Dukhan Bank – 9M'24 Earnings Call Transcripts

Date: 16 October 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 and welcome to the Dukhan Bank Conference Call. Please note that this call is being recorded. I'd now like to hand it over to our moderator for today, Shahan. You may now begin.
Shahan Keushgerian [QNBFS]	Thank you. Hello, everyone. I want to welcome you to the Dukhan Bank's third quarter 2024 and nine months financial results conference call. So, on this call from management, we have Ahmed Hashem, the acting CEO, Osama Abu Baker, Group CFO, and Riaz Khan, Head of Reporting & Budgeting and Investor Relations Officer. So as usual, we will conduct this call with first management reviewing the company's results followed by a Q&A session. I will now turn the call over to Ahmed. Please go ahead.
Ahmed Hashem [Dukhan Bank]	Thank you, Shahan. Good afternoon everyone, and thank you for joining us today. As always, I will begin this call by briefly touching on the broader macroeconomic environment, before we dive into the key updates for the first nine month of 2024. Following that, the team will walk you through our Group's financial performance, followed by a Q&A session. Looking first at the global landscape, geopolitical tensions continue to weigh on the global macroeconomic environment. However, inflation has finally started to subside and many central banks begin to lower rates. During this quarter, Qatar Central Bank also reduced the benchmark rate by 55 basis points. Going forward, this should have a positive impact on the overall economy. Domestically, the outlook remains strong, supported by elevated oil and gas prices, leading to a solid fiscal and current account surplus. The momentum is clear, with many sectors showing resilience and significant potential for future growth. A prime example is the tourism sector, where Qatar is set to record its highest-ever tourist numbers this year, having welcomed nearly 3.3 million visitors in the first eight months — a 26% increase compared to the same period last year.

	Similarly, the government's initiatives and efforts to promote non-hydrocarbon activities, including support for startups and emerging businesses, and reforming the real estate law, are expected to provide tailwinds for businesses across Qatar. Additionally, the decision to reduce service fees by up to 90% for the commerce, industry, business development, and consumer sectors in July 2024 has spurred a surge in demand. Looking into the future …. A ramp-up in the North Field Expansion Project, along with notable expansions in refining, downstream including petrochemical capacities, contributing to the economic growth. Much of the expected increase in annual LNG output is already secured through long-term contracts. All of this is laying foundations for a sustained GDP growth over the medium to long term. Beyond energy, Qatar's focus on economic diversification through tourism, infrastructure development, and digital transformation is vital to driving further growth. These efforts are expected to stimulate activity across various sectors, particularly services and manufacturing, while ensuring alignment with the Qatar's 2030 Vision. At Dukhan Bank, our customer-centric approach, and commitment to digital transformation have been key to our strong performance, despite global challenges. Our focus on continuous product innovation, aimed at enhancing customer experience, has allowed us to remain resilient and consistently expand. We have maintained our market share, and remain deeply committed to advancing our digital initiatives. Now, turning to the Group's financial performance for the first nine months of 2024, I'm pleased to report strong results. Our net profit for the nine-month period ended 30 September 2024, rose by 3% compared to the same period last year, reaching QR 1.14 billion. Our return on tangible equity increased to 12.6%, up from 11.0% last year The Group's total assets reached QAR 116.7 billion — our highest level to date — with our loan book growing by an impressive 9%. Our liquidity position remains robust, and our capital adequacy ratio is comfortably above regulatory requirements, standing at 17.4%. With that, I will now hand over to Osama to provide further details on our financial performance for the first nine months of 2024. 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 116 billion, predominantly composed of financing assets of QR

84.9 billion, constituting 73% of our total assets. The investment portfolio follows closely, reaching almost QR 17.3 billion, contributing 15% to the total assets.

During this year, the Bank successfully expanded its financing assets, achieving an impressive 9% growth compared to the previous year. This growth mainly came from Wholesale and Private Banking sectors. Such growth underscores the Bank's strategic intent to increase its market share, while ensuring efficient and balanced resource allocation.

