

## Banking Sector Report

## Investment Thesis

<b>National Bank of Oman</b>	<b>BUY</b>
12M Price Target (RO)	0.323
CMP (RO)	0.270
Potential Upside (%)	19.6%
Market Cap (RO mn)	430.9
P/B (FY23E)	0.9x
P/E (FY23E)	8.8x
Dividend Yield (FY23E)	5.7%
ROE (FY23E)	11.9%

<b>Bank Dhofar</b>	<b>BUY</b>
12M Price Target (RO)	0.163
CMP (RO)	0.146
Potential Upside (%)	11.6%
Market Cap (RO mn)	437.5
P/B (FY23E)	0.7x
P/E (FY23E)	10.1x
Dividend Yield (FY23E)	4.9%
ROE (FY23E)	8.4%

<b>Ahli Bank Oman</b>	<b>BUY</b>
12M Price Target (RO)	0.170
CMP (RO)	0.140
Potential Upside (%)	21.4%
Market Cap (RO mn)	271
P/B (FY23E)	0.8x
P/E (FY23E)	9.3x
Dividend Yield (FY23E)	5.9%
ROE (FY23E)	8.7%

<b>Oman Arab Bank</b>	<b>BUY</b>
12M Price Target (RO)	0.140
CMP (RO)	0.119
Potential Upside (%)	17.6%
Market Cap (RO mn)	198.7
P/B (FY23E)	0.5x
P/E (FY23E)	10.7x
Dividend Yield (FY23E)	4.7%
ROE (FY23E)	5.1%

We believe that Omani Banking Sector is on the cusp of change, cashing in on the various green shoots that are visible after a challenging pandemic period over the last 2 years. Banking sector is expected to benefit from expected GDP growth of 3.6% per annum over FY21-24E.

Over the past several years, Oman has been a regional underweight equity market; we believe that higher oil prices, subsequent recovery in economic activities, and renewed focus by policy makers on the country's financial services sector could be a catalyst for continued capital inflows. Despite being a mature banking market, we see multi-year growth drivers from economic recovery and Islamic Banking activities. We reinitiate Buy on NBO and Ahli Bank on ROE normalization; Bank Dhofar and OAB on valuation.

A recovery of economic activities is likely to benefit the private sector disproportionately leading to recovery of retail and SME segments. We feel NBO and Bank Dhofar be the biggest beneficiaries in that scenario. While Bank Muscat have larger economies of scale, we note that its shares outperformed peers and is more richly valued now. Although banking shares the characteristics of a commodity business in Oman, we feel NBO and Bank Dhofar is likely to be able to reprice assets quickly, given their loan book mix, while Ahli Bank Oman provides safety on the downside through its strong asset quality parameters. Dependence on private sector for future loan growth, away from government/GRE, can boost NIMs over the medium term.

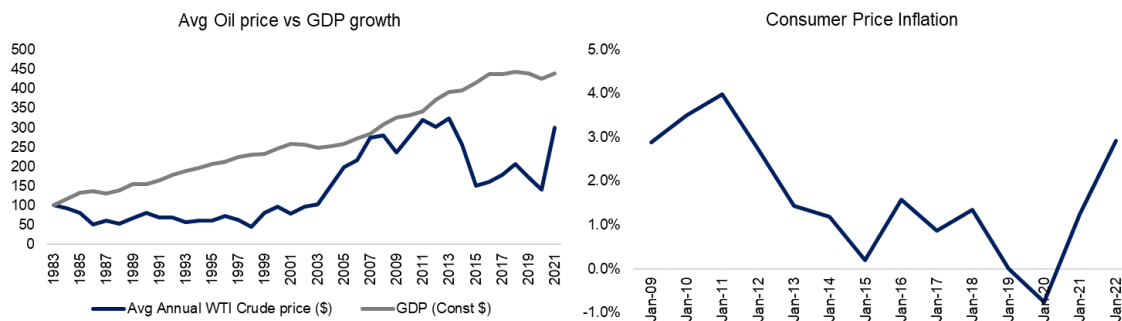
Omani Banks have huge tailwinds from ensuing demand for loans triggered by increasing thrust on Giga projects at the corporate level and increase in cash flow at retail level. Omani Banks are also better prepared internally as they have invested heavily on technology and repositioned their offerings. We also note that Omani Banks have utilized the one-time relief in the form of restructuring window offered to corporates to manage stress in cash flows on account of the pandemic. We believe Omani Banks have been able to navigate the down-cycle quite well which is visible in their overall performance. With the ghost of one-time re-structuring of assets behind, the Bank's books are cleaner, with less NPL surprises going forward and the focus is back on the core function of lending. We believe that the Oman's banking sector is poised to grow aided by buoyant demand and adequate capital cushion. We estimate banking sector ROE to witness significant improvement over the next 2-3 years.

Omani economy is expected to recover, supported by revival of the hydrocarbon sector, high oil prices, continued fiscal consolidation and planned implementation of structural reforms under Oman Vision 2040. Our view of the Oman economy and consequently the Banks in Oman are based on five key factors:

- Rebound in GDP Growth
- Dependence on Oil
- Fiscal Position
- Credit Rating
- Demographic dividend

### Rebound in GDP Growth- has a 1:1 direct effect on Banking sector

Post the blip caused by the pandemic in 2020, the outlook for Oman economy is positive. The GDP growth has rebounded from -3.2% in 2020 to 3.0% in 2021 and as per International Monetary Fund (IMF) estimates, it is projected to grow at 4.3% in 2022. We believe the buoyancy in the GDP will be on account of increased hydrocarbon production as well as recovery of the diversified non-hydrocarbon economic activities. There has not been any major spill over from the war in Ukraine on the Oman economy. It is pertinent to note that despite the GDP growth, the CPI inflation has been contained due to measures like administered price on sensitive products, especially cap on fuel prices.

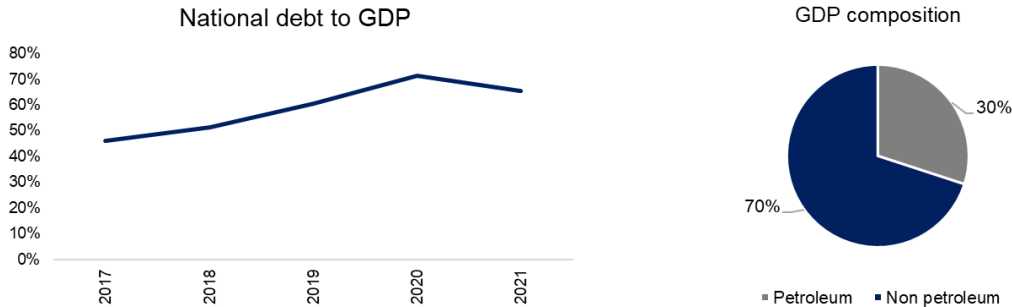


Source: NCSI, US Research

The National debt to GDP after touching a peak in 2020 has shown a declining trend. The drop in the national Debt to GDP is an early indicator of changes in the trend and improvement in state finances that will be witnessed going forward. With the foundation in place in terms of broader growth of GDP and increasing contribution of non-petroleum products, the impetus in the Banking Sector is visible.

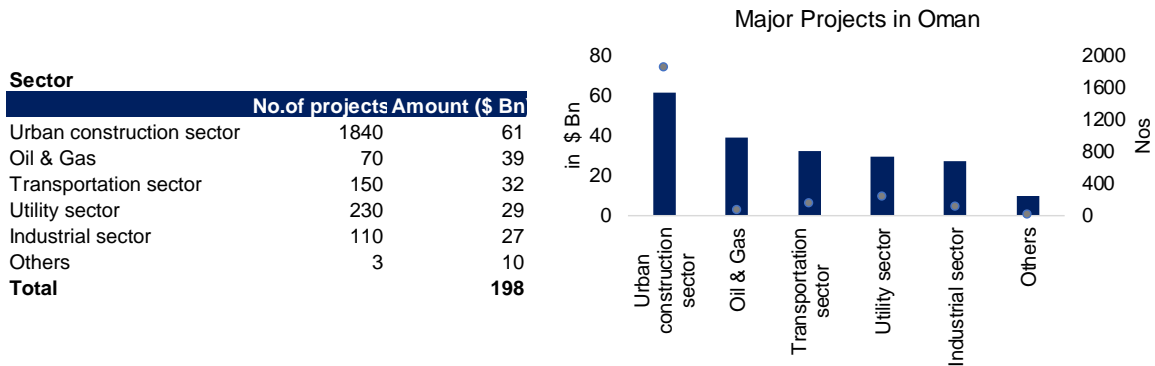
Oman continues to remain an oil dependent economy with 78% of the revenue from Oil and Gas, there have been significant measures taken in the past to diversify. The composition of GDP in terms of contribution from non-petroleum and petroleum related activities has been in the ratio of 70:30. Government of Oman, through its Vision 2040, intends to achieve significant diversification away from Oil. Vision 2040 is a 20 year nationwide multi-sector document that lays the road map for the key areas of strategic focus. The primary aim of the road map is to build a country that is inclusive, productive and diversified. It has chosen 5 sectors as core for development- Tourism, logistics, manufacturing, fisheries and mining. The plan also involves increasing the rate of Omanis in private sector to 42% and enhancing foreign investment into the country to 10% of the GDP. We believe such a holistic approach is extremely important for the country. On one side it improves the economy

from bottom up while on the other side it increases the confidence of investors both local and foreign leading to higher private capital investment.



Source: NCSI, US Research

The government has largely followed a Keynesian style of fiscal prudence by creating a push economy. During times of surplus, it has deployed funds into several Giga projects thereby instilling demand, providing support to the corporates, and attracting international interest. This time again, we are witnessing a huge pipeline of projects that have been envisaged over the next decade. The total envisaged value of the projects amounts to about RO 200bn. Most of the projects are related to Urban development, focusing on building sustainable cities for the future. New infrastructure and replacing the old ones will incur a cost of atleast \$60bn. We are confident that several major investments from both local and international institutions along with the government will spur growth, create demand for funds and make the banking sector a lucrative one going forward.

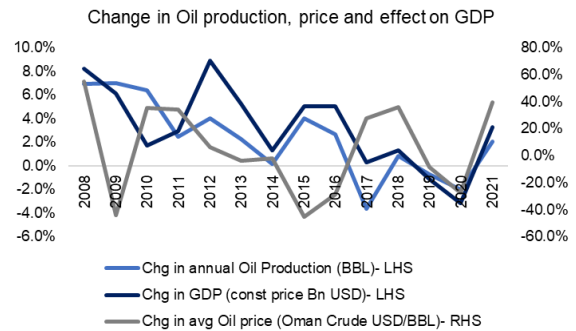
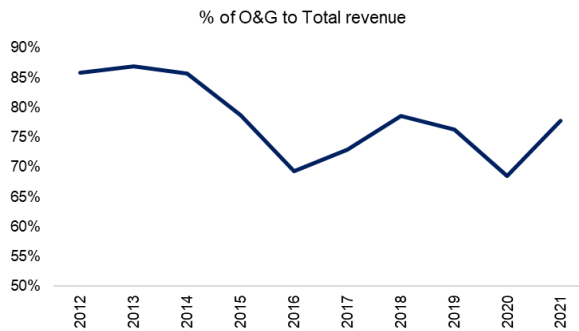
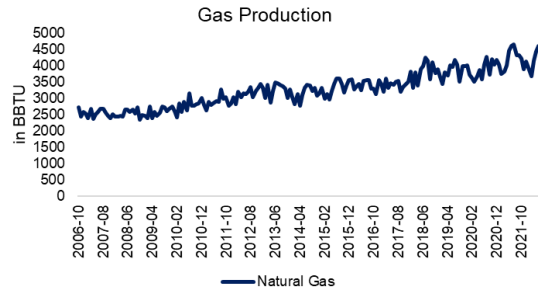
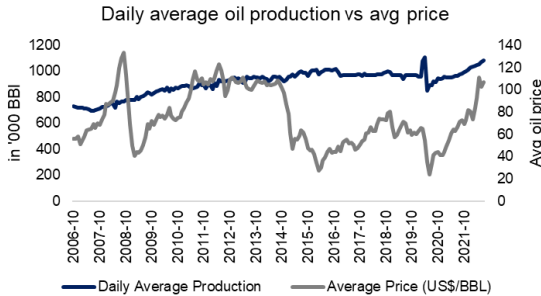


Source: www.project-oman.com and US Research

### Dependence on Oil- will benefit in upcycle

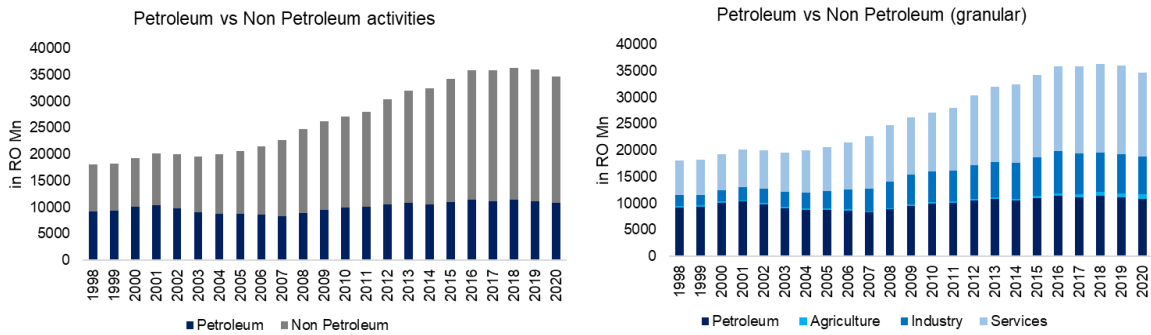
Oil prices have significant influence over the economic prospects of Oman. Oman receives nearly 80% of its revenue from Oil & Gas and spends 50% in civil infrastructure. The remaining expenditure goes into defense, debt financing, salaries and related social spends which are not income generating. The commodity dependence of Oman gives it impetus for growth and scope for creation of surpluses in times of high Oil prices. This surplus is deployed into income generating projects

which also enhance job prospects of Omanis. Hence commodity dependence becomes extremely useful in times of an upcycle.



Source: NCSI, US Research

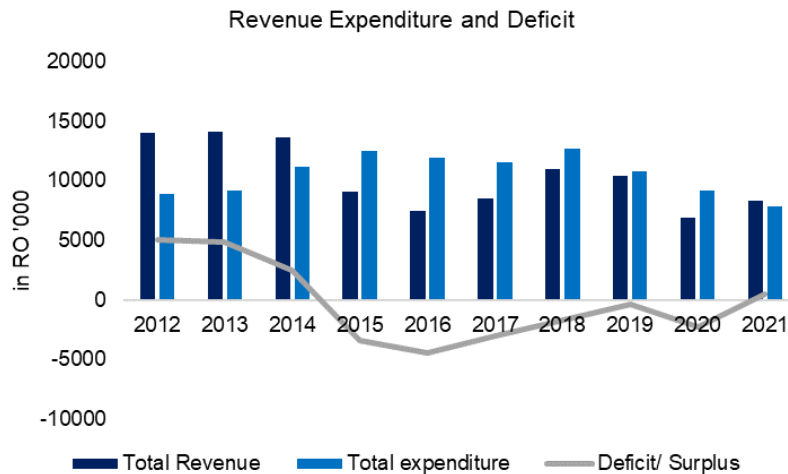
Non-petroleum activities are broadly classified into Agriculture, Industry and Services. Agriculture and Fishing activities have grown at a CAGR 10.73% (FY2015-20), while Fishing grew by 25.16% during the period. Mining and other manufacturing related activities witnessed a growth of about 3-3.25%. Financial services contribute to 6% of the GDP and have been growing at the rate of 3.5% CAGR (FY215-20e). This growth rate will only expand as we go forward leaving behind the legacy issues. Banking and Financial Services form the fulcrum of any economy and have a direct relationship with its growth. It is inevitable to imagine this sector not to improve when the country is in an upcycle.



Source: NCSI, US Research

**Fiscal Position improvement will lead to productive spending and lower debts**

The Oman economy has seen its debt ballooning from RO 1.5bn in 2014 (5% of the GDP) to around RO 17.6bn (around 60% of GDP) in 2019. The rise of debt from 2014 resulted in downgrading of credit rating and increase in interest payments to nearly RO 1.0bn per year in 2020. Oman budget has been in deficit post the sharp decline in oil prices in 2014 and compounded by pandemic in 2020, when the deficit reached RO 2.2bn. However, due to prudent fiscal management policies adopted by the government, deficit levels were lower in 2020 compared to the levels seen in 2015 & 2016 at RO 3.4bn and RO 4.4bn respectively.

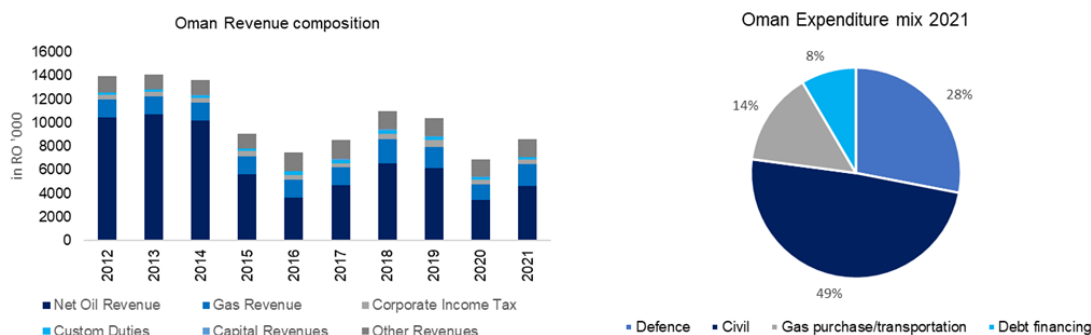


Source: NCSI, US Research

A series of bold steps that followed shifted the country's financials to a more sustainable trajectory. The country implemented Medium Term Fiscal plan- 2020-2024; with an objective to reduce the primary and overall fiscal deficits to sustainable levels in the medium term. The broad thrust was on supporting economic growth, revenue management and diversification, expenditure rationalization and efficiency, social safety net and public financial management and governance.

In 2019 the Government introduced a series of taxes such as excise, VAT taxes on certain products. In addition, energy subsidies were reduced and public sector hiring saw moderation. A variety of

non-essential capital investment projects were re-assessed, optimized or postponed. The reduction in public spending was almost OMR 2.0bn between 2020 and 2021. As a result, there was a fiscal surplus at RO 466mn in 2020. We feel that these plans have borne fruit as can be validated by the budget deficit of 3.8% of GDP in 2021, down from 19.3% in 2020. We are at the inflexion point with the economy returning to surplus, this will help the government prioritize spending more on productive activities and reduce borrowings.



Source: NCSI, US Research

### Credit Rating improvement will help reduce the cost of government borrowings

It is observed that higher oil prices in the past had provided the government with confidence for increased capital spending. However, in the current scenario, government has clarified that its primary use of windfall gains from higher oil prices would be to prioritize early repayment of loans, social spending, and developmental spending. Recently, the Government has initiated the process for buy back of USD 1.75 billion of its outstanding bonds, which is a positive sign in its effort to improve the country's credit rating outlook. Improved fiscal surplus will drive credit rating agencies to revise the sovereign ratings for the country.

A better credit rating for Oman brings further investments into the country and enables borrowing at a lower cost. A healthier surplus outlook should also help the government reduce its public debt position further. RO 9.2bn of loans was repaid in April 2022, including early repayment of a \$2.2bn March 2023 loan. Overall, Oman central government public debt is now seen declining to 50.7% of GDP by the end of this year, down from an estimated 68.6% at the end of 2021 (IIF data). In addition, the Government appears keen to outsource other services and projects to the private sector to further ease expenditure, with the aim of bringing improved efficiency and cost savings.

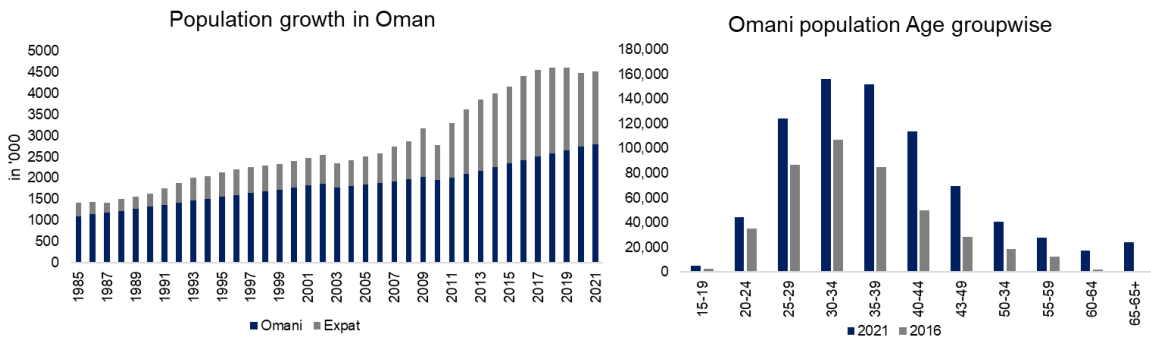
As per Fitch report dated June 2022, with ongoing macro conditions and higher oil prices, Oman is anticipated to achieve a real growth of 4.4% in 2022 and fiscal surplus of 5.5% of GDP in 2022. Fitch has upgraded Oman Sovereign rating to BB with stable outlook in Aug 22.

	2014	2015	2016	2017	2018	2019	2020	2021
<b>Moody's</b>	A1	A1	BAA1	BAA2	BAA3	BA1	BA3	BA3
<b>S&amp;P</b>	A	+BBB	-BBB	BB	BB	BB	+B	+B
<b>Fitch</b>	-	-	-	-BBB	+BB	+BB	-BB	-BB

### Demographic Dividend

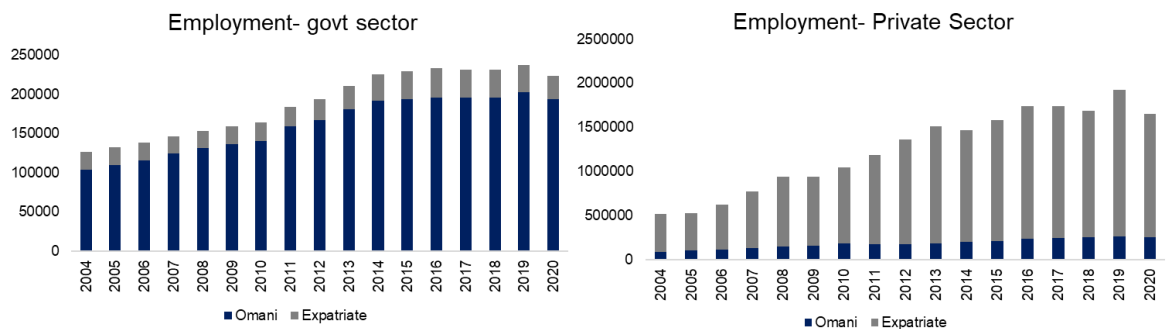
Demography is extremely important to visualize a sustainable long-term trend and one of the most important factors for the development of a country. We believe there are three major irreversible changes that evidence the development of Omani population –

(i) **Age profile of Omanis:** Majority of the Omanis are in the working age group (20-40yrs) making available a young employee base. It is also important to note that the Omani population is 61% of the total population unlike in other GCC countries where the local population is a minority. Off late in the last five years, the overall Omani population has been growing at a faster rate compared to the expat population (2.9% vs -2.8%).



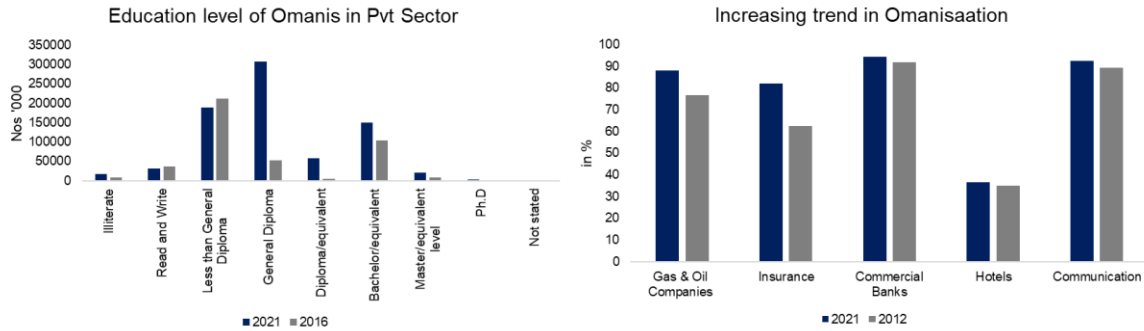
Source: NCSI, US Research

(ii) **Higher participation in workforce:** The growth of Omanis in workforce has overtaken the rate of growth of expats in the last five years. Omani employees have grown by 2.13% compared to a decline of 3.06% in expat population. Rationalising the workforce and the replacing of employees with the influx of local population has resulted in this much desired change in trend.



Source: NCSI, US Research

(iii) **Rising education level:** The continuous budgetary allocation by the Government, has provided the much-required thrust on education as can be seen from increasing the education level of Omanis. Further regulatory changes and Government's effort in skilling Omanis have led to significant increases in Omanisation across industries.



Source: NCSI, US Research

We believe these changes are here to stay and will provide long term benefits. Larger number of Omanis in the workforce augurs well for the Banking sector as the need for liquidity and leverage rises. Requirement for loans relating to mortgage, personal and other household will rise. Defaults will decline as the net disposable income increase.

### Increased Optimism from SRS results

While the above factors are critical for Oman economy's bright outlook, we also take comfort from the results of the recent Systemic Risk Survey (SRS) conducted by Central Bank of Oman. The Survey quizzes market participants and other stakeholders about perceived risks to, and their confidence in, the stability of the Omani macro-financial system.

According to the responses to SRS 2022, the perceived probability of an event with a high negative impact occurring in Oman's financial system over the short term (up to one year ahead) dropped considerably in line with recovering demand as the pandemic lockdown measures eased globally as well as the recent surge in oil prices.

Respondents to the SRS expressed relatively higher optimism regarding how their perception of the likelihood of an adverse event occurring in the near future has changed over the past six months, despite the heightened global uncertainty due to supply chain disruptions. The results also showed that the relative improvement in the overall dynamics has raised their degree of confidence in the stability of Oman's Macro financial system.

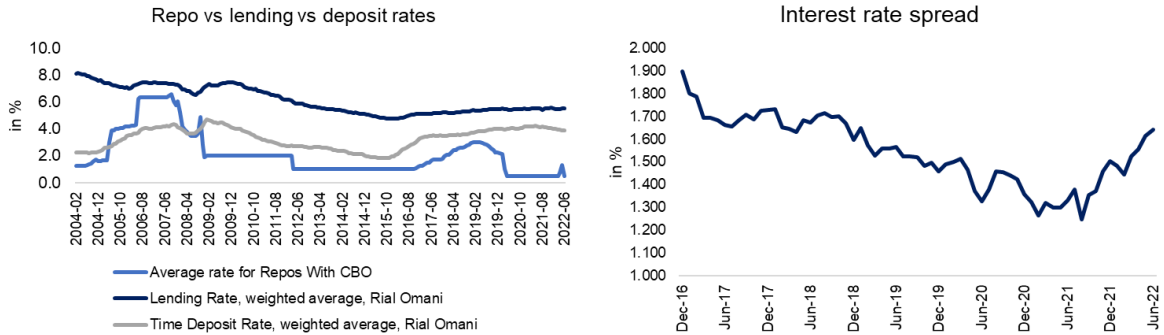
As per SRS, the key risks to stability in 2022 are unfavorable Oil price movements, deterioration in global output and trade and rise in operational threats. The respondents were also of the view that the higher oil prices along with continued commitment to fiscal consolidation are expected to deliver fiscal and external surpluses in 2022. This will in turn help lower debt and boost GDP growth. The downside risks that respondent perceive are the socioeconomic impacts of tightening fiscal measures, a fragile labor market and the surrounding global uncertainty

The above-mentioned factors, coupled with high Oil Prices and exuberance shown by the market participants, makes us believe that the Oman Economy is back on a strong footing after a hiatus and consequently we see the Omani Banking sector benefit from this.



