Dukhan Bank – Q2-23 Earnings Call Transcripts

Date: 18 July 2023
Time: 14:00 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

Operator:	Hello and welcome to the Dukhan Bank Conference Call. I would like to advise all participants that this call is being recorded. Thank you. I'd now like to welcome Shahan to begin the conference. Shahan, over to you.
Shahan Keushgerian [QNBFS]:	Thank you, and hello everyone, I want to welcome you to Dukhan Bank's Second Quarter 2023 Financial Results Conference Call. So, on this call from management, we have the Bank's Acting Group CEO, Ahmed Hashem, Group CFO, Osama Abu Baker, and Zohaib Ahmed, Head of Reporting & Budgeting & IRO. So as usual, we will conduct this call with first management reviewing the Bank's results followed by a Q&A session. I will now turn the call over to Ahmed, please go ahead, Sir.
Ahmed Hashem [Dukhan Bank]:	Thank you very much Shahan, Good afternoon and thank you all for joining us today. As usual, I'll briefly cover the macro context, followed by our key achievements, highlights for the first half of 2023. Later, my team will share with you the financial performance updates of the Group, which will be followed by the usual Q&A session. Now, moving on to the macroeconomics environment, which remained overshadowed by the adverse effects of geopolitical tensions coupled with higher inflation and related monetary tightening that resulted in a notable slowdown of economic growth while bringing financial uncertainty and volatility to the global market. All of these macro headwinds led to elevated energy prices and benefited Qatar on account of robust physical positioning with oil price hovering above the $70 level. Now, things were a bit slower on the side during the first half of 2023, obviously expected after such a mega event that FIFA 2022, but we were optimistic, and we are still optimistic about the rest of 2023 as we have seen a gradual growth momentum in the second quarter where we managed to increase our financing book by a billion riyal, more than 1% actually despite government repayments across the system and the medium to long-term tailwinds from planned CAPEX investments under the flagship Northfield Expansion Project of about $30 billion to increase hydrocarbon production, this will drive the economic growth. This investment is expected to increase Qatar's LNG production by 64% to 126 million tonnes per annum. Positive spillovers from this project, coupled with related downstream projects, will combine with diversification efforts and structural reforms to boost economic activity and spending in the broader services and manufacturing sectors in line with Qatar's 2030 vision, especially with a focus on healthcare, education, travel, and tourism.

	Now, moving on to the Group's performance for the first half of 2023, we made a lot of positive strides, especially considering our listing on the Qatar Stock Exchange area this February followed shortly by inclusion under the MSCI Emerging Market Index at the end of May. Further, we continued our journey to launch modern digital services and products to enable customers to complete their banking transactions on the go. Our customer-centric approach while leveraging technological advancement is a cornerstone of our growth strategy and provides us with a competitive edge. Moreover, our commitment to create value through the integration of ESG initiatives and our strategy would reap benefits for us in the long run. On the financial performance front, we managed to deliver a noteworthy performance despite the challenging environment. Our total income grew by QR 795 million to reach QR 2.9 billion and as a result, net profit for the first six months increased by 2% from last year and reached QR 760 million. Liquidity remains robust and the capital adequacy ratio was comfortably higher than the minimum requirement and maintained at 18.5%. Now, by ending here, I'll let my colleague Osama to share details on our first performance, followed by the Q&A.
Osama Abu Baker [Dukhan Bank]:	Thank you, Ahmed, and good afternoon to everyone. As mentioned earlier, it has been a challenging first six months of the year, especially for the banking sector. But despite that, our total income grew by 38% or QR 795 million from last year. This coupled with strong credit cash provision recoveries mainly resulted in an increase in the net profit of the Group by 2% from QR 745 million to QR 761 million. Total assets stood at QR 103 billion, which merely comprise financing assets of 73% at QR 75 billion, followed by an investment portfolio of 19% at QR 19 billion. The balance sheet is mainly funded by customer deposits of about 70%, which stood at QR 72 billion, followed by market funding and equity contributing nearly 14% each. Regulatory loans deposit ratio was maintained at 102.6% despite the fact that we reduced our reliance on nonresident deposits to less than 6% historic low while growing our strategic and generational relationships. As we continue to protect our margin and control our cost of funds, net profit margin maintained around 2% level, which is a bit similar to last year and closing position. Detailed breakdown of total income as follows: • Financing and investment income was up by QR 775 billion or 42% period-on-period • Net fee and Commission income higher from the half year 2022 by 20% to QR 136 million • Forex and other income declined by QR 2 million to QR 131 million from last year, the first six months • Net impairment charge after taking the impact of recoveries for the first six-month period was QR 72 million net versus QR 324 million for the first half of last year. However, the gross impairment charge was about QR 200 million, which was reduced due to strong cash recoveries of more than QR 125 million in the first half. The reduction was mainly due to an increase in the adequate coverage on the Stage 2 and 3 accounts and the quality of the credit portfolio.