Our balance sheet is predominantly funded by customer deposits, representing about 81% of total liabilities and totaling QAR 82.3 billion. This is followed by market funding which contributed 17% and amounted to QAR 17.4 billion.

The Group's liquidity remained robust, with regulatory loans-to-deposits ratio of 101.2%.

Our reliance on non-resident deposits is limited to 2.3%, as we continue to cultivate strategic and generational domestic relationships.

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

Now since there are more FED rate cuts and QCB benchmark rates' decline is expected, with inflation data reflecting downward trends shows. This would aid in reducing pressure on our cost of funds, and lead up to a positive margin evolution in the future.

Moving onto the profitability, the Group's financial performance during the first nine months of 2024 demonstrated the execution of our strategy and strengthened platform for growth.

The growth in bottom-line profitability was underpinned by a 17% increase in net income from financing activities, and a 33% rise in net income from investing activities, resulting in an overall rise in total income for the Group which grew by 16%.

Growth in net income from financing activities reflected positive momentum in overall volumes coupled with better yields.

The Group's efforts to cross-sell coupled with deepened client relationships, while leveraging differentiated product strengths, fostered consistent growth in both profit and non-profit income sources.

Now, turning our attention to credit quality, the non-performing loan (NPL) ratio improved, decreasing to 4.7% as of September 2024, from 5.4% at the end of 2023. This improvement is largely attributed to the Bank's effective recovery management strategies, reflecting the high quality of its loan portfolio and robust credit risk management practices. Additionally, the Stage 3 coverage ratio reached 69%, reflecting the Group's prudent approach towards managing non-performing loans.

	Here, important point to note that if we consider eligible collateral benefit, the Stage-III coverage ratio would be approximately above 90% against NPLs. The staging of financing activities aligns well with industry standards, where we managed to reduce Stage 2 percentage to Gross loans at 12.8%, with a decent coverage of 3.4%. Our financing book remained well diversified, encompassing all the sectors including Government 21%, Real Estate 27%, Commercial 10%, Consumer 8%, Contracting 4%, Industrial manufacturing 2% and Services & others about 28%. Group's Capital Adequacy Ratio at the end of first nine months of 2024 stands at 17.4%, 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 June 2024 results, has already been embedded in the Group CAR reported for 9M-24. Looking forward to full year of 2024, we project a sustained growth trajectory, anticipating a 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	Thank you. We are now opening the floor for a question-and-answer session. If you'd like to ask a question, please press star one on your telephone keypad. Our first question comes from Zohaib Pervez from Al Rayan Investments. Your line is now open.
Zohaib Pervez [Al Rayan Investment]	Thank you for the presentation. This is Zohaib Pervez from Al Rayan Investment. I've got two questions. Firstly, what will be your sensitivity to a 100 bps decline in the QCB rate? What will be the sensitivity of your net income margin to a 100 bps decline in the QCB rate? The second question is recently it was announced by the government that the COVID-related loans will be repaid or settled. What information do you have on that and how will that impact your balance sheet? Thank you.