### Rising interest rate and stable cost of funds auger well for NIMs

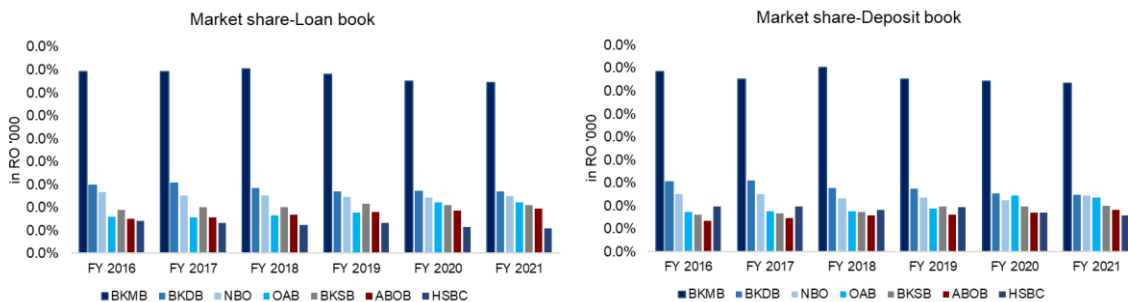
Rising interest rate scenario's always work to the advantage of banks, especially the ones that manage their cost of funds well. Since the Omani Rial is pegged to the dollar, Fed rate hikes have a direct repercussion on the Central Bank of Oman repo rates. Over the last five years, the spread between Lending and Deposits rates have hovered in the range of 120-190bps. This trend is now on the rise post rate hikes by the Central banks, and we expect the trend to continue atleast for the next one year. Global inflationary scenario will keep rates higher for longer. The favorable interest rate environment, coupled with demand pick up gives us more reason to believe that the Banking sector will be back on its growth trajectory.



Source: NCSI, US Research

### Market size and Key players

The Omani Banking sector consists of 7 local, 2 specialized, 9 commercial and 2 full-fledged Islamic Banks. The local Banks have separate Islamic Banking subsidiaries as well. Omani banks offer products to Retail, Corporates and Government. Banks in Oman are well capitalized and have adequate cushion for growth. Bank Muscat (BKMB) is the largest Omani Bank with a customer base of over 2mn and workforce of around 3900.



Source: Company reports, US Research

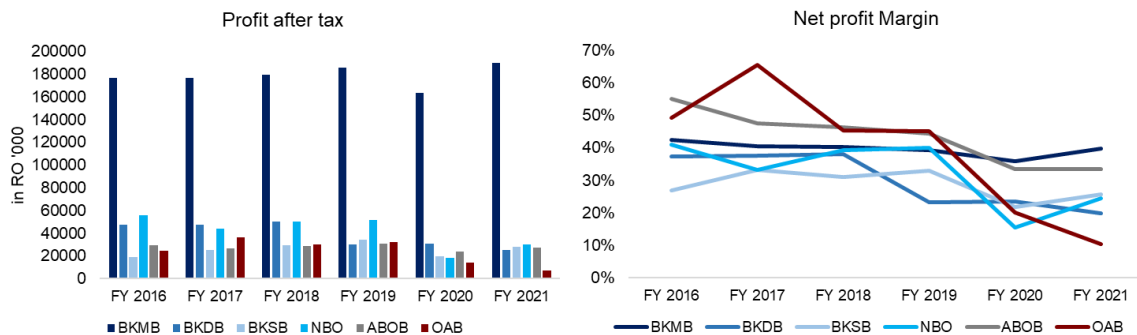
Conventional Banking in Oman is predominantly managed by the 7 listed banks and they have a loan book size of RO 24.74 Bn and a deposit size of RO 23.95 Bn. BKMB has a pole position share in total Loans (37.2%) and total Deposits (36.6%). The market share of BKMB which is almost equal to next three banks - Bank Dhofar (BKDB) at 13.5%/12.4%, National Bank of Oman (NBO) at 12.5%/12.4% and Oman Arab Bank (OAB) at 11.1%/11.7% respectively put together. BKMB has

been able to maintain this leadership over the years, due to high government participation with an implied perception of safety, and dominant branch network of around 174 domestic branches.

BKMB is a clear leader in terms of loans, with book of around RO 9.2bn, followed by BKDB and NBO, which are almost a third of the size of BKMB at RO 3.3bn and 3.1bn respectively. Ahli Bank (ABOB) and Oman Arab Bank (OAB) were at similar loan book size till FY2019; OAB has consolidated its lead over ABOB in FY20 to RO 2.64bn, as it took an inorganic growth route by acquiring Alizz Bank. Off late, we witness a gradual decline in the leadership level of the incumbent player as other banks have been aggressively targeting market share.

BKMB's higher share in deposits can attributed to the fact that around 28.1% of the total deposits amounting to RO 2.5bn in FY21 is from Ministries and other Government organizations, the same was around 28.5% in 2020. The higher deposit from Government, which is stable in nature acts a moat, helping it to maintain its leading position in deposits and lending as well. The high component of the government deposits helps lower the cost of funds as well.

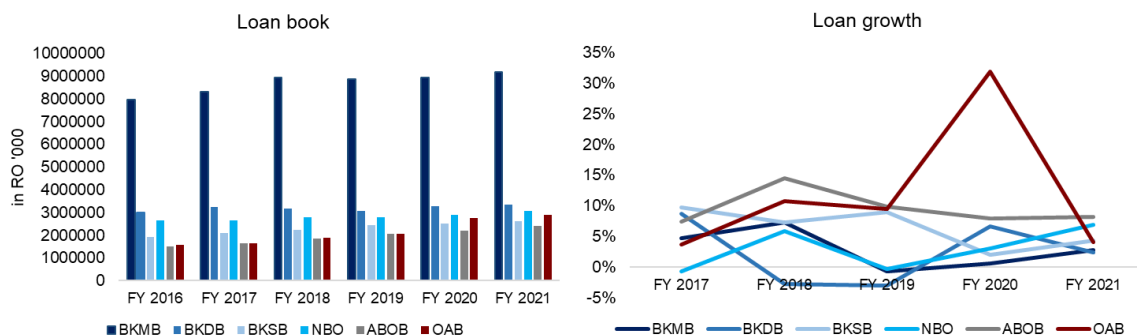
In terms of Net profit, BKMB has a clear advantage due to its scale. The net profits of BKMB at RO 189.6mn is higher than the total of next five banks put together, which is collectively at RO 118.4mn.



Source: Company reports, US Research

Among our Banking Universe, we are not covering BKSB due to the impending three-way merger; we have kept the Bank under watch as we await more details on the merger

### Loans and Asset Quality

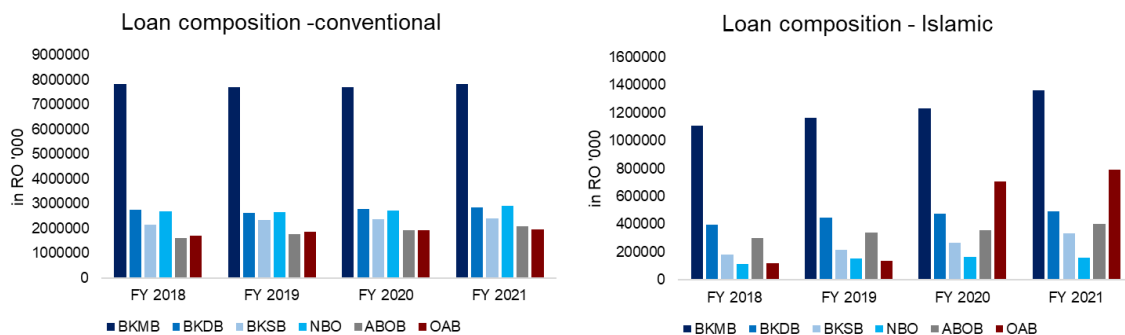


Source: Company reports, US Research

Loan book for the industry grew by a CAGR (16-21) 4.3%. Top 3 banks (BKMB, BKDB and NBO) grew at a slower rate during the period compared to the industry at 2.3-3%. OAB indicated a faster growth on account of acquisition, while ABOB and BKSB grew organically due to change in internal strategies. Recently NBO has shown aggressiveness in its growth and is growing at a faster rate as compared to other Banks at 7.0% in FY21. The higher growth in NBO can be attributed to change in management, which brought about renewed focus on building market share. ABOB's also grew by 8.3% in FY21 is due to its focus on increasing its Islamic banking activities.

In June 2020, OAB had acquired Alizz Bank, which became a 100% subsidiary, leading to a jump of around 31.9% in FY2020, post-acquisition the growth rate was at 4.1% on the expanded base.

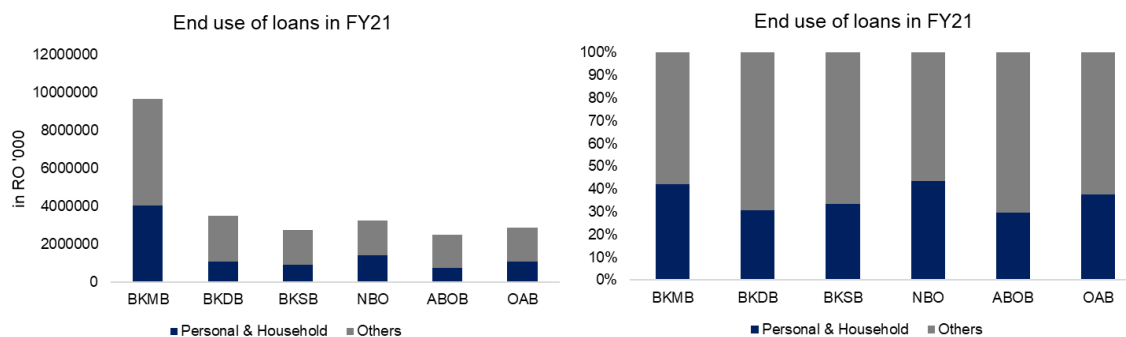
The share of Islamic Banking Loan book is the lowest for NBO, which is in the range of 4-6% in the last four years. BKMB, BKDB, BKSB and ABOB's Islamic lending has been in the range of 12-15%, with ABOB at an upper end of 16%. The mortgage bank background played to the advantage of ABOB to increase exposure in this segment. OAB witnessed a sharp rise in Islamic loans recently to 28.8% due to recent acquisition of Alizz Bank.



Source: Company reports, US Research

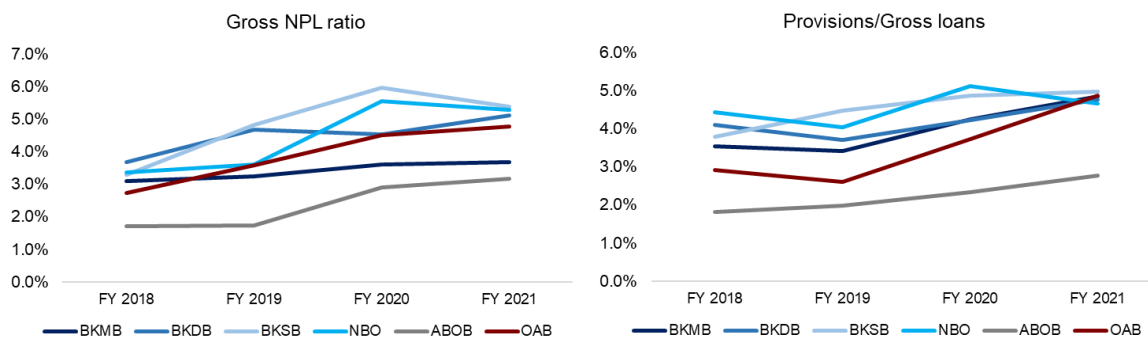
BKMB and BKDB had a growth of above 5% CAGR (FY2018-21) in Islamic Banking, as compared to less than 1% FY2018-21 CAGR in conventional Banking. NBO and ABOB have had a growth in the range of 7-8% in the similar period, while BKSB Bank has been able to grow at 16% CAGR in the similar period.

In terms of End use of loans, we broadly look at two categories, given the size of exposure Personal and Household Loans and Others. ABOB, BKDB and BKSB have least exposure to Personal and Household Loans at 30%, 31% and 33% respectively, BKMB and NBO have a higher exposure of around 42% and 44% respectively. BKMB has the advantage of a larger network of branches, helping it achieve more granular exposure to personal and household category.



Source: Company reports, US Research

In terms of asset quality, the NPL ratio and consequently the provisions have witnessed a rising trend since FY2018 for the entire Banking industry. The trend can be attributed to the impact of lower oil price since 2014, followed by the effects of covid, both of which caused significant stress to the economy as well as the Banking sector. Proactive regulatory actions have helped contain the spill over effects of the stress and revitalize the industry.



Source: Company reports, US Research

BKMB has been able to contain its NPL ratio at around 60bps as compared to other banks like BKSB and OAB, which has seen their NPL levels go up by more than 200bps during the period FY18-FY21. ABOB has seen its NPL ratio go up from 1.72% to 3.17%, as it only recently moved its exposure from low-risk mortgage loans to consumer loans.

Despite its size, BKMB has a lower NPL ratio of 3.69%. BKSB and NBO are on the higher side at 5.38% and 5.29% respectively. We believe that the peak NPL cycle is behind us given that the Corporates in general have had healthy balance sheets and the retail segment has witnessed an increase in cash flow after nearly two years.

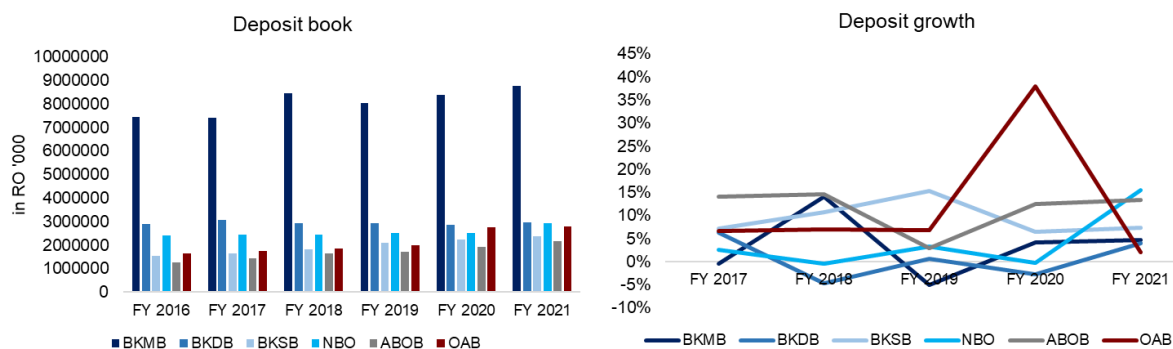
Omani Banks have been well provisioned hence the rising NPLs did not warrant a significant increase. Further the regulator's initiative of allowing Banks a one-time restricting window, wherein, Banks were allowed to restructure repayments of loans in line with borrower's cash flows also aided

in stable provisioning. The deadline for one-time restructuring window ended on September 2022, post which there could be a re-classification of NPLs translating into intermittently higher provisions in some Banks.

### Deposits, aiming for diversification and CASA franchisee

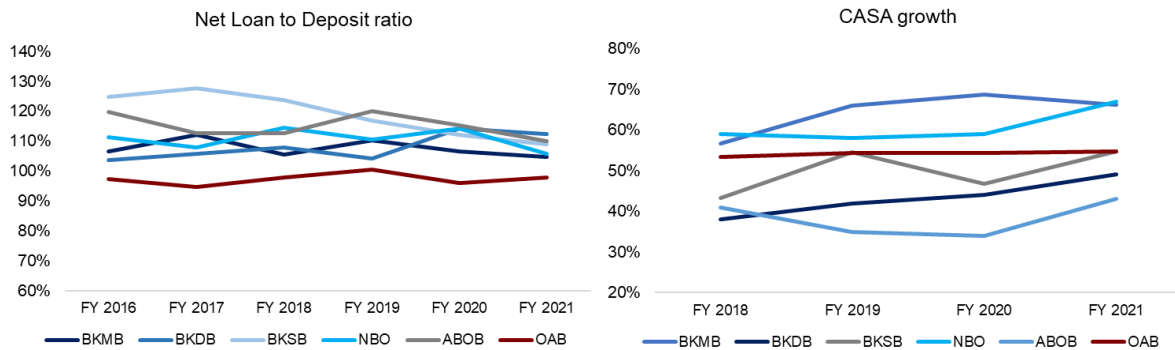
The deposit book mirrors similar pattern as that of loan book, with BKMB among the highest, followed by BKDB and closely followed by NBO. Banks have been trying to optimize their deposit base, with few even trying to reduce the reliance on term deposits, due to the rising interest cost. Banks with wider branch network coverage and investment in technologies have seen a good growth.

ABOB, BKSB and OAB were the fastest to grow during the period FY18-21, 7.12%/7.04%/10.71% respectively. While for the larger banks like BKMB and BKDB growth rate in deposits were less than 1%. Larger banks which have significant reliance on Government deposits have seen slower growth since the pie representing government deposits is largely fixed and do not grow in similar proportion as that of other deposits. NBO grew at a modest pace of 4.44% during the period but post management changes we have witnessed significant improvement in raising deposits. In FY21 deposits for NBO grew by huge margin of 15.5% and currently as of 9MFY22 it has surpassed BKDB as the second largest in terms of deposit market share at RO3.0bn.



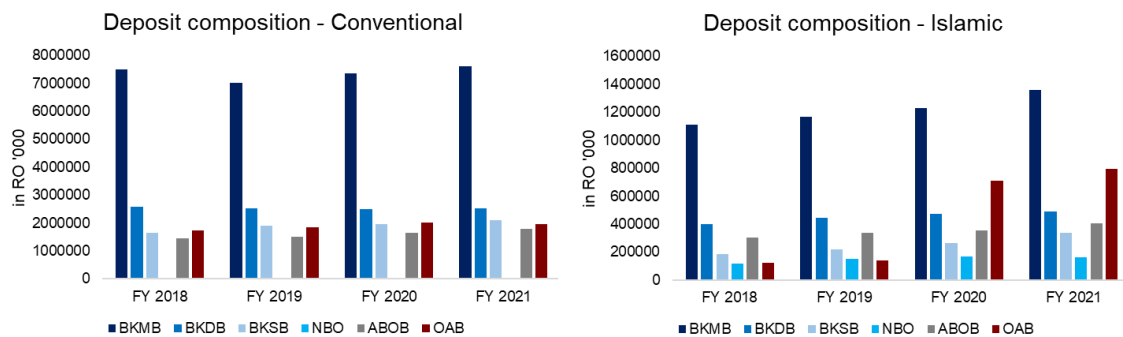
Source: Company reports, US Research

All the Banks have seen their CASA ratio go up reflecting the liquidity available in the system. BKSB and BKDB have seen the biggest jump in CASA ratio in the last 5 years, while CASA for BKMB is at 66.2%, which is the second highest ratio among the Banks after NBO. NBO has done a commendable job of increasing CASA from 59% (FY18) to 67% (FY21) by focusing on granular deposits via branch expansion.



Source: Company reports, US Research

The Net Loan to Deposit ratio has been largely similar across banks, with the highest ratio of 112% for BKDB and the lowest of 97% for OAB. We expect BKDB to be more aggressive on the LDR going forward.

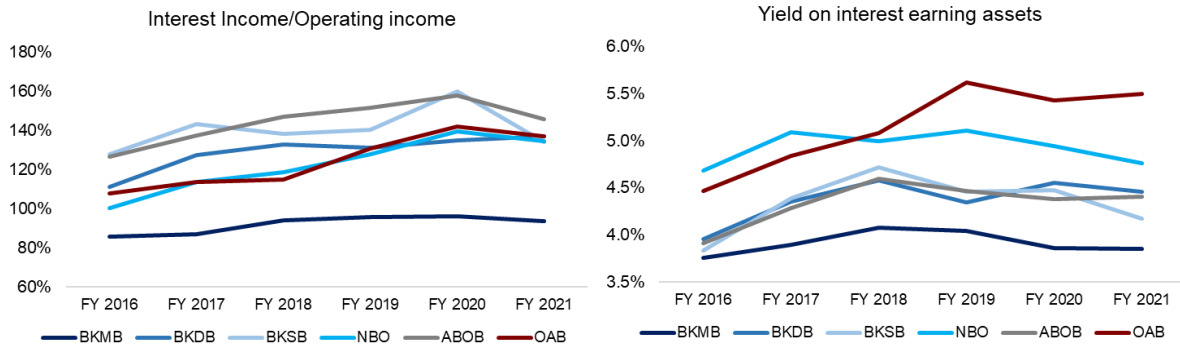


Source: Company reports, US Research

The share of total deposits to Islamic banking for BKMB has been in a narrow range of 11%-12% and has been growing at 5.12% CAGR in last 4 years, while ABOB has been able to expand it to 18% in FY22 from a low 12% in FY19, with a 4-year CAGR growth of 18.92%. OAB; share of deposits from Islamic Banking has spiked from 7.2% in FY19 to 30.1% in FY21, due to acquisition of Alizz Bank.

**Yield on Assets rising, cost of funds stable and NIMs consistent**

The yield on average assets has been in stable range across Banks at 3.85% to 5.50%. BKMB's average yield has been in between 3.75% to 4.07% and has settled at around 3.85% in FY21, this is on account of the large asset base franchisee.

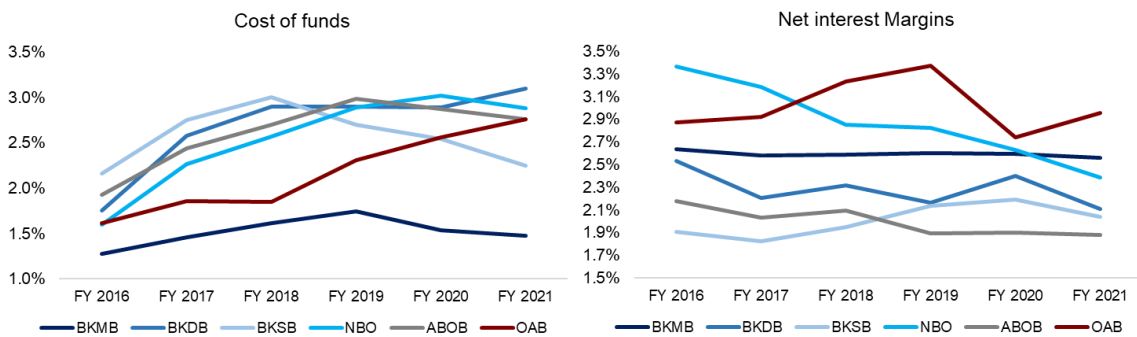


Source: Company reports, US Research

Among the Banks, OAB has the highest yield on assets at 5.50% in FY21, due to a higher share of Islamic Banking, followed by NBO, which has seen its yield on assets hovering around 4.68%-5.11% between FY16-21. NBO's has a 44% share of personal loans due to its high exposure to the retail clients, this has attributed to a higher yield on assets for the Bank.

OAB has seen its yield on average assets peak in FY2019 at 5.62%, however despite acquisition of Alizz Bank, the incremental loans arising out of acquisitions enjoy similar yield.

The recent rise in interest rates will lead to increase in cost of funds. Banks are using CASA as a hedge, reducing their term deposits, and lowering their borrowings to maneuver this rising trend. We expect BKDB to benefit most from the rising trend as they lend more to corporate than retail hence flexible on the upside.



Source: Company reports, US Research

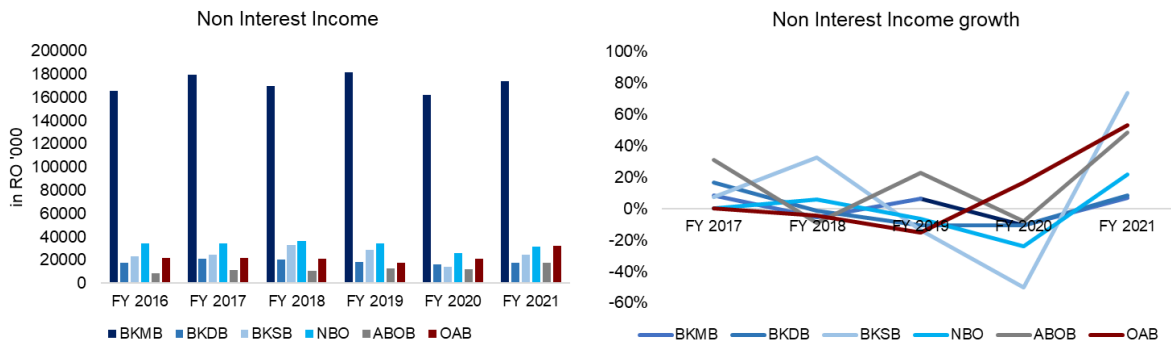
The least increase in cost of funds has been for BKMB at 21bps, while the highest increase in cost of funds has been for BKDB at 134bps, followed by NBO at 129bps. BKMB's lower rise in cost of funds has been due to its vast branch network and ability to tap Government deposits, which are around 28.5% of their total deposit book. This comparative advantage will help BKMB enjoy the lower cost of funds in future as well. BKDB has seen its cost of funds go up to 310bps which is

highest among the Banks. BKDB is working on this problem and has raised CASA levels to 43% in FY21 from 38% in 2018.

NIMs have generally been stable for the Omani Banking sector. The NIMs for the incumbent, BKMB have been more or less flat at 256bps between FY2016 to FY2021. While the NIMs for BKDB, NBO and ABOB have seen a fall of around 42bps, 98bps & 38bps respectively, the NIMs for BKSB and OAB has gone up by marginally at 13bps and 9bps respectively. We see NIMs inch up marginally on account of rising yield on assets. BKDB is expected to witness the largest NIM expansion on account of its larger exposure to corporate loans.

### Non-Interest Income to witness modest growth

Omani Banks have been continuously focusing on increasing their share of non-interest income to total income as well as trying to change the mix, within non-interest income. The focus for Banks has been to increase the Fee from conventional banking or Islamic financing and reduce other operating income. BKDB has seen its other operating income declining 38% of the total non-interest income in FY18 to 19% in FY21 whereas fee from conventional banking has increased from 19% in FY18 to 42% in FY19. Similar is the case with OAB, which has seen its fee from Islamic financing rise from 13.3% in FY19 to 40% in FY21 due to acquisition of Alizz Bank. ABOB's mix from non-interest income has seen a change in favor fee income from conventional banking and Islamic banking at around 86% in FY18 to 78% in FY21.



Source: Company reports, US Research

ABOB has seen a cumulative growth in non-interest income of 11.26% CAGR (16-21), mainly on account of their focus on revamping investment Banking division and effective cross selling of the cards business. OAB also has seen their non-interest income increase by 53% in FY21, aided by higher income from Islamic banking post acquisition of Alizz Bank. BKSB's non-interest income in FY21 has been higher by 73%, due to the low base effect.



### Cost to Income ratio stabilizing post pandemic

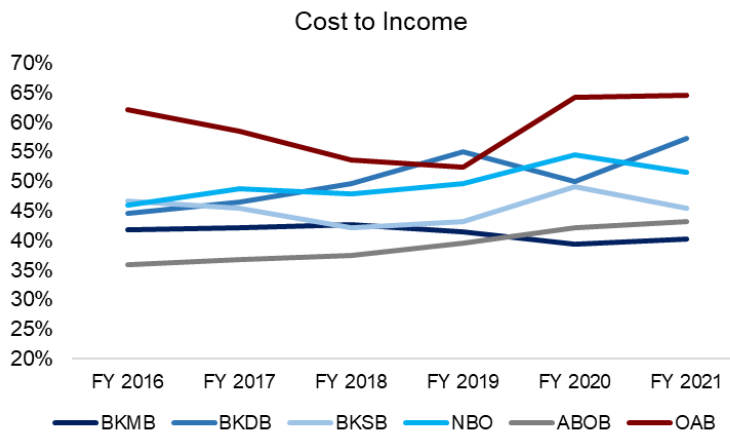
Omani Banks are simultaneously focusing on virtual banking by investing in technology and digitizing their operations as well as opening more physical branches. In terms of Branch network, BKMB has around 198 branches and all other Bank branches collectively add around 288 branches.

BKMB and BKSB have maintained their cost to income ratio in the range of 40-42% and 45-47% respectively over the period FY16-21 respectively. BKDB and NBO witnessed a jump from the mid 40% levels to above 50% during the last five years on aggressive retail expansion plans. We expect both these banks to bring the cost to income ratio below the 50% mark over the next 3 years.

