

## Q3 FY11 results - Initial View

October 12, 2011

**Bank Muscat - Loan Book Growth remain strong, Healthy Earnings trend...****(CMP: RO 0.665; Fair Value: 0.909; Recommendation: BUY)****Overall: In line with our Estimates****Loan book grew by 13.2% YTD**

**Book addition remains robust:** Overall net credit book addition during the last quarter (Q3 FY11) remained stronger at about RO 269.748 million, reporting a growth of 6.3% on a QoQ basis. This is the highest quarterly addition in absolute terms since Q3 2008. We believe that the bank continued to grow its credit book on an aggressive manner since the beginning of Q2, which we believe on a progressive note. For the current year till end of 9M FY11, the loans and advances (net) of the bank increased by 13.2% YTD, which is well above our full year estimates of about 10% levels.

As at end of Q3 2011, the net loan book of the bank is at RO 4.537 billion, an addition of RO 529.074 million during 9MFY2011. The loan book has grown by 17.2% on a YoY basis. Bank Muscat being the leader in the Oman banking sector has been following an aggressive market share addition strategy over the last two quarters. The bank has also been proactive and looking to grow the books in a much faster pace ahead of the upcoming competition in the form of Islamic banks in Oman.

**Deposits jumps 28.3% YTD**

**Deposit growth continues stronger:** As at end of Q3 2011, the total customer deposits (inc. CDs) of the bank is at RO 4.723 billion, an increase of RO 1.041 billion in absolute terms for 9M FY11. The deposit has grown by about 37.2% on a YoY basis. The deposit addition strategy of the bank too remained on a healthy trend expecting the upcoming credit demand cycle in Omani market. During Q3 2011, the deposit addition of the bank is at about RO 391.058 million (increase of 9% sequentially), which we believe is positive for the bank which is looking at an aggressive growth.

**9MFY2011 Performance**

<b>Bank Muscat - Income Statement (In RO 000s)</b>	<b>9M 2011</b>	<b>9M 2010</b>	<b>% Chg</b>
<b>Net interest income</b>	<b>159,900</b>	<b>137,058</b>	<b>16.7%</b>
Other operating income	60,800	51,353	18.4%
<b>Total Operating Income</b>	<b>220,700</b>	<b>188,411</b>	<b>17.1%</b>
Operating expenses	90,800	75,479	20.3%
<b>Total Operating Profit</b>	<b>129,900</b>	<b>112,932</b>	<b>15.0%</b>
Impairment for credit losses	(40,900)	(30,010)	36.3%
<b>Profit after Tax</b>	<b>87,100</b>	<b>72,173</b>	<b>20.7%</b>
<b>Bank Muscat - Balance Sheet (In RO 000s)</b>	<b>9M 2011</b>	<b>9M 2010</b>	<b>% Chg</b>
Loans and advances (Net)	4,537,000	3,870,067	17.2%
Customer deposits, including CDs (RO 000s)	4,723,000	3,441,975	37.2%

Source: Company reports, GBCM Research

### ***Strong Operating performance***

**Net Interest Income growth improves:** Bank Muscat has reported Q3FY11 net interest income of about RO 53.919 million, reporting an increase of about 3.2% on a QoQ basis. This is achieved on back of stronger loan book addition achieved during the last two quarters and the anticipated improvement in net margins. This is in line with our estimates of RO 54.296 million. Net interest income for 9M FY11 of the bank grew by 16.7% YoY to RO 159.9 million

While non-operating income also increased by 8.6% on a QoQ basis to RO 19.891 million this is on back of the incremental loan book growth seen in the previous quarter. Total operating income for the quarter stood at RO 73.810 million, an increase of about 4.6% on a QoQ basis. This is in line with our estimates of RO 72.296 million. For 9M FY2011, the bank's total operating income has increased by 17.1% YoY to RO 220.7 million, which is in line with our estimates.

### ***Expenses normalizes***

**Operating expenses flattened sequentially:** Overall operating expenses (Inc depreciation) for Q3FY11 is at RO 29.643 million, reporting a marginal decline of about 0.2% on a QoQ basis. While the same has increased by about 13.5% on a YoY basis which is due to the higher employee costs and investment in banking infrastructure and facilities development. Operating expenses for 9M FY11 of the bank increased by 20.3% YoY to RO 90.8 million

### ***Increase in Provisioning - Expected lines***

**Loan book growth led to increase in General Provisioning:** The overall provisions on credit loss for Q3FY11 stood at RO 15.179 million as against RO 12.66 million in Q2FY11, an increase of about 19.9% on a QoQ basis. This is in line with the bank's stronger growth in loan book which in turn has led to the higher general provisioning requirements. Total provisioning for 9MFY11 stood at RO 40.9 million, an increase of 36.3% on a YoY basis.

### ***Q3 Earnings precise to our estimates***

**PAT - In line with our estimates:** Owing to stronger operating income, margins improvement along with the stabilizing trend in the operating expenses and asset quality, the overall Q3FY11 PAT of Bank Muscat stood at RO 29.868 million, which is in line with our estimates of RO 29.916 million. For 9M FY2011, the net profit of the bank stood at RO 87.1 million, an increase of 20.7% on a YoY basis.

*(Refer: GBCM Research: MSM 30 Index Companies - 9M FY2011 Earnings Preview note dated 4-Oct-2011).*

**Outlook - Earnings healthy, Valuations compelling...**

**Credit growth momentum to continue:** Management of Bank Muscat expects the credit growth for the current fiscal year to be about 10-12% levels. The pickup in the credit growth momentum is expected to continue during the upcoming quarters driven by continuing Government infrastructure investments and the higher growth in Personal segment.

