

Outlook: Positive

Key Figures

Year	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Net Interest Income	39,618	43,751	43,431	47,600
Operating Profit	69,203	58,001	42,214	39,582
Net Profit	48,417	12,021	19,962	(6,700)

Balance Sheet

Year	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Net Loans	3,778	3,811	3,727	3,832
Total deposits	3,225	3,214	3,298	3,068
Total Equity	684.4	686.8	707.0	711.0

Valuation

Year	Q1 2009	Q2 2009	Q3 2009	Q4 2009
EPS (RO)	0.045	0.011	0.019	(0.006)
PE (x)	12.9	12.9	12.9	12.9
BVPS (RO)	0.635	0.638	0.656	0.660
P / BV	1.39	1.39	1.35	1.34

Market Price RO	0.886
Shares OS	1,077,133,750
Market cap RO	954,340,503

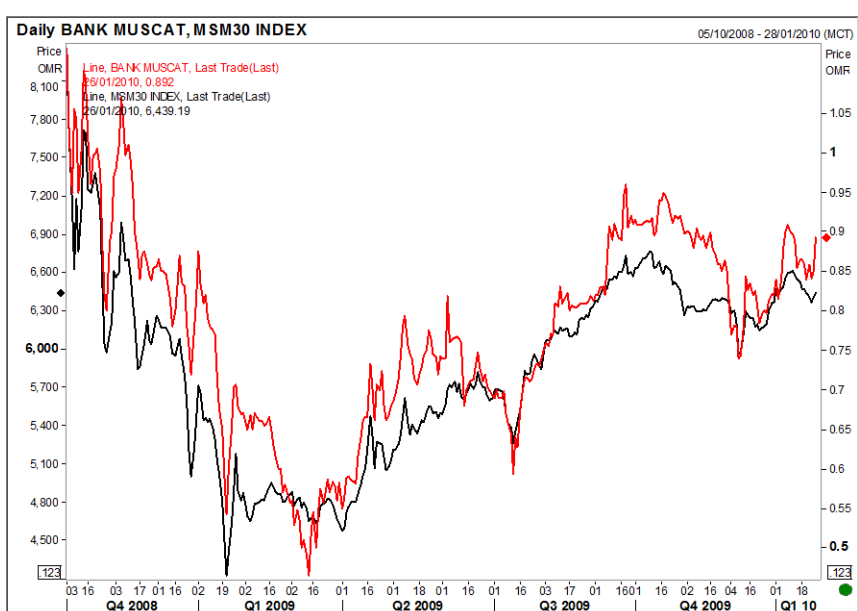
Relative Performance

	BKMB	MSM	Banking
1 month	6.78%	3.87%	2.34%
6 months	19.52%	10.30%	18.66%
12 months	32.97%	38.21%	69.87%

Reuters	BMAO.OM
Bloomberg	BKMB OM

Major Shareholders

Royal Court Affairs	24.84%
Dubai Financial LLC	15.00%
MOD Pension Fund	6.64%
Muscat Overseas Company	4.14%
Civil Service PF	3.25%
Others	32.99%
GDR	13.14%



Bank Muscat announced its preliminary annual results for the financial year ended 31st December 2009. The bank reported a net profit of RO 73.7 million during FY2009. The reported net profit is 21.37% lower than net profit of RO 93.73 million reported during FY2008. Substantially higher loan loss provisions combined with realized investment losses and lower non funding activities in 2009 have dragged the profitability down despite extraordinary pretax gains of RO 60.5 million from the sale of bank's stake in HDFC Bank.

Growth in gross loans; NPL provisions cause flattish net loan book growth: The bank has reported that gross loans grew by 5.2% during the last fiscal to reach at RO 4,052 million as against RO 3,853 million a year ago. We have calculated a growth of 2.79% or RO 105 million growth in the bank's net loan book during the year to reach at RO 3,838 million compared to RO 3,728 million at the end of FY2008. We infer that the bank took a very conservative approach towards lending during the year. The bank had a lackluster performance in capturing credit market share during the year and had to content with just 18.8% of incremental credit market share during FY2009. Despite the buoyancy in infrastructural spending by government during the latter half of the year, net loans decreased by 2.2% during 3Q2009 on a sequential basis for the first time in the last 10 quarters.