OAB has the highest cost to income ratio of 64.5% in FY21; OAB had a historically high cost to income ratio at 62.2% in FY2016, which had seen a dip in FY19, however post acquisition the combined costs once again moved higher.

A look at the cost efficiency across banks reveals that the cost per employee for Banks has been in the range of RO 43200/employee to around RO 56,600/employee, with NBO having the least cost and BKSB having the highest cost. BMKB, despite its size has cost per employee of around RO 49100/employee.

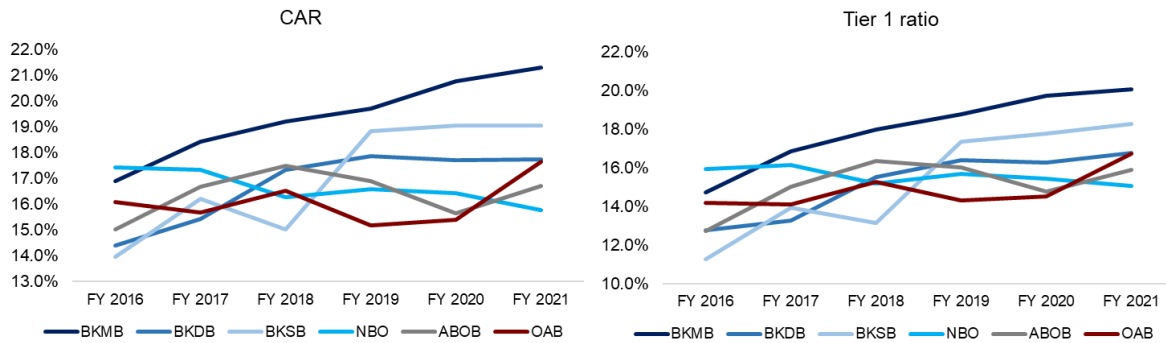
In terms of revenue, BKSB has highest revenue per employee at around ~RO 124,620 per employee followed by BKMB which has revenue of around RO 122,043 per employee. Whereas other banks have revenue/employee in the range of 80000-85000/employee. BMKB has been able to command superior revenue per employee due to its scale of operations.



Source: Company reports, US Research

### Well capitalized banks

Given the regulators strict norms on capital adequacy, Omani banks have been able to create sufficient capital buffer. The trend in CAR has generally been upwards over 2016-21.



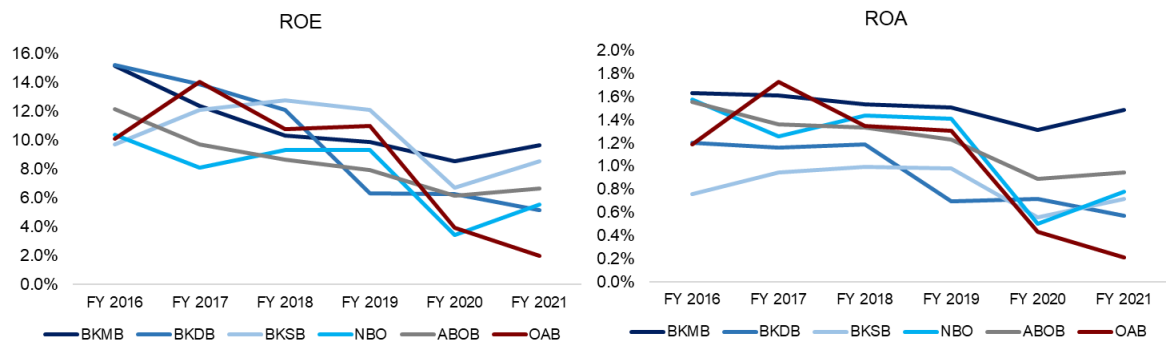
Source: Company reports, US Research

BMKB has augmented their capital through their innovative capital restructuring; by issuing bonus shares aggregating to RO 750mn as well as issuing bonus AT1 bonds aggregating to RO 375mn. BKMB has higher Capital adequacy ratio at around 21.30% as against the stipulated regulatory ratio of 12.25%. The higher capital adequacy ratio provides for additional room for growth of its Loan Books.

ABOB has been raising capital at frequent intervals to support their growth, it raised RO 20mn in FY19 and recently raised around RO 30mn in FY21, while OAB has raised around RO 96mn in FY21 to strengthen capital base post acquisition of Alizz Islamic Bank.

### Profitability, RoE/RoA

The RoE and RoA of banks have been trending downwards since FY2018, mainly on account of lower profits, higher provisioning and thinning of spreads. BKMB has seen its profits grow by a marginal 1.36% CAGR between FY2018-21, while other Banks have seen witnessed large scale declines. The CAGR (18021) decline of Net income of BKDB was by 16%, NBO dropped 12.05% and OAB by 30.3%. ABOB and BKSB have managed to stay afloat during this period.



We believe the difficult phase for the Omani Banking sector is behind us. The multiple macro externalities have had a stressful impact on the bottom line thus far. With most of the legacy issues behind the Omani Banking sector is back to focusing on its core lending operations. Lower NPL,

peak of provisioning cycle, rising interest rates and projects backed credit offtake will auger well for the bottom line of these banks going forward. We are optimistic that the rising profitability levels will drive ROE expansion by FY25.

#### Valuation and Recommendation snapshot

##### VALUATION SUMMARY

Name	CMP	Target Price	P/B (FY23E)	P/E (FY23E)	Div Yld (FY23E)
National Bank of Oman	0.27	0.313	0.9x	8.8x	5.7%
Bank Dhofar	0.146	0.163	0.7x	10.1x	4.9%
Ahli Bank oman	0.14	0.170	0.8x	9.3x	5.9%
Oman Arab Bank	0.119	0.140	0.5x	10.7x	4.7%



## Company section



## Banking Sector

**BUY: 12M TP @ 0.323**

### Valuation Summary (TTM)

Price (RO)	0.270
PER TTM (x)	14.0
P/Book (x)	0.9
Dividend Yield (%)	6.8
Free Float (%)	39%
Shares O/S (mn)	1,626
YTD Return (%)	38%
Beta	1.5

(mn)	OMR	USD
Market Cap	439	1,140
Total assets	4,081	10,600

Price performance (%)	1M	3M	12M
National Bank of Oman SAC	4%	-1%	43%
MSX 30 Index	0%	-3%	10%
MSX Financial Index	0%	-2%	12%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	122	65	90
Avg Daily Volume (,000)	373	251	392

52 week	High	Low	CTL*
Price (RO)	0.280	0.175	54.3

\* CTL is % change in CMP to 52wk low

### Major shareholders

The Commercial Bank of Qatar	34.9%
Sheikh Suhail Salim Bahwan	14.7%
Civil Services Pension Fund	11.0%
Others	39.4%

### Other details

Exchange	MSX
Sector	Banks
Index weight (%)	9%

Key ratios	2019	2020	2021
EPS (RO)	0.027	0.006	0.013
BVPS (RO)	0.269	0.255	0.271
DPS (RO)	0.017	0.000	0.004
Payout ratio (%)	63%	0%	28%



## National Bank of Oman (NBOB)

We reinitiate coverage on National Bank of Oman with a BUY recommendation and a target price of OMR 0.323 implying 19.6% upside to the current market price. National Bank of Oman, the first incorporated Bank in the Sultanate was established in 1973. After years of losing market share, the bank is currently finding new ways to reinvent itself. The Bank had laid out a five-year strategic road map in 2020 which is bearing fruit. This is evidenced by the tangible growth witnessed over the last 18 months since committing to the strategy. Green shoots are appearing in terms of growth in market share of both Loans (YoY growth of ~7.4% in 9MFY22) and Deposits (YoY growth of ~9.6% in 9MFY22)

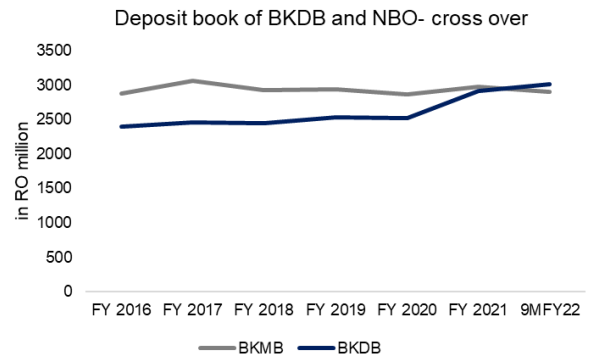
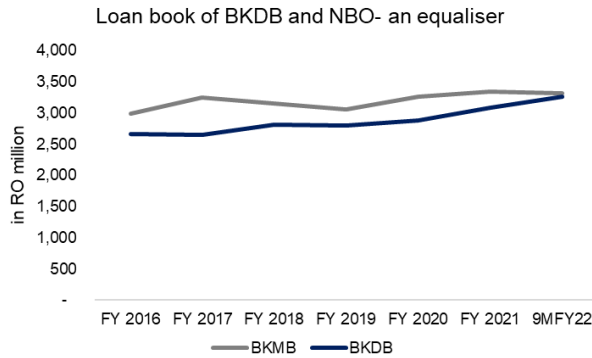
**New management new paradigm:** The Bank has seen a series of changes in the senior management between Q32020 till Q42021, with an inflow of veterans from the industry. The changes in the management have acted as a huge catalyst for the Bank to bring about the much-desired improvements in line with the demands of the market. This was accompanied with a strategic vision to de-risk the Bank's exposure to countries outside Oman and to focus inward. Investments in technology have brought delightful offerings to customers and produced an efficient digital experience. We like the renewed vigor and buoyancy created and expect it to translate into focused growth going forward.

**Strategic priorities in place:** The Bank has laid out clear strategic priorities in terms of managing the Balance Sheet, fine tuning the business model and tweaking the operations. The five-year strategy is based on three key priorities, to safeguard the Bank's financial well-being, to create value for shareholders, partners and other stakeholders; to sustain business through a strong and clear brand and most effectively develop and utilise digital & human resources. We believe the Bank has so far been able to walk the talk as can be evidenced from the performance in the last few quarters.

**Relationship with Government:** The key cog in the wheel for the Bank is the excellent relationship with the Government of Oman and its ability to leverage the same across various product offerings. The Bank has access to stable, significant and low-cost deposits from Government & Government related entities which contributes to a strong CASA franchise of above 60%.

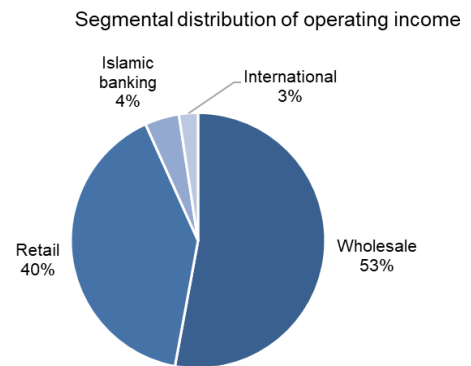
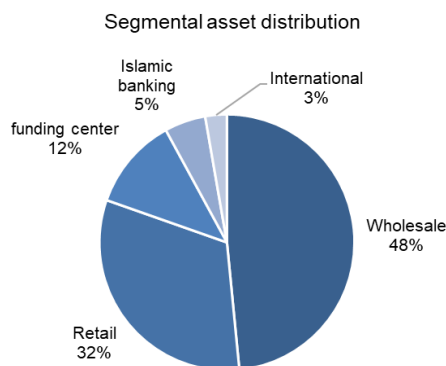
**Potential Upside; Recommend BUY with TP of 0.323:** At current prices, the stock is trading at a significant discount to its book value, 8.5x FY23E earnings, and 2.8% FY23E dividend yield, which we feel is attractive, given the significant expansion in ROE going forward. We estimate the bank to achieve loan book CAGR of 8% and net income CAGR of 22.0% during FY21-25E. The calibrated growth in loan book along with expected reduction in NPL leaves lot of room for growth. We have arrived at blended Residual-Relative valuation target price of RO 0.313/Share, which offers a upside potential of 22.3%.

**Visible gain in market share:** Post the change in management, the focus of the Bank was to give a renewed thrust in gaining market share both in loans and deposits. NBOB has clearly beat the industry growth trends with its recent performance. While the aggregate deposits for the banking sector in the half-year period of FY22 showed a YoY growth of 4.7%, the loan book for the same period grew by a meagre 2.4% YoY. Whereas for NBOB, the same was around at 14.2% and 9.1% respectively, clearly indicating the change in trajectory. As of FY21 the Bank occupied the third position with a market share of 13.1% in the loans and 13.2% in deposits. However as of September 2022, the loan book was at par with the second largest Bank Dhofar at RO 3.3bn and deposits were at RO 3.01bn taking NBOB to the second position.



Source: Company reports, US Research

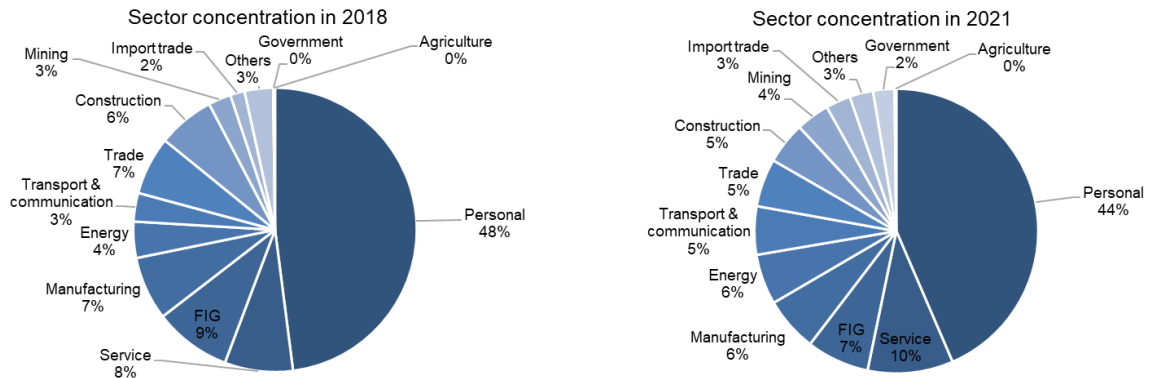
We believe NBOB is best placed to participate in the economic upcycle going forward. The demonstrated ability of the new management team along with a conducive market environment provide ample room for growth. We expect the highest growth trajectory in loans and deposits for NBOB within our coverage universe. The renewed focus by the management and demand from customers on Islamic Banking will result in a faster pace of growth in this segment compared to the conventional loan book. We expect the overall Loan Book to grow at 7.3% CAGR (FY22-25e) and a deposit growth of 6.9% CAGR (FY22-25e).



Source: Company reports, US Research

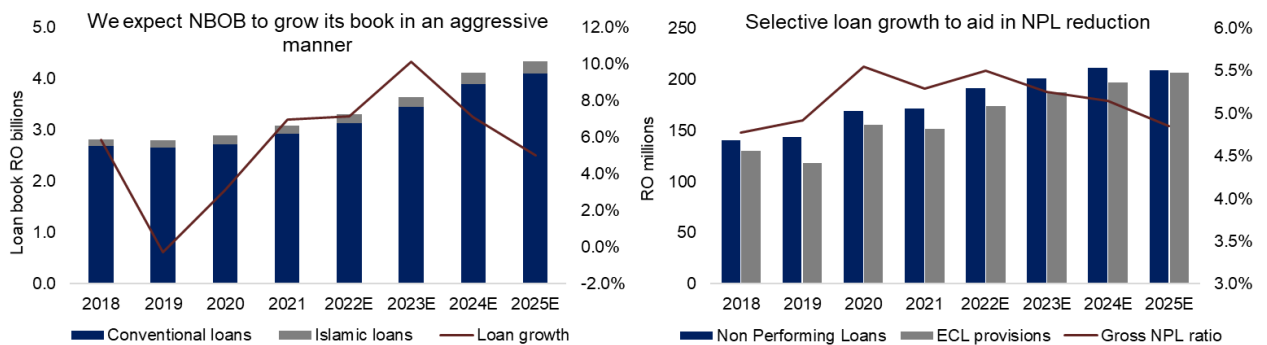
**Asset growth not at the cost of quality:** Balance sheet growth has not come at the cost of asset quality or higher cost of funds. NBOB has tangibly improved its credit and risk management policy which is evidenced in the drop in credit costs over the recent past (103bps in FY2020 vs. 60bps FY22E). The cost of funds has also declined despite growth in deposits due to the high CASA

franchise. Further, the Bank has written-off most its losses that were incurred in 2017-18, from its exposure to entities in Dubai. NBOB has fine-tuned its sector exposure and prudently moved away from unsecured personal loans which contributed to 48% of the loan book in 2018 to 44% in 2021.



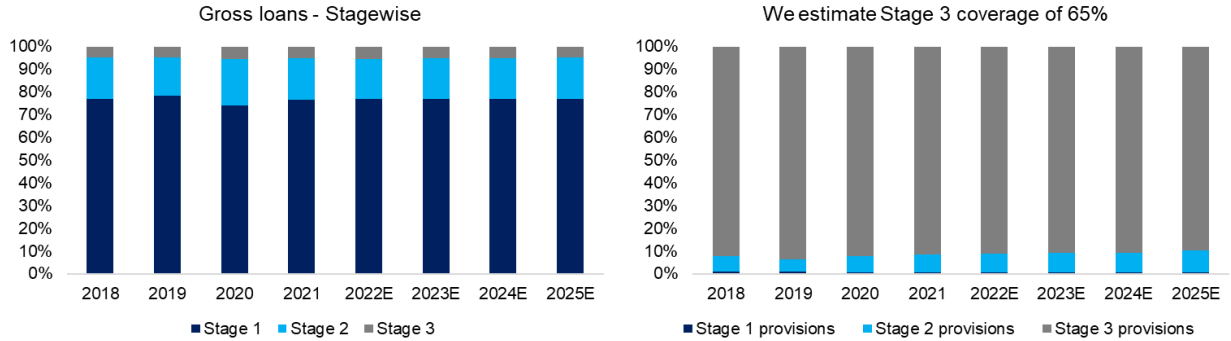
Source: Company reports, US Research

While the momentum is already set, we expect NBOB to grow its loan book albeit selectively. Given the strength of its network and legacy of association with the Government and large corporates, we expect the bank to increase its focus on quality business where credit rating is high. While lending to these entities may have a lower margin, the growth of the loan book would be more orderly and sustainable. Further, since the bank has offloaded its foreign branches, we do not expect any significant losses on that front. We expect slippages to be lower and more controllable which will translate into lower provisions and improvement in net margins going forward.



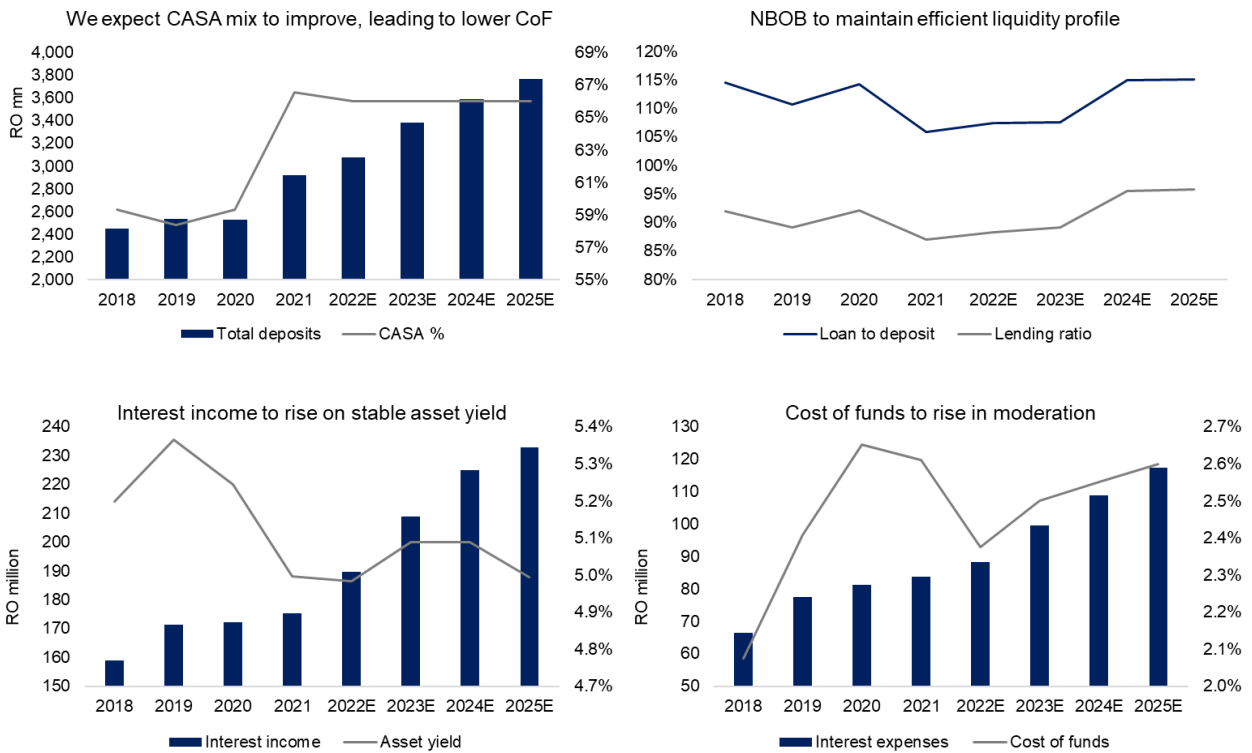
Source: Company reports, US Research

In our base case we believe that the NPLs have peaked at 5.3% in FY22 and going forward it is expected to trend lower to reach 4.9% by FY25e. With the CBO's moratorium ending, we believe that the Bank's credit cost also will be in line with others. Considering the improved economic situation and corporates returning back to black from the pandemic, we may witness write-back of provisions which will auger well for the bottom line.



Source: Company reports, US Research

**Elevated CASA ratio to sustain:** The CASA ratio for NBOB has risen from 59% in FY18 to 67% in FY21, which is a significant jump of 800bps in three years. We expect the Bank to maintain the CASA ratio at these levels going forward. The jump in CASA will help the Bank maintain a long-term sustainable cushion of low-cost funds. The higher oil price augur well for the Bank since this increases liquidity in the system and translates into higher deposits. The 27% shareholding of the Government in NBOB provides comfort and they provide a base for sticky low-cost deposits.



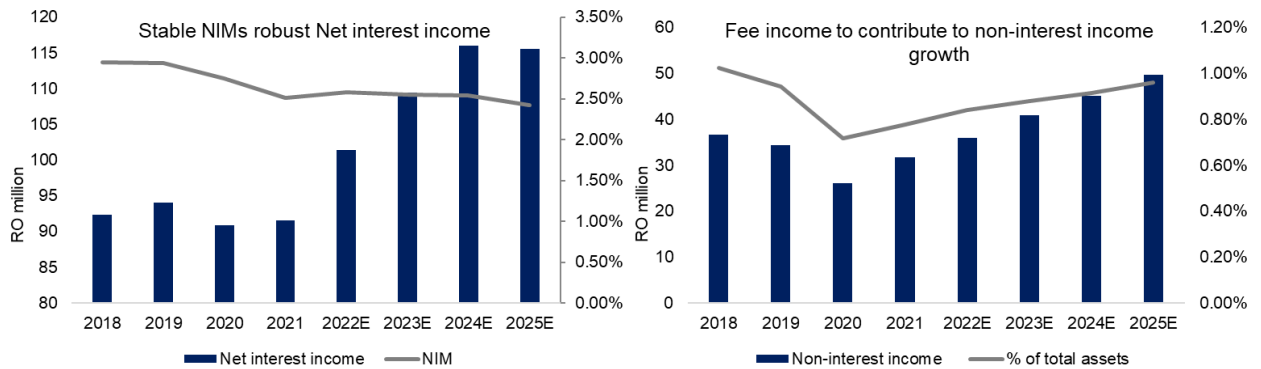
Source: Company reports, US Research

**NIMs to be stable:** We expect stability in yield on average assets going forward which will be in line with the trend witnessed in the previous years of ~4.9-5.0%. This is despite the Bank growing its book at marginally lower yield considering its focus on lending to highly rated large corporate and Government entities. Our base case projects the yield on assets to be at around 5.0% by FY25E. We do not expect banks to increase rates following the repo rate increase by CBO due to ample



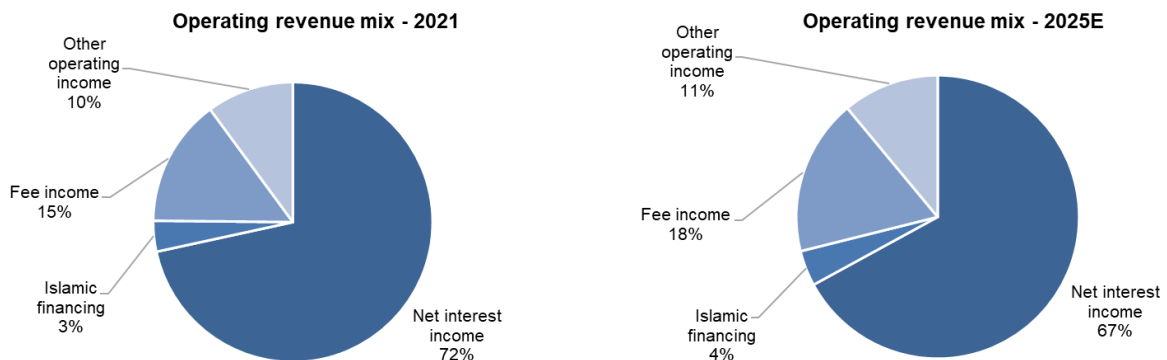
liquidity in the system. On the other hand, we see the cost of funds for NBOB to remain stable and moderately decline on the back of higher CASA ratio, its ability to raise low-cost funds from Government related entities as well as higher liquidity given the elevated oil prices.

Given the above scenario, NIMs are expected to remain in the range of 2.4-2.5%. We expect stable NIMs coupled with the high-quality credit growth to produce higher and sustainable net interest income. NBOB is likely to grow its net interest income by 4.2% CAGR (22-25e).



Source: Company reports, US Research

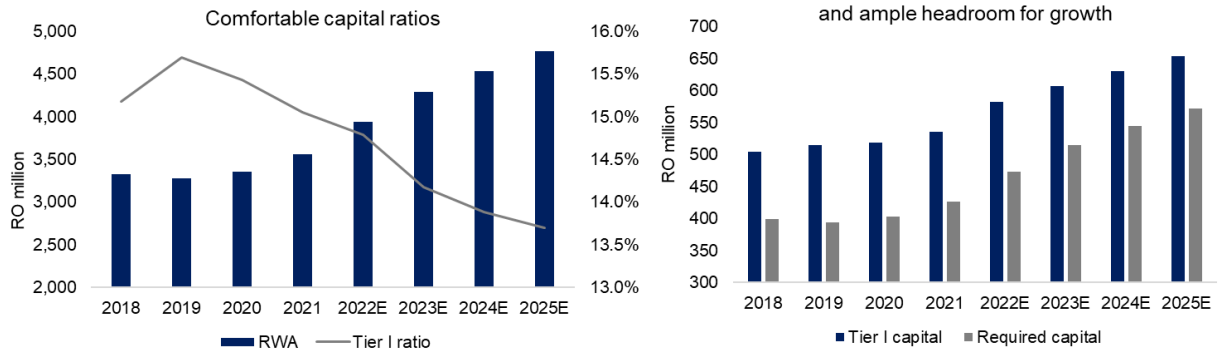
**Fee Income to contribution to rise:** The fee income as a component of total income in FY21 was at 15% and we expect the same to increase to 18% by FY25. This we believe will take place due to the increased efforts by the wholesale banking team to improve on the investment banking activities. We also see a marginal increase in fees from Islamic banking segment considering the rising interest from customers.