	The bank has constantly recorded high provisions in the past to increase its post-collateral MPL coverage to almost 100% level as the target, which stands around 90% currently. Further staging of financing activities plus 79% at Stage 1, Stage 2 at 16%, and Stage 3 at 5%. With a decent pre-collateral coverage of almost 5.2% against the Stage 2 accounts and 68.5 against Stage 3. However, if we consider eligible collateral benefits, the coverage stands around 90% against Stage 3 accounts. Financing book remains well-diversified, which covers most of the sectors including government at 22%, real estate at 26%, commercial at 9%, consumer at 6%, contracting at 5%, industrial manufacturing at 1%, and finally, services & others about 29%. The capital adequacy ratio at the end of June 2023 was around 18.4%, well above the minimum requirement of 14.4%. On the segmental breakup, it is available in our financial statements, and it didn't change from the previous quarter. We expect 2023 to continue to be a challenging year, however, management is striving to deliver another good year by focusing on NIM protection, and liquidity management, while sustaining the market share by growing the balance sheet by mid-single digits during the year. Further, we don't anticipate any material deterioration in the credit quality, and we believe the gross cost of risk to be reduced compared to last year due to the good cash recoveries during the year, we anticipate the net provisioning to be on the slightly lower than last year. Now, I would like to open the floor for any Q&A. Thank you.
Operator:	If you would like to ask a question, simply press the star sign followed by the number one on your telephone keypad. That is star one on your keypad to ask a question. Your first question comes from the line of Zohaib Pervez from Al Rayan Investment. Zohaib, your line is now open.
Zohaib Pervez [Al Rayan Investment]:	Thank you, gentlemen, for the presentation. This is Zohaib Pervez from Al Rayan Investment. I've got a couple of questions. Firstly, you mentioned that 2023 is going to be a challenging year. What challenges are you currently facing with the business and how do you think those challenges are going to continue? And I mean, they're going to continue until the end of 2023 or they're going to go down even further. The second question is regarding the loans in the second quarter, you mentioned that your borrowings and your balancing book have increased. Could you tell me is that like single or is that broad-based lending growth, is it more of a single name lending and which sectors do you see this growth coming through? Thank you.
Osama Abu Baker [Dukhan Bank]:	Okay. I'll start with the challenges. The main challenge now for the banking sector is the increase in the cost of funding due to the continuous hikes by the central banks. We believe we have seen the worst and things are improving and we have started to see improvement in the last few two months actually. So, it is a challenging year when it comes to the cost of funds. It is a challenging year, we just came out of COVID. We need to be careful and cautious when it comes to lending, managing the credit risk, and to diversify the book as much as possible. When it comes to the slight improvement or growth in the loan book, it was diversified funding. It was not a single name. We have a good customer base that we are committed to continue supporting and there was no single transaction during Q2.

