

Outlook: Positive

Key Figures

(RO ,000)

Year	Q1 2009	Q2 2009	Q3 2009
Net Interest Income	39,618	43,751	43,431
Operating Profit	69,203	58,001	42,214
Net Profit	48,417	12,021	19,962

Balance Sheet

(RO mn)

Year	Q1 2009	Q2 2009	Q3 2009
Net Loans	3,778	3,811	3,727
Total deposits	3,225	3,214	3,298
Total Equity	684	687	707

Valuation

Year	Q1 2009	Q2 2009	Q3 2009
EPS (RO)	0.045	0.011	0.019
PE (x)	9.5	9.5	9.5
BVPS (RO)	0.635	0.638	0.656
P / BV	1.48	1.48	1.43

Market Price RO

0.941

Shares OS

1,077,133,750

Market cap RO

1,013,582,859

Relative Performance

	BKMB	MSM	Banking
1 month	2.36%	-0.55%	2.65%
6 months	43.03%	27.01%	53.62%
12 months	-4.70%	-8.72%	13.18%

Reuters

BMAO.OM

Bloomberg

BKMB OM



Bank Muscat announced its third quarter preliminary results for the period ending 30th September 2009. The bank reported a net profit of RO 80.4 million for the nine months period ending September 2009. The reported net profit is 10.8% lower than the reported net profit of RO 90.1 reported during 9M2008.

Net loans of the bank reached RO 3727 million during 9M2009 as compared to RO 3485 million in the end of 9M2008. The loan book registered a growth of 7% over the last 12 months period. However, we assumed that the bank is continuing with its conservative approach on credit approvals as evident from the loan book growth rate. Despite the buoyancy in infrastructural spending by government during the latter half of the year, net loans decreased by 2.2% during 3Q2009 for the first time in the last 10 quarters as compared to 1H2009.

As of 1H2009 the nonperforming assets of the bank stood at RO 189.65 million. The bank has not given details about current NPA status in the preliminary results. During the quarter the bank has taken provisions of RO 17.2 million for impairments in its loan portfolio. Assuming no write backs from earlier provisions during the quarter, we estimate that the total impairment provisions on the bank's loan book have increased to RO 194.5 million from RO 177.3 million. With this provisioning, we believe that, the bank is well poised to achieve 100% coverage of its NPA by the end of 1Q2010, if not by 4Q2009.

As at the end of 1H2009 the bank had covered only 93.5% of its bad loans through provisions. We assume that by the end of 9M2009, the bank has provided for more than 70% of its RO 49 million credit exposure to the troubled Saudi groups. Barring any positive developments on this exposure, we expect the bank to provide for the entire amount by the end of this year.

Net interest income of the bank registered a growth of 10% YoY during 9M2009 to reach RO 126.8 million. However, when compared to 2Q2009 the growth in NII was muted primarily due to the de-growth in loan book and growth in deposits. Margins remained flattish through 2Q2009 and 3Q2009, but contracted as compared to 3Q2008 as well as 9M2008. As compared to 3Q2008, NII during the 3Q2009 increased by 7.1%. Other operating income also witnessed increase of 36% during the three months period ended 30th September 2009, when compared to 3Q2008.

9M2009 operating expenses have remained at the same levels as of 9M2008 mainly because of various cost reduction strategies adopted by the bank. Operating expenses increased by 10% during 3Q2009 as compared to 2Q2009 while it increased by 20.3% when compared to 3Q2008.

9M2009 net profits declined by 10.8% to RO 80.40 million as compared to 9M2008 profit of RO 91.11 million. The 268% increase in provisions as compared to 9M2008 provisions has dented the profitability of the bank. On a QoQ basis the net profit increased by 66% to RO 19.96 million from RO 12.02 million in 2Q2009. The net profit reported by the bank during 3Q2009 is down by 38.2% when compared to 3Q2009 reported profits.

