

FY22 Result Update

BUY: 12M TP @ 0.338

Valuation Summary (TTM)

Price (RO)	0.288
PER TTM (x)	13.3
P/Book (x)	1.3
Dividend Yield (%)	5.2
Free Float (%)	57%
Shares O/S (mn)	7,506
YTD Return (%)	5%
Beta	1.1

(mn)	OMR	USD
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Market Cap	2,162	5,615
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Total assets	12,776	33,184
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Price performance (%)	1M	3M	12M
Bank Muscat SAOG	3%	-2%	15%
MSX 30 Index	-1%	8%	16%
Financial index	-2%	8%	17%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	413	739	654
Avg Daily Volume (,000)	2,302	2,625	2,305

52 week	High	Low	CTL*
Price (RO)	0.320	0.146	97.3

* CTL is % change in CMP to 52wk low

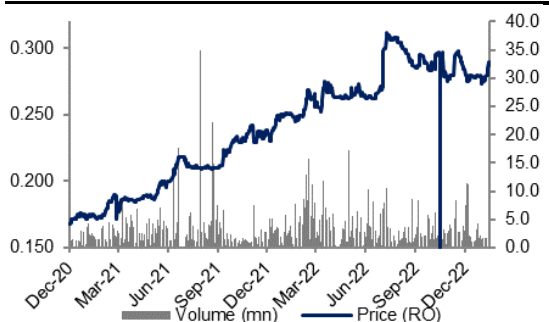
Major shareholders

Royal Court Affairs	23.6%
Dubai Financial Group	11.8%
Civil Pension Fund	7.9%
Others	56.7%

Other details

Exchange	MSX
Sector	Banks
Index weight (%)	10.4%

Key ratios	2020	2021	2022
EPS (RO)	0.021	0.024	0.026
BVPS (RO)	0.255	0.269	0.230
DPS (RO)	0.011	0.014	0.015
Payout ratio (%)	52%	59%	58%



Bank Muscat SAOG

BKMB reported FY22 net income of RO 200.75 mn vs our estimate of 207.75 mn. Net income for the year was +5.9% y/y and -3.4% our estimates. FY22 operating income of RO 500.2 mn also was in line with our estimates of RO 502.8 mn. The 2022 total operating income was up by 5.7%, on the back of loan book growth of 2.4%, vs our estimate of 3.6% which stands at RO 9,414mn. The Bank achieved stable NIM, controlled its operating expenses, and has an enhanced provision coverage ratio. It reported CAR of 21.2%, showing strong capital buffer supporting future growth outlook. We believe that the bank is poised to capitalize on the increased infrastructure spends, deep relationship with GRES, besides increased disposable income of its retail customers, to achieve its growth. At current levels, BKMB shares are trading at FY23E P/B of 1.2x, PE of 10.8x, and offers dividend yield of 5.2%. We maintain our BUY recommendation on the stock with price target of RO 0.338.

BKMB reported FY22 interest income of RO 468.0mn as against FY21 interest income of RO 444.7mn, a growth of 5.3% YoY, which is in line with our estimates of RO 467.4mn for the year. The interest income growth was contributed by 2.4% growth in loan book, and marginal improvement in asset yields. BKMB reported FY22 interest expense of RO 162.5mn as compared to RO 143.0mn in FY21, and our estimates of RO 160.9mn. The deposit book de-grew by 1.5% in FY22 vis-à-vis a growth of 4.7% in FY21.

Net interest income in FY22 stood at RO 305.5mn in FY22, +5.7% YoY as against RO 301.6mn, interest expenses grew at a faster pace of +13.6% YoY as compared to Interest income of +5.3% YoY. Operating income was higher on account of increase in fee income +10.1% YoY, increase in income from Islamic financing business +16.1% YoY. Operating expenses were RO 207.3mn vs our estimates of RO 205.6mn. The cost to income ratio for FY22 was at 41.2% as against 40.3% for FY21, in line with our estimates of 41.1%. We see cost to income moderating by 70bps going forward on account of increase in productivity driven by investment in technology.

