

## Omani Banks' Q1'18 Result Review

Date: April 18, 2018

- Net profit up 10.5%YoY and 8.5%QoQ on lower provision charge
- Operating Income up 6.2%YoY (down 6.7%QoQ) while operating expenses were up 7.1%YoY and down 1.6%QoQ
- Net loans reached OMR 20.81bn (+7.2%YoY and +2.1%QoQ)
- Customer deposits touched OMR 19.74bn (+4.2%YoY and +4.0%QoQ)
- Loan to deposit ratio of the sector reached 105%, down from 107% but still above 103% a year ago.

### Combined operating profit showed lackluster performance

All eight listed banks of Oman have posted a combined operating income of OMR 240mn (+6.2%YoY; -6.7%QoQ) in Q1'18. However, operating expenses were slightly higher than expected resulting in operating profit at OMR 125mn (+5.4%YoY; -11%QoQ) being 5% below our estimate.

### Provision Expense almost halved on QoQ basis and declined by 40%YoY

The combined provision expense of banks, (excluding Ahli Bank which has not disclosed its provision charge for the quarter) declined by 40%YoY and 49%QoQ.

### Net profit beat our expectation by 7%, combined profit up by +10.5%YoY and +8.5%QoQ

In spite of operating profit being slightly below expectation, total net profit surprised positively on exceptionally lower provision charges reported for Q1'18. The combined net profit of listed banks reached OMR 96.5mn, increasing by 10.5%YoY and 8.5%QoQ. Within the 8 banks, Bank Muscat (BKMB) and Bank Nizwa (BKNZ) posted QoQ declines and National Bank of Oman (NBOB) was the only bank which posted a YoY decline in its net profit for Q1'18.

OMR mn	Q1-17	Q4-17	Q1'18	YoY	QoQ	Q1-17	Q4-17	Q1'18	YoY	QoQ
	Operating Profit					Net Profit				
Bank Muscat	61.9	72.7	59.4	-4.0%	-18.3%	44.2	46.6	44.8	1.3%	-3.8%
National Bank of Oman	18.9	14.6	16.9	-10.5%	16.0%	13.8	9.5	12.6	-8.5%	32.6%
Bank Dhofar	17.3	17.9	16.6	-4.4%	-7.4%	12.5	12.8	13.6	8.6%	5.9%
Bank Sohar	6.6	15.0	11.9	80.0%	-20.2%	6.0	6.0	8.9	48.6%	47.5%
Ahli Bank	7.1	9.8	9.2	30.2%	-6.0%	5.2	6.9	7.1	36.4%	2.8%
HSBC Oman	5.7	8.0	8.1	43.2%	1.8%	5.7	5.5	8.1	41.5%	48.4%
Bank Nizwa	1.3	1.8	1.9	42.7%	3.7%	0.6	1.5	1.0	75.8%	-29.4%
Alizz Islamic Bank	-0.6	0.3	0.6		107.5%	-0.7	0.2	0.3		101.2%
<b>Total</b>	<b>118.2</b>	<b>139.9</b>	<b>124.6</b>	<b>5.4%</b>	<b>-11.0%</b>	<b>87.3</b>	<b>88.9</b>	<b>96.5</b>	<b>10.5%</b>	<b>8.5%</b>

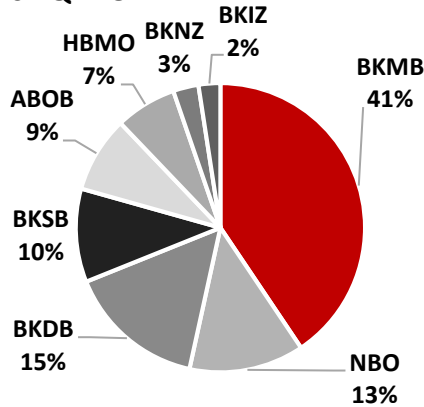
Source: Company Financials, U Capital Research

Amongst the banks, best operating performance was shown by HSBC Oman (HBMO). Its operating profit increased by 43.2%YoY and 1.8%QoQ and its net profit increased by 41.5%YoY and 48.4%QoQ. The next best performer was Bank Nizwa, which managed to increase its operating profit by 42.7%YoY and 3.7%QoQ.

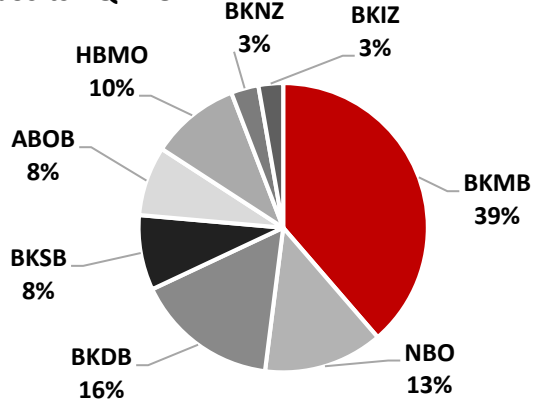
**Combined net loans reached OMR 20.81bn & deposits reached OMR 19.74bn**

The combined net loans (including Islamic Finance Assets) of all 8 banks reached OMR 20.81bn, +7.2%YoY and +2.1%QoQ. Within the banks, Alizz Islamic Bank and Ahli Bank increased their net loans the most at 10.1%QoQ and 8.2%QoQ during Q1'18. The combined customer deposits reached OMR 19.74bn, up by 4.2%YoY and 4.0%QoQ. Both loan and deposit growth were in line with our estimates. Loan to deposit ratio of the sector reached 105%, down from 107% but still above 103% a year ago.

