

## Result Update

**BUY: 12M TP @ 0.323**

### Valuation Summary (TTM)

Price (RO)	0.264
PER TTM (x)	11.5
P/Book (x)	0.9
Dividend Yield (%)	2.8
Free Float (%)	39%
Shares O/S (mn)	1,626
YTD Return (%)	-9%
Beta	1.4

(mn)	OMR	USD
Market Cap	429	1,115
Total assets	4,294	11,153

Price performance (%)	1M	3M	12M
National Bank of Oman SAC	-9%	-8%	43%
MSX30 Index	-3%	2%	15%
Financial index	-2%	2%	17%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	52	207	140
Avg Daily Volume (,000)	175	719	500

52 week	High	Low	CTL*
Price (RO)	0.300	0.181	45.9

\* CTL is % change in CMP to 52wk low

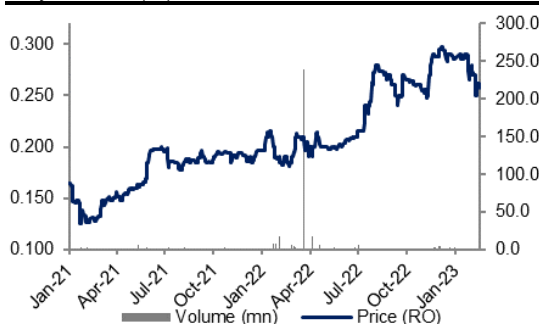
### Major shareholders

Commercail Bank of Qatar	34.9%
Sheikh Suhail Bahwan	14.7%
Civil Pension Fund	11.0%
Others	39.4%

### Other details

Exchange	MSX
Sector	Banks
Index weight (%)	9.3%

Key ratios	2020	2021	2022
EPS (RO)	0.006	0.013	0.024
BVPS (RO)	0.255	0.271	0.187
DPS (RO)	0.000	0.004	0.007
Payout ratio (%)	0%	28%	31%



## National Bank of Oman SAOG

NBO has delivered FY22 results, broadly in line with our estimates across all the parameters. We believe that the key catalyst for the Bank's growth with putting strategic priorities in place. The Bank has grown its loan book by 8.6% YoY, led by a 14.6% YoY growth in Islamic Banking book – the highest among Omani banks. The Deposit book has grown by 4.4%, again led by Islamic banking business, which has grown by 20.5% YoY. NBO achieved 60% growth in net income by reporting RO 48.2 mn in FY22, in line with our estimate of RO 48.5 mn. The growth was all pervading despite a higher base in FY21. NBO's board proposed dividend of 7.3 baiza/share, which results in dividend yield of 2.8%. We expect the bank maintain loan growth momentum, while selective underwriting to lead to reduced ECL losses and ROE expansion. At current levels, NBO's shares are trading at FY23E P/B of 0.9x, and PE of 9.5x. We maintain our BUY rating and price target of RO 0.323

NBO reported FY22 interest income of RO 183.1mn as against FY21 interest income of RO 165.5mn, a growth of 10.6% YoY, which is higher than our expectation of RO 178.9mn for the year. The industry leading growth in interest income is on account of increase in loan book by 8.6% as against our estimates of 7.1%. NBO's asset yield improved by 10 bps in FY22 to 5.1%, indicating the interest income is a result of both improved yield and loan book growth.

Net interest income of the bank stood at RO 98.0mn in FY22, +12.6% YoY as against RO 87.0mn. This has resulted in interest margin improvement of 16 bps to 2.67% Interest expense came at RO 85.1mn as compared to RO 78.6mn in FY21, +8.3% YoY, and +2.4% vs estimates. The Cost of funds for the Bank for FY22 was at 2.6% similar to the last year.

The reported operating income stood at RO 138.2mn, in line with our estimates, while growing by 12.1% YoY basis. The increase in operating income over the last year was on account all round increase in all the four components of operating income - NII at 12.6%, Islamic banking income at 21.3%, fee income at 9.5% and other operating income at 8.9%.

The cost to income ratio for FY22 was at 43.8% as against 51.5% for FY21, our estimates were at 42.8%. This improvement in cost to income ratio by 770bps was due to both the income side and cost side lever. The staff cost reduced by 5.6% YoY, the other operating expenses reduced by 2.9%. The head count was at 1432, a reduction of 38 employees. The profit per employee improved significantly from RO 14,840 in FY21 to RO 27,210. The impairment provisions were at RO 20.2mn in FY22 as against RO 23.9mn in FY21, a significant improvement of 16.0%, this is commendable as it is on the back of 23% improvement a year earlier. NPLs for FY22 stood at 4.93%, vis a vis 5.29% in FY21. The cost of credit improved by 16 bps to 58bps in FY22 as compared to 74bps in FY21.