**Valuations remain compelling:** At the current levels, the stock trades at PBV (2011E) of 1.15X and PBV (2012E) of 1.09X respectively, which is compelling. In terms of PE, the stock trades at 8.6X of FY11E EPS and 7.6X of FY12E EPS.

On back of higher than anticipated credit growth during 9M FY11, we expect to increase our credit growth estimates going forward which is driven by lending in big ticket projects and the revival in personal credit market in Oman.

We expect Bank Muscat to report FY2011E PAT of about RO 120.184 million, an increase of 18.3% YoY led by higher than expected loan book growth, stabilizing operating expenses and asset quality. We would maintain our **'BUY'** rating on the stock with a target price of **RO 0.909** (12-month fair value), an upside of 36.7% from the current levels.

*\*\* Post discussion with the management, we would be revisiting our Valuation and update the detailed Q3 FY11 analysis soon*

*Income Statement - Quarterly Trend*

(In RO 000s)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
<b>Net interest income</b>	39,618	43,751	43,416	47,581	44,367	43,718	48,973	50,136	53,750	52,231	53,919
YoY (% Chg)	7.0%	16.3%	7.1%	1.5%	12.0%	-0.1%	12.8%	5.4%	21.1%	19.5%	7.5%
QoQ (% Chg)	-15.5%	10.4%	-0.8%	9.6%	-6.8%	-1.5%	12.0%	2.4%	7.2%	-2.8%	3.2%
Other operating income	14,099	17,458	15,043	16,879	17,319	16,521	17,513	26,948	22,593	18,316	19,891
YoY (% Chg)	-21.6%	-29.4%	-7.2%	7.0%	22.8%	-5.4%	16.4%	59.7%	30.5%	10.9%	-26.2%
QoQ (% Chg)	-10.6%	23.8%	-13.8%	12.2%	2.6%	-4.6%	6.0%	53.9%	-16.2%	-18.9%	8.6%
<b>Total Operating Income</b>	<b>53,717</b>	<b>61,209</b>	<b>58,459</b>	<b>64,460</b>	<b>61,686</b>	<b>60,239</b>	<b>66,486</b>	<b>77,084</b>	<b>76,343</b>	<b>70,547</b>	<b>73,810</b>
YoY (% Chg)	-2.4%	-1.9%	3.0%	2.9%	14.8%	-1.6%	13.7%	19.6%	23.8%	17.1%	-4.2%
QoQ (% Chg)	-14.3%	13.9%	-4.5%	10.3%	-4.3%	-2.3%	10.4%	15.9%	-1.0%	-7.6%	4.6%
Operating expenses	21,255	21,108	21,822	17,940	24,643	24,727	26,109	27,424	31,459	29,698	29,643
<b>Total Operating Profit</b>	<b>32,462</b>	<b>40,101</b>	<b>36,637</b>	<b>46,520</b>	<b>37,043</b>	<b>35,512</b>	<b>40,377</b>	<b>49,660</b>	<b>44,884</b>	<b>40,849</b>	<b>44,167</b>
YoY (% Chg)	-4.0%	1.2%	3.0%	8.6%	14.1%	-11.4%	10.2%	6.7%	21.2%	15.0%	-11.1%
QoQ (% Chg)	-23.7%	23.5%	-8.6%	27.0%	-20.4%	-4.1%	13.7%	23.0%	-9.6%	-9.0%	8.1%
Imp. for credit losses	(11,187)	(40,290)	(17,256)	(29,509)	(11,795)	(8,949)	(9,266)	(16,579)	(13,061)	(12,660)	(15,179)
<b>Profit Before Taxation</b>	<b>20,367</b>	<b>(1,305)</b>	<b>23,039</b>	<b>15,936</b>	<b>28,823</b>	<b>26,194</b>	<b>30,211</b>	<b>32,571</b>	<b>32,881</b>	<b>34,430</b>	<b>34,730</b>
YoY (% Chg)	-34.9%	-103.6%	-36.3%	-52.8%	41.5%	NM	31.1%	104.4%	14.1%	31.4%	6.6%
QoQ (% Chg)	-39.6%	-106.4%	NM	-30.8%	80.9%	-9.1%	15.3%	7.8%	1.0%	4.7%	0.9%
Taxes	<b>7,250</b>	<b>4,574</b>	<b>3,032</b>	<b>(592)</b>	<b>4,348</b>	<b>3,643</b>	<b>5,064</b>	<b>3,150</b>	<b>5,043</b>	<b>5,036</b>	<b>4,862</b>
<b>Profit after Tax</b>	<b>13,117</b>	<b>(5,879)</b>	<b>20,007</b>	<b>16,528</b>	<b>24,475</b>	<b>22,551</b>	<b>25,147</b>	<b>29,421</b>	<b>27,838</b>	<b>29,394</b>	<b>29,868</b>
YoY (% Chg)	-50.6%	-118.8%	-38.0%	-50.1%	86.6%	-	25.7%	78.0%	13.7%	30.3%	1.5%
QoQ (% Chg)	-60.4%	-144.8%	-440.3%	-17.4%	48.1%	-7.9%	11.5%	17.0%	-5.4%	5.6%	1.6%
Post Tax gain HDFC Bank	35,300	17,900	-	-	-	-	-	-	-	-	-
<b>Net Profit</b>	<b>48,417</b>	<b>12,021</b>	<b>20,007</b>	<b>16,528</b>	<b>24,475</b>	<b>22,551</b>	<b>25,147</b>	<b>29,421</b>	<b>27,838</b>	<b>29,394</b>	<b>29,868</b>

Source: Company reports, GBCM Research





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