بـنـك دخــــان
DUKHAN BANK

Dukhan Bank – 1H'24 Earnings Call Transcripts

Date: 17 July 2024
Time: 1:30 Doha

Executives from Dukhan Bank:

1. Ahmed Hashem - Acting Group Chief Executive Officer
2. Osama Abu Baker - Group Chief Financial Officer
3. Riaz Khan – Head of Reporting & Budgeting and Investor Relations Officer

QNBFS Chairperson: Shahan Keushgerian

Operator	Hello, everyone. Welcome to Dukhan Bank. I'd like to hand over to our moderator for today, Shahan. Please go ahead.
Shahan Keushgerian [QNBFS]	Thank you very much. Hello, everyone. I want to welcome you to Dukhan Bank's second quarter and six months 2024 Financial Results conference call. So, on this call from management, we have Ahmed Hashem, acting CEO, Osama Abu Baker, Group CFO, and Riaz Khan, Head of Reporting & Budgeting and IR Officer. As usual, we will conduct this call with first management, reviewing the company's results followed by a Q&A session. I will turn the call over now to Ahmed. Please go ahead.
Ahmed Hashem [Dukhan Bank]	Thank you, Shahan. Good afternoon, and I appreciate all of you joining us today. As usual, I will begin by briefly discussing the broader economic context before discussing key updates for the first half of 2024. Later on, the team will provide you with updates on the financial performance of the Group, followed by a Q&A session. Let's start by addressing the global macroeconomic landscape, where geopolitical tensions continue to impact the economic landscapes, with implications for trade and investment flows. Inflation rates remained varied across regions, with some countries shown declining trends. Financial markets exhibited volatility, responding to economic data, geopolitical events, upcoming US elections, and central bank actions. Now, shifting our focus to the domestic markets, we continue to note a formidable in the momentum since the latter part of the 2023, where, most of the sectors of the economy exhibited resilience and future potential.

	Furthermore, tailwinds from planned CAPEX investments under the flagship Northfield Expansion Project coupled with related downstream projects, is also providing a boost to the overall economic growth. The ongoing diversification efforts and structural reforms by the State, are expected to further stimulate economic activity and spending across various services and manufacturing sectors, while ensuring alignment with Qatar's 2030 vision, with particular emphasis on healthcare, education, travel and tourism. Now talking about Dukhan Bank's strategic approach, it revolves around the core values that define our business, placing a significant focus on digitalization and sustainability. While upholding these values, we have successfully retained our market share, and remained dedicated to continuous digital innovation. Despite substantial changes in policy rates during past two years, we have sustained robust profitability, and continue to control our cost of risk, and achieved high recovery rates. Now, let's turn our attention to the Group's financial performance for the first six months of 2024. I'm pleased to report that we have achieved notable success. Our bottom-line profitability for the six-month period ended 30 June 2024, increased by 3% from last year's same period and reached a net profit of QR 784 million. On the similar lines, we saw growth in our Balance sheet, where Loans book grew by 7%. Our liquidity remained robust and capital adequacy ratio was comfortably higher than the minimal requirement and currently standing at 17.8%. In a significant move, the Board of Directors has declared the Bank's first interim dividends of 8% equivalent to QR 0.08 per share. The proposed dividend is subject to regulatory approvals. This decision reflects our strong confidence in the Bank's future prospects and its commitment to providing value to shareholders. By ending here, I will let Osama to share details on our financial performance for the first six months period of 2024, followed by Q&As. Over to you Osama…
Osama Abu Baker [Dukhan Bank]	Thanks Ahmed, and welcome everyone. I will start the financial analysis with Group's Balance sheet. Our total assets stands at more than QAR 114 billion, predominantly composed of financing assets of QR 84.6 billion, constituting 72% of our total assets. The investment portfolio follows closely, reaching almost QR 16.7 billion, contributing 15% to the total assets. Our balance sheet is predominantly funded by customer deposits, representing about 85% of total liabilities and totaling QAR 84.6 billion. This is followed by market funding which contributed 13% and amounted to QAR 12.6 billion.