NBO maintained its dividend payout ratio at 30%, in line with our estimates and slightly higher than 2021 levels. We expect the bank to distribute higher dividends next year. At the current prices, the shares offer FY23E dividend yield of 5.8%, and 0.9x P/B. We maintain our BUY recommendation and price target of RO 0.323 on account of in-line results in FY22.



**Net Loan Book growth at 8.6% due to faster growth in Islamic Financing book:** The Gross/Net Loan book as at FY22 is at RO 3,512.3 mn / RO 3,353.6 mn, a growth of 8.4% / 8.6% over the previous year. The growth in the Islamic financing book has been at a faster pace as compared to the growth in conventional banking book. The Islamic financing book has seen a 5yr CAGR of 9.6% as compared to conventional banking book at 3.3%, mainly on account of low base. The conventional book has been more stable in growth, while Islamic financing book has been volatile. However, the overall share in the Islamic book to the total book has been constant since 2019. Going forward, we see the bank continuing to grow Islamic book at a faster pace.

Loan book structure	2018	2019	2020	2021	2022	5 yr CAGR
Conventional Loan Book	2,693,142	2,649,147	2,721,045	2,928,115	3,169,679	3.3%
<i>Growth</i>		-1.6%	2.7%	7.6%	8.2%	
Islamic Financing Book	116,565	152,410	166,817	160,531	184,020	9.6%
<i>Growth</i>		30.8%	9.5%	-3.8%	14.6%	
Total Loan Book	2,809,707	2,801,557	2,887,862	3,088,646	3,353,699	3.6%
<i>Loan growth</i>		-0.3%	3.1%	7.0%	8.6%	
<i>Islamic Book Share</i>	4.1%	5.4%	5.8%	5.2%	5.5%	

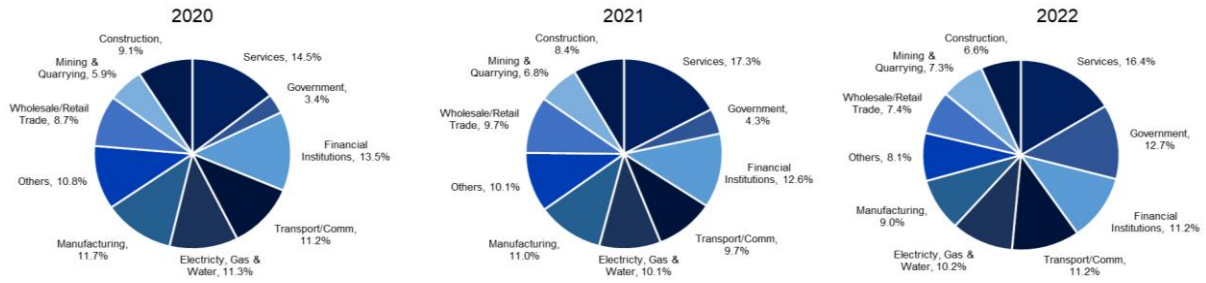
The bank's exposure to corporate book is approximately 60%, while retail has been at around 40%, indicating fairly diversified portfolio. The retail book's stage 1 exposure is at 93.7% as compared to corporate book's exposure of 70.1%, resulting in the total loan book having 83.4% in stage 1 bucket. This indicates fairly better quality and spread of the loan book over a large base of borrowers. The net loan book in stage 3 bucket has been a low 1.9%, due to lower stage 3 book in retail segment. In terms of NPAs, the corporate book NPA was at 6.6% versus 2.6% in the retail segment. This wider diversification helps NBO manage the loan book far more efficiently, with less surprises.

