing loans as much as we can. The second is the new disbursement has to come at improved rates due to the market conditions. Any new disbursements, I mean. The third is to reduce our cost of funding. So, it's not going to be in one direction. We have a lot of targets here. As you know the component of NIM is the deposit, the interbank, the medium-short-term funding also. All of that plays into the NIM calculation.
Zohaib Pervez [Al Rayan Investment]:	Thank you. So, the funding cost that has increased, I mean, actually both have increased the funding cost significantly. Is that because of the interbank rates being purely because of the interbank?
Osama Abu Baker [Dukhan Bank]:	If you are comparing the first quarter of this year to last year, last year was a completely different environment. As you know the Central Bank was supporting the banks with zero facilities. So, we cannot compare both period from this perspective. Since last year's first quarter, I believe, the hikes locally and internationally exceeded 4%. So, it's not only interbank, the deposit rates has been increasing significantly since last year. So, it's a combination of all: interbank, medium-term borrowing, and customer deposits.
Zohaib Pervez [Al Rayan Investment]:	Sounds good. Thank you.
Operator:	If you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. And there are no further questions from the phone at this time. So, I'd like to hand it back to Shahan.
Shahan Keushgerian [QNBFS]:	Thank you, gentlemen, for giving us an update on the quarter and we'll pick this up again next quarter.
Ahmed Hashem [Dukhan Bank]:	Thank you so much, Shahan. Looking forward to meeting you in the second quarter result.

Shahan Keushgerian [QNBFS]:	Great. Thank you.
Operator:	That does conclude our conference for today. Thank you for participating. You may now all disconnect.