المتحدة للأوراق المالية (ش.م.م)
United Securities LLC
Investment Research

Bank Muscat SAOG

(MSM: BKMB)

RO 1.752 | MSM 10578.740

Aug 19, 2008

Key Stock data	
Company	Bank Muscat SAOG
Sector	Banking & Financial
Ticker	BKMB

Recommendation	Target Price
Hold	2.38

Key Figures	
CMP:	1.752
52 Wk. High/Low:	2.35/1.38
Market Cap(in M):	1,838.69
Shares O/S(000)	1,077.13

Key ratio	Historical		Estimates		
	FY06	FY07	FY08	FY09	FY10
PE	25.62	18.9	15.65	11.84	9.83
PEG	-	0.33	0.33	0.37	0.48
P/BV	4.86	2.46	2.63	2.47	2.25
NP Margin	46%	47%	54%	57%	60%



First 6ME FY08 Financial highlights

Operating income for the first-half increased by 46.7% to OMR117.4 M from OMR80 M in the same period for the last year, keeping in pace with the dynamism witnessed in the regional and domestic economy, the key business lines of the Bank continued to turn in an impressive performance.

Interest income for the first 6ME net grew by 25.9% to OMR74.7 M from compared to the last FY due to rise in the bank's assets portfolio while non-interest income rose to OMR42.7 M from OMR20.8 M in the same period in 2007.

Operating expenses increased by RO 11.8 M (37.3%) during the first 6ME 2008 as compared to the same period in FY2007. increased business activities and expansion of business lines led to increase in manpower and other administrative costs. However, cost to income ratio reduced to 37.1% during the first 6ME FY2008 as against 39.5% during the first 6ME FY2007.

Net profit for the second-quarter of FY2008 increased by 47.5% to OMR31.2 M from OMR21.4 M over the same period last FY.

Net Loans and Advances of RO 3,192 M, as of June 30, 2008 has grown by 45.1% as compared to the position as of June 30, 2007. Customer deposits grew by RO 651 M or 30.2% from RO 2,152 M as of June 30, 2007 to RO 2,803 M as of June 30, 2008. Savings deposits have registered an impressive growth of RO 270 M or 50.7% from RO 533 M as of June 30, 2007 to RO 803 M as of June 30, 2008.

The bank also registered significant increases in customer deposits and savings deposits, which grew by 30.2 percent to RO 2.15 billion (5.59 billion U.S. dollars) and 50.7 percent to OR 533 M (1.38 billion U.S. dollars) respectively in the first six months of this year.

Overseas operations and Investments:

The bank now has a fully operational branch in the Kingdom of Saudi Arabia (Riyadh), a representative office in UAE (Dubai); and Mangal Keshav Group (43%) in India, and a (35%) stake in Saudi Pak Commercial Bank in Pakistan, as well as a strategic (49%) stake in BMI Bank, Bahrain. Our Riyadh branch has achieved operating profits in June 2008 for the first time within 15 months of its operations. . BMI Bank in Bahrain is in the final process of opening a branch in Qatar Financial Centre and an offshore bank in Seychelles. BMI Bank made net profits of USD 7.4 million (RO 2.8 Million) during the half year ended June 30, 2008.

CBOP & HDFC Merger:

Initially the holding of Bank Muscat was 14%. Post merger the holding is declined to 4%. As of now, the Bank has restated the above stake as available for sale valued at book for RO 712.973 M. We assume the proceeds from the above sale would be utilized to setup a similar structure SPV as that of Bank Muscat International in Singapore.

Expansion:

The Bank would look forward to leverage on its Bahrain base (BMI) to expand throughout Africa. As of now BMI has started its operations in Qatar and Seychelles. At the same time, the Bank has acquired 40.17% stake in Pakistan based Saudi Pak Commercial Bank, and the holding is expected to be reduced to 35% post rights issue.