Asset quality	Corporate	Retail	Gross Book	ECL	Net Book
Stage 1 loans	1,457,663	1,343,478	2,801,141	5,485	2,795,656
<i>% of total</i>	70.1%	93.7%	79.8%	3.5%	83.4%
Stage 2 loans	484,110	54,031	538,141	43,487	494,654
<i>% of total</i>	23.3%	3.8%	15.3%	27.4%	14.7%
Stage 3 loans	136,430	36,682	173,112	109,723	63,389
<i>% of total</i>	6.6%	2.6%	4.9%	69.1%	1.9%
<b>Total</b>	<b>2,078,203</b>	<b>1,434,191</b>	<b>3,512,394</b>	<b>158,695</b>	<b>3,353,699</b>
<b>Gross NPA</b>	<b>6.6%</b>	<b>2.6%</b>	<b>4.9%</b>		

A break up of the sector wise exposure indicates that the services sector is highest at 16.4%, followed by exposure to government sector at 12.7%. The corporate book is fairly diversified across sectors which insulates the bank from concentration risks. The bank also has been able to grow its exposure to government sector from a negligible 3.4% in FY20 to around 12.7% in FY22, a growth of 68% 3yr CAGR. The overall corporate book has seen a healthy 8.8% 3yr CAGR, which is one among the best in the industry. The healthy growth ensured that NBO has increased its market share and improved its ranking to number two in Oman.



### Loan book composition



The stage wise exposure of the loan book since FY18 has seen a favorable movement in favor of stage 1 at the expense of stage 2. The increase in stage 1 exposure from 77% in FY18 to 79.8% in FY22 signal's better collection and quality of the portfolio. This despite the pandemic driven stress during FY20 and FY21. The stage 3 exposure peaked in FY20 at 5.6%, before reverting back to 4.9% in FY22.

The lower stage 3 exposure augurs well for the bank in terms of lower credit costs & provisioning in future. NBO continues to maintain a low stage 3 coverage as compared to its peers. However, the decline in gross NPL ratio and higher coverage of Stage 2 exposures have helped in improvement of provision coverage ratio. We also note the 280 bps reduction in stage 2 exposure, which may indicate a deceleration in NPL formation, thereby reduction in credit cost.

Stage wise Exposure	2018	2019	2020	2021	2022
Stage 1	77.0%	78.3%	74.0%	76.6%	79.8%
Stage 2	18.2%	16.8%	20.4%	18.1%	15.3%
Stage 3	4.8%	4.9%	5.6%	5.3%	4.9%
<b>Stage wise coverage</b>					
Stage 1	0.6%	0.5%	0.5%	0.4%	0.2%
Stage 2	4.8%	3.6%	5.1%	5.6%	8.1%
Stage 3	64.0%	61.6%	66.5%	63.8%	63.4%
<b>Provision Coverage ratio</b>	<b>92.8%</b>	<b>82.4%</b>	<b>92.3%</b>	<b>88.2%</b>	<b>91.7%</b>

**Islamic deposit franchise remains strong:** The total customer deposits stood at RO 3,047mn in FY22 as compared to RO 2,917.7mn in FY21, a growth of 4.4%, the mix however reflects a wide range of growth in conventional vis a vis Islamic banking. The conventional bank deposits grew by 3.6% YoY as compared to 20.5% YoY for Islamic banking. The base effect worked in favor of Islamic banking deposits and the share in Islamic deposits has gone up to 5.7% in FY22 as compared to 4.9% in FY21.

Deposits	2021	%	2022	%	YoY
Conventional	2,773,639	95.1%	2,873,738	94.3%	3.6%
Islamic	144,093	4.9%	173,684	5.7%	20.5%
<b>Total</b>	<b>2,917,732</b>	<b>100.0%</b>	<b>3,047,422</b>	<b>100.0%</b>	<b>4.4%</b>



In terms of stickiness of deposits, the bank has been able to grow its Current Account, where the cost of funds is close to zero, by around 6% CAGR over a 5 year period. The Savings Account part of the CASA grew by 0.7% over a 5 yr CAGR. Other deposits grew by 5.1% over a 5-year CAGR period resulting in overall deposit growth of 4.4% in similar period. The overall 5 year CAGR growth in deposits of 4.4% has outpaced the loan book growth of 3.6% in a similar period, resulting in better Loan to Deposit ratio.