Riaz Khan [Dukhan Bank]	Hi Zohaib, I'll address the first question. Regarding sensitivities, with the recent 55 bps rate cut and a potential additional 50 bps reduction by year-end, we expect the NIM to expand by approximately 12 to 15 bps on an annualized basis. This should answer your first question. I will now handover to Osama for the second question.
Osama Abu Baker [Dukhan Bank]	Yeah, actually the COVID-related announcement came to the news. We cannot add more than what you have seen in the news because we don't have any of those loans in our books. So, I have no comments to add to the news.
Zohaib Pervez [Al Rayan Investment]	Okay, so you have no loans related to the COVID time or something, the program that was going on during that?
Osama Abu Baker [Dukhan Bank]	Yeah, this program was launched by the Qatar Development Bank and some of the banks had some exposure, but it was guaranteed already by the QCB, so it has no effect on the quality of the loans or the cash flows whatsoever.
Zohaib Pervez [Al Rayan Investment]	Sounds good. Thank you.
Operator	Our next question comes from Salome Skhirtladze from Bloomingburg Intelligence. Your line is now open.
Salome Skhirtladze [Bloomberg]	Hello, thanks for the presentation. So, I have a few questions. The first on the fee income which is lower versus past year, could you explain the drivers and how we could assume the growth in the next quarter or beyond? And second, could you reiterate the guidance for the cost of risk and coverage for this quarter and next year if possible? And on the deposit side, the sector deposit, private sector deposits are in a declining amount in the past few months. Could you give us a bit more insight on this, and how do you foresee going forward the deposit growth, and what is your strategy in case there is some risk of outflows from private sector deposits basically?
Osama Abu Baker [Dukhan Bank]	Okay. Starting with the fee income, it is true that during the year we have seen a dip, this is mainly due to the less activities in the construction sector where we generate a good fee income from achieving the bank guarantees. And overall, the trading business has shown a slowdown in the first half of the year, that's why the fee income has dropped. We have seen in the last few days of Q3 a good pickup. We have managed to finance or provide facilities to a couple of good projects in Northfield. The income will be reflected in the fourth quarter, and we are actively seeking such new projects in the Northfield and the infrastructure. So hopefully by next year, we'll go back to the 2023 fee income levels. Regarding the cost of risk and coverage, as I mentioned, we continue our conservative approach. Currently, the coverage for Stage 3 is around 70% without including the collateral benefit, if we include it, it will be around 90%. So hopefully we are targeting a 100% coverage ratio next year and definitely we aim to take more provisions in the third quarter of this year, and our target is to reach the 100% coverage ratio in 12-month period. The last question I will turn to Riaz, please.

Riaz Khan [Dukhan Bank]	Regarding private sector deposits, the overall size and contribution from the private sector to the bank's deposit base have remained quite stable. Occasionally, you may notice minor fluctuations in certain quarters, often due to deposit maturities requiring a bit of administrative time for renewal. This is not indicative of any significant or unusual movements within private sector deposits at the bank level. Overall, the bank's deposit base remains healthy, including the balance between CASA and term deposits, with CASA currently at a solid 29%. That's what I can share about private sector deposits from Dukhan Bank's perspective.
Salome Skhirtladze [Bloomberg]	Okay. Great. Thank you.
Operator	The next question comes from Abhinav Sinha from Lesha Bank. Your line is now open.
Abhinav Sinha [Lesha Bank]	Yeah. So, one question on NPL. I see that it has come down from 5.4 to 4.7% in nine months. So, how shall we see that for the full year? Because I think there will be more provisions in the final quarter. So, does that impact it? And secondly, you said that for every 100 basis points, the NIM expansion is 10 to 15 basis points. So, could you break down that on how much you benefit from the deposits or is it more of a yield enhancement that you see that you come up with the 10-15 basis points? Thank you.
Osama Abu Baker [Dukhan Bank]	Yeah, the NPL ratio will be almost the same level from now till the year-end. The provisions that we will take will enhance or improve the coverage ratio. It will have a slight effect on the coverage ratio. We are targeting a 70% coverage ratio. The NPL ratio, I doubt it will move from here. The other question about the NIM expansion, it's a mix actually between the reduction in cost of funds and maintaining the yield on the loan book because as you know, many facilities have certain floors. So actually, it is a mix. I cannot give you now the breakdown or the splits in the NIM improvement, how much gets to the deposits and how much is attributes to the loan book. But in summary, it's around 15 basis points expansion.
Abhinav Sinha [Lesha Bank]	Understood. Thanks. Thanks a lot.
Operator	Thank you. Again, if you'd like to ask a question, please press star one on your telephone keypad. As of right now, we don't have any pending questions. I'd now like to hand back over to Shahan for further remarks.
Shahan Keushgerian [QNBFS]	Okay. If there are no more questions, we can wrap this up, I'd like to thank the Dukhan Bank management for giving us an update and their views, and we will pick this up again next quarter. Thank you.
Ahmed Hashem [Dukhan Bank]	Thank you, Shahan. Thank you, everyone, for attending.
Operator	Thank you everyone for attending today's call. We hope you found it useful. Have a wonderful day and you may now disconnect.