

Banking

Oman Arab Bank

First Cut – Oman Arab Bank

Operating revenue above out estimates: Oman Arab Bank (OAB) reported 1Q24 operating revenue of RO 32.2mn (vs. 29.1mn +10.8% YoY), sequentially the growth was at 13.7%. The operating revenue was much higher than our estimates of RO 30.8mn. Given that both the loan growth and deposit growth were in tandem at 6.6%, we believe that the growth in revenue could be on account of increase in non-interest income. We would await detailed financial statement to understand what drove the superior revenue growth.

Operating expenses comes lower: The 1Q24 operating expenses stood at RO 18.3mn, as against RO 17.8mn in 1Q23, a relatively subdued growth of 2.9% YoY. The faster pace of growth in operating revenue and lower pace of growth in operating expenses resulted in growth in operating profits by 23.2% YoY. The cost to income ratio, which was one among the highest in the industry has declined to 56.8% in 1Q24, a 437bps improvement YoY. We expect the cost to income ratio to further decline as synergies from acquisition in the past is yet to be played out fully.

The bank has not reported provision charge and we estimate the provisions to have increased by 35.3%, through a back of the envelop calculation by assuming 15% effective tax rate. The effective tax rate for 2023 and 1Q23 has been above 15%. On a sequential basis, the provision expenses declined by 23%.

Net income beats our estimates: The reported 1Q24 net income was at RO 6.4mn (vs. 5.5mn +16.4% YoY), much higher than our estimates of RO 5.3mn. The growth in net income positively surprised us and we would await more details to understand if this was due to lower provisions or lower tax.

Identical growth in loans and deposits: OAB reported a YoY loan book growth of 6.6%, to reach RO 3.4bn in 1Q24 vs. 3.2bn in 1Q23, the deposits too grew at a similar pace of 6.6% YoY to reach RO 3.3bn in 1Q24 vs. RO 3.1bn in 1Q23, resulting in steady loan to deposit ratio in 1Q24 and 1Q23 at 101%.

At current levels, OAB is trading at a 2023 P/B of 0.6x and 2023 PE of 11x. We maintain our TP of RO 0.140/Share and revise our rating to HOLD.

in RO mn	1Q24	4Q23	QoQ (%)	1Q23	YoY (%)	2023A	2022A	YoY	2024E	2023A
Operating Income	32.2	28.3	13.7%	29.1	10.8%	120.2	122.5	-1.9%	123.0	120.2
Operating Expenses	18.3	17.2	6.3%	17.8	2.9%	71.3	74.7	-4.6%	70.7	71.3
Operating Profit	13.9	11.1	25.2%	11.3	23.2%	49.0	47.8	2.4%	52.3	49.0
Provision Expenses#	6.4	8.3	-22.9%	4.7	35.3%	24.7	30.3	-18.5%	27.5	24.7
Profit before tax	7.6	2.9	164.3%	6.6	14.6%	24.2	17.5	38.8%	24.8	24.2
Taxation	1.1	0.2	566.4%	1.1	5.4%	3.7	1.3	188.5%	3.7	3.7
Profit after tax*	6.4	2.7	138.8%	5.5	16.4%	20.6	16.2	27.0%	21.1	20.6
Loan Book	3,392	3,275	3.6%	3,181	6.6%	3,275	3,067	6.8%	3,563	3,275
Deposits	3,349	3,357	-0.3%	3,142	6.6%	3,357	2,992	12.2%	3,440	3,357
Total Equity*	377	371	1.7%	365	3.3%	371	498	-25.5%	376	371
Cost to Income	56.79%	60.74%		61.16%		59.28%	60.99%		57.50%	59.28%
Cost of credit	0.75%	1.01%		0.59%		0.76%	0.99%		0.77%	0.76%
Loan to Deposit	101.28%	97.54%		101.23%		97.54%	102.50%		103.59%	97.54%
Reported ROE	6.81%	2.90%		6.04%		5.54%	3.25%		5.60%	5.54%
Earnings Per Share (2024E)						0.012			0.013	
Book Value Per Share (2024E)						0.222			0.225	
PE						11.21			10.94	
PB						0.62			0.61	

*excluding Tier 1 bonds/interest. Provision expenses arrived through back working assuming 15% tax rate

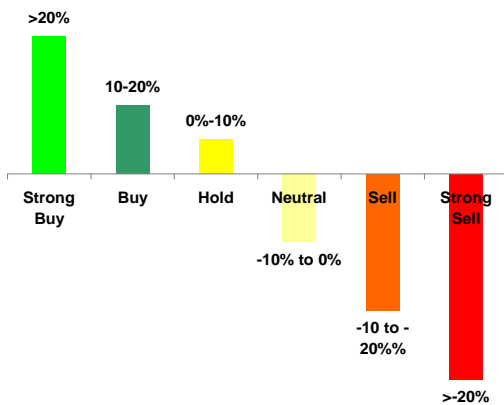
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Rating Criteria and Definitions

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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