CASA Ratio	2018	2019	2020	2021	2022	5 yr CAGR
Current account	870,896	879,011	862,055	1,301,202	1,165,818	6.0%
Savings account	583,489	599,098	636,437	640,518	604,810	0.7%
Other deposits	997,997	1,053,409	1,028,687	976,012	1,276,794	5.1%
<b>Total deposits</b>	<b>2,452,382</b>	<b>2,531,518</b>	<b>2,527,179</b>	<b>2,917,732</b>	<b>3,047,422</b>	<b>4.4%</b>
CASA	59.3%	58.4%	59.3%	66.5%	58.1%	

**Return Metrics continue to improve:** The Bank's return metrics has shown an upward trajectory, with a growth of 365bps in adjusted ROE to 10.7% from 7.1% in FY21, The ROA improved by 38bps to 1.1% in FY22, after two years of low RoA in FY20 and FY21 at 0.5% and 0.7% respectively. The risk adjusted return on weighted assets improved to 1.1% in FY22, however, below the pre-covid levels of 1.5% in FY19, indicating further room for improvement going forward.

The Bank raised around RO 51.6mn in the form of Tier 1 Perpetual Bond at a fixed rate of 6.75% with a reset after 5 years in November 2022. The issuance of bonds at lower rates as compared to the Bank's RoE of 10.7% indicates that there is an accretion to the shareholder value. The issuance of Tier 1 perpetual bond has improved the Capital Adequacy Ratio to 16.94% in FY22 as compared to 15.79% in FY21, well above the regulatory stipulation of 12.0%, indicating excess capital of RO 1.85mn, which can be further deployed for growth in Loans.

**Q4 results update** Q422, saw a good growth in profitability YoY, however as compared to Q322, there was a dip in profits, mainly on account of increase in provisions by 16.7% QoQ, on the other hand YoY provisions dropped by 27.8%. The growth in PAT YoY was 87.2% aided by increase in operating income and reduction in operating expenses. The Bank's profit grew consistently every quarter with a growth of 48.6%, 35.2% and 71.2% in the first three quarters. The loan book grew by 3% QoQ and 8.6% YoY, while the deposit book grew by 4.4% YoY to close at RO 3,047.0mn. Equity including Tier 1 bond increased by 7.7% YoY due to issuance of Tier 1 bond in Nov 2022 for RO 51.6mn.

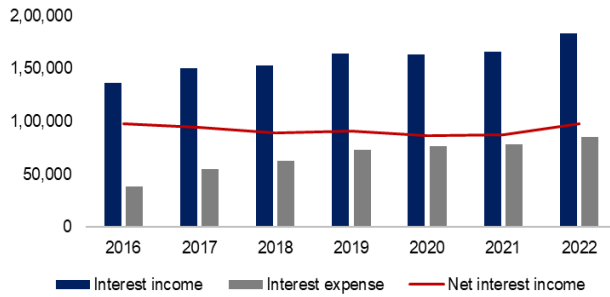


in RO mn	4Q22	3Q22	QoQ (%)	4Q21	YoY (%)
Operating Income	36.3	36.0	0.9%	31.3	15.8%
Operating Expenses	16.6	14.6	13.3%	17.1	-3.0%
Operating Profit	19.7	21.3	-7.7%	14.2	38.4%
Provision Expenses	4.4	5.3	-16.7%	6.2	-27.8%
Profit before tax	15.3	16.0	-4.7%	8.1	88.8%
Taxation	2.6	2.6	1.1%	1.3	96.9%
Profit after tax	12.7	13.5	-5.8%	6.8	87.2%
Loan Book	3,354.0	3,257.6	3.0%	3,088.6	8.6%
Deposits	3,047.0	3,013.5	1.1%	2,917.7	4.4%
Total Equity	474.0	464.8	2.0%	440.0	7.7%
Cost to Income	45.68%	40.66%		54.53%	
Cost of credit	0.53%	0.66%		0.80%	
Loan to Deposit	110.08%	108.10%		105.86%	
Reported ROE	10.70%	11.58%		6.16%	

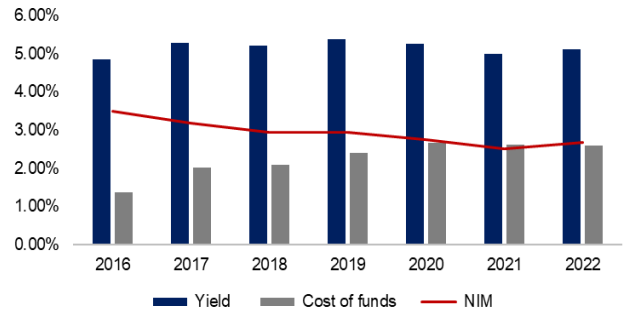
**Valuations:** The operational results of NBO in FY22 have been in line with our expectations. The board proposed cash dividend of 7.4bz/Share, while maintain its dividend payout ratio at 30%, in line with our estimates and slightly higher than 2021 levels. We expect the bank to increase payout ratio and distribute higher dividends next year. At the current prices, the shares offer FY23E dividend yield of 5.8%, and 0.9x P/B. We maintain our BUY recommendation and price target of RO 0.323 on account of in-line results in FY22.