NPLs for FY22 stood at 3.72%, largely unchanged from FY21 at 3.69%. Provisions however grew by +18.9% YoY, on account of higher provision coverage in Stage 3, which at 83.1%. Contrary to our expectations of peak cost of credit in 2021, BKMB's cost of credit in 2022 largely remained unchanged at 0.63%. Going forward, we expect the cost of credit to go down on account of higher coverage in stage 3 exposure. Net income stood at RO 200.8mn in FY22 as against net income of RO 189.6mn in FY21, a growth of 5.9% YoY, missing estimates of 207.8mn.

BKMB declared cash dividend of 15Bz/Share, resulting in dividend yield of 5.2%. We remain positive on the name due to its market leadership position in size, ROE generation capability and moderate valuations. At current levels, the stock trades at P/E of 10.8x and P/B of 1.2x. We maintain our BUY rating with target price of RO 0.338 recommendation of BUY with a Target price of RO 0.338, offering potential returns of 17.4% from current levels.



Islamic Loan Book grew at a faster rate of 6.4%: The Gross/Net Loan book as at FY22 is at RO 9,974.5 / RO 9,416.8mn, a growth of 3.3% / 2.5% over the previous year. The conventional banking net loan book stood at RO 7,968mn in FY22 as compared to RO 7,830mn in FY21, a growth of 1.8%. The share of loan book from conventional banking was at 85%. In terms of products, plain vanilla loans were at 47%, followed by personal and housing loan at around 42%. The Islamic banking net loan book grew at a faster pace at 6.4% and stood at RO 1,449mn in FY22 as compared to RO 1,362mn in FY21. In terms of products under Islamic finance business corporate finance constituted around 62% followed by Housing finance at 34%.

Net Loan Book (RO mn)	2019	2020	2021	Mar-22	Jun-22	Sep-22	Dec-22
Conventional Loan Book	7,712	7,707	7,830	7,635	7,576	7,779	7,967
% Share	87%	86%	85%	85%	84%	84%	85%
Islamic Loan Book	1,166	1,230	1,361	1,374	1,426	1,451	1,449
% Share	13%	14%	15%	15%	16%	16%	15%
Loan Growth %	-0.68%	0.67%	2.84%	-2.89%	-2.55%	0.77%	2.45%
NPL %	3.25%	3.62%	3.69%	3.71%	3.79%	3.70%	3.72%

The composition of the loan book in terms of exposure to the end customers has changed little over the years. The mix more or less remain same in favor of corporate borrowers, followed by retail borrowers.

Gross Loan Book (RO mn)	2019	%	2020	%	2021	%	2022	%
Corporate	4,835	52.6%	4,971	53.3%	4,971	51.5%	5,334	53.5%
Sovereign	42	0.5%	115	1.2%	147	1.5%	46	0.5%
Financial Institution	456	5.0%	411	4.4%	484	5.0%	415	4.2%
Retail	3,861	42.0%	3,837	41.1%	4,058	42.0%	4,179	41.9%
Total	9,193	100.0%	9,333	100.0%	9,660	100.0%	9,975	100.0%

Within the corporate exposure, the share of exposure to transport sector was highest at 8.6%, followed by Manufacturing sector, which was at 8.2%, the mix in corporate loan book saw a significant change as compared to last year.

Customer Segment/Sector	2021	%	2022	%
Manufacturing	996	10.3%	818	8.2%
Services	621	6.4%	778	7.8%
Transport	899	9.3%	861	8.6%
Utilities	771	8.0%	786	7.9%
Others	2,314	24.0%	2,552	25.6%
Personal/Housing	4,058	42.0%	4,179	41.9%
Total	9,660	100.0%	9,974	100.0%

Stage 3 Exposure up by 3.7%: The stage wise exposure since FY19 has seen changes in favor of stage 1 from 75.9% in FY2019 to 77.5% in FY22., this augurs well for the Bank as the future provisioning requirements will reduce. Exposure in Stage 2 bucket has reduced from 21.9% in FY19 to 18.7% in FY22.