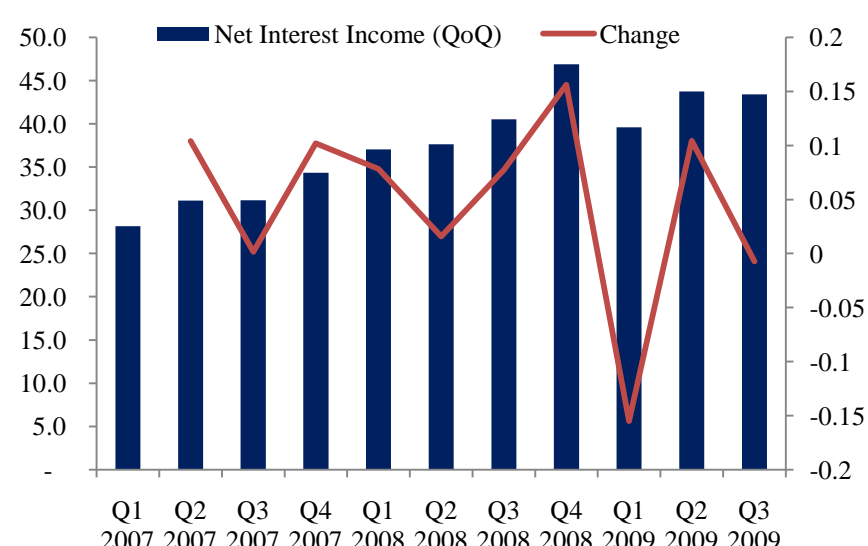
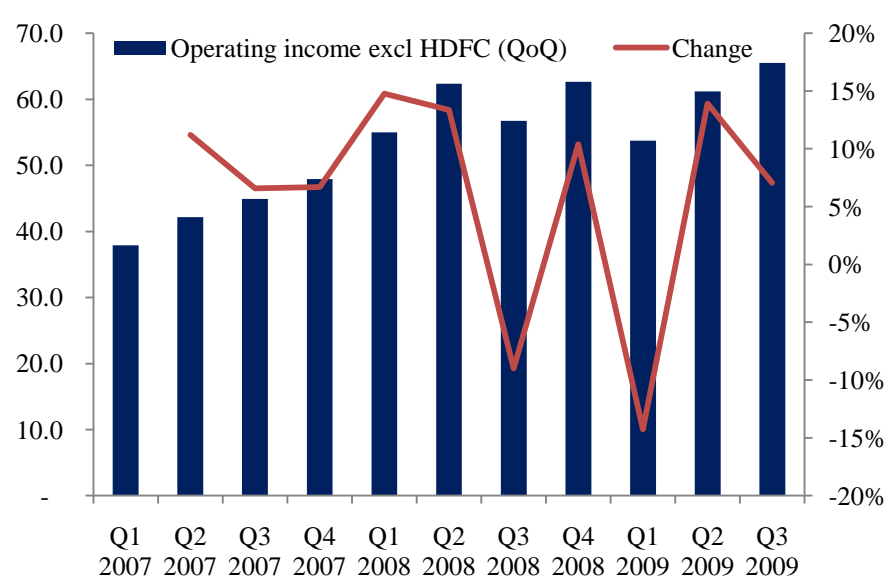
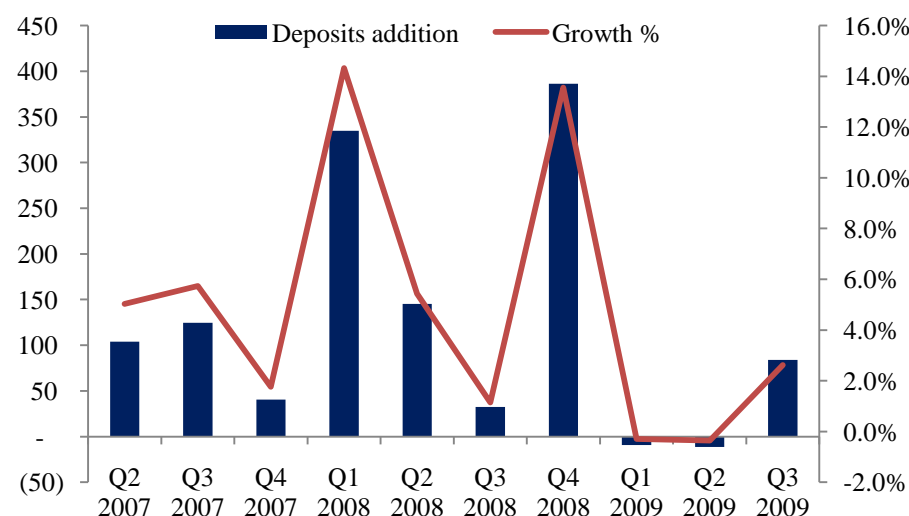
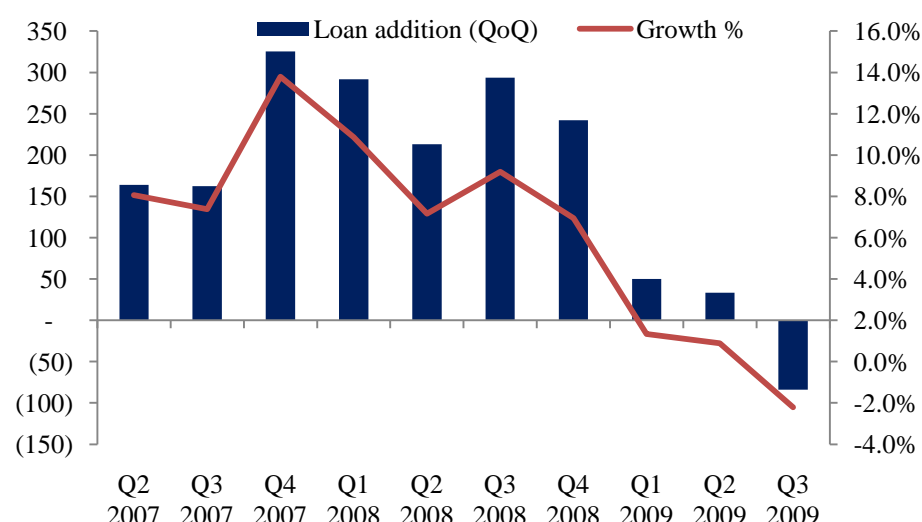
Valuation and Outlook:

