Dukhan Bank – Q1-24 Earnings Call Transcripts

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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: Roy Thomas

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 would now like to welcome Mr. Roy Thomas to begin the conference. Roy, over to you.
Roy Thomas [QNBFS]:	Thank you. Hello, everyone. This is Roy Thomas from QNB Financial Services. I want to welcome everyone to Dukhan Bank's First Quarter 2024 Financial Results Conference Call. On this call from Dukhan Bank, we have Ahmed Hashem, the Group Chief Executive Officer, Osama Abu Baker, Group Chief Financial Officer, and Riaz Khan, Head of Reporting, Budgeting, and IR. We will conduct this conference call with management first, reviewing the Bank's results followed by a Q&A. I will turn the call now over to Ahmed Hashem. Go ahead, Ahmed.
Ahmed Hashem [Dukhan Bank]:	Assalamu alaikum, everyone. Thank you very much, Roy. Good afternoon, and I appreciate all of you joining us today. As usual, I will begin by briefly discussing the broader economic context before delving into our key updates for the first quarter 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 experiencing slightly inflation than expectations. Financial markets exhibited volatility, responding to economic data, geopolitical events, and central bank actions. Now, shifting our focus to the domestic markets, we continue to note a resurgence in the momentum since the latter part of the 2023. All sectors of the economy exhibited growth.

	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, we have sustained robust profitability, and continue to reduce our cost of risk, and achieved high recovery rates. Now, let's turn our attention to the Group's financial performance for the first quarter of 2024. I'm pleased to report that we have achieved notable success. Our total income has grown by QAR 243 million versus the same period of last year, reaching QAR 1.7 billion. Consequently, our bottom-line profitability for the three-month period ended 31 March 2024, increased by 2% from last year and reached a net profit of QR 423 million. Our liquidity remained robust and capital adequacy ratio was comfortably higher than the minimal requirement and currently standing at 18.2%. By ending here, I will let Riaz to share details on our annual performance for the first three-month financial period of 2024, followed by Q&As.
Riaz Khan [Dukhan Bank]:	Thanks Ahmed, and welcome everyone. I will start my analysis with Group's Balance sheet. Our total assets stands at QAR 113 billion, predominantly composed of financing assets at QR 80.9 billion, constituting 72% of our total assets. The investment portfolio follows closely, reaching almost QR 17.2 billion, contributing 15% to the total assets. Our balance sheet is predominantly funded by customer deposits, representing about 80% of total liabilities and totaling QAR 78.5 billion. This is followed by market funding which contributed 18% and amounted to QAR 17.5 billion. Maintaining a Regulatory Loans to Deposits ratio close to 100%, which currently stands at 101.7%, distinguishes us among Qatari banks. Notably, our reliance on non-resident deposits has decreased to less than 2%, as we continue to cultivate strategic and generational domestic relationships. In our commitment to safeguarding profit margins and managing our cost of funds, the 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.

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

- "Financing and investments income" which rose by QAR 316 million or 25% compared to the previous year, reaching QAR 1.6 billion.

- The second-highest contribution comes from "net fee and commission income", amounting to QAR 49 million.

Turning our attention to impairments, the net impairment charge after taking the impact of recoveries for the current period totaled QAR 37 million, marking a slight increase from QAR 30 million reported in the first quarter of 2023.

The staging of financing activities aligns well with industry standards, with Stage-I at 81%, Stage-II at 14%, and Stage-III NPLs at 5.1%, with a decent coverage of 4.1% against Stage-II accounts and 71.5% 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 28%, Commercial 9%, Consumer 8%, Contracting 5%, Industrial manufacturing 2% and Services & others about 26%.

Group's Capital Adequacy Ratio at the end of first quarter of 2024 stands at 18.2%, exceeding well above the minimum regulatory requirement of 14.3%. This positions us well, to grow confidently in the future.

