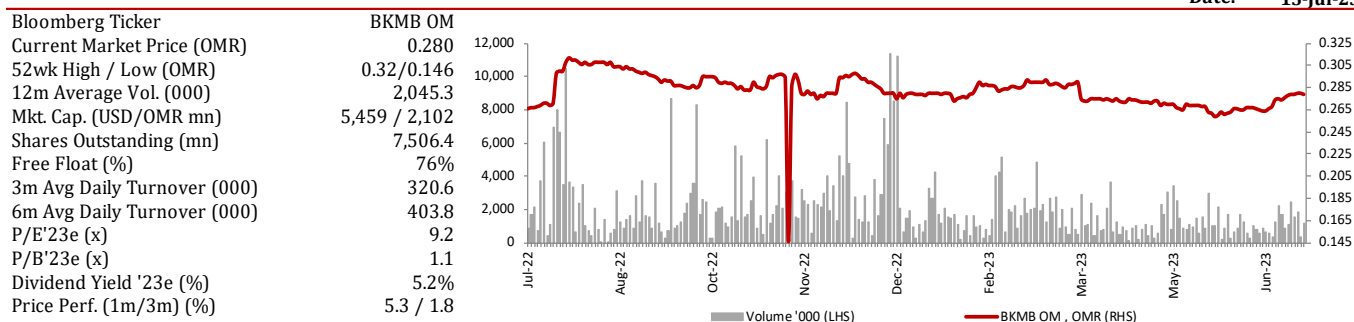


# Bank Muscat (BKMB) - 2Q23 Result Review

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<b>Recommendation:</b>	<b>Accumulate</b>	<b>Target Price (TP), OMR:</b>	<b>0.310</b>
<b>Reco. Date:</b>	<b>19-Jun-23</b>	<b>Upside / (Downside):</b>	<b>11%</b>
		<b>Date:</b>	<b>13-Jul-23</b>



## Bank Muscat's 2Q23 net profit in-line with our estimates despite higher ECL charges

Bank Muscat posted a net profit of OMR 53mn in 2Q23, up by 4%YoY and 3%QoQ, in line with our estimate. Net profit for 1H23 is higher by 5% YoY. Its net interest & Islamic financing income for 2Q23 increased 10% YoY and 1%QoQ, in line with our estimate. Other operating income decreased 22% YoY and increased 10%QoQ, 6% above our estimate. BKMB's 2Q23 operating income is largely flat YoY and up

## Operating expense decline surprised positively while net ECL charges surprised negatively

The bank's operating expenses declined 6%YoY and flat QoQ, 2% below our estimate. Cost to income ratio is a record low 38.1%. The bank's operating profit, up 3% YoY is broadly in line with our estimate (+2% variance). In 1H23, net ECL charges are up 6% YoY, and in 2Q23, net ECL charges are flat YoY and up 20% QoQ, 7% ahead of our estimate.

## Net loans & Islamic financing growth is in line with estimate and Customer Deposit up YoY and QoQ, 8% below our estimate

The bank has posted a 10%YoY and 1%QoQ increase in its net loans & Islamic financing portfolio, in line with our estimates. Its customer deposits increased 3%YoY and 1%QoQ, 8% lower than our estimate. Loan-to- Customer Deposit Ratio is 108.8% in 2Q23 vs. 108.6% in 1Q23 and 101.9% in 2Q22.

## U Capital view

Broadly in-line set of results. We are encouraged with the consistent progress on the cost-to-income ratio. We maintain our target price at OMR 0.310 and Accumulate rating on the stock. Bank Muscat is currently trading at a P/B of 1.1x, compared to peer average P/B 2023e stands at 0.92x.

Income Statement												
(OMR mn)	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23e'oY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)	
Net Interest & Islamic Finance Income	84.2	88.7	89.9	91.7	93.0	94.3	10%	1%	-1%	166.3	184.7	11%
Other operating income	44.6	35.8	45.2	31.6	34.9	32.8	-22%	10%	6%	77.0	66.5	-14%
<b>Operating Income</b>	<b>128.8</b>	<b>124.5</b>	<b>135.1</b>	<b>123.3</b>	<b>127.9</b>	<b>127.2</b>	<b>-1%</b>	<b>4%</b>	<b>1%</b>	<b>243.2</b>	<b>251.2</b>	<b>3%</b>
Operating expenses	(51.8)	(53.5)	(56.3)	(48.7)	(48.7)	(49.7)	-6%	0%	-2%	(97.5)	(97.4)	0%
<b>Operating Profit</b>	<b>77.0</b>	<b>71.0</b>	<b>78.8</b>	<b>74.6</b>	<b>79.2</b>	<b>77.5</b>	<b>3%</b>	<b>6%</b>	<b>2%</b>	<b>145.7</b>	<b>153.8</b>	<b>6%</b>
Net ECL charge / net impairment	(16.4)	(13.2)	(17.4)	(13.7)	(16.4)	(15.4)	0%	20%	7%	(28.4)	(30.1)	6%
Tax	(9.6)	(8.8)	(8.9)	(9.6)	(9.7)	(9.4)	1%	1%	3%	(18.0)	(19.3)	7%
<b>Net Profit</b>	<b>51.0</b>	<b>49.0</b>	<b>52.5</b>	<b>51.3</b>	<b>53.0</b>	<b>52.6</b>	<b>4%</b>	<b>3%</b>	<b>1%</b>	<b>99.3</b>	<b>104.3</b>	<b>5%</b>
Balance Sheet												
(OMR mn)	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23e'oY (%)	QoQ (%)	Var (%)				
Assets	12,858	12,742	12,776	13,076	13,344	13,887	4%	2%	-4%			
Shareholders' Equity	1,998	2,042	1,727	1,668	1,736	1,781	-13%	4%	-2%			
Net Loans & Islamic Financing	9,002	9,229	9,417	9,762	9,878	10,118	10%	1%	-2%			
Customers' Deposits & Islamic Investm	8,834	8,709	8,647	8,992	9,083	9,916	3%	1%	-8%			
Key Ratios												
	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23e						
Cost to Income	40.2%	43.0%	41.7%	39.5%	38.1%	39.1%						
Loans to Customer Deposits	101.9%	106.0%	108.9%	108.6%	108.8%	102.0%						
ROaE	10.3%	9.7%	11.1%	12.1%	12.5%	12.2%						
Annualized EPS (OMR)	0.054	0.052	0.028	0.027	0.028	0.028						
BVPS (OMR)	0.532	0.544	0.230	0.222	0.231	0.237						
TTM P/E (x)					10.2							

Source: Financials, MSX Disclosure, Bloomberg, U Capital Research

For our last report, click [here](#).