

### Bank Sohar –Healthy Operating Performance

Closing Price: RO 0.151

Recommendation: Buy

Fair Value: RO 0.195

Upside: 29.4%

**Overall Results Review:** *Above our Estimates*

July 12, 2011

**(Impressive growth in credit)**

**Net Loan book grows by 16% YoY:** Bank Sohar reported solid growth of 16% in its loan book to reach RO 982.3 million on a YoY basis. The net loan addition for the quarter touched RO 51.8 million as against RO 33.2 million during Q1 2011, which is the highest over the last seven quarters. On a quarter on quarter (QoQ) basis, the loan growth is about 5.6%. Given the current run rate of disbursements it is likely to surpass our annual estimates of incremental addition for the current year. We shall revise our estimates subsequent to the availability of the detailed financials.

**(Deposits too match up)**

**Deposit growth at 15.5% on YoY:** The Bank has reported an addition of RO 47.9 million in Customer deposits during the quarter under review. This is an increase of 5.1% on a QoQ basis which we believe is a healthy one given the low interest rate scenario. The overall customer deposits of the bank for Q2 have increased by 12.6% YoY to RO 988.2 million.

**(Net operating Income growth - Above our estimates)**

**Net Operating Income grew on a stronger note:** Bank Sohar witnessed a substantial jump in its Q2FY11 net operating income. A significant upside in the advances during the previous quarters has set a stage for the strong 21.3% growth in net operating income which touched RO 10.8 million, about a million above our estimates of RO 9.9 million. The same has increased by 8.6% on a QoQ basis. Considering the loan book growth it is expected to have posted even growth in the non-interest income as well.

**(Operating expenses drop on sequential basis)**

**Opex increases in line with an increase in total income:** Overall operating expenses for the quarter (including Depreciation) increased to RO 5.8 million, an increase of 19.4% YoY. However, on a QoQ basis, the total costs decreased by 1.5%, the breakup of which is yet not available. The one off staff costs like annual remunerations recorded in first quarter are expected to have more or less evened out the additional increments in the following quarter. This in our opinion is unlikely to sustain due to the impending competition and the structural change the industry is likely to witness due to the entry of Islamic Products.

**(Q2 PAT - Above our estimates)**

**Robust growth in Earnings:** The net profit of the bank for the quarter stood at RO 3.87 million as against RO 3.06 million during Q1FY11, showing an increase of 26.5% on a QoQ basis. This is well above our estimates of RO 2.9 million. H1FY11 net profit stood at RO 6.93 million, an increase of 14.8% on a YoY basis.

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### Outlook and Valuations:

GBCM Research anticipates the overall Credit Growth of Oman Banking Sector to be at about 8% levels for the current fiscal. The ongoing efforts taken by Government towards infrastructure building with big-ticket investments currently happening in Airports, Power and tourism projects etc. provides a strong case for credit growth buildup for the local banking sector in the forthcoming quarters.

At the current levels, the stock trades at 1.24X of FY11E P/BV and 1.18X of FY12E P/BV. On the back of continuing healthier credit growth and stronger operating performance with improved margins, we continue to maintain our **'BUY'** rating on the stock with a target price of RO 0.195, an upside of 29.4% from the current levels.

### Financial Highlights:

#### Bank Sohar - Income Statement (In RO 000s)

	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Net Operating Income	7,437	7,652	9,383	8,370	8,891	8,755	9,215	9,937	10,789
QoQ (%)		2.9%	22.6%	-10.8%	6.2%	-1.5%	5.3%	7.8%	8.6%
YoY (%)					19.6%	14.4%	-1.8%	18.7%	21.3%
Total Operating Expenses	4,127	4,325	4,679	4,379	4,837	4,729	5,641	5,861	5,775
QoQ (%)		4.8%	8.2%	-6.4%	10.5%	-2.2%	19.3%	3.9%	-1.5%
YoY (%)					17.2%	9.3%	20.6%	33.8%	19.4%
Net Profit	2,447	2,769	3,582	2,831	3,204	2,229	1,956	3,058	3,869
QoQ (%)		13.2%	29.4%	-21.0%	13.2%	-30.4%	-12.2%	56.3%	26.5%
YoY (%)					30.9%	-19.5%	-45.4%	8.0%	20.8%

Source: Company, MSM, GBCM Research

#### Bank Sohar - Balance Sheet (In RO 000s)

	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Gross Loans & Advances	751,025	769,347	799,451	834,496	860,989	883,776	914,365	948,446	1,001,021
QoQ (%)		2.4%	3.9%	4.4%	3.2%	2.6%	3.5%	3.7%	5.5%
YoY (%)					14.6%	14.9%	14.4%	13.7%	16.3%
Net Loans & Advances	739,161	757,212	786,784	820,994	847,031	868,116	897,259	930,488	982,262
QoQ (%)		2.4%	3.9%	4.3%	3.2%	2.5%	3.4%	3.7%	5.6%
YoY (%)					14.6%	14.6%	14.0%	13.3%	16.0%
Total Assets	972,573	910,955	1,024,610	1,017,906	1,088,761	1,186,013	1,257,871	1,184,786	1,230,359
QoQ (%)		-6.3%	12.5%	-0.7%	7.0%	8.9%	6.1%	-5.8%	3.8%
YoY (%)					11.9%	30.2%	22.8%	16.4%	13.0%
Customer Deposits	661,797	649,438	832,449	814,453	877,876	906,773	999,135	940,310	988,197
QoQ (%)		-1.9%	28.2%	-2.2%	7.8%	3.3%	10.2%	-5.9%	5.1%
YoY (%)					32.7%	39.6%	20.0%	15.5%	12.6%
Total Equity	99,188	102,146	105,429	108,567	111,415	113,947	116,531	112,696	116,156
QoQ (%)		3.0%	3.2%	3.0%	2.6%	2.3%	2.3%	-3.3%	3.1%
YoY (%)					12.3%	11.6%	10.5%	3.8%	4.3%

Source: Company, MSM, GBCM Research

### 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

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