Source: Company reports, US Research

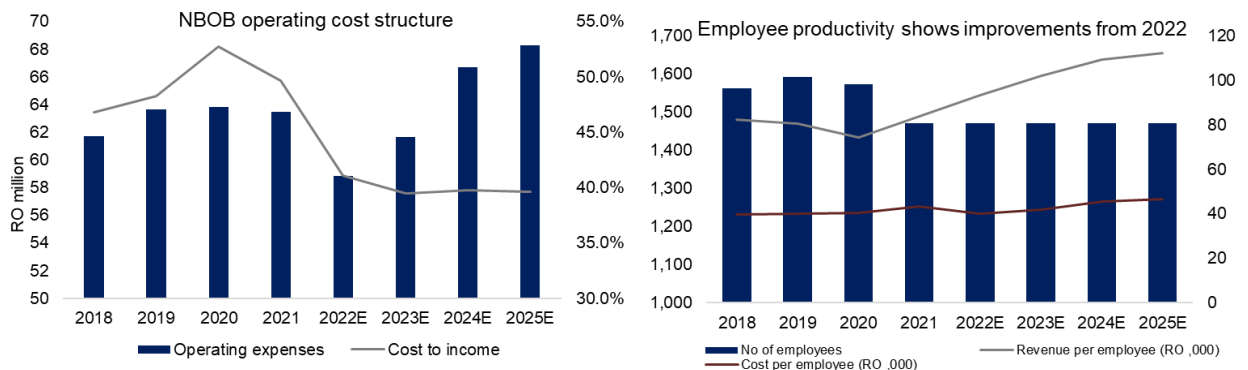
**Comfortable Capital Position:** We believe that the Bank has more than adequate capital to support its loan book growth going forward. The Tier 1 capital of the Bank was at 15.05% in 2021, much above the regulatory requirements. The growth aspirations in the Loan book, will be ably supported by the comfortable capital cushion that the Bank has, more so given the fact that the Bank's NPL would be reducing, resulting in lesser provisions. We see Bank's Tier 1 capital at around 13.69% in FY25E, which translates to excess capital of 21%, despite the growth in its loan book. The current capital comprises of RO 115.5 million of Tier 1 perpetual bond, issued in April 2021 & denominated

in USD, carrying a fixed rate of 8%, with reset after 5 years. We do not foresee a requirement to raise further capital in the next three years.



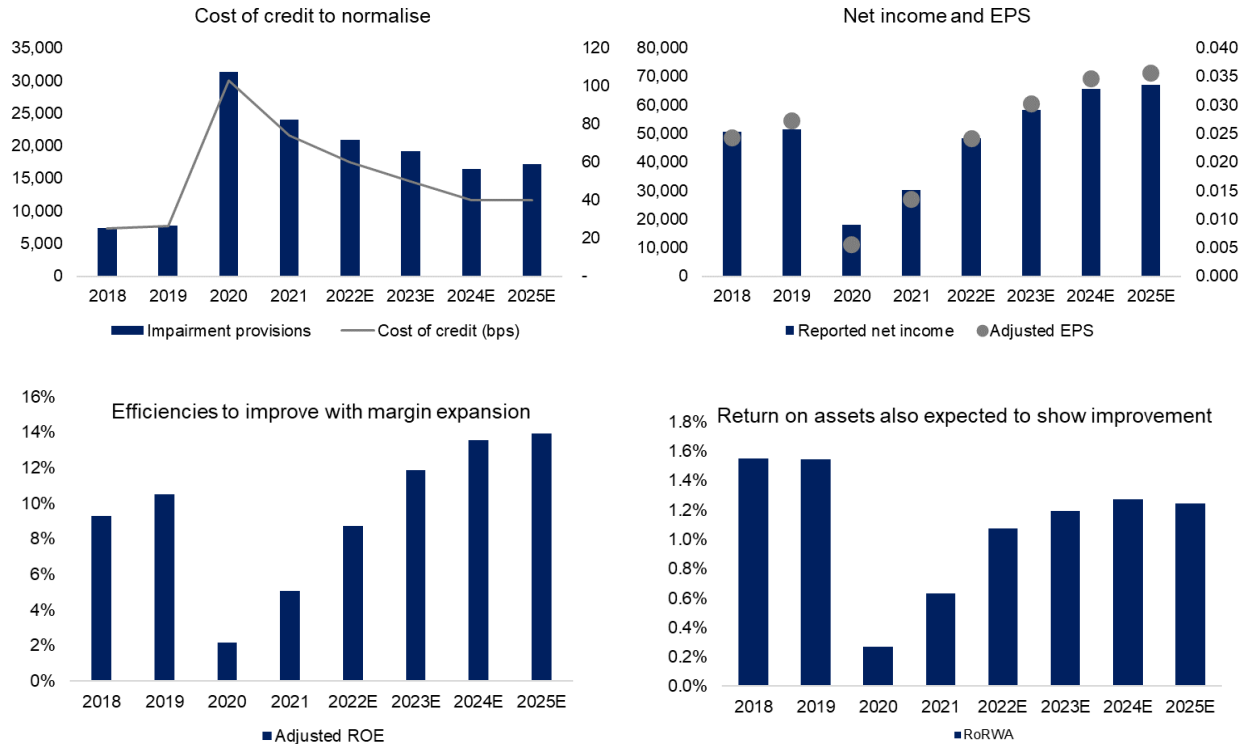
Source: Company reports, US Research

**Profitability set to improve:** Rationalizing cost both horizontally and vertically was one of the key measures undertaken over the last couple of years. Cost to income ratio peaked in FY20 at ~53% and has been declining ever since. Investments into technology, shutting down unviable branches and closing high cost overseas operations were some factors that resulted in lower operating costs. As employee and operational efficiencies fall into place, we expect further decline in the cost to income ratio to ~40% by FY25E.



Source: Company reports, US Research

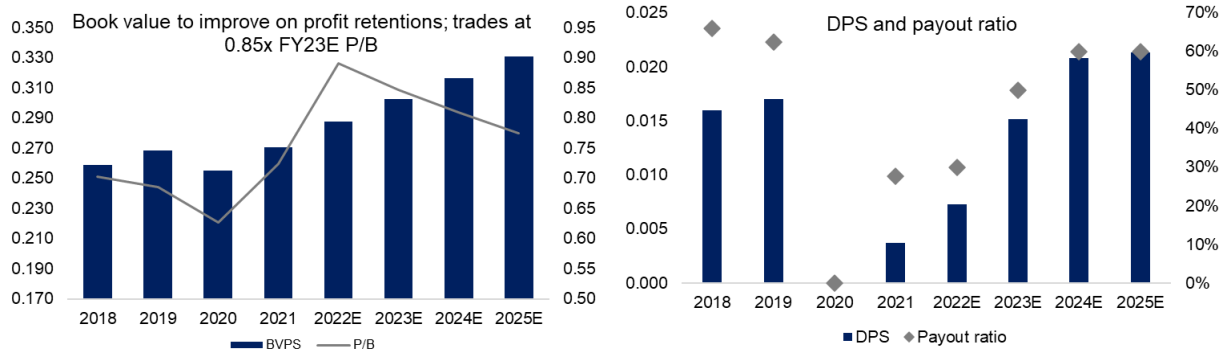
The credit costs, which were elevated in FY20 & FY21 at around 103bps & 74bps respectively is expected decline to 40bps by FY25E, due to lower expected provisioning. We expect that post the restructuring window, the loan book does not have any surprises and further slippages will be minimal. We also see the credit costs tapering on account of lending to better rated corporate and to government related entities, reducing the need for higher provisioning.



Source: Company reports, US Research

**Better than expected results in 9MFY22:** The Bank's nine-month performance has been above our expectations across key parameters. The loan book for 9MFY22 came in at RO 3.3bn which was higher by 7.4% compared to the same period the previous year. The deposit growth also improved by 9.6% and stood at RO 3.0bn making it the second largest bank in terms of deposits this quarter. The Net interest income for the 9MFY22 came in at RO 70.1mn which was higher by 8.7% over the same period the previous year. The significant improvement in the non-interest income by 15% YoY led to an increase in the net operating income by 10.8%. While the growth in topline augured well for the bank, the most prominent aspect for the period was the decline in operating expenses and provisions. While the operating expenses declined by 5.3%, the reduction in provisioning by 11% bode well for the net margins. Net income was reported at RO 30.9mn which was 57% higher than the same period the previous year.

We see the improved performance to continue and sustain for the remaining part of the year as well. Though the NPLs have risen as compared to last year, we believe that it has peaked out. The coverage ratio is the lowest amongst the peer group at 89.8% and the capital adequacy ratio remains stable.



Source: Company reports, US Research

**Residual valuation at RO 0.312; blended valuation at RO 0.323; We reinitiate with BUY Rating:**

We have valued National Bank of Oman using blended Residual-Relative valuation method. The share price of NBOB has seen a significant jump in last 12 months, however we still feel there is steam left and the shares have room to rally from here. The calibrated expansion in the loan book, petering down of NPL ratio, and double digit ROE expansion will be key reasons to provide the impetus for the upside. The bank offers a dividend yield of ~3%. We arrived at target price of RO 0.323, implying 19.6% upside potential from the current market price. We have valued National Bank of Oman using the blended valuation approach, with 50% weight to intrinsic valuation based on Residual, 25% weight to relative valuation using P/E, and 25% weight to relative valuation using P/B.

Residual income valuation of NBOB	2022E	2023E	2024E	2025E	Valuation parameters	
Equity at beginning of year	439,955	467,419	492,010	514,530	Risk free rate	5.0%
Equity at end of year	467,419	492,010	514,530	537,659	Equity risk premium	6.0%
Net income attributable to shareholders	39,235	49,181	56,300	57,823	Beta	1.34
Cost of equity	60,867	64,070	67,002	70,014	Cost of equity	<b>13.0%</b>
Residual income	(21,633)	(14,889)	(10,702)	(12,191)	ROE 2023e	11.9%
PV of residual income	(21,337)	(12,993)	(8,261)	(8,326)	Terminal year retention ratio	40.0%
PV of Terminal value residual income				67,934	Sustainable growth rate	4.7%
Current equity value				439,955		
Fair value of equity				507,889		
Shares outstanding				1,625,946		
<b>Fair value per share (RO)</b>				<b>0.312</b>		
CMP (RO)				0.270		
Upside/downside (%)				15.7%		

Relative valuation parameters	
4 Year earnings CAGR	27.6%
Risk free rate	5.0%
Equity risk premium	6.0%
Beta	1.34
<b>Cost of equity</b>	<b>13.0%</b>
Terminal growth	4.7%
Terminal year ROE (%)	13.9%
<b>Justified P/B</b>	<b>1.11x</b>

Relative Valuation - National Bank of Oman	
EPS 2023e (RO)	0.030
BVPS 2023e (RO)	0.303
<b>Target Price/Earnings Multiple for 2022E (x)</b>	<b>11.0x</b>
<b>Target Price/Book multiple for 2022E (x)</b>	<b>1.11x</b>
<b>Fair value per share (RO) - P/E Multiple</b>	<b>0.333</b>
<b>Fair value per share (RO) - P/B Multiple</b>	<b>0.336</b>

Valuation Method	Fair Value per share (RO)	Weight	Upside/downside
Relative Valuation - P/E	0.333	25.0%	23.2%
Relative Valuation - P/B	0.336	25.0%	24.5%
Intrinsic valuation - Residual income	0.312	50.0%	15.7%
<b>Target Price (RO)</b>		<b>0.323</b>	<b>19.6%</b>
CMP (RO)		0.270	
Forward Dividend Yield 2023E			2.7%
<b>Total return Including dividend</b>			<b>22.3%</b>

### About National Bank of Oman

National Bank of Oman was established in the year 1973 and is the first Bank to be incorporated in the Sultanate. It provides both the conventional and Islamic banking services. The Bank operates via four main segments, namely, Retail, Wholesale (including investment banking, treasury) and international, and Islamic banking. NBO derives majority of its revenue from Wholesale Banking (~61% before inter segment eliminations), followed by Retail Banking. The revenues from Islamic banking & International Banking are less than 4% each. Almost 96% of the operating income and assets are derived domestically from Oman. In terms of market share, NBOB is the third largest Bank in Oman.

The National Bank of Oman JSC was established with an initial capital of OMR 500,000 and commenced operations with two branches in 1973. WJ Towell & Co. and Bank of America were the Bank's initial principal shareholders, with holdings of 51 per cent and 39 per cent respectively. Since then, it has seen multiple ownership changes. In 1987, Bank of Credit and Commerce International (Luxembourg) Holdings SA (BCCI) acquired Bank of America's 39 per cent stake. In 1991, when the operations of BCCI were suspended, the Bank was re-capitalised by the Omani Government. In 2003, Suhail Bahwan Group (SBG) acquired a 35 per cent holding of the Bank through a private issue of share capital. In 2005, SBG and certain other minority shareholders divested part of their holdings to Commercial Bank of Qatar (CBQ), which currently holds 34.9 per cent of the Bank's issued share capital. CBQ had recently pursued an attempt to increase its stake to 50%, which eventually did not materialize.

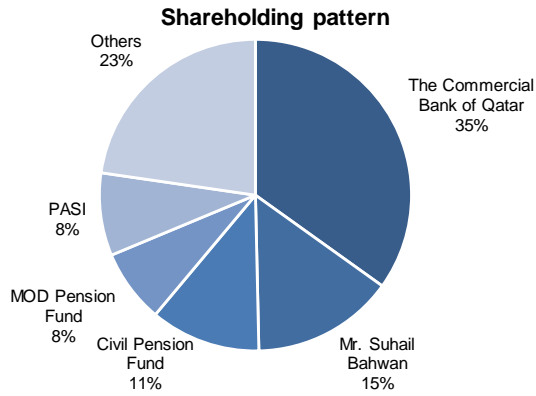
In addition to its operations in Oman, the Bank with presence in UAE & Egypt (it is looking to cut down its international operations and in the process of shutting down the Egypt branch) has a network of around 284 branches. It carries out its Islamic Banking activities through Muzn Islamic Bank. The Bank has around 1470 employees.

**Pertinent changes in management leads to paradigm shift:** There have been some major changes in senior management with Mr. Mr. Abdullah Zahran Al Hinai being appointed as CEO in August 2020, Mr. Gridhar Varadachari as CFO in Jan 2021. & Mr. Tariq Atiq as Chief Retail & Digital Banking Officer in April 2021. Besides these recent appointees the management team comprises of Mr. Hassan Abdul Amir Shaban is the Chief Government & Alliance Banking Officer since 2004 & Mr. Sulaiman Said AL Lamki is the Chief Risk Officer of NBOB.

Mr. Abdullah Al Hinai has experience of over two decades in banking. Prior to his current role, he was the Chief Wholesale Banking and Strategic Growth Officer at Bank Muscat. Al Hinai holds an Executive MBA from the International Institute for Management Development (IMD), Switzerland; a Postgraduate Diploma from Manchester Business School, UK; and a B.Sc. in Business Administration from Boston University, USA. He is also a Chartered Financial Analyst and a Certified Public Accountant

The new management has laid out its strategic priorities on:

- Safeguard- focus on funding & capital, whilst guarding asset quality
- Value Creation- focus on bolstering revenues, cost optimization & leveraging client base through partnership
- Sustainability- focus on brand building, digitize operational model



Board of Directors	Position
Ms. Amal Suhail Bahwan	Chairperson
H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani	Deputy Chairman
Ms. Najat Ali Al Lawatia	Director
Mr. Hamad Mohammad Hamood Al Wahaibi	Director
Mr. Mohammed Ismail Mandani Al Emadi	Director
Mr. Rahul Kar	Director
Mr. Fahad Badar	Director
Mr. Joseph Abraham	Director
Mr. Said Hilal Al Habsi	Director
Nabil Hamad Al Mahrouqi	Director
Dr. Ghazi Al Alawi	Director

Income Statement (RO 000')	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Interest Income	152,655	163,724	163,191	165,588	178,948	197,076	212,157	219,247
Interest Expense	-63,067	-73,175	-76,297	-78,560	-83,164	-93,587	-102,787	-110,688
<b>Net Interest Income</b>	<b>89,588</b>	<b>90,549</b>	<b>86,894</b>	<b>87,028</b>	<b>95,785</b>	<b>103,489</b>	<b>109,370</b>	<b>108,559</b>
Non Interest Income	39,427	37,798	30,069	36,323	41,638	46,857	51,759	56,781
<b>Net Operating Income</b>	<b>129,015</b>	<b>128,347</b>	<b>116,963</b>	<b>123,351</b>	<b>137,422</b>	<b>150,347</b>	<b>161,129</b>	<b>165,340</b>
Operating Expenses	-61,742	-63,646	-63,826	-63,498	-58,817	-61,642	-66,707	-68,285
Provision Expenses	-7,397	-7,747	-31,329	-23,985	-20,897	-19,156	-16,397	-17,217
<b>Profit Before Taxation</b>	<b>59,876</b>	<b>56,954</b>	<b>21,808</b>	<b>35,868</b>	<b>57,708</b>	<b>69,549</b>	<b>78,024</b>	<b>79,837</b>
Tax expense	-9,268	-5,523	-3,660	-5,591	-9,233	-11,128	-12,484	-12,774
<b>Profit for the year</b>	<b>50,608</b>	<b>51,431</b>	<b>18,148</b>	<b>30,277</b>	<b>48,475</b>	<b>58,421</b>	<b>65,540</b>	<b>67,063</b>
AT1 coupon	-9,096	-9,096	-9,096	-8,462	-9,240	-9,240	-9,240	-9,240
<b>Profit to shareholders</b>	<b>39,491</b>	<b>44,356</b>	<b>9,052</b>	<b>21,815</b>	<b>39,235</b>	<b>49,181</b>	<b>56,300</b>	<b>57,823</b>

Balance sheet	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Cash and balances with Central Bank of OI	315,055	333,772	216,126	307,870	232,047	254,148	248,681	288,056
Due from banks	98,064	109,376	94,716	114,685	160,559	163,770	167,046	170,386
Loans & advances and financing, net	2,809,707	2,801,557	2,887,862	3,088,646	3,308,737	3,643,441	3,902,582	4,097,711
Investment securities	231,149	292,549	318,534	447,178	460,593	474,411	488,643	503,303
Fixed Assets	64,360	65,047	62,568	59,892	58,793	57,289	55,839	54,516
Other Assets	54,587	40,746	52,845	62,796	64,680	66,620	68,619	70,677
<b>Total Assets</b>	<b>3,572,922</b>	<b>3,643,047</b>	<b>3,632,651</b>	<b>4,081,067</b>	<b>4,285,409</b>	<b>4,659,681</b>	<b>4,931,409</b>	<b>5,184,649</b>
<b>LIABILITIES AND EQUITY</b>								
Due to banks	155,949	283,786	288,723	297,729	303,684	334,052	367,457	404,203
Customers' deposits	2,452,382	2,531,518	2,527,179	2,917,732	3,078,207	3,386,028	3,589,190	3,768,649
Borrowings	324,148	192,500	192,500	192,500	192,500	192,500	192,500	192,500
Other liabilities	103,953	83,040	94,016	117,651	128,099	139,591	152,233	166,138
<b>Total Liabilities</b>	<b>3,036,432</b>	<b>3,090,844</b>	<b>3,102,418</b>	<b>3,525,612</b>	<b>3,702,489</b>	<b>4,052,171</b>	<b>4,301,379</b>	<b>4,531,490</b>
Share capital	197,060	197,060	197,060	197,060	197,060	197,060	197,060	197,060
Other Reserves	96,754	80,750	55,762	65,548	65,548	65,548	65,548	65,548
Retained earnings	127,176	158,893	161,911	177,347	204,811	229,402	251,922	275,051
<b>Shareholder's Equity</b>	<b>420,990</b>	<b>436,703</b>	<b>414,733</b>	<b>439,955</b>	<b>467,419</b>	<b>492,010</b>	<b>514,530</b>	<b>537,659</b>
Tier 1 Perpetual bonds	115,500	115,500	115,500	115,500	115,500	115,500	115,500	115,500
<b>Total Equity</b>	<b>536,490</b>	<b>552,203</b>	<b>530,233</b>	<b>555,455</b>	<b>582,919</b>	<b>607,510</b>	<b>630,030</b>	<b>653,159</b>
<b>Total Liabilities and Equity</b>	<b>3,572,922</b>	<b>3,643,047</b>	<b>3,632,651</b>	<b>4,081,067</b>	<b>4,285,409</b>	<b>4,659,681</b>	<b>4,931,409</b>	<b>5,184,649</b>

Cash Flow Statement	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Cash flow from operating activities	-56,615	237,102	-68,348	274,001	-36,587	75,011	57,424	103,755
Cash flow from investing activities	-52,115	-66,538	-47,970	-101,490	-18,225	-19,080	-19,872	-20,446
Cash flow from financing activities	-42,345	-164,738	-36,412	-8,712	-21,010	-33,830	-43,020	-43,934
Net change in cash	-151,075	5,826	-152,730	163,799	-75,823	22,101	-5,468	39,375
<b>Cash at the end of period</b>	<b>255,488</b>	<b>261,314</b>	<b>101,343</b>	<b>265,142</b>	<b>189,319</b>	<b>211,420</b>	<b>205,953</b>	<b>245,328</b>



Key Ratios	2018	2019	2020	2021	2022E	2023E	2024E	2025E
<b><u>Operating performance</u></b>								
Yield on average earning assets	5.2%	5.4%	5.2%	5.0%	5.0%	5.1%	5.1%	5.0%
Cost of funds	2.1%	2.4%	2.7%	2.6%	2.4%	2.5%	2.6%	2.6%
Interest spread	3.1%	3.0%	2.6%	2.4%	2.6%	2.6%	2.5%	2.4%
NIM	2.9%	2.9%	2.8%	2.5%	2.6%	2.6%	2.5%	2.4%
Cost to income ratio (%)	47.9%	49.6%	54.6%	51.5%	42.8%	41.0%	41.4%	41.3%
<b><u>Liquidity</u></b>								
Net loans to total deposits	108%	100%	103%	96%	98%	98%	99%	98%
Customer deposits/total deposits	94%	90%	90%	91%	91%	91%	91%	90%
Net loans to customer deposits	115%	111%	114%	106%	107%	108%	109%	109%
CASA ratio	59%	58%	59%	67%	66%	66%	66%	66%
<b><u>Asset quality</u></b>								
Gross NPL ratio (%)	4.8%	4.9%	5.6%	5.3%	5.5%	5.3%	5.2%	4.9%
Provision as a % of gross loans (%)	4.4%	4.1%	5.1%	4.7%	5.0%	4.9%	4.8%	4.8%
Provision coverage (%)	92.8%	82.4%	92.3%	88.2%	90.9%	93.3%	93.2%	99.0%
Stage 3 provisions/Stage 3 loans	-64%	-62%	-67%	-64%	-65%	-65%	-65%	-65%
Cost of credit (bps)	25	27	103	74	60	50	40	40
<b><u>Capital adequacy</u></b>								
Tier 1 ratio (%)	15.2%	15.7%	15.4%	15.0%	14.8%	14.2%	13.9%	13.7%
Tier II ratio (%)	1.1%	0.9%	1.0%	0.7%	1.0%	0.9%	0.9%	0.9%
Capital adequacy ratio (%)	16.3%	16.6%	16.4%	15.8%	15.7%	15.1%	14.8%	14.6%
Net Equity to Gross Loans	14.3%	15.0%	13.6%	13.6%	13.4%	12.8%	12.6%	12.5%
Net Equity to Total Assets	11.8%	12.0%	11.4%	10.8%	10.9%	10.6%	10.4%	10.4%
<b><u>Return ratios</u></b>								
Reported ROE (%)	11.9%	12.2%	4.3%	7.1%	10.8%	14.1%	15.8%	16.2%
Adjusted ROE (%)	9.3%	10.5%	2.2%	5.1%	8.7%	11.9%	13.6%	13.9%
ROA (%)	1.4%	1.4%	0.5%	0.7%	1.1%	1.3%	1.4%	1.3%
Adjusted ROA (%)	1.1%	1.2%	0.2%	0.6%	0.9%	1.1%	1.2%	1.1%
RoRWA (%)	1.5%	1.5%	0.3%	0.6%	1.1%	1.2%	1.3%	1.2%
<b><u>Per share ratios</u></b>								
EPS (RO)	0.024	0.027	0.006	0.013	0.024	0.030	0.035	0.036
BVPS (RO)	0.259	0.269	0.255	0.271	0.287	0.303	0.316	0.331
DPS (RO)	0.016	0.017	-	0.004	0.007	0.015	0.021	0.021
<b><u>Valuation</u></b>								
Price	0.182	0.184	0.160	0.196	0.270	0.270	0.270	0.270
P/E (x)	7.5	6.7	28.7	14.6	11.2	8.9	7.8	7.6
P/B (x)	0.7	0.7	0.6	0.7	0.9	0.9	0.9	0.8
Dividend Yield (x)	8.8%	9.2%	0.0%	1.9%	2.7%	5.6%	7.7%	7.9%

## Banking Sector

**BUY: 12M TP @ 0.163**

### Valuation Summary (TTM)

Price (RO)	0.146
PER TTM (x)	43.2
P/Book (x)	0.8
Dividend Yield (%)	6.8
Free Float (%)	55%
Shares O/S (mn)	2,996
YTD Return (%)	17%
Beta	1.1

(mn)	OMR	USD
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Market Cap	437	1,136
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Total assets	4,439	11,529
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Price performance (%)	1M	3M	12M
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Bank Dhofar SAOG	1%	8%	11%
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MSX 30 Index	0%	-3%	10%
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MSX Financial Index	1%	-2%	12%
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Trading liquidity (,000)	1M	3M	6M
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Avg daily turnover (RO ,000)	124	107	70
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Avg Daily Volume (,000)	805	831	557
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52 week	High	Low	CTL*
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Price (RO)	0.150	0.110	32.7
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\* CTL is % change in CMP to 52wk low

### Major shareholders

DIDIC Holding	24.4%
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Civil Services Pension Fund	10.3%
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Malatan Trading & Contracting Co	9.9%
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Others	55.4%
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### Other details

Exchange	MSX
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Sector	Banks
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Index weight (%)	11%
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Key ratios	2019	2020	2021
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EPS (RO)	0.006	0.007	0.005
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BVPS (RO)	0.177	0.180	0.181
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DPS (RO)	0.003	0.006	0.002
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Payout ratio (%)	50%	86%	40%
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## Bank Dhofar (BKDB)

**Putting house in order: Asset quality improvements to support ROE expansion**

**Bank Dhofar is taking measures to improve asset quality, and enhance coverage, which might affect profitability over the short term. However, we believe the benefit from short term pain by turning it to a long term gain. We estimate NIM expansion, improved cost controls to neutralize higher provisions in FY22. We believe the provisioning cycle ends this year and net income will show marked improvement from FY23E. We model BKDB to achieve double digit ROE by FY24E as operational metrics align with the industry standards. We reinitiate coverage on Bank Dhofar with a BUY recommendation and a 12M target price of OMR 0.163.**

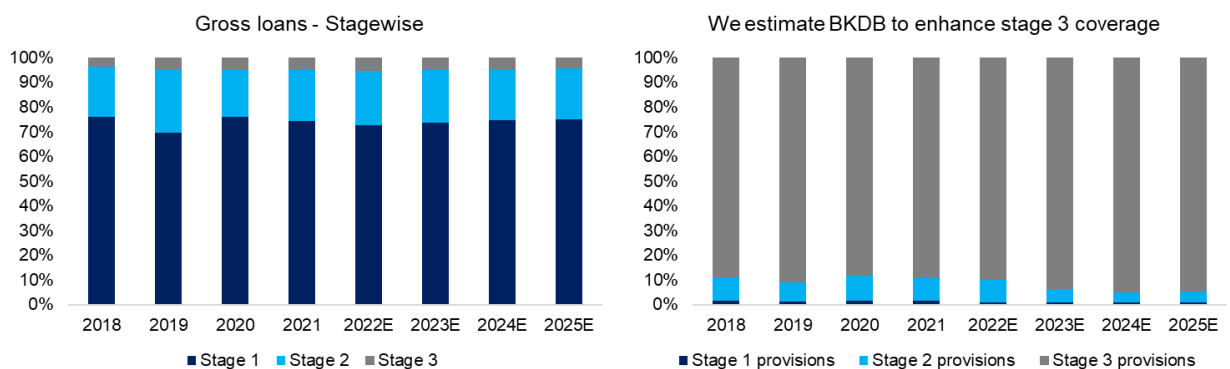
**Improving Asset Quality:** We expect BKDB to improve its asset quality and NPL ratio to decline by 120bps towards FY25E from the current 5.7%. The significant decline in NPL ratio would be driven by healthy cash flows that corporates would enjoy due to improvement in the fiscal situation, optimism in business prospects and sustainable profits. Rising salaries auger well for the loan book on the retail side. We believe the aggressive provisioning cycle pursued by the bank will top out this year onwards. The provision coverage ratio has already reached 100%. Cost of credit is likely to peak out at 93 bps in 2022E and stabilize around 40bps by FY25E, which is the level witnessed in 2016-17 prior to the start of this provisioning cycle.