Stage wise exposure	2019	2020	2021	Mar-22	Jun-22	Sep-22	Dec-22
Stage 1	75.9%	78.9%	77.9%	78.2%	77.6%	76.2%	77.5%
Stage 2	21.9%	18.5%	19.7%	19.4%	19.9%	20.1%	18.7%
Stage 3	2.2%	2.6%	2.4%	2.4%	2.5%	3.7%	3.7%

The difference between the Gross and Net loans book represented by impairment provisions grew by 18.9% to RO 557.6mn in FY22 as compared to RO 468.8mn in FY21. Stage 3 provisions were at

covered to the extent of 83.1% of the stage 3 loan book in FY22 as compared to 80.2% in FY21. The higher coverage negates the need to provide for more provision going forward.

Islamic Deposit Book continue to grow faster than conventional: The total customer deposits stood at RO 8,646.0mn as on FY22 as against RO 8,774.6mn in FY21, a drop of 1.5%. The share from conventional banking business stood at 85.7% in FY22 as compared to 86.7% in FY21. Given the wide network of branches and long-standing relationship with Government and Government related entities, the Bank has been able to source low-cost funds over the years

Deposits (in RO mn)	2021	%	2022	%
Conventional	7,604	86.7%	7,410	85.7%
Islamic	1,171	13.3%	1,237	14.3%
Total	8,775	100.0%	8,647	100.0%

CASA Ratio inching up over the years: The conventional Banking business has seen a relatively stable mix in deposits, with contribution from term Deposits at 33.1% in FY22. Within CASA the share of savings account has gone up from 36.8% in FY19 to 40.1% in FY22. However, the CASA as a percentage of total deposits has gone up by 100 bps over a four-year period from 65.9% to 66.9%. This helps the Bank to keep the cost of funds low.

CASA Break up (RO mn)	2019	%	2020	%	2021	%	2022	%
Term Deposits	2,393	34.1%	2,326	31.3%	2,569	33.8%	2,450	33.1%
Savings Account	2,580	36.8%	3,014	40.6%	3,019	39.7%	2,971	40.1%
Current A/c + Others	2,038	29.1%	2,090	28.1%	2,016	26.5%	1,989	26.8%
Total	7,011	100.0%	7,429	100.0%	7,605	100.0%	7,410	100.0%
CASA	65.9%		68.7%		66.2%		66.9%	

As on FY22, the deposits from Ministries and Other Government organizations represent around 30.4% of the total customer deposits as compared to 28.1% in FY21. This bulk exposure to the Ministries is a concentration risk, however given that the majority shares of the Bank are with Government entities, this probability of this risk playing out is remote.

Return Metrics show improvement: The Bank has improved upon its return metrics, with the Adjusted Return on Equity improving to 9.9% in FY22 from 9.4% in FY21, the Return on Assets have improved by 100bps from 1.5% in FY21 to 1.6% in FY22. The Return on Risk Weighed Assets have improved by 100bps from 1.9% in FY21 to 2.0% in FY22. The share capital increased from RO 357.4mn in FY21 to RO 750.6mn on account of capitalization of reserves. The Tier I capital too improved from RO 130mn to RO 505mn due to the capital optimization process undertaken in Nov 2022.

Q4 results update: Q422, saw a good overall growth across all the parameters both on QoQ and YoY basis. The operating income grew by 5.3% on QoQ basis mainly driven by increase in Income from Islamic financing and increase in other operating income. Operating profit grew by 12.7% QoQ due to combined effect of increase in operating income and decrease in operating expenses.