We remained successful in maintaining our regulatory loans to deposits ratio below 100% mark, which currently stands at 96.1%, distinguishes us among other peers.

Notably, our reliance on non-resident deposits has decreased to 2.2%, as we continue to cultivate strategic and generational domestic relationships.

We remained committed to safeguard our profit margins and manage the cost of funds, in this regard net profit margin has been maintained at around 2.1%.

Now we anticipate the conclusion of the rising cost of funds cycle linked to FED rate hikes and QCB benchmark rate increases, as inflation shows signs of cooling-off. This would reduce pressure on our cost of funds and lead to positive margin evolution in future.

Examining the breakdown of the Group's total income, two primary contributors stand out:

1. "Financing and investments income" which rose by QAR 527 million or 25% compared to the previous year's same period, and reaching QAR 3.1 billion.

2. The second-highest contribution comes from "net fee and commission income", amounting to QAR 108 million.

Turning our attention to impairments, the net impairment charge after taking the impact of recoveries for the current period totaled QAR 91 million, marking an increase of QR 19 million, from QAR 72 million reported for the first six months of 2023.

On a quarter over basis, the net impairment charges increased by 45% from QR 37 million to QR 54 million. This was impacted due to higher impairment provisions, which increased by 209%, from QR 62 million to QR 192 million, being partially offset by higher recoveries which increased by 453% from QR 25 million to QR 138 million.

When looking into the impairments on gross basis, on a year-on-year basis, the impairments increased by QR 56 million i.e. 28% increase from QR 198 million to QR 255 million. On a quarter on quarter basis, the gross impairments increased by QR 130 million i.e. 209% from QR 62 million to QR 192 million.

The staging of financing activities aligns well with industry standards, with Stage-I at 81.5%, Stage-II at 13.3%, and Stage-III NPLs at 5.2%, with a decent coverage of 3.8% against Stage-II accounts and 65.6% against Stage-III accounts. Here, important point to note that if we consider eligible collateral benefit, the Stage-III coverage ratio reaches approximately 90% against NPLs.

	Our financing book remained well diversified, encompassing all the sectors including Government 22%, Real Estate 29%, Commercial 8%, Consumer 8%, Contracting 4%, Industrial manufacturing 2% and Services & others about 27%. Group's Capital Adequacy Ratio at the end of first six months of 2024 stands at 17.8%, exceeding well above the minimum regulatory requirement of 14.3%. This positions us well, to grow confidently in the future. Here, important to note that the impact of interim dividends declared as part of 1H-24 results, has already been embedded in the Group CAR reported for 1H-24. Looking forward to full year of 2024, we project a sustained growth trajectory, anticipating a mid-single-digit expansion in our Balance sheet that aligns with the overall GDP growth targets for the country. The drivers of this growth will predominantly be wholesale banking and private banking segments, with our growth strategy emphasizing quality over quantity. Regarding our bottom-line profitability, we foresee a comparable mid-single-digit growth, mirroring the expansion anticipated in the overall balance sheet. While, we anticipate no significant deterioration in asset quality, our approach to provisioning remains conservative. We will continue to build adequate buffers to safeguard against unforeseen adversities. In summary, our focus will be on delivering another successful year, while prioritizing NIM protection, robust liquidity, and maintain our current market share while fostering the growth of our balance sheet. Now we will open the floor for the Q&A session, Thank you!
Operator	Ladies and gentlemen, we are now opening the floor for questions-and-answer session. If you'd like to ask a question, please press star followed by number one. Our first question comes from Zohaib Pervez from Al Rayan Investments, your line is now open.
Zohaib Pervez [Al Rayan Investment]	Thank you, gentlemen. This is Zohaib from Al Rayan Investment. I have two questions. Firstly, which sectors or segments saw growth in the loan book for the first half? And do you believe these lendings that were done for the first half are they more like longer-term loans or they are like more working capital requirement loans? My second question is on your investment book. Again, I think last time also, last quarter also I asked this question then why… what is the strategy for the bank to reduce your investment book at a time when you have some very high yields in the market and plus you yourself said that, probably the interest rate cycle is coming down, which is always very good for the for this book segment. So, why would you be on a path of reducing your investment book and not locking in these high yields at the current level? Thank you.
Riaz Khan [Dukhan Bank]	Thank you, Zohaib. Regarding loan growth, most of the increase in the loan book came from wholesale banking, followed by private banking deals. The tenure of these deals is generally mid-to-long term, with attractive yields.