**Change in deposit mix and Loan Deposit ratio to aid profitability:** BKDB is moving out from the garb of a wholesale banker and has spent significant efforts to attract retail participation on the liability side. This process has achieved some success and there is visible shift in the deposit mix and diversity in the base. CASA deposits have moved from 38% in 2018 to 43% in 1HFY22. We expect this trend to increase further and our estimate for CASA deposits by FY25e is 48%. This we believe will provide adequate cushion to the cost of funds which would have otherwise been much higher in the current interest rate scenario. Given the good relationship with Government and GREs, the Bank is expected to tap into any increased avenues of deposits that these entities would seek to place.

**NIM to improve:** Stable cost of funds and rising yield on assets have led to a rising NIM scenario. The Bank has historically enjoyed a NIM of around ~2.5% to 2.8%, however we expect going forward the NIMs to improve by at least 50bps and settle upwards of ~3.0% to 3.3%. We model a NIM expansion of 81bps over a period of 2021-25E. This is the highest NIM expansion among the Omani banks under our coverage.

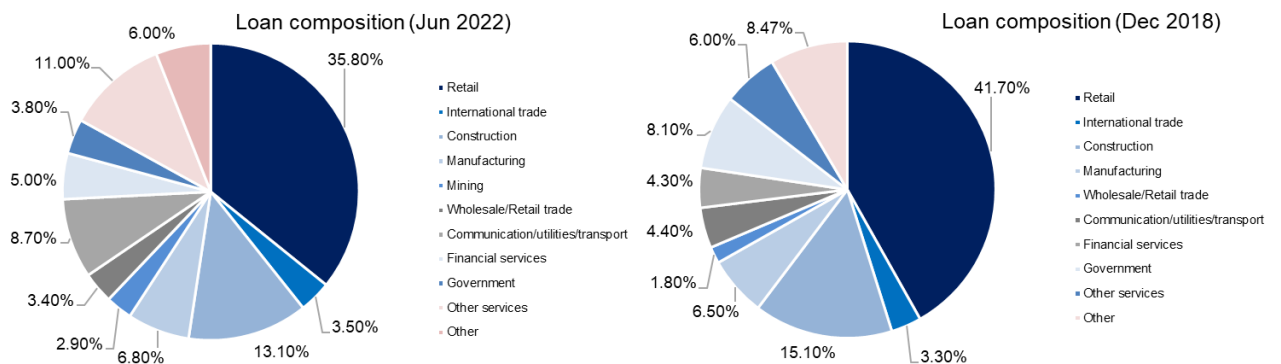
**Recovery in bottom line; Recommend BUY with TP of 0.163:** Lower provisions, controlled costs, modest credit offtake and rising NIMs will lead to significant improvement in net margins. We expect ROE to move into double digits by FY25e to reach a high of 11.2%. ROA is also likely to surpass 1.4% by then. This will bring the bank back into an attractive zone of profitability. The bank offers ~2.6% in terms of dividend yield. We recommend a BUY on the stock with a target price of OMR 0.163, implying an ~15% upside potential from the current stock price

**Focus on Asset Quality:** BKDB has largely followed industry trends in terms of asset quality. Gross NPL ratio has witnessed a rising trajectory since 2016 and currently at 5.7% as of 9MFY22. The bank has taken up a two-pronged approach to rein in the asset quality and improve profitability going forward. Firstly, it has increased its provisions on the existing loan book aggressively over the past couple of years starting 2020. We believe this aggressiveness has achieved its purpose and the provisioning cycle has peaked out now. The provision coverage ratio has reached 100% as of 9MFY22 implying a net NPL level of 2%. Management has prudently taken up additional precautionary provisioning in many cases and we expect this to be a cushion which may taper down in future. More pertinently, Stage 3 provisions have increased to c47.3% of gross loans compared to 34% in 2018. Our estimates suggest cost of credit will peak out at 93 bps in 2022E from 70 bps in 2021 and stabilize around 40bps by FY25e, which is the level witnessed in 2016-17 prior to the start of this provisioning cycle.



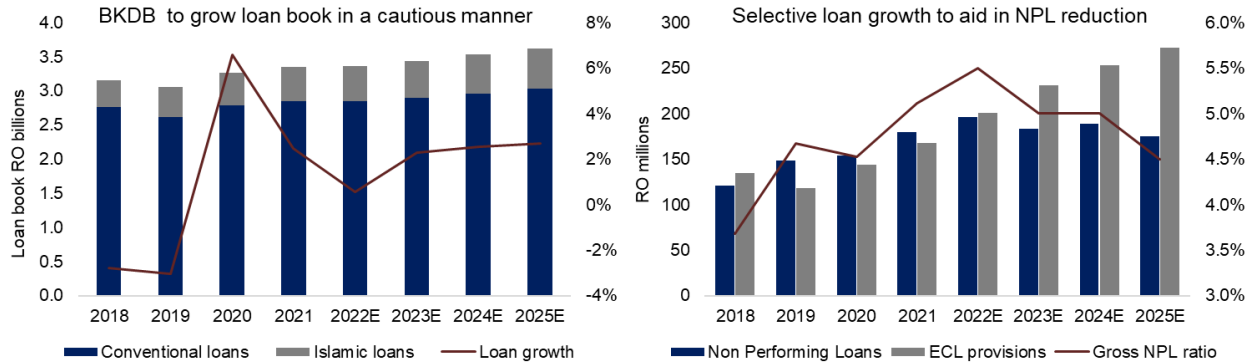
Source: Company reports, US Research

Secondly, over the past couple of years BKDB has followed a selective approach in growing the loan book by which we expect moderation in the rate of overall slippages. It has reduced its exposure to certain sensitive sectors starting with Retail which had contributed 41.7% in 2018 to 35.8% currently. Construction which witnessed significant stress has also been consciously reduced to 13%. On the other hand, BKDB has been building positions in stable cash flow large businesses such as communication, utilities and transport which witnessed doubling in exposure over the period from 4.4% in 2018 to 8.7% in 2022.



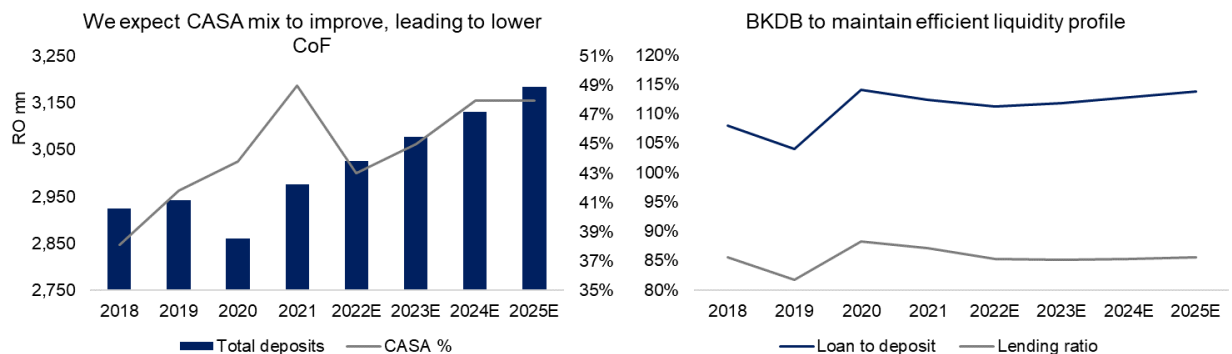
Source: Company reports, US Research

Our base case estimate for the conventional loan book growth is a modest 2% CAGR (FY22e-25e), while we anticipate growth in the Islamic financing portfolio at 5% CAGR (FY22e-25e). NPL levels are expected to decline by 120bps and reach 4.5% by FY25e. Lower provisioning coupled with moderate and quality credit growth will provide sustainable earnings.



Source: Company reports, US Research

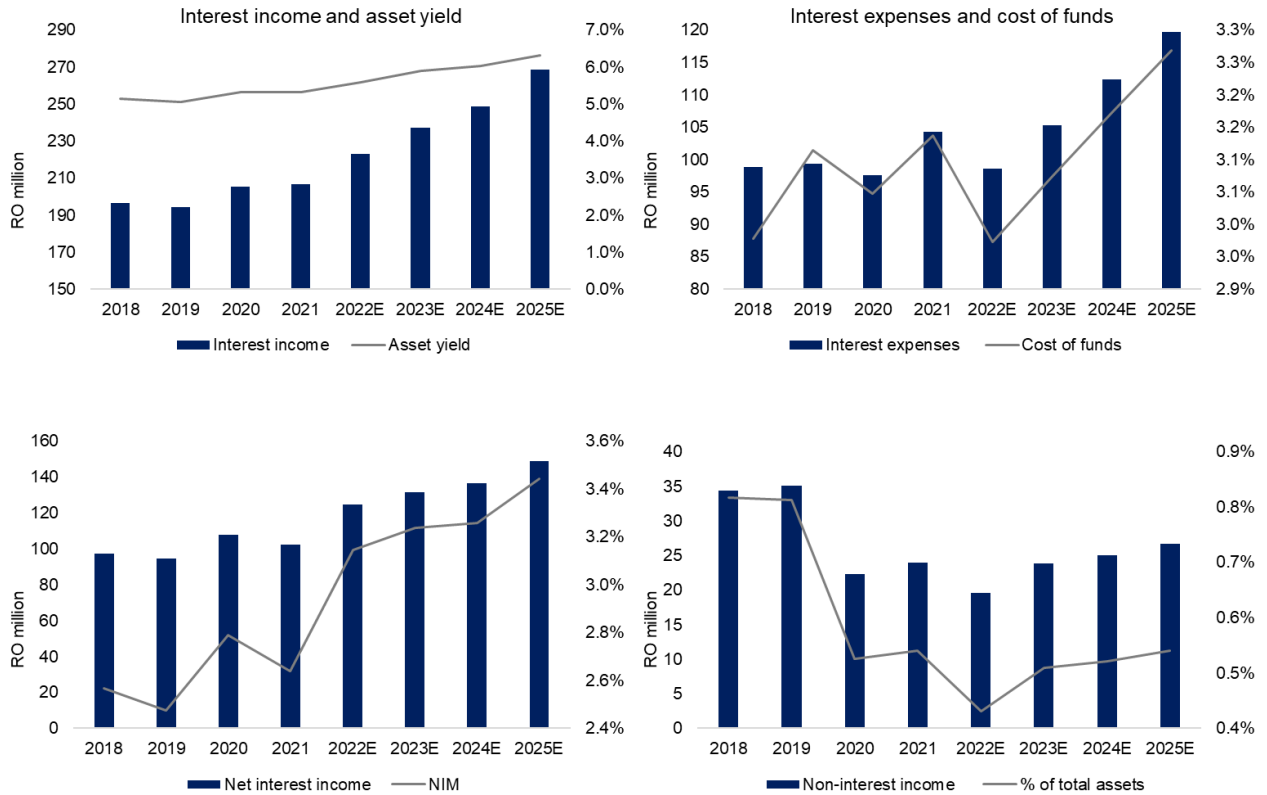
**Change in deposit mix to bring stability in cost of funds:** In the past BKDB had been operating more as wholesale corporate banker. Hence CASA levels were low and dependence on high-cost time deposits significant. In a rising interest environment this scenario does not auger well. BKDB has the highest cost of funds amongst the banks in Oman under our coverage. However, this scenario is fast changing, and the Bank has spent significant efforts to shift its deposit mix and diversify its base. CASA deposits have moved from 38% in 2018 to 43% in 1HFY22. We expect this trend to increase further considering the focus on retail products coupled with improvements in the economic situation post covid. Our estimate for CASA deposits by FY25e is 48% based on a moderate growth in total deposits of 2% CAGR (FY22e-25e). Loan to deposit ratio is expected to remain stable while cost of funds will stay in the range of 3-3.3% over the next three years.



Source: Company reports, US Research

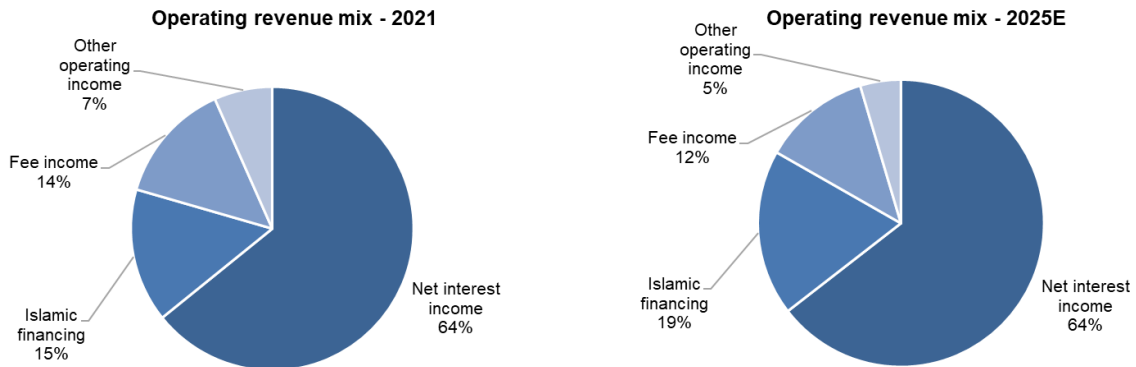
**NIM to improve on the back of interest rate hikes:** We model a NIM expansion of 81bps over a period of 2021-25E. This will be primarily based on the underlying macro factor of rising interest rate scenario. Since most of the lending is targeted at the corporates, BKDB has the flexibility to pass on the rising interest rate to its institutional customers, which is difficult in the case of lending to individuals (wherein the regulator has emphasized on caps). With stable cost of funds and rising

yield on assets NIMs can touch a high of 3.44% by FY25e from 2.64% in FY21. We expect BKDB to experience the highest NIM expansion among the Omani banks under our coverage.



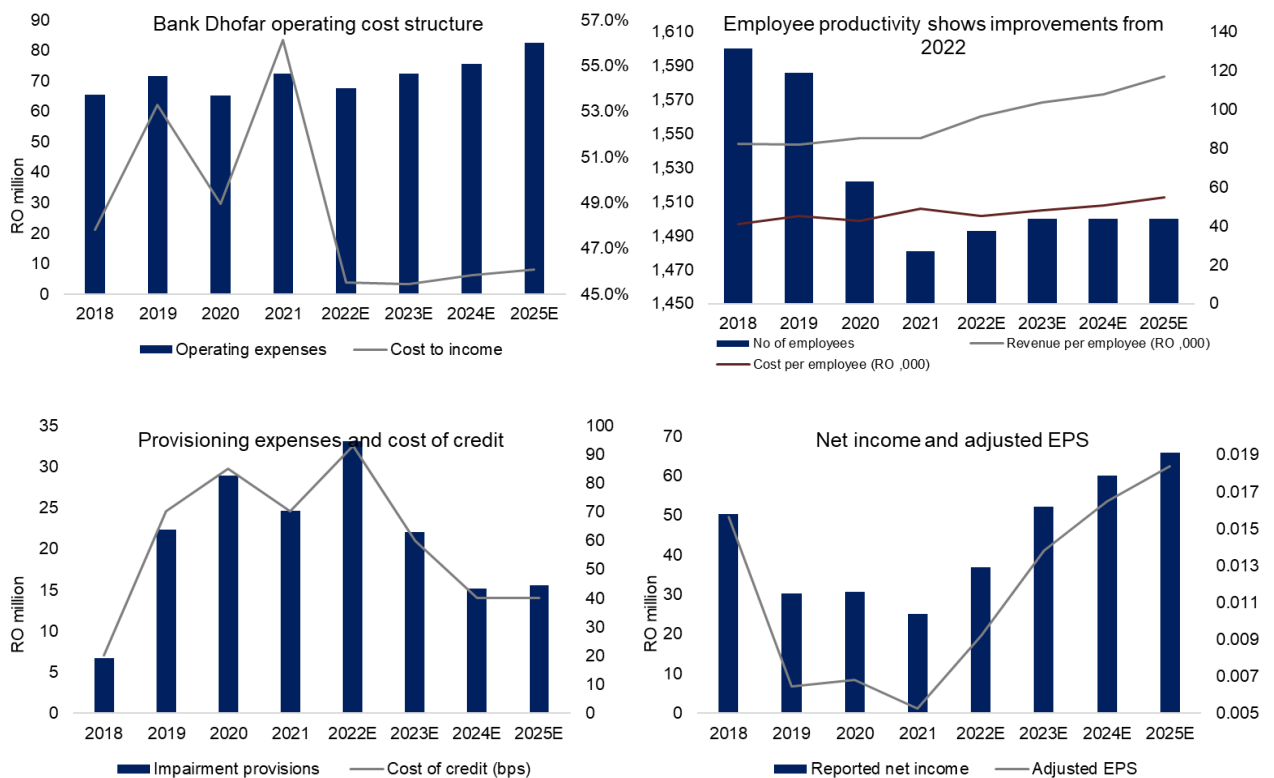
Source: Company reports, US Research

**Islamic finance segment to witness faster growth rates:** We expect some changes in the operating revenue mix going forward. The rate of growth of Islamic finance business is expected to be higher than the conventional segment. We have forecasted CAGR (21-25e) 13.5% growth in the Islamic finance segment which will increase the overall contribution to the operating revenue from 12% in FY21 to 15% by FY25e. Net interest income revenue is expected to grow at a moderate rate of 8.6% on the back of a 2% growth in assets. We are not very optimistic with regards to the growth in the investment banking side of the business which is the primary generator of Fee income.



Source: Company reports, US Research

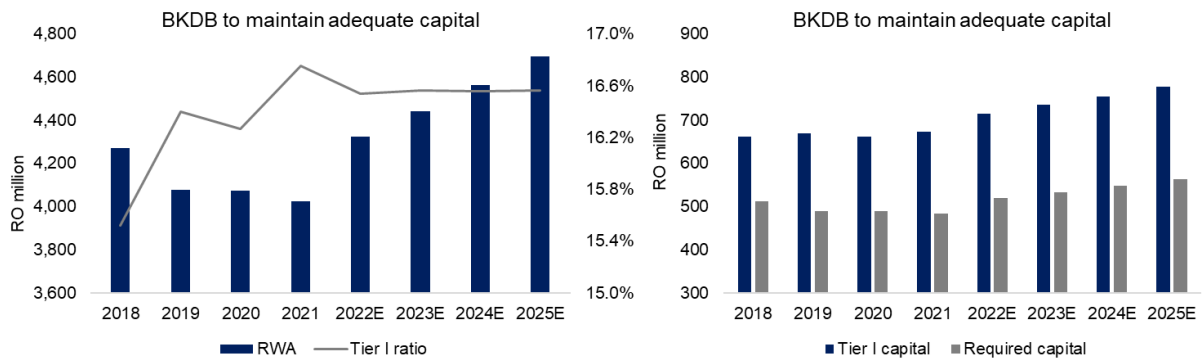
**Costs under control, net margins to rise:** We expect operating expenses to be under control and cost- income to decline nearer to industry levels of sub 50%. Revenue and profit per employee are below par and we expect this scenario to also improve from a low base on the back of increased technology usage and omni bank channel of operation. With costs under control and provisioning expected to be lower we expect net profit margin to rise. Our forecasts suggest net income margins to rise from 20% in FY22e to 30.9% in FY25e.



Source: Company reports, US Research

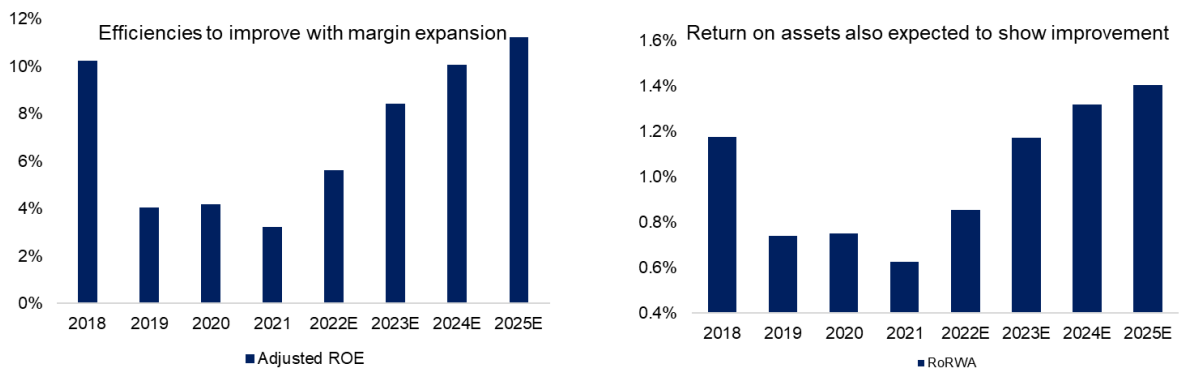
**Capital adequate, return ratios inching higher:** In the absence of aggressive loan expansion, we do not see any significant changes in regulatory ratios for the next couple of years. BKDB is maintaining a healthy tier I ratio of 16.5%, throughout the forecast period, leaving sufficient buffer for meeting any immediate growth capital requirements of the bank.

The bank has raised RO 115 million in perpetual notes at a coupon of 6.75% to repay its USD denominated perpetual bonds carrying coupon of 5.52%. Even though the bank enjoyed a favorable pricing on the USD bonds, rising interest rate outlook and the USD exposure prompted the bank to refinance existing bonds using relatively stable OMR denominated bonds. This move will have an impact of RO 1.4 million per annum in interest outgo.



Source: Company reports, US Research

We expect ROE to move into double digits by FY25e to reach a high of 13.4%. ROA is also like to surpass 1.4% by then. This will bring the bank back into an attractive zone of profitability. On the back of increased profitability, we estimate the bank to maintain a dividend payout ratio of 60% translating into a dividend yield of 2.5%.

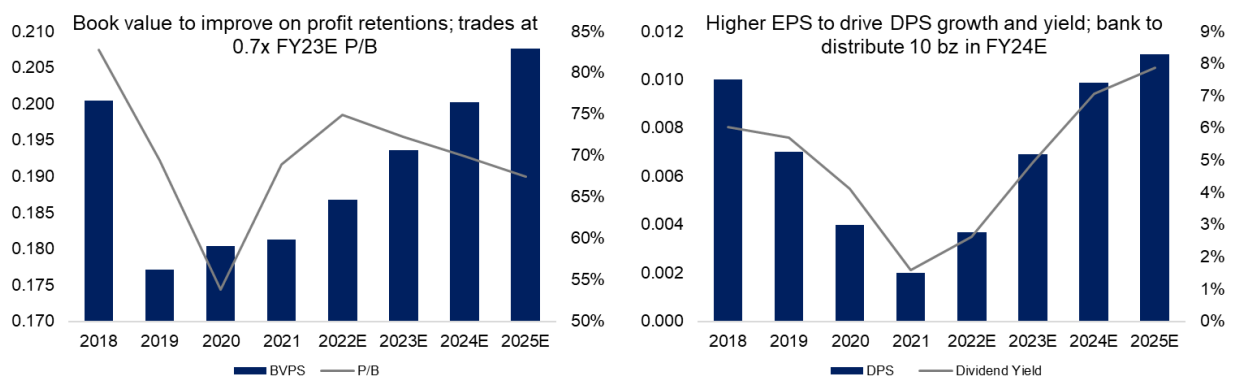


Source: Company reports, US Research

**Mixed performance in 9MFY22:** The Bank's nine-month performance has been a mixed bag. The gross loans and advances growth remained flat during the 9MFY22 period as compared to the previous year. BKDB reported a higher provision of about 25% compared to the same period last year as NPLs rose from 5% to 5.7%. This resulted in a decline in the growth of net loans and

advances by 1.4%. Deposit growth was also negative by 1.6% during the 9M period, which is in line with the Bank's strategy of not pursuing higher cost time deposits.

For the quarter ending Sep 22, yield on average assets have increased up by 40bps YoY and NIMs rose by 30bps YoY moving beyond the 3% mark. NIM movement is in line with our expectation, and we believe by FY25e it would be around 3.44%. Cost to income ratio improved from 47.8% in Sep 21 to 45.8% in Sep 22. Despite improvements in operating expenses, the higher provisioning and tepid credit offtake led to net income de-growth of 14%. The provisions, in our opinion has peaked as can be witnessed from the provision coverage ratio of 100%, compared to 91.6% last year. We believe this could be the last leg of the provisioning cycle and it would taper off from hereon. With slippages expected to moderate and adequate provisioning cushion already done the coverage ratio could move higher to 155% by FY25e.



Source: Company reports, US Research

**Residual valuation at RO 0.160; blended residual-relative valuation at RO 0.163. We re-initiate with BUY Rating:** We have valued Bank Dhofar using blended Residual-Relative Valuation method. The share price of Bank Dhofar has remained more or less flat over the last one year. We expect a re-rating due to better control over asset quality, expansion in NIM and double-digit ROE in near future. The bank offers ~2.6% in terms of dividend yield. We arrived at target price of OMR 0.163, implying an ~15% upside potential from the stock. We have valued Bank Dhofar using the blended valuation approach, with 50% weight to intrinsic valuation based on Residual valuation, 25% weight to relative valuation using P/E, and 25% weight to relative valuation using P/B.



Residual valuation of BKDB	2022E	2023E	2024E	2025E	Valuation parameters	
Equity at beginning of year	543,019	559,584	580,250	600,000	Risk free rate	5.0%
Equity at end of year	559,584	580,250	600,000	622,040	Equity risk premium	6.0%
Net income attributable to shareholders	27,608	41,332	49,375	55,101	Beta	1.15
Cost of equity	66,523	68,980	71,328	73,948	Cost of equity	<b>11.9%</b>
Residual income	(38,915)	(27,649)	(21,953)	(18,847)	ROE 2023e	8.4%
PV of residual income	(38,427)	(24,401)	(17,311)	(13,283)	Terminal year retention ratio	40.0%
PV of Terminal value residual income				(63,555)	Sustainable growth rate	3.4%
Current equity value				543,019		
Fair value of equity				479,464		
Shares outstanding				2,996,351		
<b>Fair value per share (RO)</b>				<b>0.160</b>		
CMP (RO)				0.146		
Upside/downside (%)				9.6%		

Relative valuation parameters	
5 Year earnings CAGR	25.9%
Risk free rate	5.0%
Equity risk premium	6.0%
Beta	1.15
<b>Cost of equity</b>	<b>11.9%</b>
Terminal growth	3.4%
Terminal year ROE (%)	11.2%
<b>Justified P/B</b>	<b>0.92x</b>

Relative Valuation - Bank Dhofar	
EPS 2023e (RO)	0.014
BVPS 2023e (RO)	0.194
<b>Target Price/Earnings Multiple for 2022E (x)</b>	<b>11.0x</b>
<b>Target Price/Book multiple for 2022E (x)</b>	<b>0.92x</b>
<b>Fair value per share (RO) - P/E Multiple</b>	<b>0.152</b>
<b>Fair value per share (RO) - P/B Multiple</b>	<b>0.179</b>

### Blended Weighted Average Fair Value

Valuation Method	Fair Value per share (RO)	Weight	Upside/downside
Relative Valuation - P/E	0.152	25.0%	3.9%
Relative Valuation - P/B	0.179	25.0%	22.5%
Intrinsic valuation - Excess ROE	0.160	50.0%	9.6%
<b>Target Price (RO)</b>		<b>0.163</b>	<b>11.6%</b>
CMP (RO)		0.146	0.0%
Forward Dividend Yield 2023E			2.5%
<b>Total return Including dividend</b>			<b>14.2%</b>

### About Bank Dhofar

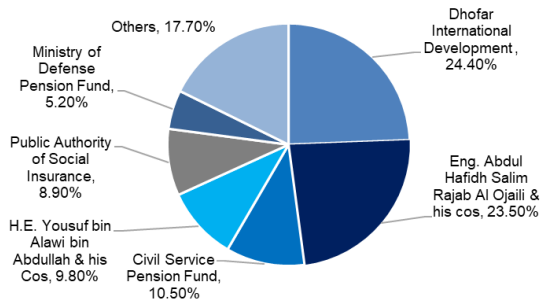
Bank Dhofar was established on 1 January 1990 and is engaged in retail banking, corporate banking, investment banking and treasury services. During 2013, the Bank also started its Islamic banking window, Maisarah Islamic Banking Services (MAISARAH), with an allocated capital of RO 12.5 million. As on 30<sup>th</sup> September 2022, the Bank had a network of 65 branches (55 Conventional & 10 Islamic) catering to various segments of customers. The Bank has been rated Ba3, with outlook stable by Moody's in April 2022 and BB- with outlook stable by Fitch in January 2022.

