

GBCM Research: Bank Muscat- Q1 2019 Results- Initial View

(Closing Price: RO 0.400, Rating: Accumulate, 12 Month Fair Value: RO 0.466)

Operating Revenue- Above, Provisioning- Higher, Overall- In Line...

Key Positives

- End Q1 2019, Conventional loan book of the bank is at RO 7.995 billion, reporting an increase of 7.1% YoY and 2.1% QoQ. The loan book addition of the bank remained strong during the quarter. Islamic book grew by 14.2% YoY and 4.7% QoQ. **Overall loan book (Conventional and Islamic) grew by 7.9% YoY and 2.5% QoQ. The growth in loan book came above our estimates.**
- Net interest income of the bank for Q1 2019 has increased by 9.6% YoY and declined 1.7% QoQ to RO 78.760 million. **As per our estimates, the bank has reported increase in yield especially in the new book additions.** The largest bank in Oman also maintains low cost deposit base which would have benefited. Non-interest income of the bank for Q1 increased 6.2% YoY and 0.9% QoQ to RO 37.6 million. The initial results don't provide the breakup of non-interest income. This is in line with our estimates.
- Amid increase in net interest income, the bank has reported Q1 2019 total operating income of RO 116.32 million, an increase of 8.5% YoY and -0.9% QoQ. **This is above our estimates of RO 114 million on the back of estimated increase in margins.**
- Operating expenses for Q1 2019 has increased marginally by 1.7% YoY and remained flat QoQ at RO 48.580 million. We don't have the breakup of expenses in its initial results. **Overall Cost to income ratio of the bank improved to 41.8% levels (end Q1) as against 42.6% levels in Q4 2018 and about 44.6% levels in Q1 2018.**

Key Negatives

- Customer deposits declined during the quarter mainly due to higher proportion of short-term transit deposits during Q4 2018 which left during Q1 2019. Conventional customer deposits grew by 5.9% YoY and declined 6% QoQ (on high base); While the Islamic deposits increased 2% YoY and increased 3% QoQ. **The combined customer deposits grew by 5.4% YoY and declined 5% QoQ.** The decline in deposits is still in line with our estimates
- **On the back of decline in short term deposits during the quarter, overall Credit to deposit ratio of the bank increased to 114% levels as compared to 106% in Q4 2018 and about 111% in Q1 2018. This is still comparable with the sector average prevailing liquidity ratios.**



- Overall loan loss provisioning of the bank has increased considerably during the quarter. As per the bank announcement, net impairment for credit and other losses during Q1 2019 increased to RO 13.46 million as compared to RO 6.1 million in the same period of last year. **As per our crude calculations (breakup of provisioning not available), the cost of risk (net provisioning) of the bank increased to 0.6% levels as compared to 0.3% in Q1 2018 and 0.5% in Q4 2018.**

Outlook- Bank remain as proxy to local economy...

Overall, we remain mixed on the reported quarterly results of the bank. Q1 2019 operating profit of the bank is at RO 67.7 million, reporting an increase of 14% YoY and declining 1.4% QoQ, this is still above our estimates of RO 66.6 million on increase in operating revenue. Amid increase in net provisioning, net profit of the bank for Q1 2018 stood at RO 45.8 million, an increase of 2.2% YoY and +2% QoQ. This is in line with our estimates of RO 46.0 million.

We do see positives in the results with increase in credit demand (probably driven by corporate) and increase in net interest margins. On the other hand, the increase in cost of risk remain as a negative to the overall results. Based on our historical results trend analysis, we have seen Bank Muscat typically creating cushion in increasing cautionary provisioning during certain quarters. We would need to check with the management of the bank on asset quality movement.

At the current levels, the bank trades at PBV (2019E) of 0.66X and PE (2019E) of 6.8X. The estimated 2019E RoAE of the bank is about 10% levels, we have an Accumulate rating on the stock with the fair value of RO 0.466. The bank is part of our Top 10 recommendations in Oman. The increase in oil prices, improving fiscal position, higher infrastructure and project spending to benefit the bank during the coming quarters. Bank Muscat remain as a proxy to Oman economy, any revival signs to reflect positively in the stock performance. Caveat to remain on further economic slowdown and its impact in asset quality thereby increasing provisioning requirements during 2019.



Find below the table with the details of Q1 2019 results for your reference.

Bank Muscat - Income Statement (In RO 000s)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Net interest income - Combined (RO 000s)	78,760	71,837	9.6%	80,114	-1.7%
Other operating income	37,560	35,358	6.2%	37,207	0.9%
Total Operating Income	116,320	107,195	8.5%	117,321	-0.9%
Total Operating expenses (Inc Dep.)	48,580	47,768	1.7%	48,628	-0.1%
EBIT	67,740	59,427	14.0%	68,693	-1.4%
Profit Before Taxation	53,882	53,341	1.0%	52,660	2.3%
Taxes (Est.)	8,082	8,534	-5.3%	7,771	4.0%
Profit after Tax	45,800	44,807	2.2%	44,889	2.0%
Bank Muscat - Balance Sheet (In RO 000s)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Loans and advances (Net)- Conv	7,995,000	7,466,045	7.1%	7,828,485	2.1%
Net Islamic financing receivables	1,163,000	1,018,601	14.2%	1,110,430	4.7%
Net Loans - Conv. And Islamic	9,158,000	8,484,646	7.9%	8,938,915	2.5%
Customer deposits, including CDs (RO 000s)	7,055,000	6,663,687	5.9%	7,504,219	-6.0%
Islamic Banking Deposits - Total	987,000	966,921	2.1%	958,466	3.0%
Total Deposits - Conv, CDs and Islamic	8,042,000	7,630,608	5.4%	8,462,685	-5.0%
Key Performance Ratios	Q1FY19	Q1FY18		Q4FY18	
Credit to Deposit Ratio (%)	113.9%	111.2%		105.6%	
Cost to Income Ratio (%)	41.8%	44.6%		41.4%	
NIM (%)	3.10%	3.02%		3.11%	
Cost of Risk (%)	0.61%	0.27%		0.94%	

Source: Company Report, MSM, GBCM Research Estimates



Stock Rating Methodology:

- Buy** - Upside more than 20%
- Accumulate** - Upside between 10% and 20%
- Neutral** - Upside or downside less than 10%
- Reduce** - Downside between 10% and 20%
- Sell** - Downside more than 20%
- Not Rated** - Stocks not in regular research coverage

LT- Long Term

ST- Short Term

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