Total deposits decline by 3.3%; CASA increases by 9.6%: The bank has reported decline of RO 105 million in its customer deposit base during the year. The management attributed this decline to conscious efforts to reduce term deposits on account of the ongoing Certificates of Deposits auction by the bank. We estimate that the bank has raised around RO 80 million by way of its ongoing CD auction program. Low cost Current Account and Savings Account (CASA) has shown remarkable increase during the year. As at the end of FY2009 CASA forms 58.5% of total customer deposits as against 51.6% a year ago. Savings deposits grew at a rate of 6.1% during the year to reach at RO 815 million at the end of the fiscal. Favorable deposit mix has reflected positively in the interest spreads and has showed sequential improvement over the quarters.

NII growth led by uptick in margins; decline in non interest income: Net interest income grew by 7.58% during the year to reach at RO 174.4 million. We expect an expansion in NIMs (details awaited) driven by restructuring of the deposit mix during the year which in turn absorbed the impact of muted loan book growth and investment yields. Noninterest income before HDFC Bank investment gains declined by RO 18.5 million to reach at RO 56.2 million due to realized losses on investments and lower non core business activities in FY2009. The bank had realized pretax profit of RO 60.5 million by way of divesting its entire holding in HDFC Bank.

Marginally lower operating profit excluding extraordinary item: Operating profit before extraordinary items at RO 148.4 million were down by 2.7% YoY. Improved NII and effective cost cutting measures helped the bank in reducing the impact of lower noninterest income on operating profits. Operating profit including HDFC Bank investment gains stood at RO 208.9 million during the year.

Provisions take the toll - net profit down by 21.37%: The bank has taken provisions to the tune of RO 98.2 million towards credit losses which has dented profitability during the year. This is 4 times higher than the provisions of RO 24.6 million in FY2008. The bank has decided to consider full provisions for an exposure of RO 49 million to troubled Saudi groups. The management has indicated that the bank holds a non specific provision of RO 53.6 million as at the end of December 2009. We expect NPL coverage to be above 100%, an improvement from 3Q2009 levels. (Details on provision and bad loans awaited). With the earmarking of huge provision towards credit losses, we believe that the bank is starting FY2010 with relatively cleaner books. We expect this to call for relatively low provisioning requirements for the bank in the current fiscal and subsequently auger well for better performance.

Non participation in Silkbank rights issue; share of loss in BMI at RO 8.40 million: The bank's share of loss from associates increased by 225% to reach at RO 10.4 million in FY2009. The share of loss in Bank Muscat International formed amounted to RO 8.40 million. The bank was advised non participation in the rights issue of Silkbank, where it holds around 35% stake. As a result, the Bank's stake in Silkbank would be substantially diluted to around 8.5% based on the proposed rights issue terms. This necessitated the bank to reclassify its investment in Silkbank from an associate status to non strategic available for sale investment and subsequently marked to market in the Bank's book as at 31 December 2009. This resulted in impairment losses of RO 20.3 million including the loss on depreciation of the Pakistan Rupee amounting to RO 9.6 million which was earlier adjusted in equity.

Income Statement	FY 2007	FY 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	QoQ Change	FY 2009	YoY Change
Net interest income	124,822	162,107	39,618	43,751	43,431	47,600	9.60%	174,400	7.58%
Other operating income	48,107	74,694	49,399	35,358	22,061	9,882	-55.21%	116,700	56.24%
Total operating income	172,929	236,801	89,017	79,109	65,492	57,482	-12.23%	291,100	22.93%
Operating income excl HDFC gains	172,929	236,801	53,717	61,185	65,492	37,907	-42.12%	218,301	-7.81%
Operating expenses	66,240	78,487	19,814	21,108	23,278	17,900	-23.10%	82,100	4.60%
Impairment on credit loss	18,161	24,625	11,187	40,290	17,223	29,500	71.28%	98,200	298.78%
Net Profit	84,257	93,731	48,417	12,021	19,962	-6,700	-133.56%	73,700	-21.37%

Ratios and margins: The management has indicated that the return on average assets was at 1.2% in 2009 as compared to 1.8% in 2008 without giving any details. The return on average equity was 10.8% in 2009 as compared to 14.8% in 2008. The Bank is comfortably capitalized with a capital adequacy ratio of 15.2% as on 31 December 2009 against the minimum required level of 10 (details awaited).