**Net Loans - Q1'18**



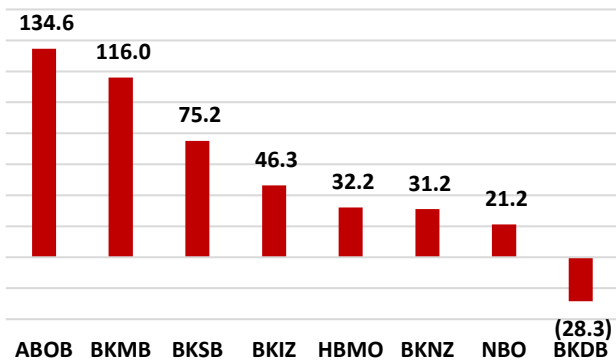
**Deposits - Q1'18**



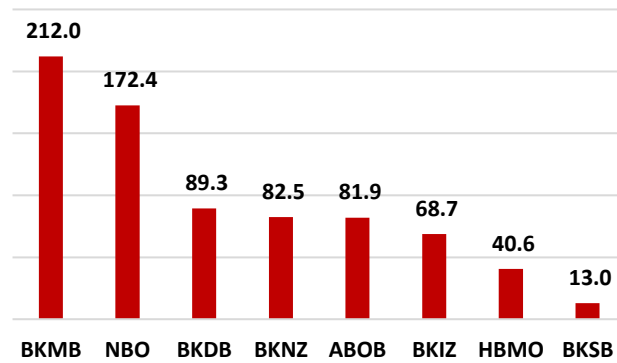
Source: Company Financials, U Capital Research

From within the 8 banks, Bank Dhofar witnessed loan book contraction during the first quarter of the year. All banks successfully increased deposits, led by Bank Muscat, NBO and Bank Dhofar.

**Credit disbursal during Q1'18, OMR mn**



**Deposits Raised during Q1'18, OMR mn**



Source: Company Financials, U Capital Research

## Appendix

### Omani Banks Coverage Universe

Name	Mkt Cap (OMR mn)	Last Px (OMR)	Target Price (OMR)	Upside / (Downside) (%)	P/B'18e, (x)	P/E'18e, (x)	ROE'18e, (%)	Div Yield'18e, %	Rating	Px Target & Rating Effective Date
BKMB	1,120.0	0.380	0.495	30%	0.62	6.23	11%	6.7%	BUY	24-Dec-17
BKDB	460.9	0.189	0.222	17%	0.94	9.45	8%	5.4%	Hold	24-Dec-17
NBOB	310.6	0.191	0.214	12%	0.75	8.30	9%	7.9%	Hold	24-Dec-17
BKSB	290.5	0.148	0.173	17%	0.90	9.25	9%	3.4%	Accumulate	24-Dec-17
ABOB	231.9	0.155	0.179	15%	0.82	7.75	11%	6.5%	Hold	24-Dec-17
HBMO	210.0	0.105	0.140	33%	0.62	10.50	6%	5.7%	Accumulate	24-Dec-17
BKNZ	130.5	0.087	0.114	31%	0.93	12.43	7%	-	BUY	21-Mar-18
BKIZ	81.0	0.081	0.092	14%	1.01	40.50	2%	-	BUY	21-Mar-18

Source: Bloomberg, U Capital Research

### Peer Group Comparison

Name	Mkt Cap (OMR mn)	Last Px (OMR)	Px Change (1M), %	P/B'18e, (x)	P/E'18e, (x)	ROE'18e, %	Div Yield'18e, %
BANK ALBILAD	1,452.4	2.421	4%	-	13.4	14%	3.1%
ABU DHABI ISLAMIC BANK	1,278.5	0.404	-5%	1.08	10.8	18%	3.5%
COMMERCIAL BANK OF DUBAI	1,116.4	0.398	-5%	0.98	8.6	14%	5.3%
COMMERCIAL BANK PQSC	1,428.2	3.529	22%	0.81	10.8	7%	4.2%
BOUBYAN BANK K.S.C	1,440.6	0.604	2%	2.52	21.7	-	2.0%
SAUDI INVESTMENT BANK/THE	1,238.1	1.651	4%	-	-	10%	-
UNION NATIONAL BANK/ABU DHAB	1,096.0	0.398	-1%	0.58	6.2	10%	6.1%
BANKMUSCAT SAOG	1,120.0	0.380	-3%	0.62	6.2	11%	6.7%
BLOM BANK	935.4	4.351	-6%	0.93	4.8	-	9.9%
GULF BANK	982.6	0.322	-4%	1.13	12.4	-	4.0%
DOHA BANK QPSC	857.3	2.765	-3%	0.81	8.6	9%	8.0%
BANK AUDI SAL	885.0	2.214	-6%	0.72	5.1	-	7.1%
COMMERCIAL BANK OF KUWAIT	993.8	0.604	4%	1.10	12.2	-	3.8%
BANK DHOFAR SAOG	460.9	0.189	-7%	0.94	9.5	8%	5.4%
NATIONAL BANK OF OMAN SAOG	310.6	0.191	-4%	0.75	8.3	9%	7.9%
BANK SOHAR	290.5	0.148	5%	0.90	9.3	9%	3.4%
HSBC BANK OMAN	210.0	0.105	-2%	0.62	10.5	6%	5.7%
AHLI BANK	231.9	0.155	-2%	0.82	7.8	11%	6.5%
Bank Nizwa	132.0	0.088	1%	0.94	12.6	7%	-
Alizz Islamic Bank	81.0	0.081	7%	1.01	40.5	2%	-
<b>Average</b>				<b>0.96</b>	<b>11.53</b>	<b>0.10</b>	<b>5.4%</b>
<b>Median</b>				<b>0.91</b>	<b>9.45</b>	<b>0.09</b>	<b>5.4%</b>

Source: Bloomberg, U Capital Research

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