

## Ahli Bank (ABOB) - Rights Issue at deep discount

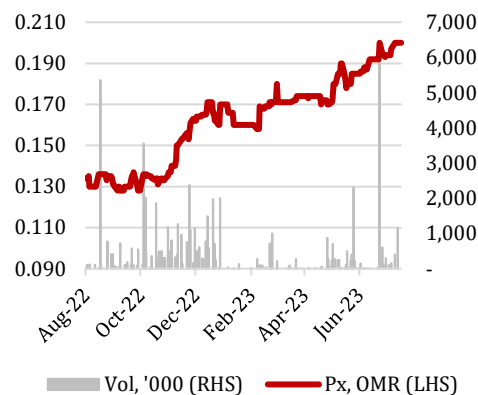
**Recommendation: Hold**

Rating	Hold
Bloomberg Ticker	ABOB OM
Current Market Price (OMR)	0.200
52wk High / Low (OMR)	0.200/0.130
12m Average Vol. ('000)	306
Mkt. Cap. (USD/OMR Mn)	1,014/390
Shares Outstanding (mn)	1,950
Free Float (%)	56%
3m Avg Daily Turnover (OMR'000)	47.4
6m Avg Daily Turnover (OMR'000)	28.5
P/E'23e (x)	10.7
P/B'23e (x)	1.2
Cash Dividend Yield '23e (%)	5.0%
<b>Price Performance:</b>	
1 month (%)	7
3 month (%)	15
12 month (%)	54

Source: Bloomberg

Source: Bloomberg

### Price-Volume Performance



Date: 31<sup>st</sup> July 2023

- Ahli Bank Rights share offer price of OMR 0.126 (incl. 1 bz issue expense) is a deep discount of 37% to the current market price (CMP) of Ahli bank shares (OMR 0.200); 21% discount to 2Q23 book value.
- 20.5164 right shares are being offered for every 100 shares owned.
- Our unadjusted target price OMR 0.205 implies an upside of 2.5% to the CMP of OMR 0.200 and 63% to the Rights Share Offer price.
- ABOB core equity ratio (CET1) dropped to 9.90% as of end-2Q23 (10.2% as of 1Q23), one of the lowest amongst the listed banks of Oman reflecting a peer-group average of 14.8% in 1Q23.
- All capital adequacy metrics are above minimum prescribed by the CBO.
- Successful completion of the rights issue is expected to boost the bank's Core Equity capital by up to OMR 50mn, giving a boost to its CET1 ratio.
- Assuming the same level of RWAs, the Rights issue is likely to boost the CET1 ratio from 9.9% to 11.7%.

Ahli Bank on 26th July 2023, made an announcement on the Muscat Securities Market (MSM), regarding the capital raising of Core Equity Tier 1 (CET-1) Capital of an amount up to OMR 50mn by way of Rights Issue of ordinary shares. This follows the board's decision earlier in January to raise capital via rights issue subject to regulatory approvals. The bank obtained CMA approval for the issue on 25 July 2023 and is now proposing to its investors to purchase rights to ordinary shares at OMR 0.126, offering a deep discount of 37% to the current market price of OMR 0.200.

Record Date	Rights Share Offer Price	Rights Trading period	Rights Subscription Period
3rd August 2023	OMR 0.126 (incl. 1 bz issue expense)	10th August 2023 - 23rd August 2023	16th August 2023 - 30th August 2023

Source: Rights Issue Prospectus

We had highlighted in our recently published [report](#) that the low CET1 for ABOB poses potential risk to dividend payment. Given that the CBO has denied appropriate approvals to Bank Dhofar for a takeover of Ahli Bank on 17<sup>th</sup> July 2023 (as per BKDB [disclosure](#) dated 27 July 2023) which coincided with the withdrawal of OMINVEST consortium offer of a potential buyout, the timing of the Rights Issue comes as no surprise to us. It is the deep discount that comes as a surprise to us, potentially justified by the intent to make it an indisputably attractive proposition.