The initial phase of growth for BKDB (1990-2003) was through inorganic mergers and acquisitions- Banque Paribas in Oman in 1991, Bank of Credit & Commerce International in 1992, 16 branches of Commercial Bank of Oman in 2000 & merger with Majan International Bank in 2003. In 2013, the Bank launched Maisarah, under which offers retail, corporate, treasury and investment banking Shari'ah-compliant financial services and products to its customers. BKDB has been able to maintain its market share and hold its position as the second largest bank in Oman for a very long time.

The Bank's Retail Banking Group caters to around 290,000 customers and has products tailored to meet retail customer's needs including deposits, personal loans, education loans, debit and credit cards, priority banking, Hawa ladies banking. With over 22,000 corporate customers, the Corporate Banking division has a solid client base across a range of industries. Over the last 9 years, the Islamic Banking group has grown considerably and contributes to 15.6% of the Bank's Balance sheet. The Bank derives around 47.5% of its income from Corporate Banking, followed by Retail Banking 31.7%. The Treasury & investments Group contributed 6.2% and the Islamic Banking contributed around 14.6%.

The Government of Oman and its related entities own around 25% of the Bank's shares and this acts an implicit guarantee and support. The higher stake also helps Bank Dhofar tap business related to Government & its related entities.

Shareholding pattern of BKDB



Board of Directors

S.No	Name	Position
1	Eng. Abdul Hafidh Salim Rajab Al Ojaili	Chairman
2	Ahmed Said Al Mahrezi	Deputy Chairman
3	Mohammed Yousuf Alawi Al Ibrahim	Director
4	Tariq Abdul Hafidh Al Aujaili	Director
5	Hamdan Abdul Al Hafidh Al Farsi	Director
6	Faisal Mohamed Moosa Al Yusef	Director
7	Sheikh Khalid Said Salim Al Wahaibi	Director
8	Sheikh Tariq Salim Mustahil Al Mashani	Director
9	Sheikh Ahmed Sultan Rashid Al Yaquoubi	Director

Income Statement (RO 000')	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Interest Income	174,766	170,134	174,944	173,132	185,672	194,907	200,398	212,776
Interest Expense	-86,848	-85,485	-82,725	-90,373	-83,497	-89,659	-93,912	-97,419
<b>Net Interest Income</b>	<b>87,918</b>	<b>84,649</b>	<b>92,219</b>	<b>82,759</b>	<b>102,174</b>	<b>105,248</b>	<b>106,486</b>	<b>115,357</b>
Non Interest Income	43,935	45,315	37,774	43,687	42,194	50,390	55,079	60,158
<b>Net Operating Income</b>	<b>131,853</b>	<b>129,964</b>	<b>129,993</b>	<b>126,446</b>	<b>144,368</b>	<b>155,638</b>	<b>161,565</b>	<b>175,515</b>
Operating Expenses	-65,456	-71,474	-65,079	-72,340	-67,688	-72,270	-75,641	-82,400
Provisions expense	-6,654	-22,398	-28,991	-24,651	-33,169	-22,041	-15,135	-15,589
<b>Profit Before Taxation</b>	<b>59,743</b>	<b>36,092</b>	<b>35,923</b>	<b>29,455</b>	<b>43,511</b>	<b>61,327</b>	<b>70,789</b>	<b>77,526</b>
Tax expense	-9,462	-5,848	-5,338	-4,332	-6,527	-9,199	-10,618	-11,629
<b>Profit for the year</b>	<b>50,281</b>	<b>30,244</b>	<b>30,585</b>	<b>25,123</b>	<b>36,984</b>	<b>52,128</b>	<b>60,171</b>	<b>65,897</b>
Additional Tier 1 Coupon	-7,912	-10,912	-10,144	-9,376	-9,376	-10,796	-10,796	-10,796
<b>Profit to shareholders</b>	<b>42,369</b>	<b>19,332</b>	<b>20,441</b>	<b>15,747</b>	<b>27,608</b>	<b>41,332</b>	<b>49,375</b>	<b>55,101</b>

Balance sheet	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Cash and balances with CBO	301,505	300,405	208,836	251,479	301,639	300,892	292,359	284,020
Due from banks	329,059	471,158	121,522	125,098	131,353	137,921	144,817	152,057
Loans & advances and financing	3,158,844	3,063,350	3,265,488	3,346,223	3,365,412	3,442,240	3,530,356	3,624,865
Investment securities	304,332	378,551	457,817	446,216	468,527	491,953	516,551	542,378
Fixed Assets	14,917	19,172	21,445	20,563	23,615	27,608	31,134	34,736
Other Assets	104,833	93,209	181,915	249,207	261,667	274,751	288,488	302,913
<b>Total Assets</b>	<b>4,213,490</b>	<b>4,325,845</b>	<b>4,257,023</b>	<b>4,438,786</b>	<b>4,552,212</b>	<b>4,675,364</b>	<b>4,803,705</b>	<b>4,940,970</b>
<b>LIABILITIES AND EQUITY</b>								
Due to banks	368,983	490,179	451,955	460,889	506,978	557,676	613,443	674,788
Customers' deposits	2,924,504	2,943,188	2,861,315	2,975,639	3,026,411	3,078,199	3,131,023	3,184,903
Borrowings	63,875	63,875	35,000	35,000	35,000	35,000	35,000	35,000
Other liabilities	157,966	142,448	212,889	268,739	268,739	268,739	268,739	268,739
<b>Total Liabilities</b>	<b>3,515,328</b>	<b>3,639,690</b>	<b>3,561,159</b>	<b>3,740,267</b>	<b>3,837,128</b>	<b>3,939,614</b>	<b>4,048,205</b>	<b>4,163,430</b>
Paid-up Capital	375,689	395,291	395,291	395,291	395,291	395,291	395,291	395,291
Other Reserves	107,811	124,928	110,899	118,805	118,805	118,805	118,805	118,805
Retained earnings	59,162	10,436	34,174	28,923	45,488	66,154	85,904	107,944
<b>Shareholder's Equity</b>	<b>542,662</b>	<b>530,655</b>	<b>540,364</b>	<b>543,019</b>	<b>559,584</b>	<b>580,250</b>	<b>600,000</b>	<b>622,040</b>
Tier 1 perpetual bonds	155,500	155,500	155,500	155,500	155,500	155,500	155,500	155,500
<b>Total Equity</b>	<b>698,162</b>	<b>686,155</b>	<b>695,864</b>	<b>698,519</b>	<b>715,084</b>	<b>735,750</b>	<b>755,500</b>	<b>777,540</b>
<b>Total Liabilities and Equity</b>	<b>4,213,490</b>	<b>4,325,845</b>	<b>4,257,023</b>	<b>4,438,786</b>	<b>4,552,212</b>	<b>4,675,364</b>	<b>4,803,705</b>	<b>4,940,970</b>

Cash Flow Statement	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Cash flow from operating activities	6,368	137,990	48,459	41,870	80,685	41,610	43,198	47,804
Cash flow from investing activities	-24,801	-83,998	-89,541	6,356	-10,106	-10,895	-11,310	-12,286
Cash flow from financing activities	31,009	-42,429	-50,487	-23,549	-20,419	-31,462	-40,421	-43,857
Net change in cash	12,576	11,563	-91,569	24,677	50,160	-747	-8,532	-8,339
<b>Cash at the end of period</b>	<b>427,455</b>	<b>312,568</b>	<b>208,336</b>	<b>297,203</b>	<b>347,363</b>	<b>346,616</b>	<b>338,083</b>	<b>329,744</b>

Key Ratios	2018	2019	2020	2021	2022E	2023E	2024E	2025E
<b><u>Operating performance</u></b>								
Yield on average earning assets	5.1%	5.1%	5.3%	5.3%	5.6%	5.9%	6.0%	6.3%
Cost of funds	3.0%	3.1%	3.0%	3.1%	3.0%	3.1%	3.2%	3.3%
NIM	2.6%	2.5%	2.8%	2.6%	3.1%	3.2%	3.3%	3.4%
Interest income/operating income	149%	149%	158%	163%	155%	152%	154%	153%
Net interest income/operating income	74%	73%	83%	81%	86%	85%	85%	85%
Cost to income ratio	50%	55%	50%	57%	47%	46%	47%	47%
<b><u>Liquidity</u></b>								
Net loans to total deposits	96%	89%	99%	97%	95%	95%	94%	94%
Customer deposits/total deposits	89%	86%	86%	87%	86%	85%	84%	83%
Net loans to customer deposits	108%	104%	114%	112%	111%	112%	113%	114%
<b><u>Asset quality</u></b>								
Gross NPL ratio	3.7%	4.7%	4.5%	5.1%	5.5%	5.0%	5.0%	4.5%
Provision as a % of gross loans	4.1%	3.7%	4.2%	4.8%	5.6%	6.3%	6.7%	7.0%
Provision coverage	111.5%	79.6%	93.4%	93.3%	102.5%	125.9%	133.9%	155.3%
Cost of credit	0.2%	0.7%	0.9%	0.7%	0.9%	0.6%	0.4%	0.4%
<b><u>Capital adequacy</u></b>								
Tier I ratio	15.5%	16.4%	16.3%	16.8%	16.5%	16.6%	16.6%	16.6%
Tier II ratio	1.8%	1.5%	1.4%	1.0%	1.3%	1.3%	1.3%	1.2%
CAR	17.3%	17.9%	17.7%	17.7%	17.9%	17.9%	17.8%	17.8%
Net Equity to Gross Loans	16.5%	16.7%	15.8%	15.5%	15.7%	15.8%	15.9%	16.0%
Net Equity to Total Assets	12.9%	12.3%	12.7%	12.2%	12.3%	12.4%	12.5%	12.6%
<b><u>Return ratios</u></b>								
Reported ROE	12.1%	6.3%	6.3%	5.1%	7.5%	10.6%	12.3%	13.4%
Adjusted ROE	10.2%	4.0%	4.2%	3.2%	5.6%	8.4%	10.1%	11.2%
ROA	1.2%	0.7%	0.7%	0.6%	0.8%	1.1%	1.3%	1.4%
Return on Risk-Weighted Assets (RoR <sup>1</sup> )	1.2%	0.7%	0.8%	0.6%	0.9%	1.2%	1.3%	1.4%
<b><u>Per share ratios</u></b>								
EPS	0.016	0.006	0.007	0.005	0.009	0.014	0.016	0.018
BVPS	0.200	0.177	0.180	0.181	0.187	0.194	0.200	0.208
DPS	0.010	0.007	0.004	0.002	0.004	0.007	0.010	0.011
<b><u>Valuation</u></b>								
Price	0.166	0.123	0.097	0.125	0.140	0.140	0.140	0.140
P/E	10.6	19.1	14.2	23.8	15.2	10.1	8.5	7.6
P/B	0.83	0.69	0.54	0.69	0.75	0.72	0.70	0.67
Dividend Yield	6.0%	5.7%	4.1%	1.6%	2.6%	4.9%	7.1%	7.9%

## Banking Sector

**BUY: 12M TP @ 0.170**

### Valuation Summary (TTM)

Price (RO)	0.139
PER TTM (x)	8.5
P/Book (x)	0.9
Dividend Yield (%)	6.8
Free Float (%)	41%
Shares O/S (mn)	1,950
YTD Return (%)	20%
Beta	0.9

(mn)	OMR	USD
Market Cap	271	704
Total assets	3,053	7,929

Price performance (%)	1M	3M	12M
Ahli Bank SAOG	3%	7%	25%
MSX 30 Index	0%	-3%	10%
MSX Financial Index	1%	-2%	12%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	51	51	45
Avg Daily Volume (,000)	525	378	343

52 week	High	Low	CTL*
Price (RO)	0.140	0.110	26.4

\* CTL is % change in CMP to 52wk low

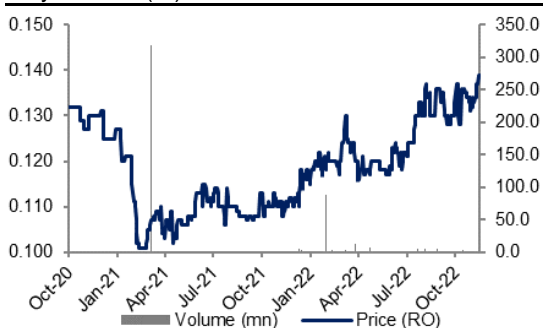
### Major shareholders

Ahli United Bank	35.0%
Al Hosn Investment Co	14.2%
Al Hosn Business Development	9.7%
Others	41.2%

### Other details

Exchange	MSX
Sector	Banks
Index weight (%)	5%

Key ratios	2019	2020	2021
EPS (RO)	0.019	0.009	0.010
BVPS (RO)	0.161	0.160	0.155
DPS (RO)	0.010	0.005	0.008
Payout ratio (%)	50%	56%	75%



## Ahli Bank Oman (ABOB)

**Ahli Bank, with its roots of a mortgage bank, was converted into a full-fledged commercial bank after the strategic tie-up between Alliance Housing Bank and Ahli United bank of Bahrain. Ahli Bank's Islamic banking division (Ahli Islamic) is the second largest Islamic Bank in Oman, contributing close to 15% of the total assets of the Bank; this we believe is a key strength for the Bank as it moves away from its history and shedding the tag of mortgage Bank. We reinitiate our coverage on Ahli Bank with a BUY recommendation and 12M target price of RO 0.170**

**Strong Islamic Banking Franchisee:** The Bank commenced its Islamic Business in 2013 and within short time has been able to grow this book at a significant pace. Since 2020, the Bank has been able to grow its assets by 16% CAGR, its Gross Financing by 11.6% and its customer deposits by 30.1%. The strong franchisee has helped the growth of the Bank and now its Islamic Banking offering is second largest in Oman after Bank Muscat's - Meethaq Bank. The growth in Islamic Banking has to be seen in the context of overall growth of the Bank, the current share of Islamic financing assets has grown from 14.6% in 2020 to 16% in June 22. Likewise, the growth in operating income from Islamic financing activity has seen its share grow from 8% in 2020 to 12% in June 22.

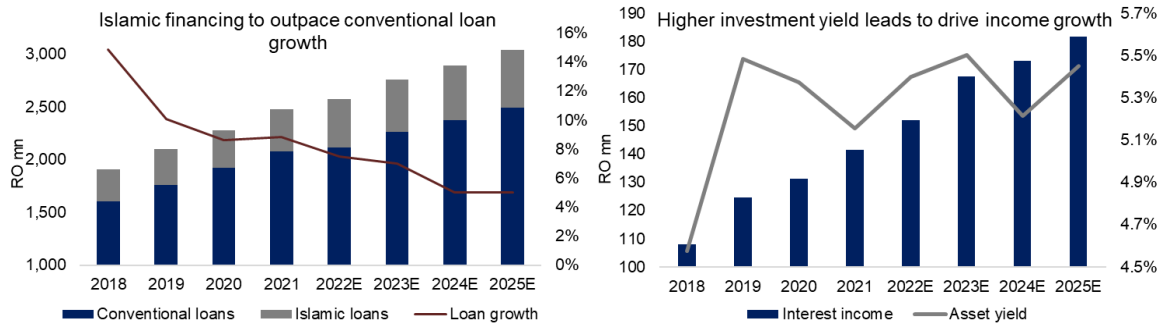
**Increase in CASA ratio:** The Bank undertook steps to granularise its deposits by growing its branch network over the last three years and they have been able to achieve a significant increase in CASA ratio. The change in Bank's deposit mix is evident from the fact that the wholesale banking which was contributing around 75.7% in 2020 has seen a significant drop to 65.0% in June 22. The change in the mix will help the Bank reduce cost of funds and dependence on costly wholesale deposits. The changes that the management brought around have started showing results as can be confirmed by the significant CASA increase to 56% in 9MFY22 from 41% in 2018.

**Robust asset quality cashing in on legacy:** The asset quality of the Bank which was historically low due to its legacy of mortgage banking business took a hit during the last couple of years, where in the NPLs jumped from 1.7% in 2018 to 3.4% in 9MFY22. However, we feel that the NPLs have peaked and we see stabilization around this level going forward.

ABOB intends to focus on 4 key areas - growth in deposit and customer base, enhance fee income, prudent asset growth and continue digitization efforts.

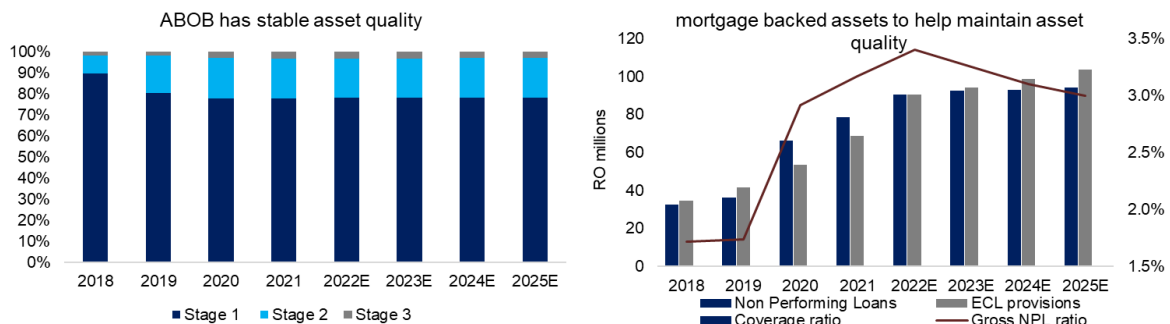
**Deep discount; Recommend BUY with TP of 0.170:** At current prices, the stock is trading at below its book value, 11x FY23E earnings, and 5.2% FY23E dividend yield, which we feel are attractive. The bank has been regularly raising capital so as to position itself well for any future growth. The Bank's attempt to take short term pain due to expansion of branches will pay off in the long term as it would be able to source CASA deposits at a lower cost. We estimate the bank to achieve gross loan book CAGR of 6% and net income CAGR of 12% during FY21-25E. We have arrived at blended residual-relative valuation target price of RO 0.170/Share, which offers upside potential of ~21%. We recommend investors to BUY the stock.

**Loan Book growth aided by Islamic Banking Franchisee:** Ahli Bank has been focusing on expanding its Islamic Banking segment over the last few years and the results are visible as seen by the growth in this segment. Assets in the Islamic Banking segment have grown at a CAGR 7.6% compared to a growth of CAGR 6.6% in conventional banking during 2018-21. The growth in Islamic banking franchise has been consistent and it now constitutes around 18.3% of the total Gross Loan book. We expect the Bank to grow its Islamic Banking segment at a faster pace than the conventional one, over the next five years, with the former growing at 7.8% CAGR as compared to latter, which is expected to grow at 4.7%. Our expectation of the overall Loan book growth is around CAGR 5.2% during the same period.



Source: Company reports, US Research

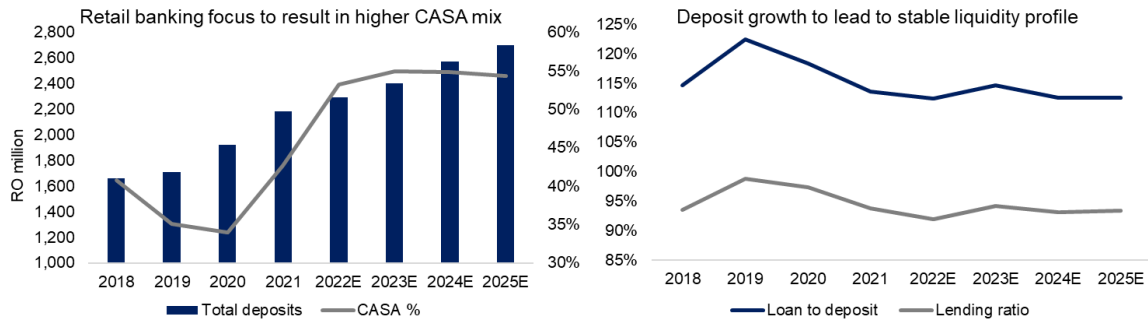
**Asset Quality to remain range bound:** Ahli Bank had one of the best asset quality with NPL of 1.7% in FY 2018 and FY2019, however the same jumped to above 3.4% as on September 22. The jump in NPL is due to reduced mortgage book, which were historically high as well as the pandemic induced stress. We believe that the NPLs have peaked and going forward the NPL ratio would settle down around 3% by FY2025E as one of management’s stated key focus area is growing asset prudently.



Source: Company reports, US Research

**Focus on granularity of deposits:** The Bank has clearly focused on increasing its CASA ratio over the last few years; this can be co-related and corroborated with the increase in branches from 22 to 37 in a short period of 3 years. The focus on branch expansion resulted in increase of retail assets and liabilities. CASA ratio, which stood at 41% in 2018 rose to 56% in 9MFY22. The increase in branches has not only helped the Bank garner granular retail deposits, it has also enhanced the opportunities to cross-sell products. Management has guided increasing their branch network which will auger well for more upside on CASA ratio going forward.

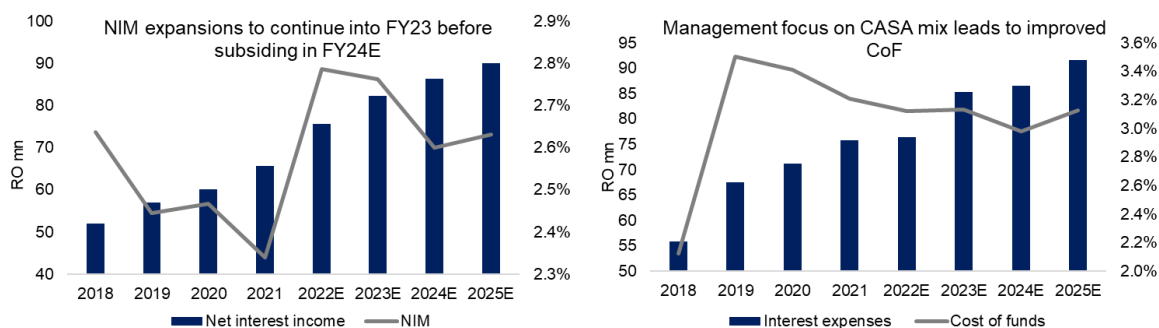
There has been a marked decrease in dependence on wholesale deposits over the last two years from about 75.7% in 2020 to around 65.0% in June 22. The change in deposit mix is not just reflected in the Wholesale/Retail banking segment, but also the deposits in the Conventional/Islamic banking segment, which stood at 80:20 in 9MFY22 as compared to 85:15 in 2020. The change in the mix helps reduce the cost of funds as well as enhancing the liquidity profile of the Bank. We believe the Bank will continue to improve its CASA ratio to above 54% in FY2025E.



Source: Company reports, US Research

**Yield to remain stable, Cost of Funds to see a dip:** The yield on the assets of the Bank have been in the range of 5.0% - 5.4% since FY 2018, The stable yields on a growing loan book has resulted in the interest income growing at a CAGR of 7% during the period FY2018 to FY2021. The interest spread has been around 2.0%-2.3% from FY2018 till Q3FY22, mainly on account of decrease in cost of funds. The reduction in cost of funds can be attributed to increased CASA ratio. We expect the yield of assets and cost of funds to be steady going forward at around 5.3% and 3.0% respectively in FY25E

With respect to the cost of funds, we believe the expansion of branches will help the Bank's ability to source funds at lower cost in the long term. The cost of funds which was at 3.20% in 2021, is expected to go down by 20bps touching sub 3.0% by FY25E.

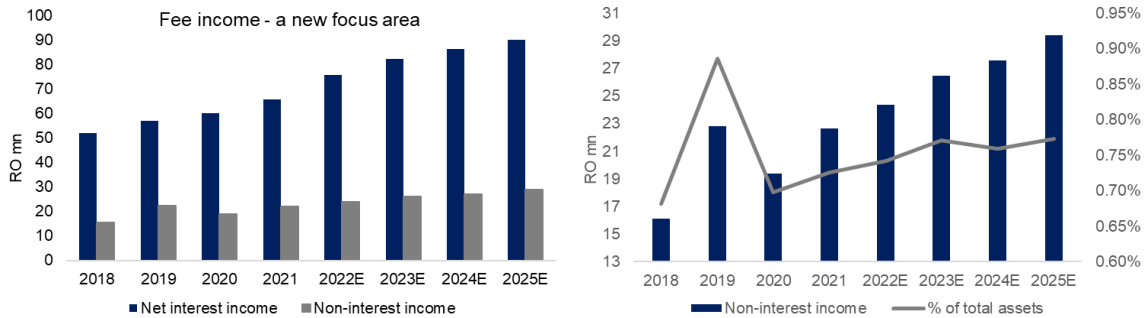


Source: Company reports, US Research

**Fee income expected to contribute significantly to non-interest income:** We expect the fee income component of the Non-interest income to grow significantly outpacing growth in other income items. This is due to the recent revamping of the Bank's Investment Banking division, which has started winning mandates for both equity & debt market transaction. The non interest income as a

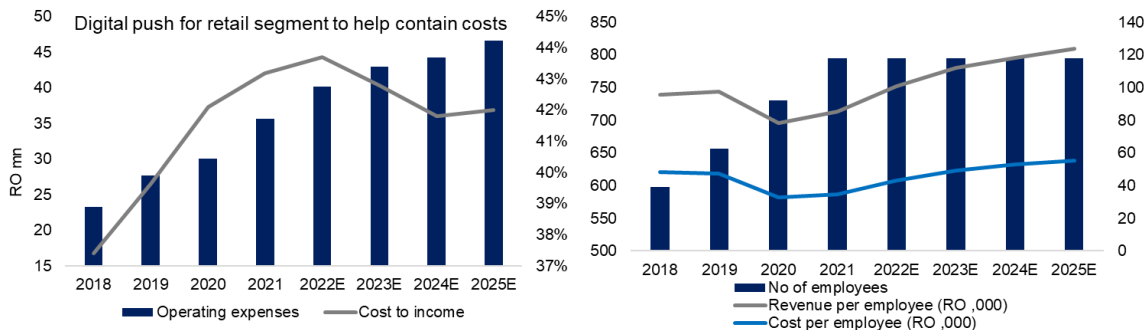


percentage of total assets, which stood at 0.68% in 2018 is expected to go up to 0.77% in FY25E. We expect the Bank to fire all its cylinders of fee income engine due to cross selling opportunities to an expanded customer base resulting from branch expansion. We also see the Bank aggressively target cards segment to improve its fee income.



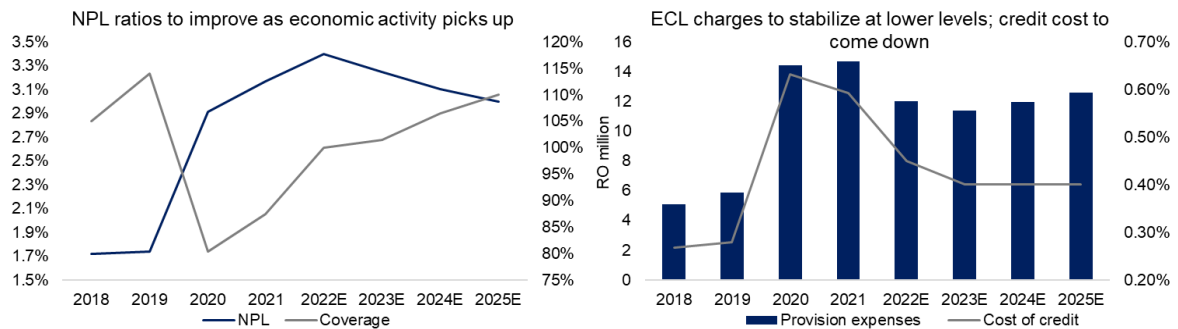
Source: Company reports, US Research

**Cost to Income to be range bound & Credit Costs to drop boosting profitability:** We expect the cost to income to stabilize between 40%-43% despite the growth in branches as the Bank has been looking to tap cheaper alternatives to cater to its retail customers. The Bank has also been focusing on digitizing its activities and has launched digital branches as well. This would keep the operating cost low and help the Bank in branch expansion. The Bank would leverage its branch network to generate more revenues as it looks to granularize its income as well.



