

HSBC Bank Oman SAOG- Investor Meeting Note (Closing: RO 0.123, Rating- Accumulate, 12 Month Fair Value: RO 0.135)

Management of HSBC Bank Oman had their investor meeting spearheaded by its CEO in MSM yesterday. Find below the key discussions during the meeting for your reference.

The CEO of the bank discussed about various business divisions which include Global Banking, Global Markets, Commercial Banking and Retail Banking businesses in detail. Management has elaborated on the business growth areas and key focus areas of the bank.

Key focus areas of Global Banking division remain in Multinational space, Trade corridors, strategic events, key projects (in Duqm, Sohar and others), Sustainable finance, digital agenda and risk management tools.

In commercial business, the management talked about focus in creating eco system, increase in wallet share, SME focus, cross border, digital, structured/ conv. Trade finance and others.

2018 Performance

Revenue growth seen amid improvement in asset yield...

End 2018, the credit to deposit ratio of the bank is lower at 72% levels as compared to sector average of 107.7% levels. The bank continued to remain highly liquid.

The bank has reported flat loan book during 2018 amid reduction in the book during last quarter, while the average loan balances has increased. The customer deposit base also remained flat during the last year. On the other hand, the total operating income growth remained strong for the year.

2018 Net interest income of the bank grew by 10.7% YoY and non-interest income grew by 22.8% YoY. **Total operating income in 2018 increased 14.1% YoY.** The strong performance is led by improvement in asset yield, stability in cost of funding and higher fee and commission income.

Operating costs on a declining trend...

In terms of the operating costs, the bank has reduced considerably over the last five-years post-merger. During 2018, the total expenses increased marginally by 2% YoY due to higher staff costs (mandatory 3% increment) and other IT related expenses. Cost to income ratio lowered to c. 57.5% levels, while the same is higher as compared to other banks in Oman. The key reason for this is mainly due to lower advances to deposits ratio. As per the management, assuming credit to deposit ratios similar to the Oman Banking sector, the cost to income ratio would be lower, like other Omani Banks.



Provisioning saw positive impact, PAT grew stronger by 64% YoY...

In terms of Provision costs, the bank has reported net release of RO 1.5 million in Expected Credit Losses (ECL) and other credit charges during 2018. With the implementation of IFRS 9 during last year, the banks have reported volatility in the level of provisions. As per our estimates, total non-performing loans (NPL) to Gross loans is at 4.3% levels (amid legacy book) and the overall provision coverage remain at 118% levels.

2018 Operating profit of the bank stood at RO 36.5 million, an increase of 35% YoY. **While the Net profit of the bank in 2018 increased 64% YoY to RO 31.4 million, the highest annual profits reported by the bank.**

Robust Capitalized bank...

The bank remains strongly capitalized with total capital adequacy ratio of about 19.4%, the highest among the Omani Banks. This shows the overall strength of the bank and ability to participate in big ticket projects along with its Group expertise.

Investor Meeting- Key discussions

Liquid bank in Oman...

As a HSBC group policy, the bank maintains lower level of advances to deposits ratio. The bank doesn't intend to increase this. The bank would choose to remain liquid which remain as strategic group decision going forward. Credit growth to remain conservative with focus on good quality credit. Deposits growth remain low and in line with the credit off-take. On the other hand, the bank customer deposit base of the bank remain sticky and overall cost of funding remain lower as compared to other Omani Banks. This has led to improvement of spread and margins in 2018.

Global Expertise to bring benefits...

HSBC Global and HSBC Oman would work together in mandates which would bring global expertise and knowledge and to increase fee and commission income potential for the local entity. The bank focus remains on increasing the share of wallet by catering to customer needs in terms of generation of fee and commission income.

In terms of caveats, Incremental costs and challenges to remain in the form of IFRS 9 implementation, proposed VAT, technology changes and credit bureau formation going forward.



RoE to improve going forward...

RoE of the bank increased to about 9.5% levels in 2018. The bank would target double digit RoE going forward. **No major guidance given in terms of performance for 2019.**

Overall strategy of the bank to remain liquid, participate in key project lending and control costs to improve the overall return ratios.

Valuations and Outlook- A Quality Banking Sector Play in Oman

We see HSBC Bank Oman as a quality play among the local banks listed in Oman on the back of highly liquid balance sheet, strong risk controls and remaining well-capitalized. We see this stock to provide comfort to the investors in terms of stability in current challenging environment. We expect the bank to report sustainable earnings trend going forward amid the deployment of assets in high yielding segments along with the tight cost control measures. We do anticipate the bank to participate in advisory and loan syndication mandates with the Government and Quasi Government entities, which would enhance the fee income potential going forward.

On the valuations perspective, the bank trades at PE (2019E) of 9X and PBV (2019E) of 0.7X. We have an Accumulate rating on the bank with fair value of RO 0.135. At the current levels, based on the announced 2018 cash dividends, the stock provides dividend yield of c. 7.6%, which is attractive.

