

Banking

Bank Dhofar

First Cut – Bank Dhofar

Operating Income growth flat YoY: Bank Dhofar reported its 1Q24 total operating income at RO 38.2mn, a 0.6 YoY and 8.2% QoQ growth. The operating income was largely driven by increase in fee and other income which increased by 12.8% YoY. The net interest income and Islamic financing income declined by 2.8% YoY as the net interest margins declined due to high cost of deposits and consequently higher interest outflow.

Operating expenses inch up: The bank reported an 1Q24 operating expense of RO 18.5 mn vs. 17.1mn in 1Q23, an increase of 7.9% YoY, however on a sequential basis this was flat at 0.2% QoQ. The cost to income ratio in 1Q24 increased to 48.3% as compared to 45.0% in 1Q23, resulting in decline in operating profit on a YoY basis by 5.3%. The increase in operating expenses can be attributed to the increase in spendings due to branch expansion.

Provision expenses reports decline in 1Q24: The provision expenses for 1Q24 stood at RO 7.3mn, a significant decline both on sequential and yearly basis by 24.5% and 19.7% respectively. The decline in impairment charge helped improve cost of risk 26bps YoY.

Net Income below our estimates: The bank reported a 1Q24 profit after tax of RO 10.8mn, a 7.8% YoY, despite decline in operating profit, as this was offset by improvement in provisions. The reported profits are however lower than our estimates of RO 11.6mn.

Loan to deposits ratio fall: The loan book for 1Q24 stood at RO 3.7bn, a 1.6% decline QoQ and 7% increase YoY, while the deposits grew at a faster pace of 6.1% QoQ and 19.2% YoY, resulting in the loan to deposit ratio declining from 118% in 1Q23 to 106% in 1Q24. The higher growth in deposits was on account of increase in branch expansion giving headroom for loan growth.

The bank is currently trading at 2024e PB of 0.8x and 2024e PE of 11.6x. We retain our NEUTRAL rating on the stock with TP of RO 0.152/Share

in RO mn	1Q24	4Q23	QoQ (%)	1Q23	YoY (%)	2023A	2022A	YoY	2024E	2023A
Operating Income	38.2	35.3	8.2%	38.0	0.6%	144.1	143.2	0.7%	154.7	144.1
Operating Expenses	18.5	18.4	0.2%	17.1	7.9%	68.6	69.7	-1.5%	71.3	68.6
Operating Profit	19.8	16.9	17.0%	20.9	-5.3%	75.4	73.5	2.7%	83.4	75.4
Provision Expenses	7.3	9.7	-24.5%	9.1	-19.7%	31.6	33.3	-5.0%	34.8	31.6
Profit before tax	12.5	7.2	72.1%	11.8	5.8%	43.8	40.2	9.0%	48.6	43.8
Taxation	1.7	-0.5	-465.6%	1.8	-5.5%	5.0	6.0	-16.8%	7.3	5.0
Profit after tax*	10.8	7.7	40.2%	10.0	7.8%	38.8	34.2	13.6%	41.3	38.8
Loan Book	3,707	3,766	-1.6%	3,464	7.0%	3,766	3,430	9.8%	3,867	3,766
Deposits	3,499	3,299	6.1%	2,937	19.2%	3,299	2,892	14.1%	3,354	3,299
Total Equity*	563	577	-2.6%	557	1.1%	577	562	2.8%	590	577
Cost to Income	48.31%	52.18%		45.08%		47.64%	48.68%		46.11%	47.64%
Cost of credit	0.79%	1.03%		1.05%		0.84%	0.97%		0.90%	0.84%
Loan to Deposit	105.94%	114.14%		117.95%		114.14%	118.63%		115.29%	114.14%
Reported ROE	7.68%	5.34%		7.20%		6.72%	6.09%		7.01%	6.72%
Earnings Per Share (2024E)						0.013			0.014	
Book Value Per Share (2024E)						0.193			0.197	
PE						12.35			11.60	
PB						1.20			0.81	

*excluding Tier 1 bonds/interest

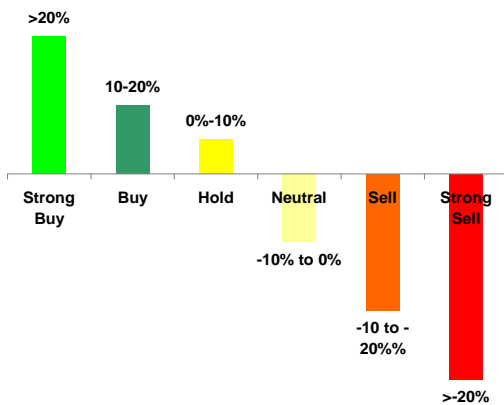
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Rating Criteria and Definitions

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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