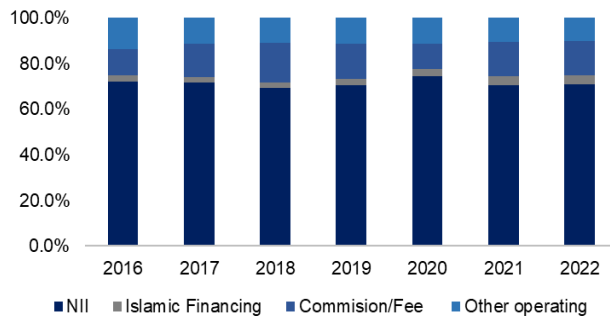
7Y CAGR growth of Interest income at 4%, Interest expenses at 12% and NII remaining flat



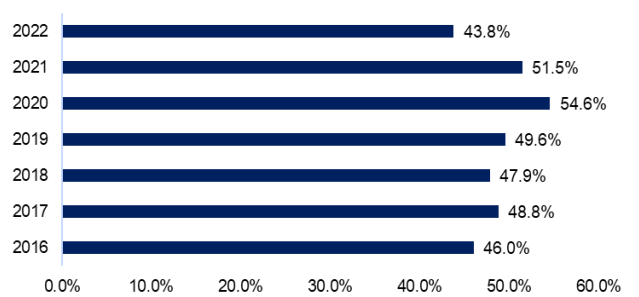
Post 2020, COF and NIMs moved in tandem



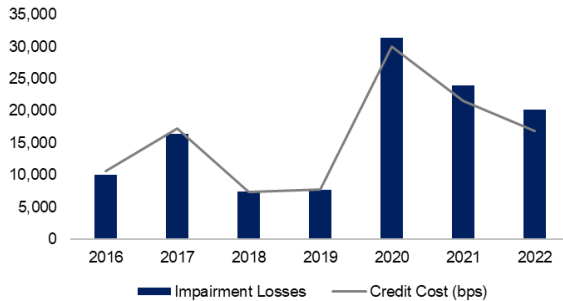
Operating Income mix has remained stable



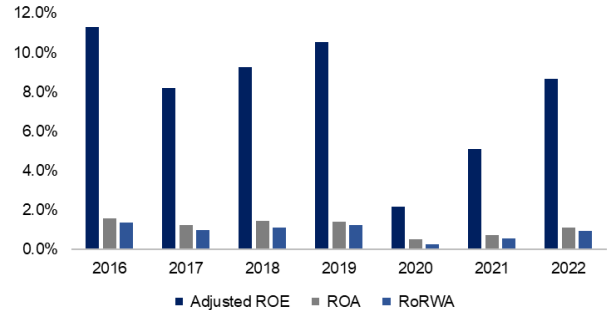
Record operating income and lower expenses (-5%/y) led to C/I improvement



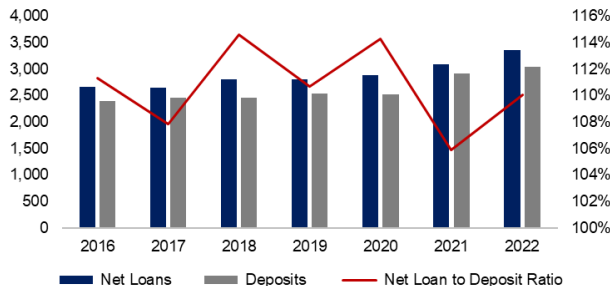
Lower NPL and elevated credit costs resulted in higher provision coverage..