Source: Company reports, US Research

We expect the credit cost to go down to 40bps in FY25E, after the recent spike to around 63bps & 59bps in FY2019 & Y2020 respectively. The credit cost had gone up post pandemic and the Bank has done well to reduce the credit cost in the Q3FY22 to 40bps. We expect less provisioning as the asset quality improves. A lower cost to income ratio of 42% in FY2025E, coupled with lower credit costs will help Bank grow its profit at a CAGR of 12.4% for FY21-FY25E.



Source: Company reports, US Research

**All round beat in nine-month performance:** The Bank's nine-month performance has beaten our expectations, across many parameters. The gross loan book grew by 7.8% during Sep 22 to reach RO2.6bn as compared to Sep 21. The deposits have gone up by around 9.2% to reach RO 2.2bn compared to the same period of the previous year. While interest income is higher by 5.6% in 9MFY22 as compared to 9MFY21, the interest expenses dropped 6.3%. This took the net interest income higher by 20% to reach RO 47.2mn during for the 9MFY22 compared to 9MFY22. Yield on assets improved by 20bps to 5.4% in Q3FY22 compared to 5.2% in Q3FY21. The branch expansion spree and higher investments in digitization led to a rise in cost to income ratio during the period. While NPL ratio has inched up, the credit costs have declined during the period. Capital adequacy ratio is maintained at a comfortable level of 16.2%. The reported RoE before adjustment of interest on perpetual bond stood at 12.3%, while the adjusted ROE was at around 9.3%. This is the peak level that was last witnessed before 2018. The better than expected top-line growth and controlled operational metrics translated into 18.8% growth in net income. Net income for 9MFY22 was reported at RO 25.0mn compared to RO 21.0mn in the previous year.

Overall, the results of 9MFY22, endorses and reiterate our view that the Bank is on its course to meet the expectations for the year ahead.

**Residual valuation at RO 0.189; blended valuation at RO 0.170. We reinitiate with BUY Rating:** We have valued Ahli Bank using blended Residual-Relative valuation method. The share price has remained at a relative stable range discounting the growth and the changes that the Bank has been able to demonstrate post pandemic. The Bank has been able to clearly maintain its yield on assets, increase its CASA to an impressive 56% in 9MFY22 and grow their profits after a lull in earnings in FY19 & FY20. The bank offers an attractive dividend yield of ~5%, which compares favorably to the return offered on fixed income products. The high dividend yield provides adequate cushion to the valuation and protects downside risk. We arrived at target price of OMR 0.170, implying ~21% upside potential from the current price. We have valued Ahli Bank using the blended valuation approach, with 50% weight to intrinsic valuation based on Residual valuation, 25% weight to relative valuation using P/E, and 25% weight to relative valuation using P/B.

Residual valuation of ABOB	2022E	2023E	2024E	2025E	Valuation parameters	
Equity at beginning of year	302,997	313,885	326,470	338,893	Risk free rate	5.00%
Equity at end of year	313,885	326,470	338,893	352,055	Equity risk premium	6.00%
Net income attributable to shareholders	24,196	27,967	31,056	32,906	Beta	0.93
Cost of equity	33,153	34,482	35,794	37,184	<b>Cost of equity</b>	<b>10.6%</b>
Residual income	(8,956)	(6,515)	(4,738)	(4,278)	ROE 2023e	8.7%
PV of residual income	(8,856)	(5,827)	(3,831)	(3,129)	Terminal year retention ratio	40.0%
PV of Terminal value residual income				65,207	Sustainable growth rate	3.5%
Current equity value				302,997		
Fair value of equity				368,204		
Shares outstanding				1,949,657		
<b>Fair value per share (RO)</b>				<b>0.189</b>		
CMP (RO)				0.140		
Upside/downside (%)				34.9%		

### Valuation parameters

5 Year earnings CAGR	10.8%
Risk free rate	5.0%
Equity risk premium	6.0%
Beta	0.93
<b>Cost of equity</b>	<b>10.6%</b>
Terminal growth	3.5%
Terminal year ROE (%)	9.5%
<b>Justified P/B</b>	<b>0.85x</b>

### Relative Valuation - Ahli Bank Oman

EPS 2023e (RO)	0.014
BVPS 2023e (RO)	0.167
<b>Target Price/Earnings Multiple for 2022E (x)</b>	<b>11.0x</b>
<b>Target Price/Book multiple for 2022E (x)</b>	<b>0.85x</b>
<b>Fair value per share (RO) - P/E Multiple</b>	<b>0.158</b>
<b>Fair value per share (RO) - P/B Multiple</b>	<b>0.143</b>

**Blended Weighted Average Fair Value**

Valuation Method	Fair Value per share (RO)	Weight	Upside/Downside
Relative Valuation - P/E	0.158	25.0%	12.7%
Relative Valuation - P/B	0.143	25.0%	2.1%
Intrinsic valuation - Excess ROE	0.189	50.0%	34.9%
<b>Target Price (RO)</b>		<b>0.170</b>	<b>21.4%</b>
CMP (RO)		0.140	0.0%
Forward Dividend Yield 2023E			4.9%
<b>Total return Including dividend</b>			<b>26.3%</b>

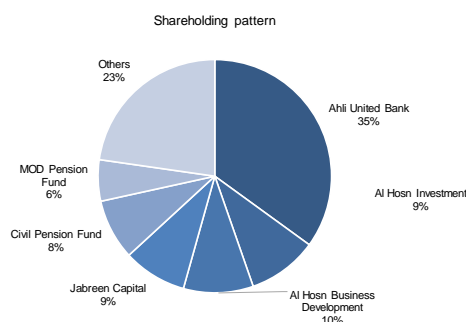
### About Ahli Bank

Ahli Bank which commenced commercial banking operations in 2007 has roots of a mortgage bank, which converted into a full-fledged commercial bank after the strategic tie-up between Alliance Housing Bank and Ahli United Bank of Bahrain. Ahli Bank's Islamic banking division (Ahli Islamic) is the second largest Islamic Bank in Oman, contributing close to 15% of the total assets of the Bank, this we believe is a key strength for the Bank as it moves away from its history and shedding the tag of a mortgage Bank. The bank's competitive edge lies in the regional support of Ahli United Bank as a 35% shareholder. The bank's strong regional expertise enables it to deliver a range of banking products in 39 branches (including 17 Islamic branches). The bank vaunts the lowest cost-to-income ratio in Oman's commercial banking system.

Ahli Bank has five main business segments, viz Retail Banking, Commercial Banking, Investment banking, treasury & financial institutions and Islamic Banking. As of June 2022, the Bank had a market share of around 9.3% of Gross Loans and 8.6% in customers' deposits. Global rating agency Fitch has assigned a credit rating of B+ with stable outlook.

The Bank's Islamic Banking activities were launched under Ahli Islamic in 2013 and it has shown tremendous growth since then. The Sharia-compliant products and services offered by Ahli Islamic cater to all customer segments including institutional, corporate, SME & Retail through 17 branches. The customer deposits of Ahli Islamic grew by 18.2% and retail deposits grew by around 55.7% at a 5Y CAGR. Ahli Islamic Bank has the distinction of being the first Islamic Bank in Oman to digitally onboard customers through mobile Banking platform.

Historically, the growth of the bank has to be looked in the context of Bank's rich legacy of being in mortgage space. It subsequently became a full-fledged commercial bank. The benefit of legacy, in the form of Mortgage loans still continues as the Bank's Asset quality is relatively low and stable as compared to other Banks in Oman. The Bank focus on Islamic Banking and its legacy meant that it has had an orderly growth with thrust on asset quality.



Board of Directors	
Hamdan Ali Nasser Al-Hinai	Chairman
Anwar Hilal Hamdoon Al-Jabri	First Deputy Chairman
Sanjeev Baijal	Non-Independent Non-Executive Director
Keith Gale	Non-Independent Non-Executive Director
Ibrahim bin Said bin Badar Al Eisri	Director
Abdul Hameed bin Ahmed Mohamed Al Bulushi	Director
Wajid Ali Khan	Non-Independent Non-Executive Director
Salim bin Ali bin Hamed Al-Hasni	Independent Non-Executive Director
Qais Abdullah Moosa Al-Kharusi	Director
Mustaien Ali Abdulhameed, Dr.	Member-Shariah Board

Income Statement (RO 000')	FY 2018	FY 2019	FY 2020	FY 2021	FY22E	FY23E	FY24E	FY25E
Interest Income	91,367	105,504	112,604	119,896	127,905	141,387	146,837	154,179
Interest Expense	-47,246	-60,769	-63,754	-65,759	-63,514	-70,946	-72,226	-76,444
<b>Net Interest Income</b>	<b>44,121</b>	<b>44,735</b>	<b>48,850</b>	<b>54,137</b>	<b>64,391</b>	<b>70,440</b>	<b>74,611</b>	<b>77,735</b>
Non Interest Income	12,924	19,143	8,244	13,621	15,544	18,599	19,358	20,785
<b>Net Operating Income</b>	<b>57,045</b>	<b>63,878</b>	<b>57,094</b>	<b>67,758</b>	<b>79,935</b>	<b>89,040</b>	<b>93,968</b>	<b>98,520</b>
Operating Expenses	-23,252	-27,649	-30,095	-35,598	-40,172	-42,990	-44,285	-46,660
<b>Profit Before Taxation</b>	<b>33,793</b>	<b>36,229</b>	<b>26,999</b>	<b>32,160</b>	<b>39,763</b>	<b>46,049</b>	<b>49,684</b>	<b>51,860</b>
Tax expense	-5,007	-5,214	-3,031	-4,554	-5,567	-6,907	-7,453	-7,779
<b>Profit for the year</b>	<b>28,786</b>	<b>31,015</b>	<b>23,968</b>	<b>27,606</b>	<b>34,196</b>	<b>39,142</b>	<b>42,231</b>	<b>44,081</b>

Balance sheet	FY 2018	FY 2019	FY 2020	FY 2021	FY22E	FY23E	FY24E	FY25E
Cash and balances with CBO	153,406	108,492	79,020	114,703	182,233	108,932	151,084	147,979
Due from banks	24,027	50,276	46,174	44,694	46,929	49,275	51,739	54,326
Loans & advances and financing	1,870,677	2,054,986	2,218,897	2,401,979	2,574,167	2,757,210	2,895,070	3,039,824
Investment securities	214,073	258,148	306,368	428,377	342,702	376,972	395,820	415,611
Fixed Assets	17,490	21,194	22,864	26,649	31,521	32,726	33,998	35,109
Other Assets	10,741	25,431	29,154	36,154	37,962	39,860	41,853	43,945
<b>Total Assets</b>	<b>2,290,414</b>	<b>2,518,527</b>	<b>2,702,477</b>	<b>3,052,556</b>	<b>3,215,513</b>	<b>3,364,975</b>	<b>3,569,565</b>	<b>3,736,795</b>

#### LIABILITIES AND SHAREHOLDER'S EQUITY

Due to banks	146,777	197,705	135,244	262,340	270,210	278,317	286,666	295,266
Customers' deposits	1,661,645	1,711,726	1,924,654	2,181,391	2,290,461	2,404,984	2,573,332	2,701,999
Borrowings	51,975	127,050	159,775	92,400	101,640	111,804	122,984	135,283
Other liabilities	71,013	92,851	94,454	89,428	90,317	94,401	98,689	103,191
<b>Total Liabilities</b>	<b>1,931,410</b>	<b>2,129,332</b>	<b>2,314,127</b>	<b>2,625,559</b>	<b>2,752,628</b>	<b>2,889,505</b>	<b>3,081,672</b>	<b>3,235,739</b>
Paid-up Capital	149,629	157,110	164,966	194,966	194,966	194,966	194,966	194,966
Other Reserves	49,906	52,626	52,487	48,477	48,477	48,477	48,477	48,477
Retained earnings	55,469	55,459	46,897	59,554	70,442	83,027	95,450	108,612
<b>Shareholder's Equity</b>	<b>255,004</b>	<b>265,195</b>	<b>264,350</b>	<b>302,997</b>	<b>313,885</b>	<b>326,470</b>	<b>338,893</b>	<b>352,055</b>
Tier 1 Perpetual subordinated bonds	104,000	124,000	124,000	124,000	149,000	149,000	149,000	149,000
<b>Total Equity</b>	<b>359,004</b>	<b>389,195</b>	<b>388,350</b>	<b>426,997</b>	<b>462,885</b>	<b>475,470</b>	<b>487,893</b>	<b>501,055</b>
<b>Total Liabilities and Equity</b>	<b>2,290,414</b>	<b>2,518,527</b>	<b>2,702,477</b>	<b>3,052,556</b>	<b>3,215,513</b>	<b>3,364,975</b>	<b>3,569,565</b>	<b>3,736,795</b>

Cash Flow Statement	FY 2018	FY 2019	FY 2020	FY 2021	FY22E	FY23E	FY24E	FY25E
Cash flow from operating activities	25,099	-88,276	160,108	221,455	-20,804	-17,616	84,926	40,861
Cash flow from investing activities	-3,464	-44,884	-27,474	-55,449	77,402	-39,292	-24,146	-25,346
Cash flow from financing activities	30,225	62,759	1,769	-65,653	10,932	-16,393	-18,628	-18,620
Net change in cash	51,860	-70,401	134,403	100,353	67,530	-73,301	42,152	-3,105
<b>Cash at the end of period</b>	<b>135,667</b>	<b>65,266</b>	<b>199,669</b>	<b>300,022</b>	<b>367,552</b>	<b>294,251</b>	<b>336,403</b>	<b>333,298</b>

Key ratios	FY 2018	FY 2019	FY 2020	FY 2021	FY22E	FY23E	FY24E	FY25E
<b>Operating performance</b>								
Yield on average earning assets	5.4%	5.5%	5.4%	5.1%	5.2%	5.5%	5.3%	5.3%
Cost of funds	3.1%	3.4%	3.4%	3.2%	3.0%	3.1%	3.0%	3.0%
Interest spread	2.3%	2.1%	2.0%	2.0%	2.2%	2.3%	2.3%	2.3%
NIM	2.5%	2.4%	2.3%	2.3%	2.5%	2.6%	2.6%	2.6%
Interest income/operating income	174%	179%	184%	172%	165%	167%	163%	163%
Net interest income/operating income	83.8%	81.8%	84.1%	79.5%	82.2%	81.8%	81.5%	81.1%
Non interest income/operating income	16.2%	18.2%	15.9%	20.5%	17.8%	18.2%	18.5%	18.9%
Cost to income ratio	37.4%	39.6%	42.1%	43.2%	43.7%	42.8%	41.8%	42.0%
<b>Liquidity</b>								
Net Loan to Deposit Ratio	103%	108%	108%	98%	101%	103%	101%	101%
Customer deposits/total deposits	92%	90%	93%	89%	89%	90%	90%	90%
Net loans to customer deposits	113%	120%	115%	110%	112%	115%	113%	113%
Investments/total assets	9%	10%	11%	14%	11%	11%	11%	11%
<b>Asset quality</b>								
Stage 1 loan ratio	90%	80%	78%	78%	78%	78%	78%	78%
Stage 2 loan ratio	9%	18%	19%	19%	19%	19%	19%	19%
Gross NPL ratio	1.7%	1.7%	2.9%	3.2%	3.4%	3.3%	3.1%	3.0%
Provision as a % of gross loans	1.8%	2.0%	2.3%	2.8%	3.4%	3.3%	3.3%	3.3%
NPL Coverage	105%	114%	80%	87%	100%	102%	106%	110%
Cost of credit	0.27%	0.28%	0.63%	0.59%	0.45%	0.40%	0.40%	0.40%
Stage 1 coverage	0.4%	0.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Stage 2 coverage	6.1%	3.9%	4.2%	4.6%	4.7%	4.7%	5.1%	5.5%
Stage 3 coverage	54%	57%	40%	48%	65%	65%	65%	65%
<b>Capital adequacy</b>								
Tier I ratio	16.3%	16.0%	14.8%	15.9%	16.0%	15.7%	15.2%	14.9%
Tier II ratio	1.1%	0.9%	0.9%	0.8%	1.0%	1.0%	1.0%	1.0%
CAR	17.5%	16.9%	15.7%	16.7%	17.0%	16.7%	16.2%	15.9%
Net Equity to Gross Loans	13.4%	12.6%	11.6%	12.2%	11.8%	11.4%	11.3%	11.2%
Net Equity to Total Assets	11.1%	10.5%	9.8%	9.9%	9.8%	9.7%	9.5%	9.4%
<b>Return ratios</b>								
Reported ROE	11.3%	12.1%	9.4%	9.5%	11.3%	12.2%	12.7%	12.8%
Adjusted ROE	8.2%	8.5%	5.7%	6.3%	8.0%	8.7%	9.3%	9.5%
ROA	1.0%	0.9%	0.6%	0.6%	0.8%	0.8%	0.9%	0.9%
RoRWA	1.1%	1.0%	0.6%	0.7%	0.9%	0.9%	1.0%	1.0%
<b>Per share ratios</b>								
EPS	0.019	0.019	0.009	0.010	0.012	0.014	0.016	0.017
BVPS	0.170	0.169	0.160	0.155	0.161	0.167	0.174	0.181
DPS	0.010	0.010	0.005	0.008	0.007	0.008	0.010	0.010
<b>Valuation</b>								
Price	0.146	0.130	0.127	0.116	0.140	0.140	0.140	0.140
P/E	7.6	6.9	14.3	11.9	11.3	9.8	8.8	8.3
P/B	0.9	0.8	0.8	0.7	0.9	0.8	0.8	0.8
Dividend Yield	6.8%	7.7%	3.9%	6.5%	4.9%	5.6%	6.8%	7.2%

## Banking Sector

**BUY: 12M TP @ 0.140**

### Valuation Summary (TTM)

Price (RO)	0.119
PER TTM (x)	NM
P/Book (x)	0.6
Dividend Yield (%)	6.8
Free Float (%)	19%
Shares O/S (mn)	1,669
YTD Return (%)	-26%
Beta	0.6

(mn)	OMR	USD
Market Cap	199	516
Total assets	3,436	8,924

Price performance (%)	1M	3M	12M
Oman Arab Bank SAOG	-6%	-2%	-28%
MSX 30 Index	0%	-3%	10%
MSX Financial Index	1%	-2%	12%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	1	4	3
Avg Daily Volume (,000)	10	31	28

52 week	High	Low	CTL*
Price (RO)	0.166	0.114	4.4

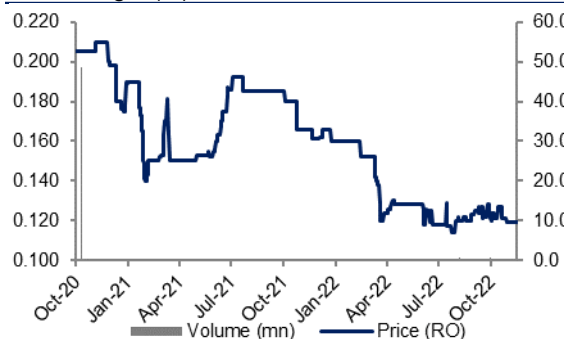
\* CTL is % change in CMP to 52wk low

### Major shareholders

Arab Bank	49.0%
OMINVEST	31.6%
Others	19.4%

### Other details

Exchange	MSX
Sector	Banks
Index weight (%)	0%



## Oman Arab Bank (OAB)

Oman Arab Bank is the newest entrant among listed banks in Oman, its shares started trading on MSX in July 2020. Arab Banking Group, which is one of the largest financial institutions in Middle East is OAB's major shareholder. Following the acquisition of Alizz Islamic Bank in 2020, OAB has re-oriented its business with higher focus on Islamic Banking. We see this change positively as it has given a flip to the Bank's growth ambition. We initiate coverage on Oman Arab Bank with **BUY** recommendation and 12M target price of 0.140

**Focus on Islamic Banking:** The acquisition of Alizz bank has changed the focus for OAB towards Islamic Banking. Pre-acquisition, the share of Loans from Islamic banking was around 6.95% in FY19, which has gone up to 29.16% in 9MFY22. The share of deposits from Islamic Banking which was at 7.20% pre-acquisition is now at around 29.20% in 9MFY22. The income mix has changed significantly in favor of fee from Islamic financing; whose contribution has gone up from around 3.0% in FY19 to 20% in 9MFY22. This pivot to an Islamic Bank sets OAB in a different class in terms of mix from Conventional and Islamic Banking. Islamic Banking has found acceptance in Oman, as is evident in the higher growth of this segment across all Banks in Oman. We believe OAB has received a jump start in its ambitions to grow faster with the acquisition, and Islamic Banking would be the fulcrum of growth going forward.

**Overhang of Share Sale:** To consummate the acquisition process, Capital Market Authority (CMA), stipulated a condition that the public shareholding should increase from 19.36% to 25.0%, within 2 years. The Bank has sought an extension to comply with this condition, which lapsed in June 2022, we believe that impending transaction would cause short term overhang on the share price.

Alizz Bank, which is a 100% subsidiary of OAB, needs to augment its capital to grow its loan book, as it has limited buffer. Alizz Bank's CAR is at 14.3% as against the requirement of 12.25%, the limited head room should prompt the Bank to raise funds in the form of AT1 bonds or subordinated bonds.

**Attractive Price to Book ratio:** The current price discounts the Book value of OAB for FY22E by 0.55x, which we believe is at a steep discount to peers. The peer group trades at a Price to Book value of 0.8-1x offering 45-80% upside. The steep discount does not factor in the future growth prospects that can occur due to improvement in the operating metrics of the Bank as well as the benefits from the overall improvement in the economy. We believe as OAB proceeds towards normalization the discount value will converge with peers.

**Scope for RoE expansion and Low P/B ratio; Recommend BUY with TP of 0.140:** The Bank posted a loss of RO 3mn in FY21, after adjusting interest on the perpetual bond. The adjusted EPS is set to grow to around 0.015 by FY25E, and the reported ROE is expected double from 4.5% in FY22E to 9.2% in FY25E. The stock is trading at substantial discount to its FY22E expected book value of 0.215 at 0.55x, we have a target price of 0.140 with an upside of around 17.6%. We recommend investors to BUY the stock.



**Acquisition of Alizz Islamic provided the much-required impetus for growth:** Following the takeover of Alizz Islamic Bank, OAB started reporting consolidated financial statements. On a consolidated level, the bank's loan book expanded by 6.0%, the Islamic subsidiary has outperformed conventional banking parent. While the group's conventional loans grew by a CAGR of 4.1% from RO 1.91 billion to RO 2.07 billion during the post-merger period; the Islamic loans grew at 10.6% per annum to RO 835 million.

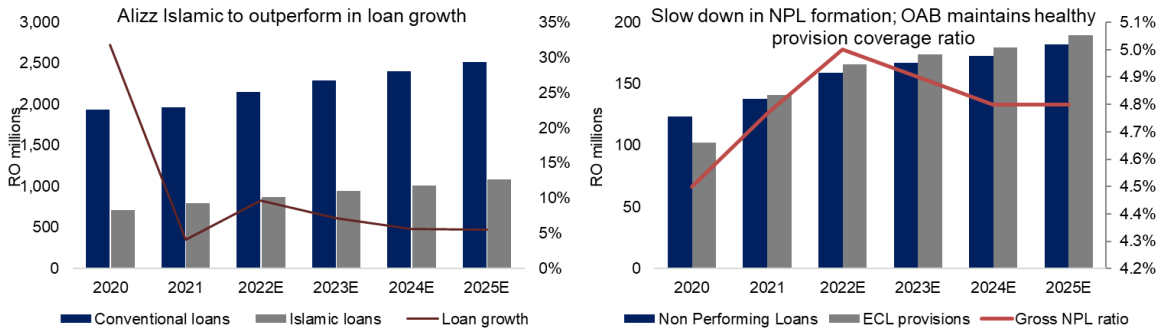
Total assets of Alizz Islamic crossed RO 1 billion in June 2022, growing from RO 885 million in Sept 2020, registering a growth of 13%. During this period, OAB's conventional banking assets grew from RO 2.40 billion to RO 2.64 billion registering a growth of 10%. The outperformance of Alizz Islamic in terms of asset addition has helped the group in registering a combined asset growth of 5.8% during the post-merger period.

Alizz Islamic financing book reached RO 834 million in June 2022 from RO 682 million in Sept 2020. Total Islamic deposits grew to RO 875mn post-merger. During the same period, the conventional banking deposits declined by RO 14 million to RO 2.0 billion.

Conventional banking performance deteriorated following the uncovering of a forgery and embezzlement of funds to the tune of RO 6 million by employees of the bank in December 2020. After taking sufficient provisions in 2020, the bank reversed them following recovery of full amounts from the insurance companies in 2021.

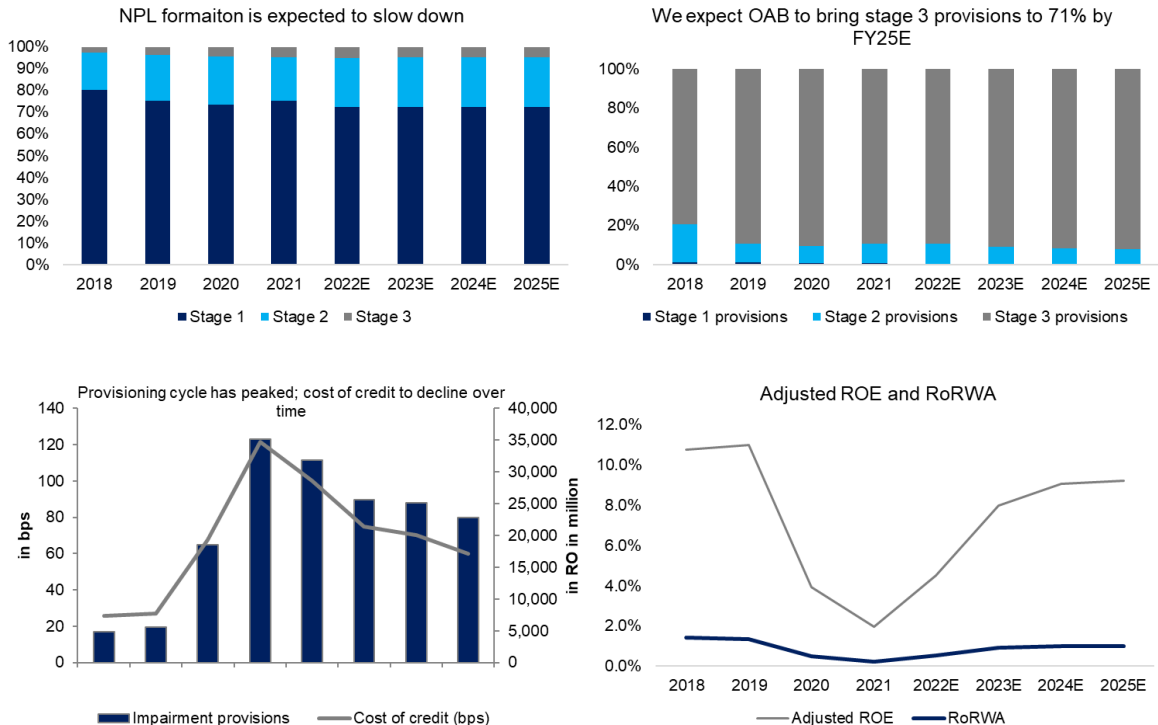
Alizz Islamic has 15 branches and 378 employees. It has one of the highest cost to income ratio of 65.3%, and we attribute this to the low economies of scale witnessed by the bank. Alizz Bank has been retained as a 100% subsidiary of OAB, this is different from other Banks in Oman which report their Islamic Banking operations within the purview of their intrinsic operations but as a separate segment.