	As for your second question on the investment book, I'd say that it's more of a secondary focus; our primary objective remains to build the balance sheet through financing assets. Investments and locking in higher yields are, of course, areas we monitor for opportunities. However, this is largely influenced by asset-liability management, which means we must carefully align liquidity profiles and yield targets. It's not simply a matter of higher yields leading to increased investment allocation; it also depends on the availability of issuances in the market. Multiple objectives must be balanced simultaneously, so while high yields are appealing, they are only part of the consideration for our investment strategy. I hope this answers your questions.
Zohaib Pervez [Al Rayan Investment]	Yes, thank you. Thank you. Riaz, just a follow up to that. So, is it fair to say that your cost of funding is higher than the yields that you can expect on your investment book and that's why you're probably reducing your investment book to some of your liabilities?
Riaz Khan [Dukhan Bank]	I think on the cost of funds, we have remained very proactive. Over the last six months, we've been quite successful in controlling the upward trajectory, which had been significantly rising over the past two years. We've managed to stabilize it, although it's not purely about the spread between the actual cost of funds and investments. It's more of a blended approach, with investments mainly tied to asset-liability management (ALM), SQLs, and similar metrics that we consider on the investment front.
Zohaib Pervez [Al Rayan Investment]	Good. Thank you.
Operator:	Our next question comes from Rob Skepper from Ashmore. Your line is now open.
Rob Skepper [Ashmore]	Yeah. Hi, everyone. Thanks for the call today. Yeah, I guess following on from that theme a little bit, just on kind of where the NIM has been for these first two quarters. I guess it looks a little bit soft and I think that the guidance for the year is kind of plus 10 basis points, assuming a rate cut like is that's still doable for this year?
Osama Abu Baker [Dukhan Bank]	Yes, completely right. The guidelines are still applicable, and we maintain it the same 10 basis points up and currently, we are focusing on quality assets. That's why the improvement quarter-on-quarter was minimum. But hopefully, by year-end, we will achieve the target of that we have told you earlier of 10 basis points.
Rob Skepper [Ashmore]	Yeah. Okay. Got it. And then just to understand, just on NFI on fees and commissions, they were very weak like what's happening there?
Osama Abu Baker [Dukhan Bank]	Those are really seasonal and cyclical. Quarter-on-quarter depends on the LCs, the LGs, the overall trading activities, the number of contracts in the market. So overall, we are doing good compared to last year. But quarter-on-quarter as I mentioned, it all depends on the current activities and the current bidding process for the new contracts, etc., etc. But the core business, the fee income has been positive, it looks good, and we anticipate a good pipeline to materialize hopefully in the third and fourth quarter of this year.