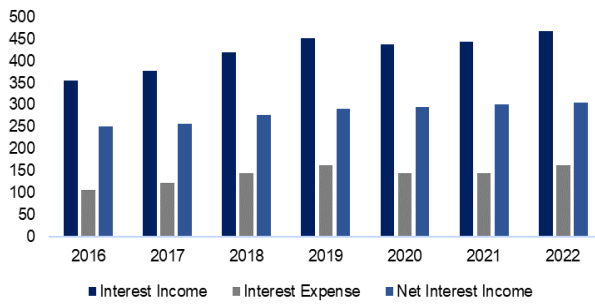
Provisions expenses grew by 39.2%, resulting in PBT increase of 6.6%. The loan book grew by 2.8% QoQ and the deposit book was flat at RO 8,647.0mn. Equity attributable to shareholders dropped by 12.6% due to capital optimization drive, through which Tier 1 capital bonds were issued as bonus. Including the Tier 1 Capital bond of RO 505.3mn (Q322 at RO 130.0mn), the total equity grew by 2.75% QoQ.



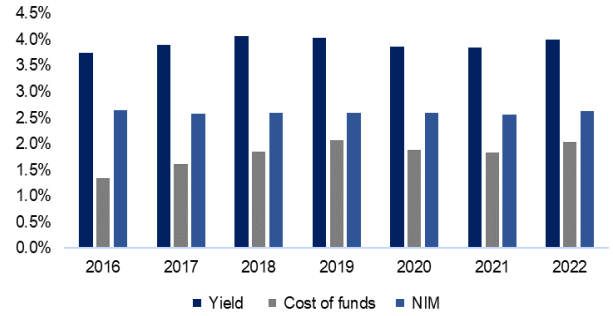
in RO mn	4Q22	3Q22	QoQ (%)	4Q21	YoY (%)
Operating Income	130.9	124.3	5.3%	117.2	11.7%
Operating Expenses	51.1	53.5	-4.4%	47.1	8.5%
Operating Profit	79.8	70.8	12.7%	70.1	13.8%
Provision Expenses	18.4	13.2	39.2%	13.4	36.5%
Profit before tax	61.4	57.6	6.6%	56.6	8.4%
Taxation	8.9	8.6	4.3%	7.1	25.7%
Profit after tax	52.5	49.0	7.0%	49.5	6.0%
Loan Book	9,414.0	9,158.2	2.8%	9,191.4	2.4%
Deposits	8,647.0	8,651.1	0.0%	8,774.6	-1.5%
Total Equity	1,724.0	1,971.8	-12.6%	2,020.8	-14.7%
Cost to Income	39.06%	43.04%		40.21%	
Cost of credit	0.78%	0.58%		0.59%	
Loan to Deposit	108.87%	105.86%		104.75%	
Reported ROE	12.17%	9.95%		9.80%	

Valuations: The operational result have been in line with our expectations, we maintain our earlier recommendation of BUY with a Target Price of RO 0.338 (adjusted for bonus from our earlier pre-bonus target price of 0.677). The Bank is currently trading at FY23E P/E of 10.8, 1.2 P/B and Dividend Yield of 5.2%.

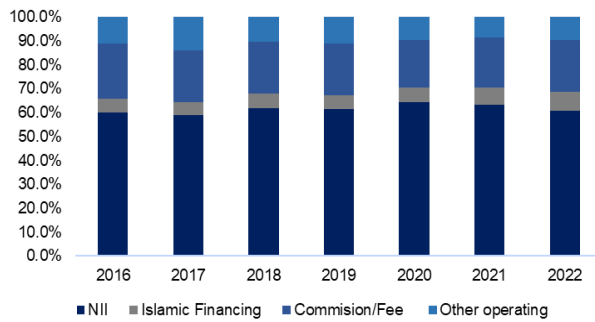
7Y CAGR growth of Interest income at 4%, Interest expenses at 6% and NII at 2.9%