Zohaib Pervez [Al Rayan Investment]:	Could you tell us which sectors this growth was witnessed in the financing book?
Osama Abu Baker [Dukhan Bank]:	Services.
Zohaib Pervez [Al Rayan Investment]:	Thank you.
Operator:	Again, if you'd like to ask a question, simply press star followed by the number one on your telephone keypad. That is star one to ask a question. The next question comes from the line of Maha Marhaba from ADIA. Your line is now open. Thank you.
Maha Marhaba [ADIA]:	Hi, thank you for your call. I have a question please on your forecast for the margin. So basically, we've been seeing some pressure on margins and as you've been explaining to us, I mean the pressure on margins coming mainly from the increase in the cost of funds. And so, I'd like to get your insights on how we should be looking at your margins going forward and going into H2 for the full year and going into next year, please. Thank you.
Osama Abu Baker [Dukhan Bank]:	Now, the margin at the end of the first half of the year is around less than 2% around 1.9%. Things have been improved in the last two months. We anticipate to close the year a little bit above 2%, that's what we anticipate. We closed last year at 2% I believe. So, we were closing at the same level.
Maha Marhaba [ADIA]:	Okay. So basically, we should be seeing some improvement in H2, and what would be the driver like, is it like the better cost of fund management or like by letting go of some expensive deposits or you will be able to offset the cost high cost of funds by having higher asset yield by some repricing?
Osama Abu Baker [Dukhan Bank]:	Is a combination of all these factors. We continue to diversify our funding sources. We are not going into the any price war for deposits. As you know, Islamic Banks need some time to pass on the increase of the funding goes to their customers due to the structure of the Murabaha that we have. So, by time we have managed to pass most of that to our customers. So, it is a combination of all, and this is all subject to the one factor which is no more or no further hikes on the rates. So, we believe that we have seen the worst and now there will be no further hikes. And if there is any, it will be very minimal. But if the central banks and the Fed goes again into an aggressive cycle, things will change, and our views will change as well.
Maha Marhaba [ADIA]:	Okay. Yes, thank you.
Operator:	Again, if you'd like to ask a question, simply press the star followed by the number one on your telephone keypad. Thank you. Your next question comes from Maha Marhaba from ADIA. Your line is now open.
Maha Marhaba [ADIA]:	Yeah, again. So basically, after seeing some improvement in the loan book during Q2, shall we believe this to be sustainable over the next two quarters, probably at a slow pace and what we should be like expecting for the full year in terms of loan growth, please?
Osama Abu Baker [Dukhan Bank]:	We believe that the balance sheet and merely the loan book will moderately grow during the second half of the year. It will be a very low single-digit growth.

Maha Marhaba [ADIA]:	Okay. Thank you.
Maha Marhaba [ADIA]:	Thank you, again. My last question, I promise. So basically, can you provide some guidance please on the cost of risk? Thank you.
Osama Abu Baker [Dukhan Bank]:	As you have noticed, the cost of risk, the gross cost of risk is lower than last year. So, for the first half, the cost of risk is around 23 and the net due to the cash recovery is around 7. So, I'll give you guidance on the gross because it is a bit difficult to predict the net. So, we expect this 23% to be maintained through the year-end and maybe at year-end, it will go up to 30 to 35 points level and this is subject to the final clearance with the Central Bank and, but this is our expectation as management. For the recoveries, we are still optimistic, and we are still working on many initiatives for recovery. But all these are subject to the court system and the final judgments that we received hopefully soon. So, again, just to summarize we expect the cost of flex to be on the 30 to 35 points and we cannot project now the net. So, let's focus on the gross. Thank you.
Maha Marhaba [ADIA]:	Thank you.
Operator:	Looks like we don't have any more questions, I would now like to hand you all back to our moderator. Thank you.
Shahan Keushgerian [QNBFS]:	If we don't have any more questions, then we can wrap it up. I'd like to thank Dukhan Bank's management for giving us an update on the quarter and we'll pick this up again next quarter. Thank you so much.
Ahmed Hashem [Dukhan Bank]:	Thank you, Shahan. Thank you all for joining us on the call.
Operator:	This concludes today's conference call. You may now disconnect. Thank you.