Overall Outlook:

At the macro level the banking sector has been hit by the CBO decision to rise the CRR rate from 5% to 8%. Subsequently the cap on personal loan interest rate from 8.5% to 8%. At the same time the inflation hitting the all time high. Still the banks continue to generate strong earnings, mostly due to their low cost structures and the healthy albeit declining interest margins earned on their growing business volumes. Further the government's ongoing strategy to diversify and expand the non-oil segment of the economy to continue to boost economic activity in the country and create further growth opportunities for the Omani banking sector. Omani banks continue to enjoy well-

established domestic franchises, strong earning-generating capability despite pressure on interest rate margins and good capital levels.

The stock has seen considerable selling pressure which can be attributed to negative sentiments and portfolio adjustments on banking stocks in a high inflationary scenario and rising credit concerns. Bank Muscat's GDR has fallen 19.4% during the year to US$ 17.95 and on Muscat Securities Market (MSM) the price has corrected by 12.0% to RO 1.691. We believe, this provides value opportunity to invest into Oman's largest bank with market share of estimated 40% trading at PBV of 2.63X FY08E and PE of 15.65X FY08E. Considering the higher levels of provision coverage (166.4%), these multiples are overstated, as compared to regional peers. At the same time the stock is performing well above the level compared to MSM30 index. With current P/E of 16.52 to 10.47 of MSM30 index. The operating margin also stands at 35.98% compared to 23.54 of MSM30 index.

We recommend the investors to hold the stock, as we expect it to bounce back and beat the market in long term with the target price of 2.38 which has a 40% upside in short and medium term.

Key Financials:

		Estimates		
	FY 07	FY08	FY09	FY10
Revenue (Interest & Other)	218.27	232.4	290.3	352.3
Interest Expenses	80.32	55.78	69.67	84.55
Other Expenses	20.08	13.94	17.42	21.14
Operating Profit	117.87	162.68	203.21	246.61
Pretax profit	97.71	134.86	168.46	204.44
Net profit	84.26	116.30	145.270932	176.29676
EPS	0.08	0.11	0.13	0.16
Diluted Shares O/S	1077.134	1077.134	1077.134	1077.134

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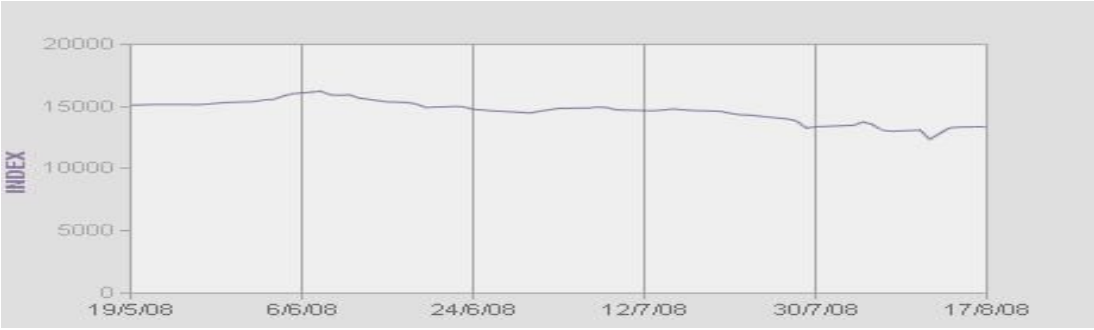
Valuation:

The stock is trading at current P/E of 15.65 x . We expect the PEG to grow @33x to accelerating the stock to reach at OMR 2.38, which has a 40% upside from current market valuation.. Further the disinvestment of CBOP and HDFC stake, the company is planning to expand the investment horizon with better growth potential which will lead to the increased revenue. The stock has very strong fundamentals with local market being protected enough from global issues, we suggest to hold the stock and wait for the momentum take place.

Industry:

Overall the banking industry has been a worse hit globally. The industry is yet to get over the sub-prime mortgage loss. With the crude softening in the international market and the growth in the emerging market comes to a halt, we expect the commodity prices to fall further, which will be a boost in the long run for investment and growth. All with the above happening we expect the interest rate to be at a comfort level with inflation coming down under control.

The Banking Index (Last 3 Months):



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