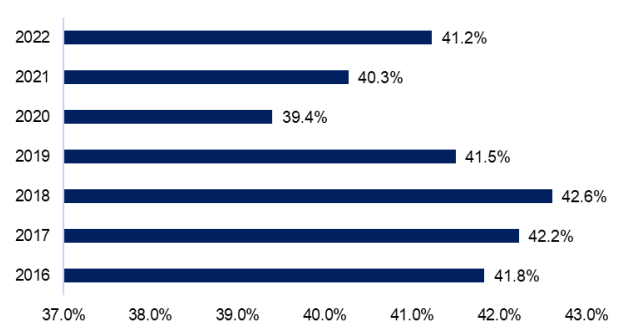
NIMs have remained steady over a 7 year period



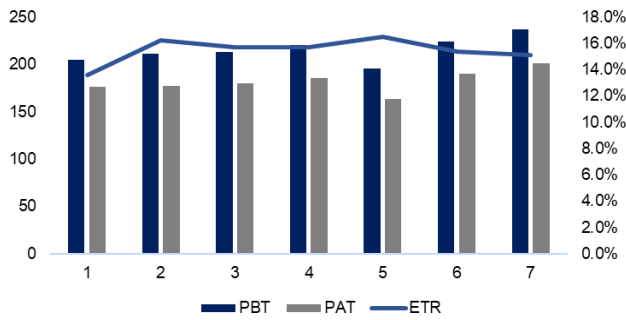
Operating Income mix has not seen major change



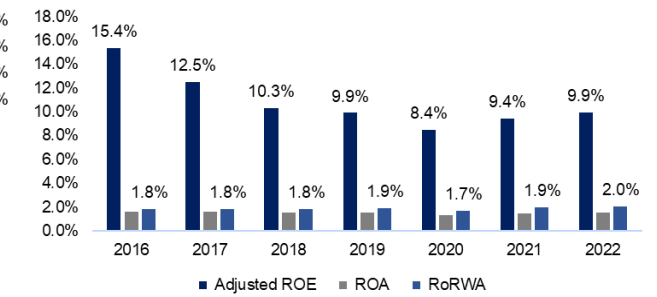
Cost to income has been steady except for 2020 / 2021



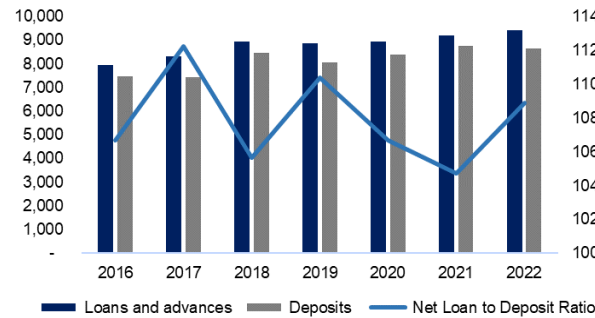
PBT and PAT moved in line with Effective tax rates



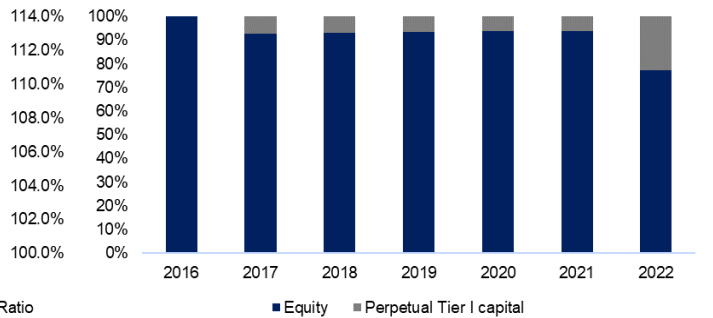
RoE has declined, ROA has been steady and RoRWA improved marginally



