

July 18, 2010

BANK MUSCAT (BMAO.OM)

12-Month Fair Value: RO 0.928

Last Close (15 July 2010): RO 0.822

Recommendation: Accumulate - Risk Level: 3

- Bank Muscat reported a net profit of RO 22.5 million in 2Q2010, 87% above 2Q2009 and 8% below 1Q2010, on the back of declining loan loss provision charges. Income before provisions stood at RO 31.4 million in 2Q2010, 12% below our forecast of RO 35.5 million.
- Net interest income reached RO 43.7 million in 2Q2010, nearly flat compared to 2Q2009, and down 1% compared to 1Q2010. Non-interest income, excluding income from associates, stood at RO 16.5 million in 2Q2010, down 6% year-on-year (Y-o-Y) (excluding the gain on sale of HDFC in 2Q2009) and down 5% quarter-on-quarter (Q-o-Q). Income from associates suffered due to losses sustained at the bank's subsidiary in Bahrain, namely BMI Bank, on the back of high provisioning charges. In 2Q2010, Bank Muscat recorded net losses from associates of RO 4.2 million.
- Total operating income stood at RO 56 million in 2Q2010, 1.5% below 2Q2009, 10% below 1Q2010, and 12% below our forecast for 2Q2010. Costs remained flat Q-o-Q, but increased by 17% Y-o-Y, at RO 24.8 million in 2Q2010. The bank's cost-to-income ratio increased from 36% in FY2009 to 42% in 1H2010.
- Loan loss provision charges (excluding recoveries) stood at RO 8.9 million in 2Q2010, 78% below 2Q2009 and 25% below 1Q2010. The average loan loss provision charge per quarter in FY2009 was RO 24.6 million. Gross loans increased by 1.4% in 2Q2010 to RO 4,058 million, after declining by 0.5% in 1Q2010. Customer deposits (including CDs) declined slightly (-2%) in 2Q2010 to reach RO 3,563 million as of June 2010.
- Bank Muscat's results in terms of operating income are weaker than our forecasts for 2Q2010 primarily due to the losses at BMI Bank. Excluding the losses from associates, Bank Muscat's income before provisions is in-line with our forecast for 2Q2010. The drop in provisioning is also in-line with our view that provisioning for Bank Muscat will decline in FY2010 compared to FY2009. Our fair value for Bank Muscat stands at RO 0.928, which is 13% above the bank's latest closing price. Hence, our recommendation on the stock is "Accumulate."

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Related Research

- Bank Muscat Analyst Comment - 15 April 2010
- Bank Muscat Analyst Comment - 22 March 2010
- Bank Muscat Update - 11 March 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK		HIGH RISK		
1	2	3	4	5

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