**Islamic financing outperforms loan book growth:** Supported by the double-digit growth of Alizz Islamic, OAB group reported gross loan book growth of 9.9% for 9MFY2. The group achieved balance sheet growth of 5.5% per annum during the period, resulting in total assets of RO 3.65 billion at the end of September 2022. The bank was depending on corporate segment for loan additions, which resulted in loan growth of 7.3%. Retail segment growth was slower at 6.0%. As a result, corporate loans reached 62.1% of the group's gross loans, while retail business shrank to 38.9% of total loan book. Since the interest rate on retail loans are capped at 6%, we expect OAB to strengthen its corporate banking segment going forward where there is scope of improving yields and better asset quality parameters. Investment yields are expected to follow a rising trend, albeit at a slower pace than the book re-pricing. We expect the group to achieve loan book growth of CAGR 6.1% over FY22-25E, with Islamic Banking outperforming at 7.7% vs. conventional banking, which is expected to grow at 5.4%



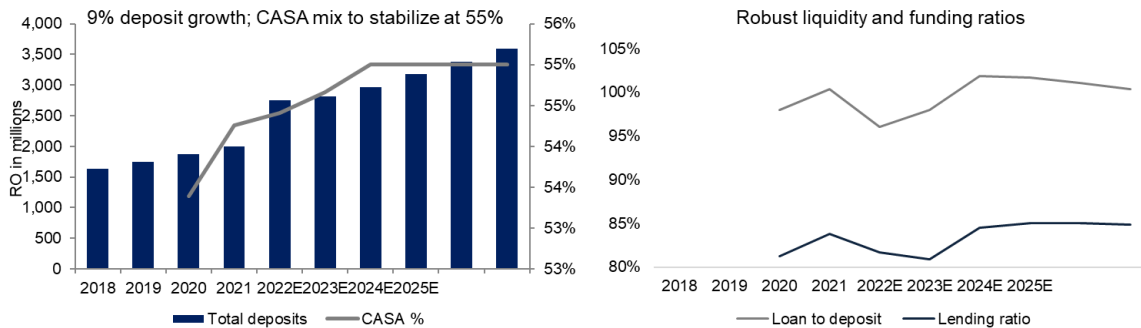
Source: Company reports, US Research

**Asset quality better than most peers:** The group’s NPL ratio reached 4.76%, primarily driven by the NPL ratio of OAB at 5.07% in 1HFY22. The group has one of the better asset qualities among the listed peers in Oman. Along with a relatively lower NPL ratio the Bank maintains a total provision coverage of 102% against the peer group median of 5.11% and 92.75% in NPL and coverage respectively. However, it is pertinent to note that the bank has only 50% specific coverage in 1HFY22, on its stage 3 loans, which might necessitate a higher provision expenses going forward. With the exception of OAB & BKSB, all other banks in Oman have a higher level of provisioning (+70%) on its stage 3 exposure.



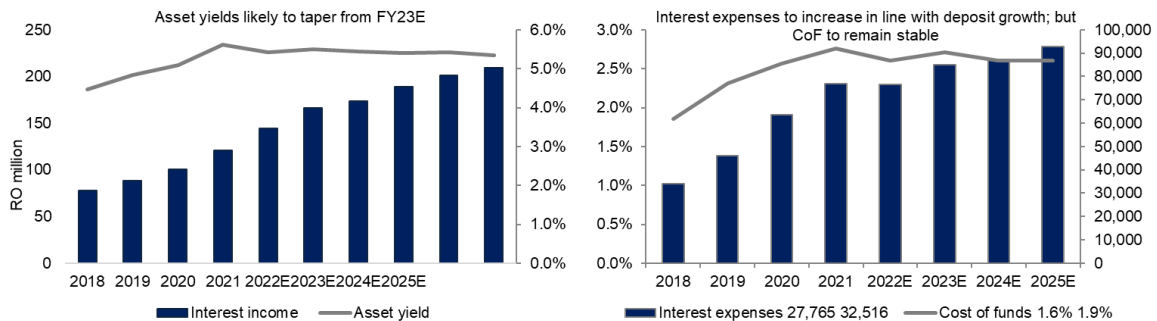
Source: Company reports, US Research

**CASA dominates Deposit mix:** OAB group is maintaining a consistent and healthy mix of CASA deposits. The CASA ratio of the group has increased by 80 bps over the last two years to reach 55.4% in 1HFY22. We assume the bank to maintain a similar mix of CASA deposits over our forecast term. Improving liquidity conditions in the domestic banking system as a result of higher oil prices enjoyed by the government, and CBO's efforts to provide the banking system with ample liquidity to control interest rates from spiraling up are expected to benefit OAB in terms of CASA ratio.



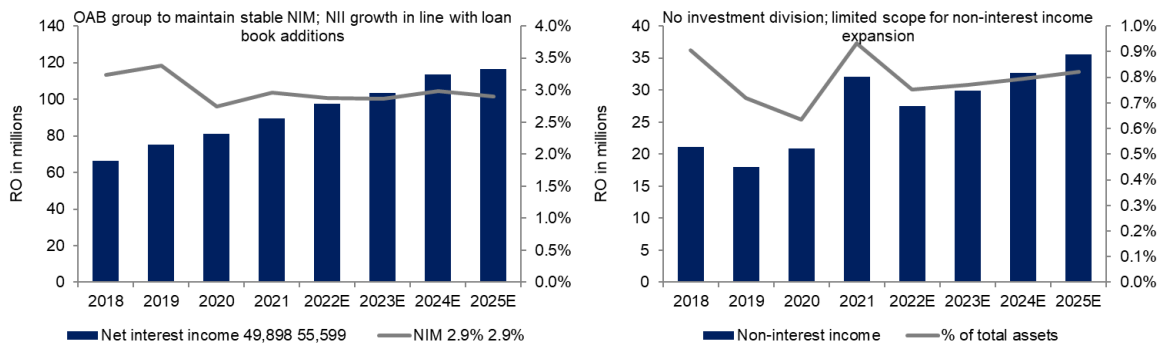
Source: Company reports, US Research

**Stability in Yield and Cost of Funds:** The yield on the average assets of the Bank have been in a narrow range of 5.1% - 5.5% since FY18. We expect the interest income to grow by around 6.4% CAGR FY22-25E, buoyed by a slightly higher asset yield of around 5.3%-5.4% in next three years. The stability in yield will also be due to the changing mix of loans.



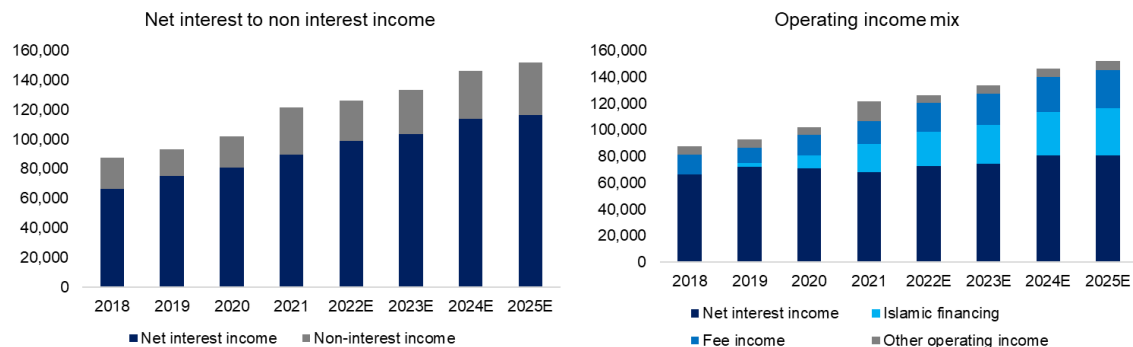
Source: Company reports, US Research

The cost of Funds which is at 2.8% in FY21 is likely to stay in the same range across our forecast period till FY25E. The interest expenses will grow in line with deposit growth, which we expect to be around 7% CAGR for the period FY22E-FY25E, we expect Islamic banking deposits to grow at 8.7% as compared to conventional banking which is expected to grow at 5.7% for the similar period.



Source: Company reports, US Research

We do not see a significant change in NIM which will be steady around 2.9% for FY25E. The Net interest income is likely to grow at CAGR 6.1% FY22E-FY25E, in line with the growth of loan book over the same period.

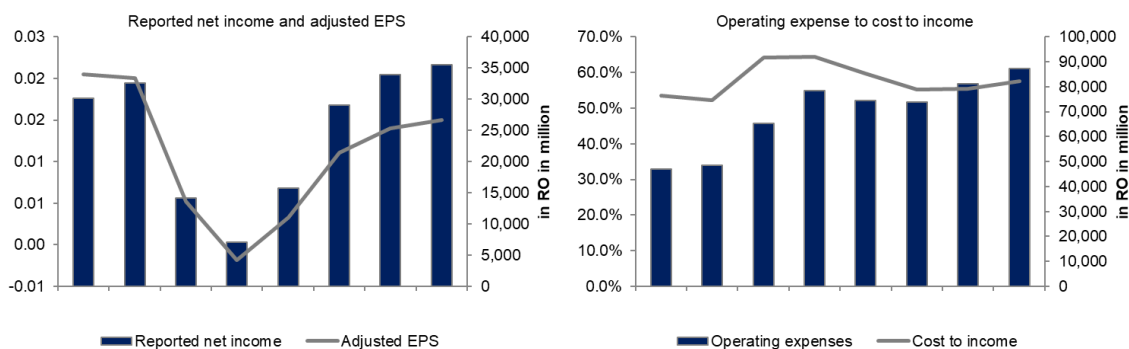


Source: Company reports, US Research

The income mix is likely to see a change in favor of Islamic Banking, which is expected to be at 23.7% in FY25E as compared to 17.4% in FY21. With the divestment of investment banking division, we see limited scope for expansion of non-interest income.

**Share sale overhang:** Pursuant to taking over of Alizz Islamic Bank, as per regulatory requirements, OAB needed to comply with the 25% public shareholding stipulation which was then at 19.36% to 25% within two years from the date of listing on the Muscat Stock Market as approved by the Capital Market Authority (CMA) in Oman. This stipulation means that there will be an additional supply of 5.64% of the company shares that would hit the market. While the time line for this is not confirmed yet, when it happens it might result in a temporary dip considering the excess liquidity created from the additional float of shares. We await details on the plan from the management and the type of transaction that OAB would undertake to ensure that the public holding is increased.

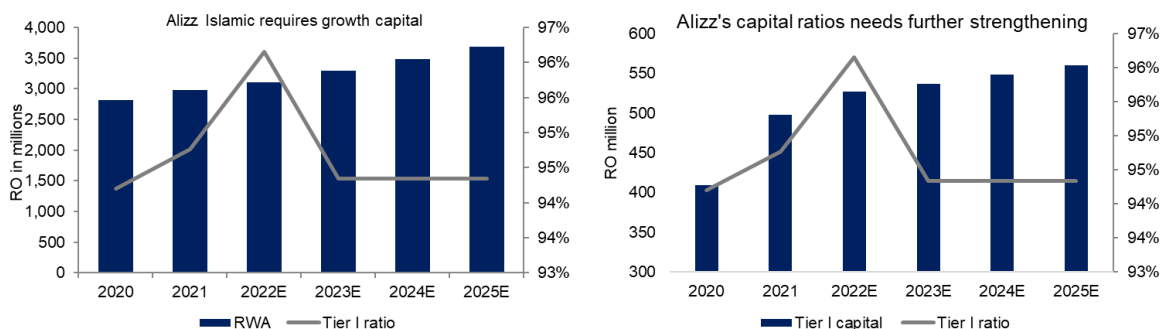
**Operating metrics:** The Cost to income ratio of 64.5% for OAB is amongst the highest across all the Banks. This is due to the relatively higher number of branches at 63, as compared to the lower book size. BKMB, despite having around 198 branches has a cost to income ratio of 40.3%. Further, the Bank has a relatively larger number of employees at 1512 as on FY21 as compared to other banks. ABOB and BKSB despite higher book size have a lower number of employees at 795 and 888 respectively as on FY21. As the size of the bank grows, we expect the economies of scale to improve and eventually the cost to income ratio will trend downwards.



Source: Company reports, US Research

**Alizz Islamic might require new capital for growth:** Alizz Bank, being a subsidiary of OAB, has to meet the capital requirements as stipulated by the regulator separately unlike other banks, which manage the CAR of have both Islamic and Conventional under a combined basis under a single arm. Alizz Islamic has a capital of RO 140 million and book value of 77 bz as of June 2022. The bank has a CAR of 14.3% as against minimum requirement of 12.25% which leaves the bank with RWA headroom for RO 148 million. Should the CBO reinstate the Capital Conservation Buffer to 2.5% from the relaxed levels of 1.25%, the bank has RWA headroom of RO 69 million only. Given this scenario, we expect Alizz Bank to increase its capital base, either by shareholder equity capital infusion or by mobilizing funds from AT1 or subordinated bond issues.

CET1 ratio of Oman Arab Bank as well as the group is at 10.1% and 11.0% respectively. Even though the regulatory minimum CET1 ratio is set at 7%, we feel that the bank would be required to enhance its capital base in the absence of profit growth. We note that the bank is maintaining a comfortable Tier 1 ratio of 15.4% against minimum requirement of 9%.



**Nine Month performance:** The profit for the 9MFY22 has dropped by about 6% from RO 11.3mn to RO 10.6mn, mainly on account of increase in provisions which is up by about 12.5%. The higher provisioning was due to higher credit losses in wholesale banking division. There was a one-off

income of RO 5.9mn recorded last year, towards insurance claim received, adjusted for this, the net profit before tax was up by 65% over the same period.

Net Interest income was up by about 11% for 9MFY22 as compared to 9MFY21, due to growth in loan book by about 9% in 9MFY22. The yields on assets/Cost of funds have been steady at around 5.5%/2.6%, in Q3FY22. NIMs have seen a slight uptick by around 10bps to 2.9% as compared to Q2. In terms of non-interest income mix, the Net interest income was at 62.9% in Q3FY22 as compared to 64.1% in Q3FY21. The cost to income ratio has improved to 60% in Q3FY22 as compared to 68% in Q3FY21.

Alizz Islamic Bank's profits were up by 33% over the 9MFY22 to RO 4.4mn as compared to RO 3.3mn in 9MFY21.

The Loan book has grown up by 9% to reach RO 3.0 bn as on 9MFY22, while the deposit book has gone up by 10.58%. NPL ratio was around 4.77% as on Sep 22 as compared to 4.62% in Sep 21. The CASA ratio was a tad lower than expected at 53.4%.

**Residual Valuation at RO 0.158; blended valuation at RO 0.140; We initiate with BUY Rating:**

We have valued Oman Arab bank using blended Residual valuation method. The share price of OAB has seen a drop of around 28% in the last year mainly due to the post-merger overhang. However, we think that with steady progress in operation metrics, OAB will return to normalcy and achieve industry level performance soon. Further we expect that the benefits of merger will start to show visible results. The bank offers a dividend yield of ~4.6%. We arrived at target price of OMR 0.140, implying ~18% upside potential from the current market price. We have valued Oman Arab bank using the blended valuation approach, with 50% weight to intrinsic valuation based on Residual approach, 25% weight to relative valuation using P/E, and 25% weight to relative valuation using P/B.

Residual valuation of OAB	FY 2022E	FY 202	FY 2024E	FY 2025E	Valuation parameters	
Equity at beginning of year	355,536	358,521	367,792	379,506	Risk free rate	5.00%
Equity at end of year	358,521	367,792	379,506	392,036	Equity risk premium	6.00%
Net income attributable to shareholders	5,969	18,544	23,427	25,060	Beta	0.80
Cost of equity	35,135	36,044	37,192	38,420	<b>Cost of equity</b>	<b>9.8%</b>
Residual income	(29,166)	(17,500)	(13,764)	(13,359)	ROE 2023e	5.1%
PV of residual income	(28,861)	(15,772)	(11,295)	(9,984)	Terminal year retention ratio	50.0%
PV of Terminal value residual income				(91,642)	Sustainable growth rate	2.6%
Current equity value				355,536		
Fair value of equity				263,894		
Shares outstanding				1,669,410		
<b>Excess ROE fair value per share (RO)</b>				<b>0.158</b>		
CMP (RO)				0.119		
Upside/downside (%)				32.8%		

### Valuation parameters

5 Year earnings CAGR	43.1%
Risk free rate	5.0%
Equity risk premium	6.0%
Beta	0.80
<b>Cost of equity</b>	<b>9.8%</b>
Terminal growth	2.6%
Terminal year ROE (%)	6.5%
<b>Justified P/B</b>	<b>0.54x</b>

### Relative Valuation - Oman Arab Bank

EPS 2023e (RO)	0.011
BVPS 2023e (RO)	0.220
<b>Target Price/Earnings Multiple for 2023E (x)</b>	<b>11.0x</b>
<b>Target Price/Book multiple for 2023E (x)</b>	<b>0.54x</b>
<b>Fair value per share (RO) - P/E Multiple</b>	<b>0.122</b>
<b>Fair value per share (RO) - P/B Multiple</b>	<b>0.120</b>

Valuation Method	Fair Value per share (RO)	Weight	Upside/Downside
Relative Valuation - P/E	0.122	25.0%	2.7%
Relative Valuation - P/B	0.120	25.0%	0.7%
Intrinsic valuation - Excess ROE	0.158	50.0%	32.8%
<b>Target Price (RO)</b>		<b>0.140</b>	<b>17.6%</b>
CMP (RO)		0.119	0.0%
Forward Dividend Yield 2023E			4.6%
<b>Total return Including dividend</b>			<b>22.2%</b>

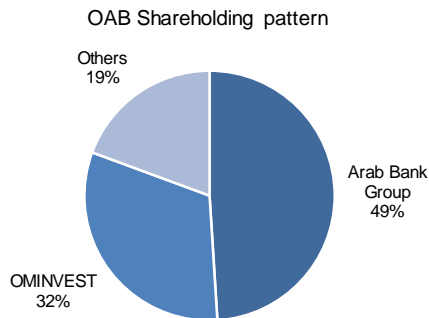
### About Oman Arab Bank

Oman Arab Bank was established following acquisition of Arab Bank's branches in Oman in 1984. In 1992, the Bank had acquired retail branches of Omani European Bank and in 2020 the Bank acquired 100% shares in Alizz Islamic Bank. The Bank was listed in July 2020 on the Muscat Securities Market. Over the past three decades, the Bank has consistently expanded its reach as well as its products and services offering to provide customers in Oman with a comprehensive suite of innovative solutions in retail banking, corporate and project finance, trade finance and Islamic banking.

At a consolidated level, the Bank has around 38% of its assets from Corporate Banking, followed by 29% in Islamic Banking. Similar is the case with the liabilities of the bank with Corporate Banking accounting for 41%, followed by Islamic Banking at around 30%. On the Income side however, the contribution from Corporate Banking is around 31%, followed by Retail Banking at around 30%. The Bank has a total of 63 branches (Islamic at 15 and Conventional at 48) with a headcount of around 1,512 employees. In terms of market share in the Oman Banking sector, their net loans account for around 10.8% market share and customer deposits has a market share of around 11.0%. Post-acquisition of Alizz Bank in 2020, the Bank raised around \$250mn in the form of Tier 1 capital.

Following its takeover of Alizz Islamic Bank, OAB started reporting consolidated financial statements. While on a consolidated level, the bank's financing book expanded by 6.0%, the Islamic subsidiary has outperformed conventional banking of the parent.

The Banks key share holders include Arab Bank Group (49%), which is one of the largest financial institutions in Middle East. The other significant share holder is Oman International Development and Investment Company (OMINVEST-31.63%), followed by others, who hold the rest of the 19.37% stake.



### Board of Directors

Mr. Rashad Al Zubair	Chairman
Mr. Wahbe Tamari	Deputy Chairman
Ms. Randa El Sadek	Board Member
Mr. Abdulaziz Al Balushi	Board Member
Mr. Waleed Samhouri	Board Member
Mr. Imad Sultan	Board Member
Mr. Mohammed Al Ghanamah	Board Member
Mr. Nasri Victor Malhamé	Board Member
Mr. Yasir Aqil Badri	Board Member

Source: MCD, US Research



Income Statement (RO 000')	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Interest Income	118,867	119,058	124,194	131,200	139,195	142,806
Interest Expense	-47,963	-50,731	-51,724	-56,514	-58,631	-62,277
<b>Net Interest Income</b>	<b>70,904</b>	<b>68,327</b>	<b>72,470</b>	<b>74,685</b>	<b>80,564</b>	<b>80,528</b>
Non Interest Income	31,020	53,298	53,722	58,847	65,750	71,524
<b>Net Operating Income</b>	<b>101,924</b>	<b>121,625</b>	<b>126,193</b>	<b>133,532</b>	<b>146,313</b>	<b>152,053</b>
Operating Expenses	-65,408	-78,471	-75,337	-73,777	-81,204	-87,430
Provisions expense	-18,567	-35,153	-31,839	-25,551	-25,159	-22,751
<b>Profit Before Taxation</b>	<b>17,949</b>	<b>8,001</b>	<b>19,017</b>	<b>34,205</b>	<b>39,950</b>	<b>41,871</b>
Tax expense	-3,778	-920	-2,853	-5,131	-5,993	-6,281
<b>Profit for the year</b>	<b>14,171</b>	<b>7,081</b>	<b>16,164</b>	<b>29,074</b>	<b>33,958</b>	<b>35,591</b>
Interest on Perpetual Tier I capital	-5,516	-10,195	-10,195	-10,531	-10,531	-10,531
<b>Profit attributable to shareholders</b>	<b>8,655</b>	<b>-3,114</b>	<b>5,969</b>	<b>18,544</b>	<b>23,427</b>	<b>25,060</b>

Balance sheet (RO 000')	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Cash and balances with Central Bank of Oman	220,975	188,904	121,467	118,705	132,492	152,717
Due from banks	72,838	50,972	54,030	59,433	65,377	71,914
Loans & advances and financing, net	2,645,359	2,753,434	3,018,340	3,233,030	3,414,441	3,602,235
Investment securities	240,218	302,496	311,571	320,918	330,546	340,462
Fixed Assets	46,605	43,303	38,003	34,998	31,341	27,539
Other Assets	76,393	96,550	105,484	115,311	126,122	138,013
<b>Total Assets</b>	<b>3,302,388</b>	<b>3,435,659</b>	<b>3,648,895</b>	<b>3,882,397</b>	<b>4,100,317</b>	<b>4,332,881</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
Due to banks	14,421	13,359	66,795	70,135	73,641	77,324
Customers' deposits	2,755,310	2,810,412	2,963,003	3,179,456	3,377,499	3,588,959
Borrowings	20,000	0	0	0	0	0
Other liabilities	81,080	87,549	91,774	96,210	100,868	105,759
<b>Total Liabilities</b>	<b>2,870,811</b>	<b>2,911,320</b>	<b>3,121,571</b>	<b>3,345,801</b>	<b>3,552,008</b>	<b>3,772,041</b>
Paid-up Capital	203,506	203,506	203,506	203,506	203,506	203,506
Other Reserves	102,912	84,367	84,367	84,367	84,367	84,367
Retained earnings	52,606	67,663	70,648	79,919	91,633	104,163
<b>Shareholder's Equity</b>	<b>359,024</b>	<b>355,536</b>	<b>358,521</b>	<b>367,792</b>	<b>379,506</b>	<b>392,036</b>
Tier 1 Perpetual subordinated bonds	72,553	168,803	168,803	168,803	168,803	168,803
<b>Total Equity</b>	<b>431,577</b>	<b>524,339</b>	<b>527,324</b>	<b>536,595</b>	<b>548,309</b>	<b>560,839</b>
<b>Total Liabilities and Equity</b>	<b>3,302,388</b>	<b>3,435,659</b>	<b>3,648,895</b>	<b>3,882,397</b>	<b>4,100,317</b>	<b>4,332,881</b>

Cash Flow Statement (RO 000')	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Cash flow from operating activities	111,282	-62,300	-40,766	33,064	52,974	60,805
Cash flow from investing activities	-32,179	-53,048	-13,492	-16,024	-16,943	-17,519
Cash flow from financing activities	-21,427	65,603	-13,180	-19,802	-22,244	-23,061
Net change in cash	57,676	-49,745	-67,437	-2,762	13,786	20,225
<b>Cash at the end of period</b>	<b>265,311</b>	<b>215,566</b>	<b>148,129</b>	<b>145,367</b>	<b>159,154</b>	<b>179,379</b>

Key Ratios	FY 2020	FY 2021	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Yield on average earning assets	5.4%	5.5%	5.4%	5.4%	5.4%	5.3%
Cost of funds	2.6%	2.8%	2.6%	2.7%	2.6%	2.6%
Interest spread	2.9%	2.7%	2.8%	2.7%	2.8%	2.7%
NIM	2.7%	3.0%	2.9%	2.9%	3.0%	2.9%
Interest income/operating income	142%	137%	139%	141%	137%	138%
Net interest income/operating income	79%	74%	78%	78%	78%	77%
Non interest income/operating income	21%	26%	22%	22%	22%	23%
Cost to income ratio	64%	65%	60%	55%	56%	58%
<b>Liquidity</b>						
Gross Loan to Deposit Ratio	100%	103%	107%	107%	106%	106%
Net Loan to Deposit Ratio	96%	98%	102%	102%	101%	100%
Customer deposits/total deposits	104%	102%	98%	98%	99%	100%
Net loans to customer deposits	96%	98%	102%	102%	101%	100%
Investments/total assets	7.3%	8.8%	8.5%	8.3%	8.1%	7.9%
<b>Asset quality</b>						
Stage 1 loan ratio	74%	75%	73%	73%	73%	73%
Stage 2 loan ratio	22%	20%	23%	23%	23%	23%
Gross NPL ratio	4.5%	4.8%	5.0%	4.9%	4.8%	4.8%
Provision as a % of gross loans	3.7%	4.9%	5.2%	5.1%	5.0%	5.0%
NPL Coverage	83%	102%	104%	104%	104%	104%
Cost of credit	0.68%	1.21%	1.00%	0.75%	0.70%	0.60%
Stage 1 coverage	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
Stage 2 coverage	4.9%	7.3%	7.4%	6.4%	5.9%	5.7%
Stage 3 coverage	51.0%	64.6%	65.0%	68.5%	70.0%	71.0%
<b>Capital adequacy</b>						
Tier I ratio	14.5%	16.7%	17.0%	16.3%	15.7%	15.2%
Tier II ratio	0.9%	0.9%	0.7%	1.0%	0.9%	0.9%
Capital Adequacy	15.4%	17.6%	17.7%	17.2%	16.7%	16.1%
Net Equity to Gross Loans	13.1%	12.3%	11.3%	10.8%	10.6%	10.3%
Net Equity to Total Assets	10.9%	10.3%	9.8%	9.5%	9.3%	9.0%
<b>Return ratios</b>						
Reported ROE	3.9%	2.0%	4.5%	8.0%	9.1%	9.2%
Adjusted ROE	2.6%	-0.9%	1.7%	5.1%	6.3%	6.5%
ROA	0.4%	0.2%	0.5%	0.8%	0.9%	0.8%
RoRWA	0.5%	0.2%	0.5%	0.9%	1.0%	1.0%
<b>Per share ratios</b>						
EPS	0.005	-0.002	0.004	0.011	0.014	0.015
BVPS	0.215	0.213	0.215	0.220	0.227	0.235
DPS	0.009	0.000	0.002	0.006	0.007	0.008
<b>Valuation at CMP</b>						
Price	0.196	0.160	0.119	0.119	0.119	0.119
P/E	37.8	-85.8	33.3	10.7	8.5	7.9
P/B	0.91	0.75	0.55	0.54	0.52	0.51
Dividend Yield	4.5%	0.0%	1.5%	4.7%	5.9%	6.3%

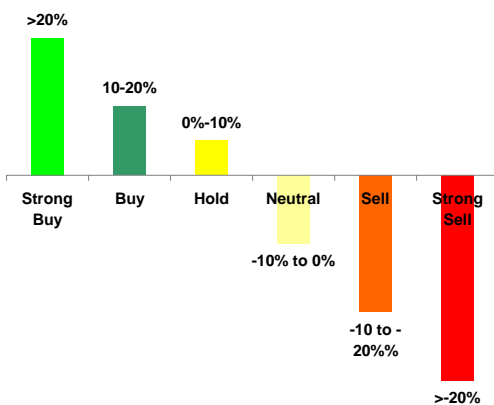
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	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%
<b>Buy</b>	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%
<b>Hold</b>	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%
<b>Neutral</b>	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%
<b>Sell</b>	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%
<b>Strong Sell</b>	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%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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