We maintain 'Hold' rating on Ahli Bank with an unadjusted target price of **OMR 0.205** based on company fundamentals and outlook. Ahli Bank is currently trading at a P/B of 1.2x on our 2023 estimates, compared to its peer average P/B, 2023e of 0.92x. We see a limited upside of 2.5% from current levels owing to the recent rally in ABOB stock owing to the acquisition bids. **Adjusted for the Rights Issue, the target price would be OMR 0.191/ share.**

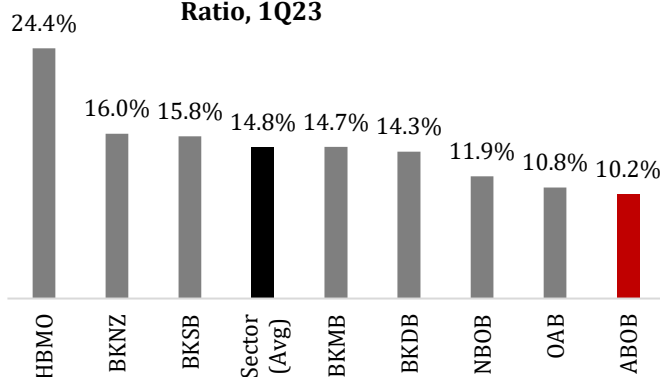
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## CET1 ratio for Ahli Bank lowest among peers

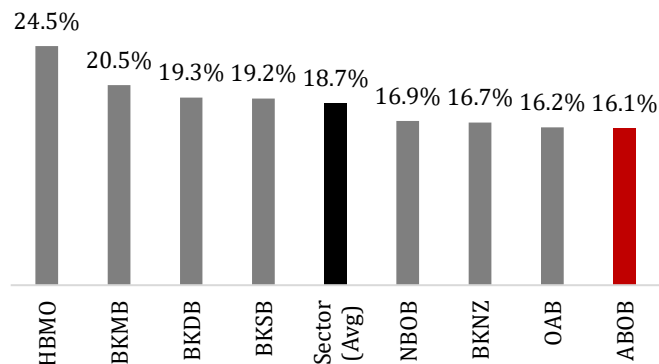
As of 1Q23, Ahli Bank Core Equity Tier 1 (CET1) ratio is lowest amongst the listed banks of Oman at 10.2% vs. the peer-group average of 14.8%. During 2Q23, the CET1 ratio for Ahli Bank further declined to 9.90%.

Despite raising OMR 30mn through rights issue during 2021 to strengthen its capital ratios, (ABOB's CET1 Ratio had been the lowest within the peer group at end-FY20), the bank's CET1 Ratio continues to be the lowest amongst peers, while still higher than the regulatory minimum of 8.25%. In the charts below, we show the capital adequacy metrics as of 1Q23, due to unavailability of detailed financials for all Oman banks.

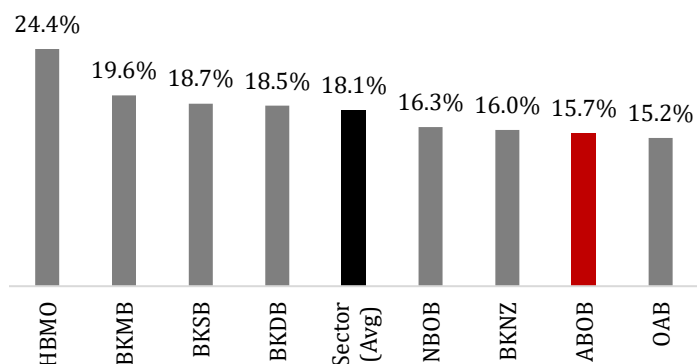
**Oman Banks: Common Equity Tier 1 (CET1) Ratio, 1Q23**



**Oman Banks: Capital Adequacy Ratio, 1Q23**



**Oman Banks: Tier 1 Capital Ratio, 1Q23**



Source: Bloomberg, U Capital Research

CET1 Ratio is important in terms of certainty of dividend payout as the regulator, the Central bank of Oman (CBO) has previously advised banks in Oman to reduce dividend payouts if CET1 ratio is not adequate. Furthermore, a low buffer over the regulatory minimum also leaves the bank vulnerable to asset quality deterioration shocks.

While this is above the minima prescribed by the Central Bank of Oman, the margin of safety is a bit on the lower side. As per our calculations, using basic assumptions, the CET1 ratio after this Rights Issue would get boosted to 11.7% as shown in the table overleaf.