Table 1: HSBC Bank Oman- Key Ratios (Yearly Trend since 2012)

Growth Indicators	FY12	FY13	FY14	FY15	FY16	FY17	FY2018
Gross Loan Growth	67.6%	-16.4%	16.6%	1.8%	16.9%	-2.4%	-0.1%
Asset Growth	93.0%	-8.0%	1.0%	-1.9%	2.5%	3.5%	1.1%
Customer Deposits Growth	85.5%	-3.2%	3.3%	-2.7%	3.6%	3.5%	-0.3%
Total Operating Income Growth	43.6%	13.6%	3.3%	3.6%	2.3%	0.1%	14.1%
Net Income Growth	-64.9%	87.4%	12.8%	5.6%	30.7%	13.1%	64.1%
Profitability Indicators							
Return on Average Assets	0.3%	0.5%	0.5%	0.6%	0.8%	0.8%	1.3%
Return on Average Equity	2.5%	3.6%	4.0%	4.2%	5.4%	6.0%	9.5%
Interest Expenses/ Total Income	15.6%	13.2%	10.2%	9.4%	10.1%	12.1%	12.1%
Net Interest Margin	2.40%	2.24%	2.28%	2.29%	2.51%	2.43%	2.63%
Efficiency Indicators							
Avg Eff Int Rates on Interest Bearing Assets	2.97%	2.66%	2.62%	2.62%	2.87%	2.84%	3.09%
Cost of funds	0.65%	0.48%	0.39%	0.37%	0.41%	0.47%	0.53%
Spread	2.32%	2.18%	2.23%	2.25%	2.46%	2.36%	2.56%
Liquidity Indicators							
Non-Int expenses/ Assets	2.0%	2.5%	2.4%	2.4%	2.0%	2.0%	2.0%
Cost to Income Ratio (%) - Excluding Amortization	78.3%	80.8%	74.7%	71.3%	61.3%	61.2%	54.9%
Credit Quality Indicators							
Customer Deposits/ Shareholders Equity	6.29	5.86	5.98	5.84	5.95	5.98	5.66
Credit to Deposit Ratio	64.5%	54.7%	62.7%	66.6%	76.0%	72.2%	72.1%
Equity to Assets Ratio (%) - CAR	12.2%	13.8%	13.8%	14.0%	13.9%	13.9%	14.4%
Valuation Indicators							
NPAs to Gross Loans	7.1%	8.8%	7.3%	5.6%	4.6%	3.8%	4.3%
Recoveries to GL	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provision Coverage	107.1%	106.7%	107.9%	115.8%	119.1%	126.6%	118.1%
EPS	0.003	0.005	0.006	0.006	0.008	0.010	0.016
Book Value	0.147	0.153	0.155	0.154	0.157	0.162	0.170
DPS	0.001	0.004	0.006	0.004	0.005	0.006	0.009
PE (x)	42.45	22.65	20.09	19.03	14.56	12.87	7.84
PBV (x)	0.84	0.80	0.79	0.80	0.78	0.76	0.72
Dividend Yield (%)	0.8%	3.1%	4.5%	3.2%	4.1%	4.6%	7.6%

Source: Company Reports, GBCM Research Estimates

Table 2: Oman Banking Sector- Comparable Valuations

Oman Banking Sector- Valuations	Closing (20-Feb-19)	Rating	Market Cap (In RO 000s)	PE (2017)	PE (2018)	PBV (2017)	PBV (2018)	Div. Yield (2017)	Div. Yield (2018)	RoAE (2017)	RoAE (2018)
Bank Muscat	0.410	Accumulate	1,208,438	6.6	6.7	0.69	0.66	7.3%	7.3%	10.9%	10.2%
Bank Dhofar	0.142	Accumulate	397,647	6.7	7.9	0.68	0.73	8.5%	7.0%	10.7%	9.9%
National Bank of Oman	0.186	Buy	302,426	6.5	6.0	0.67	0.72	8.1%	8.6%	10.3%	11.9%
Ahli Bank	0.137	Accumulate	204,992	7.3	7.1	0.77	0.80	7.3%	7.3%	10.7%	11.3%
HSBC Bank Oman	0.123	Accumulate	246,038	12.9	7.8	0.76	0.72	4.6%	7.6%	6.0%	9.5%
Bank Sohar	0.109	Accumulate	216,109	7.6	7.4	0.66	0.73	4.6%	5.5%	9.0%	10.0%
Bank Nizwa	0.089	Neutral	133,500	35.3	17.8	1.02	0.97	0.0%	0.0%	2.9%	5.6%
Alizz Islamic	0.087	Neutral	87,000	NM	43.3	1.11	1.12	0.0%	0.0%	NM	2.6%
Sector Avg- Weighted			2,796,150	7.6	8.7	0.73	0.73	6.5%	6.7%	9.4%	9.9%

Source: Company Reports, 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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