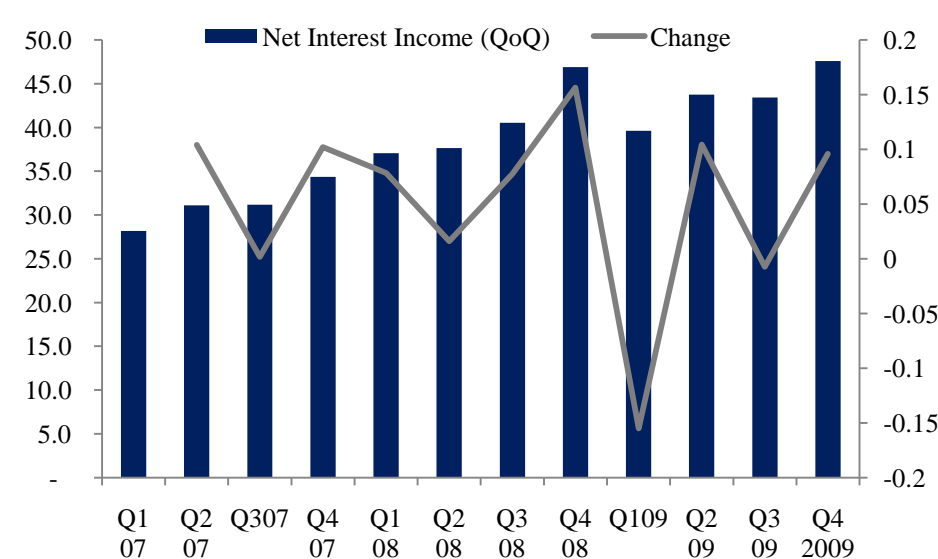
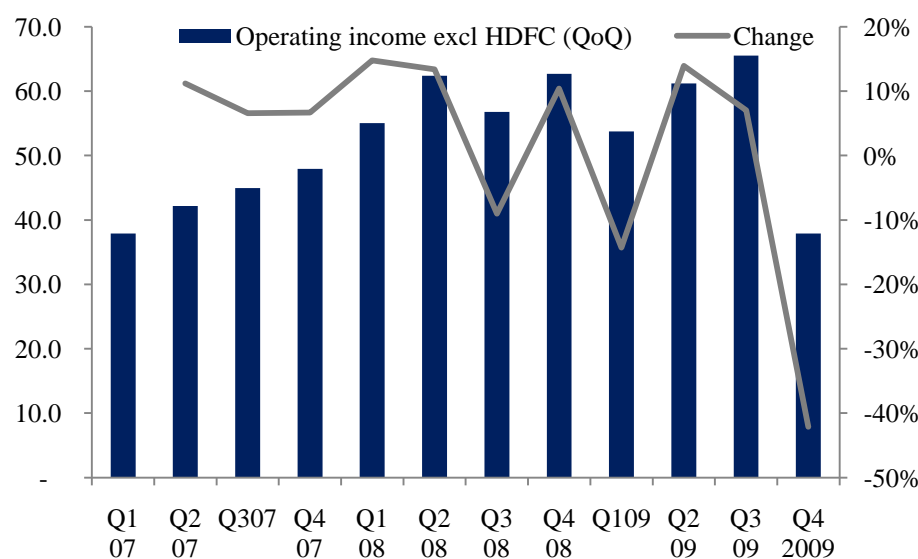
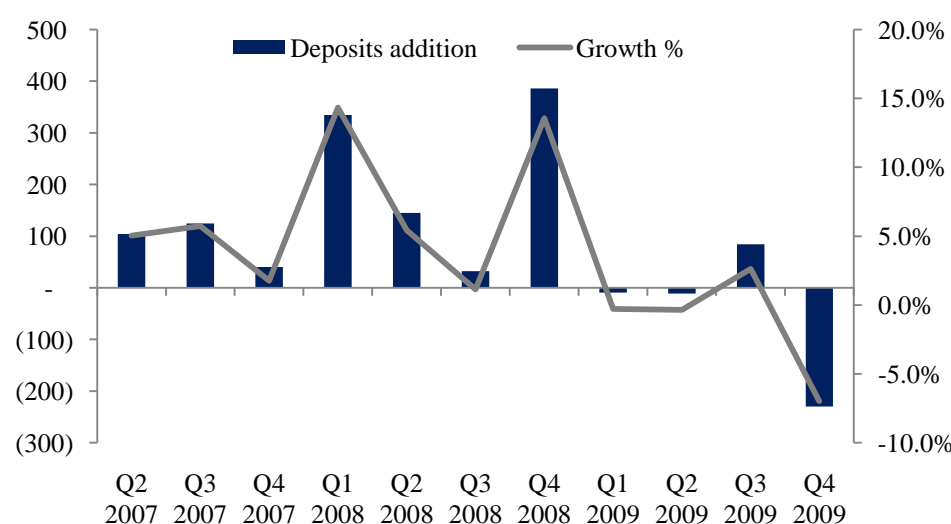
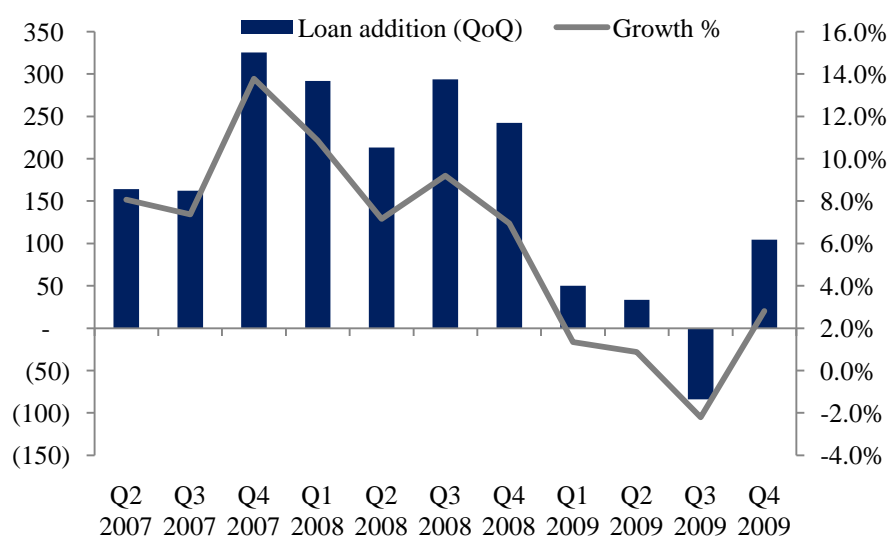
Dividends – 20% cash and 25% bonus shares: The board of directors of the bank has proposed 20% cash dividend and 25% bonus shares to its shareholders. Had the dividend been in cash, the resultant yield would have been 5.28% on its closing price as of 25th January 2010. We welcome any cash dividend payments from the bank while keeping our reservations on the bonus share issue as it would put pressure on maintaining the same level of return on net worth. With the current cash component of its dividend, the bank's shares are yielding 2.35% return on its 25 January closing price.