Rob Skepper [Ashmore]	Okay, got it. And then just on costs. So costs are up quite a lot and a lot of it through the other expenses line. I just wondered if you could kind of share any granularity on that.
Riaz Khan [Dukhan Bank]	Year-over-year, we saw an increase in other expenses by nearly 57%. There are a few main reasons for this. First, rental costs rose as we recently moved to our new head office building just two to three weeks ago. For the past six months, we were renting multiple buildings on a short-term basis. Due to IFRS classifications, we previously categorized these as part leased assets and charge goes to depreciation and finance costs. However, now because these were short-term contracts, the rental expenses are now classified within G&A expenses. Second, as we've highlighted before, the bank has been actively investing in digitization, which led to increased IT expenses as part of our digital transformation efforts. Lastly, LP charges have increased. This impact wasn't as significant last year since we got listed towards the end February only, resulting in a lower expense for LP charges at that time until the end of June 2023. This year, however, we felt the full-year impact, making year-over-year comparisons less consistent. These are the main factors contributing to the increase in other expenses.
Osama Abu Baker [Dukhan Bank]	I would like to add to that point. Yes, maybe if you go into line by line, you will notice an increase and especially in the other cost line. But it in reality, the majority is coming from the reclassification from depreciation in finance expense to the G&A. But if you look at the cost-to-income overall, compare the six months to the full year of last year, you'll find that it's healthy going down from I believe 30% to 33%. So yes, there has been reclassification, but the overall trend is positive to the bottom line.
Rob Skepper [Ashmore]	Yeah, got it. Okay. And anything…
Operator	It seems like the Q&A has been disconnected. Please give me one moment while I try to pull up the representative or the analyst.
Osama Abu Baker [Dukhan Bank]	Okay. We'll be waiting if you can connect from that, please.
Operator	Mr. Skepper, your line is now open again.
Rob Skepper [Ashmore]	Yeah. Thank you. Yeah. I just wanted to ask, yeah, just one last question was just on the interim dividend like how should we kind of interpret that? Like is there any signal for what it means for like the full year and total dividends? Is it something that you're kind of be looking to do going forward now?
Osama Abu Baker [Dukhan Bank]	As you know, the interim dividend is something new to the country and we are the second bank to announce that. It is a very common practice, international practice, the Board of Directors decided to distribute this semi-annual dividend. We will look into having it quarterly in the future depends on the market, how the reaction by investors, how easy is it. But as a first stage, it is semi-annual. And definitely, it is something encouraged by the regulators, something favorable for the investors. So definitely is something we will make on a regular basis going forward.

Rob Skepper [Ashmore]	Yeah, got it. Great. Thanks very much.
Osama Abu Baker [Dukhan Bank]	Thank you.
Operator	Our next question comes from Salome Skhirtladze from Bloomberg Intelligence. Your line is now open.
Salome Skhirtladze [Bloomberg]	Hello. Thank you for taking my question. Could you give us information on the cost of risk items, whether it still remains within the limit from last year's 50 basis points, if I remember correctly? And on the coverage of Stage 3 loans, it has weakened in the first half of the year. Do you have any strategy, any plan, or any internal limit for the coverage levels? Thank you.
Osama Abu Baker [Dukhan Bank]	Yes, sure. Yes, the guidance we gave earlier this year about the cost of risk on a gross basis will be in the range of 50-55 basis points. That didn't change for the time being, but remain subjective on the actual recoveries realized during second half of the year. Regarding the coverage, it's very tricky. We have to see here the movement during the period where certain accounts where we have moved to off-balance sheet or written off. Certain accounts were collected, so those…the coverage in those accounts when we get them out of the part of the books definitely will influence the overall coverage plus that we have transferred to certain accounts from Stage 2 to Stage 3 now, and we started to increase the provision for those accounts. It is important to note that since our lending strategy is a bit conservative, where we always obtain good securities and mortgages against all the loans that we give to our customers, we benefit from those securities and mortgages when we calculate provisioning. So as I mentioned in my notes earlier, if we include the benefits for those securities, we will cover almost above 90% of the exposures. And our intention is always to maintain high coverage. And as you have seen during the year, although we have recoveries, but directly we have increased our charge in order to increase the coverage. This is something we'll continue doing. We expect a few recoveries in the next or the coming five to six months and definitely we'll need to like that in order to build a better provisioning and coverage for the NPLs.
Salome Skhirtladze [Bloomberg]	Thank you.
Operator	Our next question comes from Abhinav Sinha from Lesha Bank. Your line is now open.
Abhinav Sinha [Lesha Bank]	Yeah. Thanks for taking my question. So just on the impairment on the P&L. So if I look at the one number, it stands at around QR 68 million. And last year, for the full year, it was the QR 300 million. So how shall we think about it for this year? So shall we expect it to remain around QR 300 million with more impairment coming in the second half, like how the historical trend has been or is it something we should be knowing there? Thank you.