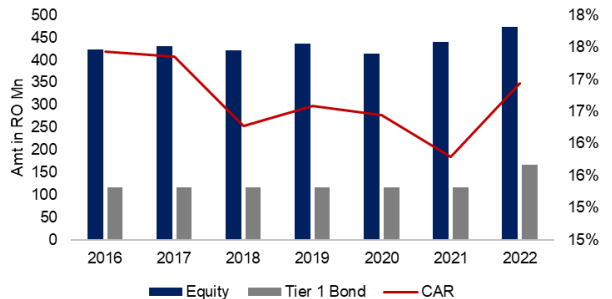
Leading to improved return ratios in 2022



Net Loans to Deposits remained in a limited range



No equity dilution, Tier 1 Bond raise in 2022, CAR has rebounded







Income Statement (RO 000*)	2019	2020	2021	2022	2023E	2024E	2025E
Interest Income	163,724	163,191	165,588	183,154	194,156	208,829	215,956
Interest Expense	-73,175	-76,297	-78,560	-85,138	-91,587	-100,570	-108,252
<b>Net Interest Income</b>	<b>90,549</b>	<b>86,894</b>	<b>87,028</b>	<b>98,016</b>	<b>102,569</b>	<b>108,260</b>	<b>107,704</b>
Non Interest Income	37,798	30,069	36,323	40,221	45,452	50,227	55,107
<b>Net Operating Income</b>	<b>128,347</b>	<b>116,963</b>	<b>123,351</b>	<b>138,237</b>	<b>148,021</b>	<b>158,486</b>	<b>162,811</b>
Operating Expenses	-63,646	-63,826	-63,498	-60,516	-60,689	-65,613	-67,241
Provision Expenses	-7,747	-31,329	-23,985	-20,249	-19,318	-16,536	-17,363
<b>Profit Before Taxation</b>	<b>56,954</b>	<b>21,808</b>	<b>35,868</b>	<b>57,472</b>	<b>68,014</b>	<b>76,337</b>	<b>78,207</b>
Tax expense	-5,523	-3,660	-5,591	-9,261	-10,882	-12,214	-12,513
<b>Profit for the year</b>	<b>51,431</b>	<b>18,148</b>	<b>30,277</b>	<b>48,211</b>	<b>57,132</b>	<b>64,123</b>	<b>65,694</b>
AT1 coupon	-9,096	-9,096	-8,462	-9,240	-12,725	-12,725	-12,725
<b>Profit to shareholders</b>	<b>44,356</b>	<b>9,052</b>	<b>21,815</b>	<b>38,971</b>	<b>44,407</b>	<b>51,398</b>	<b>52,969</b>

Balance sheet	2019	2020	2021	2022	2023E	2024E	2025E
Cash and balances with CBO	333,772	216,126	307,870	261,589	292,038	279,966	313,384
Due from banks	109,376	94,716	114,685	119,260	121,645	124,078	126,560
Loans & advances	2,801,557	2,887,862	3,088,646	3,353,699	3,674,315	3,935,652	4,132,434
Investment securities	292,549	318,534	447,178	404,387	416,519	429,014	441,885
Fixed Assets	65,047	62,568	59,892	57,090	55,610	54,183	52,881
Other Assets	40,746	52,845	62,796	98,055	100,997	104,027	107,147
<b>Total Assets</b>	<b>3,643,047</b>	<b>3,632,651</b>	<b>4,081,067</b>	<b>4,294,080</b>	<b>4,661,123</b>	<b>4,926,920</b>	<b>5,174,291</b>
<b>LIABILITIES AND EQUITY</b>							
Due to banks	283,786	288,723	297,729	261,743	287,917	316,709	348,380
Customers' deposits	2,531,518	2,527,179	2,917,732	3,047,422	3,352,164	3,553,294	3,730,959
Borrowings	192,500	192,500	192,500	188,865	188,865	188,865	188,865
Other liabilities	83,040	94,016	117,651	155,216	169,140	184,455	201,303
<b>Total Liabilities</b>	<b>3,090,844</b>	<b>3,102,418</b>	<b>3,525,612</b>	<b>3,653,246</b>	<b>3,998,086</b>	<b>4,243,323</b>	<b>4,469,506</b>
Share capital	197,060	197,060	197,060	197,060	197,060	197,060	197,060
Other Reserves	80,750	55,762	65,548	60,588	60,588	60,588	60,588
Retained earnings	158,893	161,911	177,347	216,053	238,256	258,816	280,003
<b>Shareholder's Equity</b>	<b>436,703</b>	<b>414,733</b>	<b>439,955</b>	<b>473,701</b>	<b>495,904</b>	<b>516,464</b>	<b>537,651</b>
Tier 1 Perpetual bonds	115,500	115,500	115,500	167,133	167,133	167,133	167,133
<b>Total Equity</b>	<b>552,203</b>	<b>530,233</b>	<b>555,455</b>	<b>640,834</b>	<b>663,037</b>	<b>683,597</b>	<b>704,784</b>
<b>Total Liabilities and Equity</b>	<b>3,643,047</b>	<b>3,632,651</b>	<b>4,081,067</b>	<b>4,294,080</b>	<b>4,661,123</b>	<b>4,926,920</b>	<b>5,174,291</b>