Valuation and Outlook:

We assume that during the year the bank had been able to re-price a portion of its loan book. Restructuring of its deposit mix with more weightage to low cost CASA helped it in absorbing the impact of muted loan book growth and investment yields. Realized investment gains helped the bank in offsetting substantial loan loss provisions and keeping the bottom line from sliding further. The bank has fully provided for its large overseas exposures which we believe that would help in continuing operations with clean books and assets with better quality.

The bank reported FY2009 EPS at RO 0.068. We have calculated the book value of the bank to be at RO 0.660 as at the end of December 2009 resulting in a price to book value of RO 1.34. At 12.9x earnings and 1.34x latest book value, the bank's shares are trading at a discount to its sector peers. We feel that the bank has come out of one of its worst times and expect it to perform better and in line with the recovery in economic activities in the country during the current fiscal. With expected higher credit off take and subsequent improvement in margins, we expect the bank to report net profit of RO 103 million in FY2010. With the anticipated increase of oil prices, favorable economic conditions in FY2010 combined with buoyant infrastructure spending from the government, we maintain our positive outlook on the shares of Bank Muscat.

(RO mm)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009
Net Interest Income (QoQ)	28	31	31	34	37	38	41	47	40	44	43	48	174
Operating income excl HDFC gains (QoQ)	38	42	45	48	55	62	57	63	54	61	66	38	218
Net Loans	2,035	2,199	2,361	2,687	2,979	3,192	3,485	3,728	3,778	3,811	3,727	3,832	3,832
Deposits	2,068	2,171	2,296	2,336	2,671	2,816	2,849	3,235	3,225	3,214	3,298	3,068	3,068
Loan addition (QoQ)		164	162	326	292	213	294	242	50	33	(84)	105	104
Deposits addition		104	124	40	335	145	32	386	(9)	(11)	84	(230)	(167)
Margin	1.39%	1.42%	1.32%	1.28%	1.38%	1.26%	1.27%	1.35%	1.14%	1.17%	1.17%	1.26%	4.58%



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