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 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. If you would like to ask questions, simply press the star followed by the number one on your telephone keypad. That is star one, if you wish to ask a question. Our first question comes from Zohaib Pervez from Al Rayan Investment. Please go ahead with the question.
Zohaib Pervez: [Al Rayan Investment]:	Thank you, gentlemen, for the presentation. I've got a couple of questions. Firstly, could you tell us which sectors you saw growth in your financing book? And how sustainable leading this growth is for the remaining nine months of this year? The second question is regarding your investment book. You know, considering the investment book, the current environment, the yields are very high, and you can have good returns on this. That's the class. Then why do you keep on reducing your investment book? I mean, it's come down to QR 17 billion and it's only like 15% of your total assets. I mean whereas compared to other banks it's probably one of the lowest locally and probably regionally. Why do you think that is your strategy for your investment book? Also, what would be your average rating on your investment? Thank you.
Riaz Khan [Dukhan Bank]:	Thank you. I'll start with the first question. Regarding sectors in financing, we witnessed notable growth predominantly from the services sector during the first quarter. However, looking ahead for the remaining three quarters of the year, we anticipate overall growth in the mid-single digit range. This growth target aligns well with the broader GDP growth expectations. The key drivers for this growth will be the wholesale banking and private banking segments, which are expected to be the primary contributors. I hope I have answered your first question. Moving on to your question about investments, you rightly pointed out that our current investment portfolio stands at approximately QR 17.5 billion, a reduction from QR 19.5 billion at the end of the previous year. This decrease is primarily attributable to certain maturities within our Sukuk portfolio. From our perspective, the priority is to focus on expanding our loan book, as the yield on investments tends to be slightly lower in comparison. On the other hand, the investment portfolio plays a crucial role in maintaining High-Quality Liquid Assets (HQLAs) and regulatory ratios, which is a very important KPI. Regarding the ratings of our investment portfolio, more than 80% of our book comprises double-A rated securities, predominantly sovereign in nature. Hopefully I've answered all your questions.
Zohaib Pervez: [Al Rayan Investment]:	Thank you. You mentioned what was your average yield in December?
Riaz Khan [Dukhan Bank]:	As disclosed in the last year's financials within the profit rate sensitivities analysis note, we mentioned it the yield for Sukuk portfolio was approximately 4.12%. Now with recent maturities coupled with positive repricing impacts, the portfolio yield has slightly moved upwards to approximately 430 bps.

Zohaib Pervez: [Al Rayan Investment]:	Sounds good. One last question, the expectation for this year, was that probably we'll see some improvement in the net financing income margin, however, in the first quarter also we saw some contraction. Is it because your cost levels have gone down or the general cost of funding has continues to go high? Thank you.
Riaz Khan [Dukhan Bank]:	Regarding the calculation of margins, while I'm not certain about the specifics of your approach, from our perspective, we are observing an improvement of approximately 5 basis points on an annualized basis. It seems the difference may arise from the method used to calculate average balances. You might be considering spot average balances based on two data points, whereas our approach takes into account the actual average balances over the period. This methodological difference could potentially lead to some distortion in the figures. Nonetheless, from our standpoint, we are witnessing an improvement in our net interest margins. On a sequential month-on-month basis, the cost of funds is gradually stabilizing and trending downwards. Simultaneously, the yields on our asset base have seen a slight upward tilt.
Zohaib Pervez: [Al Rayan Investment]:	Sounds good. Thank you.
Operator:	Thank you. Our next question comes from the line of Mark Krombas from TFI. Please go ahead.
Mark Krombas [TFI]:	Hi, I just have a question about the recoveries. Could you talk a little bit more about how much recoveries you had over this quarter? Because obviously your cost of risk was very low and then could you just talk a little bit about the trends within Stage 2 loans, whether there's reason to believe that they might become performing again or sort of whether some are trending towards Tier 3? Just some more elaboration on the Tier 2 loans, Stage 2 loans rather.
Riaz Khan [Dukhan Bank]:	Thank you, Mark. If you refer to page 15 of the financial statements, you will notice a recovery amount of QR 25 million mentioned there. Comparing this to previous year's financials, the recoveries were significantly higher at QR 110 million in the last year. This should address your query regarding recoveries. Regarding the overall cost of risk, on a gross basis, we continue to anticipate it to remain within the range of 35 to 45 basis points on an annualized basis. This expectation of cost risk is excluding the anticipated recoveries that will be flowing through in the coming quarters. With respect to your question about the Stage 2 portfolio, we have not witnessed any significant changes when compared to the December numbers. As of March, the Stage 2 portfolio has remained relatively stable without any notable movements. Going forward, we can expect some reclassifications within the portfolios, with certain exposures potentially moving upwards into Stage 1, while others may be reclassified downwards into Stage 3. However, it is too early to provide a definitive outlook on how these movements will evolve. As of the March reporting period, the Stage 2 portfolio remained stable without any major shifts.