### Ahli Bank Rights Issue impact on CET1 ratio

Current outstanding shares (mn)	1,949.66
Rights shares offered for every 100 shares owned	20.5164
Total shares offered	400
Rights Issue offer price (OMR)	0.126
Total amount to be raised (OMR mn)	50
Risk weighted assets (2Q23, OMR mn)	2,796.776
Current CET1 Capital (OMR mn)	276.824
Current CET1 Ratio (%)	9.9%
Expected CET1 Ratio (%)*	11.7%

Source: U Capital Research, Company financials

\*CET1 boosted by 50mn, assuming RWAs remain the same

### Historical changes in Bank's equity capital

Year	Issued Capital opening balance (RO '000)	Bonus shares (RO '000)	Rights Issue (RO '000)	Issued Capital end of the year (RO '000)
2011	71,238	8,905		80,143
2012	80,143	15,227	25,000	120,370
2013	120,370	6,019		126,389
2014	126,389	3,160		129,549
2015	129,549	12,955		142,504
2018	142,504	7,125		149,629
2019	149,629	7,481		157,110
2020	157,110	7,856		164,966
2021	164,966		30,000	194,966
2022	194,966			194,966
2023*	194,966		50,000	244,966

Source: Rights Issue Prospectus, \*the proposed Rights Issue

## Update on the acquisition offers for Ahli Bank

Given that the Central Bank of Oman has denied appropriate approvals to Bank Dhofar for a takeover of Ahli Bank on 17<sup>th</sup> July 2023 (as per BKDB [disclosure](#) dated 27 July 2023) which coincided with the withdrawal of OMINVEST consortium offer of a potential buyout, the timing of the Rights Issue comes as no surprise to us. The Board had announced the intention of a Rights Issue as early as January 2023, and with the takeover/ buyout not materializing ABOB has decided to go ahead with the Rights Issue.

However, as mentioned previously, the deep discount at which it has been offered is higher than our expectations. In our view, an attractive valuation could have been possibly driven by the intention to get on board majority shareholders, who may be looking to pivot towards a purely Islamic entity.

## U Capital view

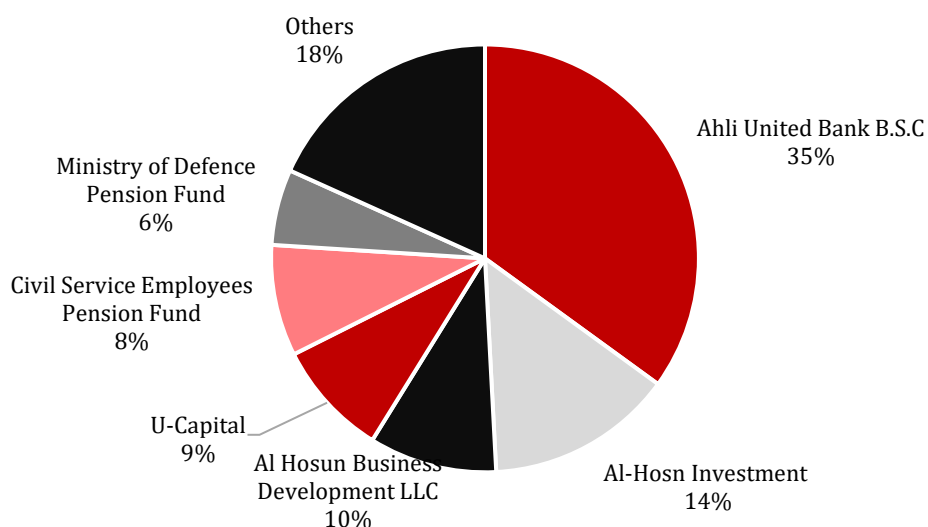
In our view, for Ahli Bank: (1) earnings growth will continue given the positive macroeconomic environment owing to its high corporate exposure which should aid expansion of NIMs, (2) the bank has shown consistent performance with no surprises, (3) superior-than-sector average ROE justifies a higher P/B multiple as compared to some peers.

We factor in slower net loan growth for Ahli Bank, given the current CET1 ratio, at a conservative CAGR of 5%. The cost-to-income ratio was reported at a historical low of 36.6% in 2Q23, which in our view may not be sustainable going forward. We include a stable 43% cost to income ratio in our estimates. Given the high interest rate environment, ABOB could decide to undertake higher provisions to improve its provision coverage.

We maintain 'Hold' rating on Ahli Bank based on company fundamentals and outlook. Ahli Bank is currently trading at a P/B of 1.2x on our 2023 estimates, compared to its peer average P/B, 2023e of 0.92x. We see a limited upside of 2.5% from current levels owing to the recent rally in ABOB stock coming from potential acquisition bids.