The bank reported 9M2009 EPS at RO 0.074. We assume that during the year the bank had been able to re-price a portion of its loan book which resulted in higher interest income despite muted performance of its loan book. Realised investment gains helped the bank in offsetting substantial loan loss provisions and keeping the bottom line afloat. We assume that the bank has provided for substantial portion of its defaulted exposure to troubled Saudi groups. For FY2009, we estimate the bank to report an EPS of RO 0.102 supported by realised investment income despite a phenomenal surge in loan impairment provisions.

We expect the bank to be very aggressive in provisioning for bad loans and finish the year with provision coverage very close to 100% and start FY2010 with relatively clean books and better quality assets on account of improved economic conditions. Absence of repetitive investment gains would cap extraordinary growth of net profit in FY2010. Hence we have a conservative EPS estimate of RO 0.111 for FY2010. In favourable scenario, we anticipate a probable write back of loan loss provision taken on account of its Saudi exposure during the next fiscal. We maintain our positive outlook on the shares of the bank.

Income Statement	FY 2007	FY 2008	Q1 2009	Q2 2009	Q3 2009	QoQ Change	9M 2008	9M 2009	YoY Change	Q3 2008	Q3 2009	YoY Change
Net interest income	124,822	162,107	39,618	43,751	43,431	-0.70%	115,220	126,800	10.10%	40,547	43,431	7.10%
Other operating income	48,107	74,694	49,399	35,358	22,061	-37.60%	58,921	106,818	81.30%	16,206	22,061	36.10%
Total operating income	172,929	236,801	89,017	79,109	65,492	-17.20%	174,141	233,618	34.20%	56,753	65,492	15.40%
Operating income excl HDFC gains	172,929	236,801	53,717	61,185	65,492	7.00%	174,141	180,394	3.60%	56,753	65,492	15.40%
Operating expenses	66,240	78,487	19,814	21,108	23,278	10.30%	60,287	64,200	74.40%	19,357	23,278	20.30%
Impairment on credit loss	18,161	24,625	11,187	40,290	17,223	-57.30%	18,630	68,700	268.80%	5,549	17,223	210.40%
Net Profit	84,257	93,731	48,417	12,021	19,962	66.10%	90,109	80,400	-10.80%	32,282	19,962	-38.20%

(RO mn)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009
Net Interest Income (QoQ)	28.2	31.1	31.2	34.4	37.0	37.6	40.5	46.9	39.6	43.8	43.4
Operating income excl HDFC gains (QoQ)	37.9	42.2	44.9	47.9	55.0	62.4	56.8	62.7	53.7	61.2	65.5
Net Loans	2,035.0	2,199.1	2,361.3	2,686.9	2,978.6	3,191.8	3,485.4	3,727.7	3,777.8	3,811.1	3,727.0
Deposits	2,067.5	2,171.5	2,295.9	2,336.4	2,671.0	2,816.2	2,848.5	3,234.7	3,225.4	3,214.0	3,298.0
Loan addition (QoQ)		164	162	326	292	213	294	242	50	33	(84)
Deposits addition		104	124	40	335	145	32	386	(9)	(11)	84
Margin	1.385%	1.415%	1.320%	1.279%	1.379%	1.263%	1.270%	1.345%	1.137%	1.174%	1.165%



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