Mark Krombas [TFI]:	Okay. Thank you.
Operator:	Thank you. Our next question comes from Andrew Brudenell from Ashmore. Please go ahead.
Andrew Brudenell [Ashmore]:	Thank you for this. I just had a couple of things. Maybe I missed what you were saying about the NIM. Could you just talk a little bit about NIM sensitivity? Obviously, we haven't seen quite the dynamics that some other banks have seen in terms of NIM. We've seen it on the cost of funding. If and when rates actually begin to come down, what would you expect to see over the next say couple of years? Like just to give me a sense of how the sensitivity works from the books, please.
Riaz Khan [Dukhan Bank]:	There is considerable uncertainty surrounding when the FED will decide on rate movements and how this will impact market benchmark rates. We are taking a conservative approach in our projections. As communicated during our Q4 call, we expect an almost 25 basis point reduction in NIMs towards the latter part of the year. Based on the same, we anticipate a year-on-year rise in our NIMs of approximately 10 basis points on an overall basis. In the first quarter, we witnessed an annualized increase of 4 to 5 basis points in our NIMs, which is a step in the right direction. However, there are numerous moving parts in the macroeconomic environment that could potentially alter the trajectory. So we need to keep an eye on overall macro dynamics and FED rate evolution.
Andrew Brudenell [Ashmore]:	Yes. Okay, great. Thank you. And then the second one, I've asked this question before. Cost of risk is incredibly low despite the fact that coverage is quite low, and then you mentioned that you sort of want to keep envisioning to, I think, I implied inferred from what you're saying to increased coverage, and yet the cost of risk guidance is sort of 35-40 bps. I mean is there a target coverage that you actually want to get to by a certain point or is it a little bit more kind of random than that? Because even with collateral I think you said coverage is only 90%, which I know you're going to tell me that it's different for you guys from every other bank in the world and that real estate is a big portion, and I don't understand, but it is a low coverage figure. So if you could tell me the plan, please?
Riaz Khan [Dukhan Bank]:	On the coverage ratio front, the key factor we consider is collaterals. When taking collaterals into account, our coverage ratio remains close to 90%. Our medium-term objective is to improve this ratio, aiming to reach the 100% mark. Additionally, the actual coverage ratio without the impact of collaterals has slightly improved on a quarter-over-quarter basis. In December, it stood at 69.9%, and we have improved to 71.5% as of the latest reporting period. So you might notice a slight upward movement on that front. On overall, our medium-term goal remains to reach the 100% coverage ratio level, when factoring in the impact of collaterals.
Andrew Brudenell [Ashmore]:	Okay. All right. Thank you. And on that NPL formation, because obviously the NPL ratio went down, but the book sort of grew. So in terms of NPL formation, what's the kind of zoom sort of natural NPL formation going forward?