Net Loans and Deposits have similar growth



No equity dilution, increase in Perpetual Capital





Income Statement (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E
Interest Income	4,52,017	4,37,772	4,44,705	4,68,076	4,80,219	5,22,865	5,75,051
Interest Expense	-1,61,137	-1,43,536	-1,43,020	-1,62,524	-1,66,639	-1,87,230	-2,03,929
Net Interest Income	2,90,880	2,94,236	3,01,685	3,05,552	3,13,580	3,35,635	3,71,122
Non Interest Income	1,81,291	1,62,303	1,73,795	1,97,258	2,06,896	2,14,523	2,28,351
Net Operating Income	4,72,171	4,56,539	4,75,480	5,02,810	5,20,476	5,50,158	5,99,474
Operating Expenses	-1,95,931	-1,79,852	-1,91,459	-2,07,296	-2,10,793	-2,22,814	-2,45,784
Provision expense	-56,127	-81,038	-60,050	-59,014	-53,613	-57,902	-62,534
Profit Before Taxation	2,20,113	1,95,649	2,23,971	2,36,500	2,56,070	2,69,442	2,91,155
Tax expense	-34,563	-32,291	-34,346	-35,747	-38,411	-40,416	-43,673
Profit for the year	1,85,550	1,63,358	1,89,625	2,00,753	2,17,660	2,29,025	2,47,482
Interest on Perpetual Tier I capital	-7,150	-7,168	-7,150	-7,150	-23,101	-23,101	-23,101
Profit attributable to shareholders	1,78,400	1,56,190	1,82,475	1,93,603	1,94,558	2,05,924	2,24,381
Balance sheet (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E
Cash and balances with CBO	7,81,755	6,56,891	10,47,224	8,83,060	8,59,831	7,31,931	7,38,453
Due from banks	8,69,804	5,73,886	7,65,151	6,41,480	6,79,969	7,20,767	7,64,013
Loans, advances & financing	88,78,041	89,37,373	91,91,417	94,16,894	1,01,75,795	1,10,01,439	1,18,81,554
Investment securities	14,44,832	18,35,461	18,11,496	15,71,984	15,24,824	14,02,839	12,90,611
Fixed Assets	79,482	71,389	74,187	68,304	76,111	84,364	93,356
Other Assets	2,36,694	3,78,765	1,83,063	1,94,260	2,12,807	2,33,208	2,55,649
Total Assets	1,22,90,608	1,24,53,765	1,30,72,538	1,27,75,982	1,35,29,337	1,41,74,547	1,50,23,636
Due to banks	11,73,479	9,38,007	12,18,465	10,04,106	10,54,311	11,07,027	11,62,378
Customers' deposits	80,43,666	83,77,274	87,74,606	86,46,821	92,52,098	97,41,172	1,04,23,054
Borrowings	5,01,795	4,89,887	4,80,979	4,36,252	4,36,252	4,36,252	4,36,252
Other liabilities	5,69,032	6,04,949	4,47,644	4,56,679	4,76,728	4,97,779	5,19,882
Total Liabilities	1,02,87,972	1,04,10,117	1,09,21,694	1,05,43,858	1,12,19,389	1,17,82,230	1,25,41,567
Paid-up Capital	8,41,013	8,56,487	8,88,983	9,06,855	9,06,855	9,06,855	9,06,855
Other Reserves	5,05,136	5,19,606	5,37,014	5,52,253	5,52,253	5,52,253	5,52,253
Retained earnings	5,26,487	5,37,555	5,94,847	2,67,696	3,45,519	4,27,889	5,17,641
Shareholder's Equity	18,72,636	19,13,648	20,20,844	17,26,804	18,04,627	18,86,997	19,76,749
Tier 1 Perpetual subordinated bonds	1,30,000	1,30,000	1,30,000	5,05,320	5,05,320	5,05,320	5,05,320
Total Equity	20,02,636	20,43,648	21,50,844	22,32,124	23,09,947	23,92,317	24,82,069
Total Liabilities and Equity	1,22,90,608	1,24,53,765	1,30,72,538	1,27,75,982	1,35,29,337	1,41,74,547	1,50,23,636
Cash Flow Statement (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	-1,62,085	5,41,975	3,51,893	-2,75,083	95,472	-75,722	81,998
Cash flow from investing activities	-2,04,771	-1,93,507	-57,950	2,21,914	21,136	94,478	82,253
Cash flow from financing activities	-77,802	-1,28,575	-1,01,478	-4,89,704	-1,39,836	-1,46,656	-1,57,729
Net change in cash	-4,44,658	2,19,893	1,92,465	-5,42,873	-23,229	-1,27,900	6,522
Cash at the end of period	9,82,185	12,02,078	13,94,543	8,51,670	8,28,441	7,00,541	7,07,063



