Analyst Comment

NBK CAPITAL

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BANK MUSCAT (BMAO.OM)

- Bank Muscat announced a net profit of RO 73.7 million in 2009, 21% below RO 93.7 million reported in 2008, translating into a net loss of RO 6.7 million in 4Q2009. Significant gross loan loss provisioning, reaching RO 98.2 million in 2009, compared with RO 24.6 million booked in 2008, resulted in a lower than expected net profit for the year, as compared to our forecast of RO 111 million. Furthermore, the lower net profit in 2009 is also attributable to impairment losses on the investment in Silkbank (earlier known as Saudi Pak Commercial Bank), and losses from the associate in Bahrain (BMI).

- Net interest income growth was stable in 2009, reaching RO 174.4 million, 7.6% above 2008, and in line with our forecast of RO 175.6 million (a difference of -0.7%). Fees and commissions reached RO 49.8 million, 9% below 2008, and 5% above our forecast of RO 47.2 million. Total operating income in 2009 reached RO 280.6 million, 20% above 2008. However, this included a pre-tax gain of RO 60.5 million recorded on the sale of the investment in HDFC Bank, India. Thus, operating income in 2009, excluding the gain from the sale of HDFC Bank, dropped by 6% compared with 2008. Costs were well controlled in 2009, declining by 2.4% compared with 2008.

- During 4Q2009, the bank opted for non-participation in the rights issue of Pakistan-based Silkbank. Bank Muscat held a stake of 35.07% in Silkbank as at December 2009, which is expected to drop to around 8.5% following the completion of the rights issue. As the investment will be classified as "available-for-sale", it has been marked-to-market and the bank has booked impairment losses worth RO 20.3 million in 2009.

- The bank's net loans grew by 3% in 2009, to reach RO 3.84 billion, 3% below our forecast of RO 3.97 billion. In comparison, sector net loan growth between December 2008 and November 2009 was 6%. Non-performing loans (NPLs) spiked in 2Q2009, due to the Saudi exposures, and reached RO 172 million at the end of December 2009, compared with RO 64 million as at December 2008. The NPLs-to-gross loans ratio increased to 4.28% in December 2009 versus 1.68% in December 2008, however, heavy provisioning (particularly in 2Q2009 and 4Q2009) kept the NPL coverage ratio high at 107% as of December 2009. We would like to note that Bank Muscat announced their exposure to Dubai World of RO 19.25 million (0.5% of net loans as of December 2009), and the bank indicated that the payments continued to be serviced.

- Deposits declined to RO 3.068 billion at the end of December 2009, 3% below 2008, and 7% below our forecast of RO 3.31 billion. Bank Muscat underperformed the sector here as well, as reflected by the 6% growth in sector deposits between December 2008 and November 2009.

- The bank reported a capital adequacy ratio of 15.2% as of December 2009, higher than the level in 2008 (13.02%), and well above the regulatory requirement of 10%. The Board of Directors at Bank Muscat has recommended the distribution of a cash dividend of RO 0.02 per share, which translates into a dividend payout ratio of around 29% for 2009. The board also recommended a stock dividend of 25% of the existing shares, which, if approved by the shareholders during the Annual General Meeting, will increase the number of outstanding shares from the current 1.077 million to 1.346 million.

- Overall, while the bottom line has been impacted significantly by heavy provisioning and impairment charges, the bank recorded stable growth in net interest income, due to improved margins, despite weaker growth in loans than we had expected. We also view positively the improved capitalization and high coverage ratios. We will issue an update report on Bank Muscat after further discussions with the management.

Munira Mukadam

T. +971-4-365 2858
E. munira.mukadam@nbkcapital.com

Related Research

- Bank Muscat Update - 28 May 2009
- Bank Muscat Initiation of Coverage - 04 December 2009

NBK CAPITAL

Kuwait

Head Office
17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O.Box 4950, Safat 13050
Kuwait
T. +965 2224 6900
F. +965 2224 6905

MENA Research
19th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq,
P.O.Box 4950, Safat 13050, Kuwait
T. +965 2224 6663
F. +965 2224 6905
E. menaresearch@nbkcapital.com.kw

Brokerage
8th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O. Box 4950, Safat 13050, Kuwait
T. +965 2224 6964
F. +965 2224 6978
E. brokerage@nbkcapital.com

United Arab Emirates

NBK Capital Limited
Precinct Building 3, Office 404
Dubai International Financial Center
P.O.Box 506506, Dubai,
UAE
T. +971 4 365 2800
F. +971 4 365 2805

Turkey

NBK Capital
Arastima ve Musavirlik AS,
Sun Plaza, 30th Floor,
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
T. +90 212 276 5400
F. +90 212 276 5401

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