
Analyst Comment: Bank Muscat's exposure to troubled Saudi groups

Bank Muscat on Thursday made an announcement to the Muscat Securities Market on their exposure to the troubled Saudi groups Al Gosaibi group and the Saad group. The bank said that it has a direct exposure of RO 49 million through its Riyadh Branch as well as RO 17 million through its 49% associate Bank Muscat International, Bahrain to the operating companies of the troubled groups. The bank also said that it has no exposure to The International Banking Corporation, Bahrain or Awal Bank, Manama, which are part of these groups and are facing liquidity problems and restructuring their debt.

Bank Muscat said that it is at a comforting position that its exposures are with the troubled group's operating companies which are profit making and have strong balance sheets based on latest published financial reports. It also said that it is difficult for the bank to confirm any provisions are to be taken on these exposures for a period of time. However, the bank did not name the entities to whom it has extended credit facilities.

Considering the large size of the Saad group and the Al Ghosaibi group, we feel that this problem is not confined only to Bank Muscat, but might affect banks across the region and beyond. Given the magnitude of the problem, the Bank Muscat believes that the government and regulators in Saudi Arabia would step in very proactively and make solution for an orderly settlement of the groups' obligations. We are also holding a similar view on this.

We do not anticipate Bank Muscat to take any provisions on these exposures during the current quarter as the bank have extended loans to operating companies of the group which have strong balance sheets, based on the statement from Bank Muscat. Any provisions, if needed to take, would come only once the companies start defaulting on their debt obligations with Bank Muscat. Currently we believe that there are no defaults to Bank Muscat till date from the companies which are connected with Saad or Al Gosaibi.

However, we feel that investors would exercise caution while dealing in the shares of Bank Muscat as well as shares of other prominent Banks in the region till events get unfolded completely. We are expecting heightened volatility in Bank Muscat shares in the immediate short term. However, on the medium to long term view, we feel that the debt obligations would be honoured by the group up on effective interventions from the regulators concerned thereby softening the impact on related banks. Bank Muscat at current market prices is trading at 1.14x its book value and 7.2x its FY2009E earnings, making it the cheapest bank in terms of basic valuations. We believe that it is too early to have a revisit to our ratings on the bank and maintain our positive outlook on the bank.