Riaz Khan [Dukhan Bank]	I believe the numbers you're reviewing are on a net basis. Recoveries are somewhat unpredictable, as their realization depends on the specifics of each case, though there are always recoveries in the pipeline. When additional cushion becomes available, we adopt a more conservative stance, which has consistently been our strategy. Overall, as Osama mentioned, the cost of risk is expected to remain around 50 basis points, which is both our guidance and target on a gross basis, subject to the actual recoveries realized during second of the year.
Abhinav Sinha [Lesha Bank]	All right, thanks.
Operator	Our next question comes from Metehan Mete of Waha Capital. Your line is now open.
Metehan Mete [Waha Capital]	Hi. During the call of the Qatar National Bank, there has been discussions around like the potential of 15% corporate tax being implemented in Qatar with like the OECD minimum tax rate. And given that Dukhan Bank is a very Qatar-focused bank, do you think that if some development like this occurs, so Dukhan bank will also be like they charge the 15% corporate tax, or do you think there is like the…there's a caveat to that and then you will be different? So what's your opinion on that?
Osama Abu Baker [Dukhan Bank]	Unfortunately, I didn't attend the QNB call, but now I'm interested to hear what exactly was discussed. I'm not aware of this intention. It is still under discussion at the decision-making offices with your ministry. Dukhan Bank is not going to be subject to this global tax and because we are operating out of Qatar and in Qatar. So we can actually compare to other peers in the market who has operations limited to Qatar. And so far, we have not got any guidance if there will be a minimum corporate tax. This is something that is not yet discussed in public and even not discussed with us on the confidential basis. So far, we are confident that we will not be subject to the global taxation, and we are not aware of any local minimum corporate taxation.
Metehan Mete [Waha Capital]	Thank you. And also, another separate…. What's your target like the loan loss coverage levels?
Osama Abu Baker [Dukhan Bank]	You mean for Stage 3?
Metehan Mete [Waha Capital]	Yeah. NPL coverage, yeah.
Osama Abu Baker [Dukhan Bank]	NPL coverage. Currently, it is almost 70% with the securities is around 90%. So we target to reach 100% with the securities. Actually, these are bank coverage ratios.
Metehan Mete [Waha Capital]	Okay. Yeah. I think there has been discussions around like I heard about that. Maybe it's just like at the rumor stage that they're contemplating, like the Qatar Central Banks contemplating to asking the banks to top up their loan loss coverage to above 100% levels without investments and without collaterals. Just to be kind of on the safe side, in terms of like the regulatory framework, have you heard about any such developments as well or is it like that?
Osama Abu Baker [Dukhan Bank]	Actually, I struggled, to be honest with you, with how these rumors come out because in Qatar we are very conservative, and we have very detailed guidelines where the Central Bank applies certain haircuts to the securities that we obtained.

	And also, we are mandated to maintain a 2.5% of our loan book as risk reserve. So I cannot understand why would the Central Bank will increase the coverage above 100% provided that we have those haircuts and the risk reserves. So definitely those are rumors, and I would say nobody discussed that with us, and I don't think they will materialize because we are already heavily regulated, and we are on the safe side. And the way the Central Bank applies the provisioning is full of buffers and haircuts as I mentioned earlier.
Metehan Mete [Waha Capital]	Sure. Thank you so much.
Osama Abu Baker [Dukhan Bank]	Thank you.
Operator	Right now, we don't have any raised hands or questions as of the moment. And I'd like to hand back over to the management for the final remarks.
Ahmed Hashem [Dukhan Bank]	Thank you from the Dukhan Bank side and we'll catch up for the next results call. Thank you very much.
Osama Abu Baker [Dukhan Bank]	Thank you.
Operator	Thank you all for attending today's call. You may now disconnect. Have a wonderful day.