

Date: 31<sup>st</sup> July 2018

## Bank Dhofar & NBO explore possibility of Merger

Pursuant to the news on Muscat Securities Market (MSM) dated 30<sup>th</sup> July 2018, on Bank Dhofar and NBO's Board of Directors' approval to explore possibility of a merger between the two entities.

This decision is subject to approvals from the respective Boards, shareholders, stakeholders and regulators.

If the two banks merge, then the combined entity will be the second largest bank of Oman, with a total asset base of OMR 7.68bn (~USD 20bn), compared to the largest bank, Bank Muscat, which has total assets worth OMR 11.54bn, as at H1'18.

- ✓ Both the banks have four common shareholders. 28% ownership in Bank Dhofar and 29% ownership in National Bank of Oman is held by Civil Services Pension Fund, Ministry of Defense Pension Fund, State General Reserve Fund and Public Authority for Social Insurance.
- ✓ Cost efficiency is expected to improve as synergies establish between the two entities post-merger.
- ✓ NPA Coverage of merged entity will not witness much change
- ✓ Merged entity will have an evenly split deposit base between CASA and term deposits.
- ✓ Merged financing portfolio is expected to be well-diversified as opposed to the current opposing concentrations (BKDB: Retail Portfolio 44% of total as of H1'18; NBO: roughly evenly split between retail and others). Combined portfolio will be roughly evenly distributed between retail and other economic sectors.
- ✓ The merged entity will likely be able to finance larger projects in lieu of a larger capital base and higher leverage potential.
- ✓ Merged entity's capital adequacy ratio (CAR) will be well above the CBO stipulated minimum due to NBO's strong CAR.
- ✓ NBO's efficiency will help boost the merged entity's ROE.
- ✓ Loan to deposit ratio will improve on BKDB's lower LTD.

### Peer Comparison

Name	Mkt Cap (OMR mn)	Last Px (OMR)	P/B'18e, (x)	P/E'18e,(x)	ROE'18e, (%)	Div Yield'18e, %
Bank Muscat	1,072.9	0.364	0.59	5.97	11%	7.0%
Bank Dhofar	395.0	0.162	0.80	8.10	8%	6.3%
NBO	273.2	0.168	0.66	7.30	9%	8.9%
Bank Sohar	243.9	0.123	0.75	7.69	9%	4.1%
Ahli Bank	239.4	0.160	0.85	8.00	11%	6.3%
HSBC Oman	232.0	0.116	0.68	11.60	6%	5.2%
Bank Nizwa	126.0	0.084	0.89	12.00	7%	-
Alizz Islamic Bank	79.0	0.079	0.99	39.50	2%	-