Riaz Khan [Dukhan Bank]:	Our objective for the NPL ratio is to reach close to the 5.0% mark by the end of the current financial year.
Andrew Brudenell [Ashmore]:	Okay, but based on mid-single-digit growth, So not much change. Okay just one final one, OpEx growth. Could you just, I mean, cost-income ratio is one metric, but just in terms of the growth that you expect in expenses in OpEx over the next couple of years, what's the Group sort of assuming or targeting on that front, please?
Riaz Khan [Dukhan Bank]:	The key strategy for the management team is to maintain a disciplined and modest approach towards spending, avoiding unwanted expenses. This prudent expense management strategy will continue to be our guiding principle. You might witness single-digit movements in OPEX, but within controlled parameters. Potential areas where spending could increase include investments in IT infrastructure, upgrades and certain other necessary expenditures. However, the broader objective is to keep our overall spending closely aligned with inflation benchmarks and historical levels.
Andrew Brudenell [Ashmore]:	Yes. Okay, great. Thank you very much.
Operator:	Thank you. Our next question comes from the line of Lee Beswick from QNB. Please go ahead.
Lee Beswick [QNB]:	Hi. On the NIM, in relation to your earlier comments, if the Fed raises by 25 bps at the end of the year, would that then slightly negatively affect the NIM maybe going into 2025 if you got a December rate rise?
Riaz Khan [Dukhan Bank]:	As I mentioned earlier we are budgeting a benchmark rate reduction of 25 bps, which is expected in the latter part of the year. And with that, we will get a NIM increase by 10 bps.
Lee Beswick [QNB]:	Exactly. So my question is, if the Fed raises rates, not cuts but raises rates in the latter part of the year, will that have a symmetrical impact and make a slightly negative impact on the net interest margin?
Riaz Khan [Dukhan Bank]:	In this case, I think we have seen in last couple of years, while cost of funds might go in tandem with market conditions, we have been able to effectively transfer this increase to the yields on our asset base. The timing of repricing plays a crucial role in this dynamic, but on an overall basis, we expect our net interest margins to remain relatively rangebound without significant movements.
Lee Beswick [QNB]:	Okay. Thank you.
Operator:	Thank you. Our next question comes from the line and Muskan Jain from Lesha Bank. Please go ahead.
Muskan Jain [Lesha Bank]:	So almost all my questions are answered, but I missed on a point that how do bank perceive the loan growth for the year? And secondly, I want to ask this, what ROE we are targeting for the year?

Riaz Khan [Dukhan Bank]:	Our current annualized return on equity stands at approximately 14%. However, taking a conservative approach, we expect our ROE to be closer to the 13% level by the end of this financial year. It's important to note that this ROE projection is subject to various moving parts and factors that could potentially influence the final outcome.
Muskan Jain [Lesha Bank]:	That's it from my side.
Operator:	Thank you. Our next question comes from the line of Salome Skhirtladze from Bloomberg. Please go ahead. Salome Skhirtladze, your line is open. It does appear as we are getting no response. I'll move on to the next question. Our next question comes from the line of Ejayan Al-ahbabi from Al Rayan Investment. Please go ahead.
Shabbir Kagalwala: [Al Rayan Investment]:	Gentlemen, thank you for the presentation. This is Shabbir Kagalwala from Al Rayan Investment. I have a question on the expected tax implementation in Qatar. So what sort of tax rate do you anticipate to affect you and how do you see to mitigate the risk of taxation in terms of improving profitability or maintaining profitability because of that? If you can just give some comments, please.
Riaz Khan [Dukhan Bank]:	Shabbir, I think we are still awaiting exact regulations. So to say something on this front, it will be difficult from my side, like how much the exact tax will get applied. If I see the Pillar 2 regulations it says any MNC who has a revenue of more than €750 million, they will be applicable for a 15% tax. But that is not been adopted or implemented as of now by local authorities.
Shabbir Kagalwala: [Al Rayan Investment]:	All right. Thank you.
Operator:	Thank you. Our next question comes from the line of Salome Skhirtladze from Bloomberg. Please go ahead.
Salome Skhirtladze: [Bloomberg]:	Hello. Hi. Thanks for the call. I have a quick question on the cost of risk. So the 2023 level was the annualized, I mean, that was low significantly versus the historical average? Could you give us a bit more information or guidance about what would be the 2024 level like? Shall we see the level, the bounding to the historical average? And could you comment on the real estate market developments that you have so far in one tier? Thanks.
Riaz Khan [Dukhan Bank]:	The cost of risk should remain with a range of 35-45 bps on a gross basis. In the first quarter, on the basis of gross cost of risk, we reported 24 bps on an annualized basis. But going forward, we expect the year to close somewhere in a range of 35-45 bps of the cost of risk on gross basis. As far as the real estate market is concerned, in the first 90 days of the year, we haven't seen any unusual movements or any significant changes.
Salome Skhirtladze: [Bloomberg]:	Okay. Thank you.

Operator:	So, there are no further questions at this time. I would now hand the call back over to Mr. Roy Thomas.
Roy Thomas [QNBFS]:	If there are no further questions, we would like to thank Dukhan Bank's management for the results update and answering all the queries and look forward to speaking to you all for the second quarter 2024 results conference call. Thank you.
Ahmed Hashem [Dukhan Bank]:	Thank you very much for attending the call.
Operator:	Thank you. This concludes today's conference call. You may now disconnect.