Key Ratios	2019	2020	2021	2022	2023E	2024E	2025E
Yield on average earning assets	4.0%	3.9%	3.8%	4.0%	4.0%	4.1%	4.3%
Cost of funds	2.1%	1.9%	1.8%	2.0%	2.1%	2.2%	2.3%
NIM	2.6%	2.6%	2.6%	2.6%	2.5%	2.6%	2.7%
Cost to income ratio	41.5%	39.4%	40.3%	41.2%	40.5%	40.5%	41.0%
Gross NPL ratio	3.3%	3.6%	3.7%	3.7%	3.9%	3.9%	3.9%
Provision as a % of gross loans	3.4%	4.2%	4.9%	5.6%	5.1%	5.0%	5.0%
NPL Coverage	105%	117%	132%	150%	131%	128%	128%
Capital Adequacy	19.7%	20.8%	21.3%	21.2%	21.9%	21.4%	21.0%
Interest income/operating income	95.7%	95.9%	93.5%	93.1%	92.3%	95.0%	95.9%
Dividend yield	12.8%	9.2%	11.0%	11.0%	5.7%	6.0%	6.6%
Net Equity to Gross Loans	20.4%	20.5%	20.9%	17.3%	16.8%	16.3%	15.8%
Net Equity to Total Assets	15.2%	15.4%	15.5%	13.5%	13.3%	13.3%	13.2%
Gross Loan to Deposit Ratio	114.3%	111.4%	110.1%	115.4%	115.9%	118.9%	120.0%
Net Loan to Deposit Ratio	110.4%	106.7%	104.8%	108.9%	110.0%	112.9%	114.0%
ROE	10.3%	8.8%	9.8%	10.3%	12.3%	12.4%	12.8%
Adjusted ROE	9.9%	8.4%	9.4%	9.9%	11.0%	11.2%	11.6%
ROA	1.5%	1.3%	1.5%	1.6%	1.7%	1.7%	1.7%
RoRWA	1.9%	1.7%	1.9%	2.0%	2.1%	2.0%	2.1%
BVPS (RO)	0.605	0.589	0.565	0.230	0.240	0.251	0.263
EPS (RO)	0.055	0.048	0.024	0.026	0.026	0.027	0.030
DPS (RO)	0.035	0.025	0.030	0.030	0.016	0.016	0.018
Price	0.434	0.394	0.484	0.273	0.273	0.273	0.273
P/E (x)	5.0	5.7	11.2	10.6	10.5	10.0	9.1
P/BV (x)	0.5	0.5	0.5	1.2	1.1	1.1	1.0
Dividend Yield (%)	12.8%	9.2%	11.0%	11.0%	5.7%	6.0%	6.6%



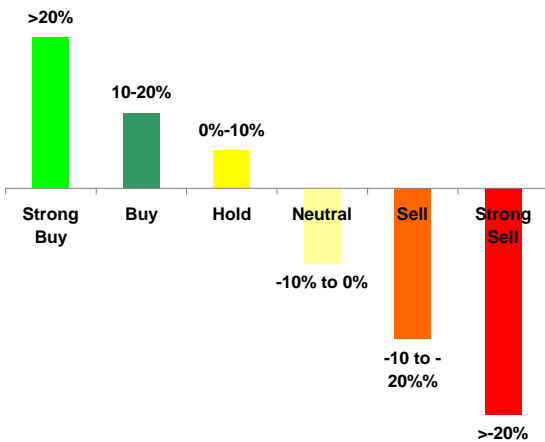
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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