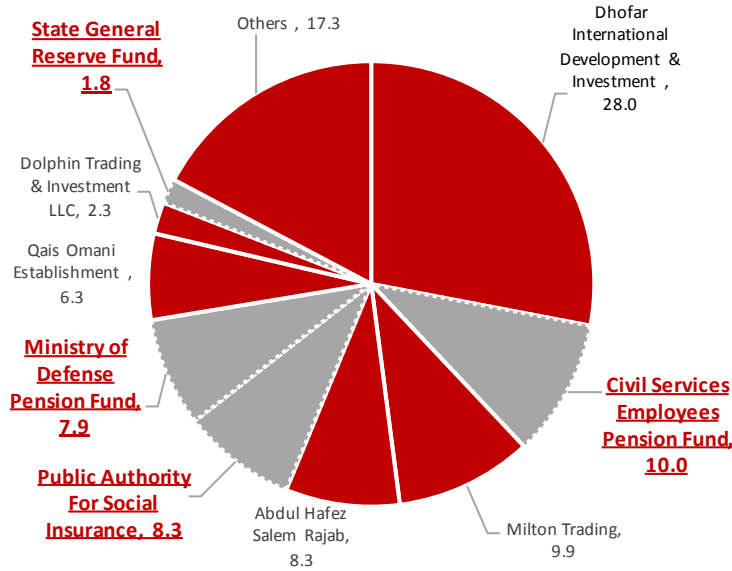
Source: Bloomberg, U Capital Research

OMR (000)	BKDB	NBOB	Merged Entity
<b>Gross Loans</b>	<b>3,250,130</b>	<b>2,805,013</b>	<b>6,055,143</b>
Retail Loans	1,418,820	1,372,983	2,791,803
Corporate Loans	1,603,013		1,603,013
Government	228,297		228,297
Others		1,432,030	1,432,030
Provision	-124,424	-137,415	-261,839
<b>Net Loans</b>	<b>3,125,706</b>	<b>2,667,598</b>	<b>5,793,304</b>
<i>Retail % of Gross Loans</i>	<i>44%</i>	<i>49%</i>	<i>46%</i>
<i>Others % of Gross Loans</i>	<i>56%</i>	<i>51%</i>	<i>54%</i>
Total Assets	4,234,354	3,448,909	7,683,263
<i>CASA % of Total Deposits</i>	<i>41%</i>	<i>61%</i>	<i>49%</i>
CASA	1,264,956	1,508,840	2,773,796
Term	1,526,371	978,485	2,504,856
<b>Customer Deposits</b>	<b>3,119,228</b>	<b>2,487,325</b>	<b>5,606,553</b>
Total Liabilities	3,646,109	2,931,037	6,577,146
NPA	113,567	124,000	237,567
NPA Coverage	110%	111%	110%
NPA % of Gross Loans	3.5%	4.4%	3.9%
Share Capital	243,849	162,595	406,444
Tier 1 Perpetual	115,500	115,500	231,000
Total Equity	588,245	517,872	1,106,117
LTD	136%	139%	137%
Total Income	65,358	63,558	128,916
<i>Operating expenses</i>	<i>-33,152</i>	<i>-30,210</i>	<i>-63,362</i>
Operating Profit	32,206	33,348	65,554
<i>Provisions</i>	<i>-2,384</i>	<i>-3,576</i>	<i>-5,960</i>
PBT	29,822	29,772	59,594
<b>Net Profit</b>	<b>24,949</b>	<b>25,419</b>	<b>50,368</b>
ROE	8.5%	9.8%	9.1%
Cost to Income	51%	48%	49%
	<b>H1'18</b>	<b>FY'17</b>	<b>Estimate</b>
RWAs	4,218,612	3,206,887	7,425,499
Tier 1 Capital	551,061	519,334	1,070,395
<b>Total Capital</b>	<b>594,227</b>	<b>556,068</b>	<b>1,150,295</b>
CAR	14.09%	17.34%	15.49%
Tier 1 CAR	13.06%	16.19%	14.42%

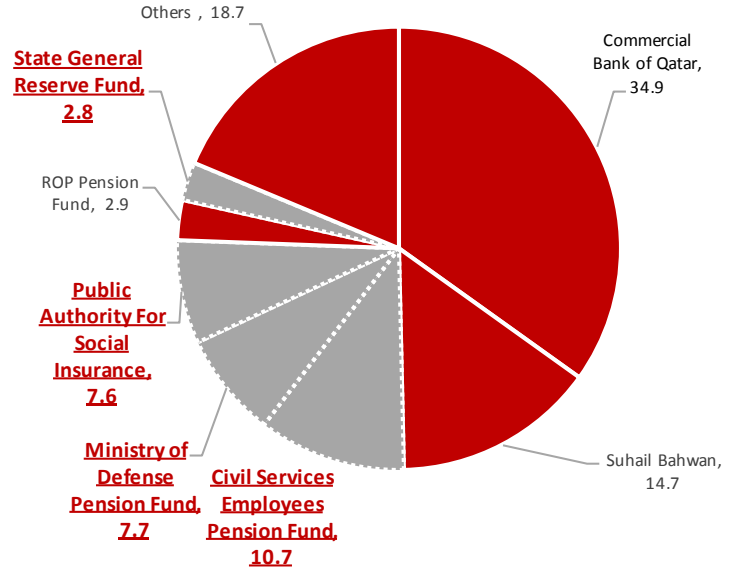
Source: Company Financials & U Capital Research  
Data as of 1H18 unless otherwise stated

## Shareholding Structure

### Bank Dhofar Shareholding - %



### National Bank of Oman Shareholding - %



Source: MCD