**Adjusting for the Rights Issue, our target price would be OMR 0.191/ share.**

## Shareholding structure of Ahli bank



Source: MCD

## Peer Comparison

Name	Mkt Cap (OMR mn)	Last Px (OMR)	Px Change (YTD), %	CET1 ratio	Tier 1 Capital Ratio
FIRST ABU DHABI BANK PJSC	16,883.7	1.528	-15%	13.2%	15.1%
QATAR NATIONAL BANK	16,470.2	1.783	-6%	14.3%	18.2%
EMIRATES NBD PJSC	11,090.2	1.756	29%	15.3%	17.6%
RIYAD BANK	9,790.7	3.264	0%	15.7%	17.8%
NATIONAL BANK OF KUWAIT	9,581.7	1.208	-6%	12.6%	14.8%
SAUDI BRITISH BANK	8,076.7	3.931	-2%	16.8%	17.2%
ABU DHABI COMMERCIAL BANK	6,744.3	0.921	3%	12.9%	14.6%
BANQUE SAUDI FRANSI	5,245.0	4.351	4%	17.2%	19.7%
BANK ALBILAD	4,510.5	4.511	-1%	13.3%	13.3%
ARAB NATIONAL BANK	4,133.4	2.756	-16%	19.5%	19.6%
ABU DHABI ISLAMIC BANK	4,248.6	1.170	23%	12.5%	16.4%
COMMERCIAL BANK PQSC	2,643.9	0.653	24%	11.7%	15.2%
MASRAF AL RAYAN	2,487.5	0.267	-20%	19.0%	19.0%
BANKMUSCAT SAOG	2,101.8	0.280	2%	14.7%	19.6%
SAUDI INVESTMENT BANK/THE	1,847.3	1.847	4%	16.5%	20.0%
DOHA BANK QPSC	555.8	0.179	-13%	12.9%	18.2%
BANK DHOFAR SAOG	521.4	0.174	-1%	14.3%	18.5%
SOHAR INTERNATIONAL BANK	491.1	0.107	1%	15.8%	18.7%
NATIONAL BANK OF OMAN SAOG	471.5	0.290	0%	11.9%	16.3%
AHLI BANK	389.9	0.200	17%	10.2%	15.7%
HSBC BANK OMAN	330.1	0.165	-1%	24.4%	24.4%
OMAN ARAB BANK SAOG	233.7	0.140	2%	10.8%	15.2%
BANK NIZWA	210.3	0.094	-6%	15.9%	15.9%
<b>Average</b>				<b>14.8%</b>	<b>17.4%</b>
<b>Median</b>				<b>14.3%</b>	<b>17.6%</b>

Source: U Capital Research, Bloomberg

Sorted by market cap.

## Key Financials

(OMR mn)	FY-20	FY-21	FY-22	FY-23e	FY-24e	FY-25e
<b>Income Statement</b>						
Interest/Financing Income	131	141	151	157	166	175
Interest Expense/Payment to Depositors	(71)	(76)	(77)	(82)	(90)	(97)
<b>Net Interest/Financing Income</b>	<b>60</b>	<b>66</b>	<b>74</b>	<b>75</b>	<b>77</b>	<b>79</b>
Fee & Commission Income	8	9	10	10	10	11
<b>Total Non-Interest/Financing Income</b>	<b>11</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>Total Operating Income</b>	<b>71</b>	<b>82</b>	<b>92</b>	<b>93</b>	<b>96</b>	<b>99</b>
Operating Expenses	(30)	(36)	(40)	(41)	(42)	(43)
<b>Operating Profit</b>						
Provisions expense	(14)	(15)	(13)	(11)	(11)	(12)
<b>Profit Before Taxation</b>	<b>27</b>	<b>32</b>	<b>38</b>	<b>41</b>	<b>43</b>	<b>44</b>
Taxation	(3)	(5)	(5)	(6)	(6)	(6)
<b>Net Profit</b>	<b>24</b>	<b>28</b>	<b>33</b>	<b>35</b>	<b>37</b>	<b>38</b>
Interest on Tier 1 Perpetual Securities	(9)	(9)	(9)	(11)	(11)	(11)
<b>Net Profit Attributable to shareholders</b>	<b>15</b>	<b>18</b>	<b>24</b>	<b>24</b>	<b>26</b>	<b>27</b>
<b>Balance Sheet</b>						
Cash Balances	79	115	132	196	191	187
Deposits with Banks & FIs	46	45	75	105	110	116
<b>Net Loans &amp; Islamic financing</b>	<b>2,219</b>	<b>2,402</b>	<b>2,500</b>	<b>2,625</b>	<b>2,756</b>	<b>2,896</b>
Investments	306	428	293	308	323	340
Net Fixed Assets	23	27	35	39	42	47
Other Assets	29	36	39	39	39	39
<b>Total Assets</b>	<b>2,702</b>	<b>3,053</b>	<b>3,075</b>	<b>3,311</b>	<b>3,465</b>	<b>3,627</b>
Deposits from Banks & FIs	135	262	223	243	255	269
Islamic Deposits	285	394	479	522	548	577
Conventional Deposits	1,639	1,788	1,817	1,977	2,078	2,186
<b>Total Customer Deposits</b>	<b>1,925</b>	<b>2,181</b>	<b>2,296</b>	<b>2,499</b>	<b>2,626</b>	<b>2,763</b>
Other Borrowings	172	95	-	-	-	-
Other Liabilities	82	86	95	103	109	114
<b>Total liabilities</b>	<b>2,314</b>	<b>2,626</b>	<b>2,615</b>	<b>2,845</b>	<b>2,990</b>	<b>3,146</b>
Paid-up Capital	165	195	195	195	195	195
Retained Earnings	47	60	68	70	72	75
Other Reserves	52	48	49	52	56	60
<b>Shareholders' Equity</b>	<b>264</b>	<b>303</b>	<b>312</b>	<b>317</b>	<b>323</b>	<b>330</b>
Tier 1 Perpetual Notes	124	124	149	149	149	149
<b>Total Equity &amp; Liabilities</b>	<b>2,702</b>	<b>3,053</b>	<b>3,075</b>	<b>3,311</b>	<b>3,463</b>	<b>3,625</b>
<b>Cash Flow Statement</b>						
Cash from operations	50	159	(107)	112	46	48
Cash from investing activities	50	126	(127)	18	19	21
Cash from financing	(30)	2	(2)	(30)	(31)	(31)
Net changes in cash	(29)	36	18	64	(4)	(4)
Cash at the end of period	79	115	132	196	191	187
<b>Key Ratios</b>						
Return on Average Assets	0.9%	1.0%	1.1%	1.1%	1.1%	1.1%
Return on Average Equity	9.1%	9.7%	10.8%	11.2%	11.5%	11.6%
Net Interest & Islamic Finance Income / Operating In	84.1%	79.5%	80.5%	80.6%	80.1%	79.8%
Other operating income / Operating Income	15.9%	20.5%	19.5%	19.4%	19.9%	20.2%
Net fee Income/Operating Income	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
Interest Earning/Financing Assets Yield	5.3%	5.2%	5.3%	5.3%	5.3%	5.4%
Cost of Funds	2.6%	2.3%	2.0%	2.0%	2.1%	2.1%
Net Spread	2.7%	2.9%	3.3%	3.3%	3.3%	3.2%
Cost to Income Ratio	42%	43%	44%	44%	44%	44%
Net Loans & Islamic Financing to Customer Deposits	115.3%	110.1%	108.9%	105.1%	105.0%	104.8%
Non Performing Loans, OMR mn	40	78	98	103	108	114
NPLs to Gross Loans & Islamic financing	1.7%	3.2%	3.8%	3.8%	3.8%	3.8%
NPL Coverage, %	148.0%	98.1%	90.8%	91.0%	91.1%	91.3%
Cost of Risk, bps	58.4	53.9	45.5	42.5	40.5	39.5
Shareholders' Equity to Total Loans & Islamic Finan	0.12	0.12	0.12	0.12	0.11	0.11
Shareholders' Equity to Total Assets, x	0.10	0.10	0.10	0.10	0.09	0.09
Capital Adequacy Ratio, %	15.7%	16.7%	16.3%	15.4%	15.0%	15.1%
EPS, OMR	0.015	0.014	0.017	0.018	0.019	0.020
BVPS, OMR	0.160	0.155	0.160	0.163	0.166	0.169
Market Price, OMR*	0.127	0.116	0.200	0.200	0.200	0.200
Cash Dividend Payout Ratio, %	34.4%	53.0%	53.0%	53.0%	53.0%	53.0%
Cash Dividend Yield, %	3.9%	6.5%	4.5%	4.8%	5.0%	5.2%
P/E Ratio, x	8.7	8.2	11.8	11.1	10.6	10.2
P/BV Ratio, x	0.8	0.7	1.3	1.2	1.2	1.2

\*Market price for current year and subsequent years as per the closing price on 31-Jul-2023

Source: Company Financials

## Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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