Cash Flow Statement	2019	2020	2021	2022	2023E	2024E	2025E
Cash flow from operating activities	237,102	-68,348	274,001	-118,317	82,690	49,535	96,493
Cash flow from investing activities	-66,538	-47,970	-101,490	65,237	-17,312	-18,043	-18,569
Cash flow from financing activities	-164,738	-36,412	-8,712	36,050	-34,929	-43,564	-44,506
Net change in cash	5,826	-152,730	163,799	-17,030	30,449	-12,072	33,418
<b>Cash at the end of period</b>	<b>261,314</b>	<b>101,343</b>	<b>265,142</b>	<b>248,112</b>	<b>278,561</b>	<b>266,489</b>	<b>299,907</b>



Key Ratios	2019	2020	2021	2022	2023E	2024E	2025E
<b><u>Operating performance</u></b>							
Yield on average earning assets	5.4%	5.2%	5.0%	5.1%	5.1%	5.1%	5.0%
Cost of funds	2.4%	2.7%	2.6%	2.6%	2.5%	2.6%	2.6%
Interest spread	3.0%	2.6%	2.4%	2.5%	2.6%	2.5%	2.4%
NIM	2.9%	2.8%	2.5%	2.7%	2.6%	2.6%	2.4%
Cost to income ratio (%)	49.6%	54.6%	51.5%	43.8%	41.0%	41.4%	41.3%
<b><u>Liquidity</u></b>							
Net loans to total deposits	100%	103%	96%	101%	101%	102%	101%
Customer deposits/total deposits	90%	90%	91%	92%	92%	92%	91%
Net loans to customer deposits	111%	114%	106%	110%	110%	111%	111%
CASA ratio	58%	59%	67%	58%	66%	66%	66%
<b><u>Asset quality</u></b>							
Gross NPL ratio (%)	4.9%	5.6%	5.3%	4.9%	5.3%	5.2%	4.9%
Provision as a % of gross loans (%)	4.1%	5.1%	4.7%	4.5%	4.9%	4.8%	4.8%
Provision coverage (%)	82.4%	92.3%	88.2%	91.7%	93.3%	93.2%	99.0%
Stage 3 provisions/Stage 3 loans	-62%	-67%	-64%	-63%	-65%	-65%	-65%
Cost of credit (bps)	27	103	74	58	50	40	40
<b><u>Capital adequacy</u></b>							
Tier 1 ratio (%)	15.7%	15.4%	15.0%	16.3%	15.5%	15.1%	14.8%
Tier II ratio (%)	0.9%	1.0%	0.7%	0.6%	1.0%	1.0%	1.0%
Capital adequacy ratio (%)	16.6%	16.4%	15.8%	16.9%	16.5%	16.1%	15.8%
Net Equity to Gross Loans	15.0%	13.6%	13.6%	13.5%	12.8%	12.5%	12.4%
Net Equity to Total Assets	12.0%	11.4%	10.8%	11.0%	10.6%	10.5%	10.4%
<b><u>Return ratios</u></b>							
Reported ROE (%)	12.2%	4.3%	7.1%	10.7%	13.8%	15.5%	15.8%
Adjusted ROE (%)	10.5%	2.2%	5.1%	8.7%	10.7%	12.4%	12.8%
ROA (%)	1.4%	0.5%	0.7%	1.1%	1.3%	1.3%	1.3%
Adjusted ROA (%)	1.2%	0.2%	0.6%	0.9%	1.0%	1.1%	1.0%
RoRWA (%)	1.5%	0.3%	0.6%	1.1%	1.1%	1.2%	1.1%
<b><u>Per share ratios</u></b>							
EPS (RO)	0.027	0.006	0.013	0.024	0.027	0.032	0.033
BVPS (RO)	0.269	0.255	0.271	0.291	0.305	0.318	0.331
DPS (RO)	0.017	-	0.004	0.007	0.014	0.019	0.020
<b><u>Valuation</u></b>							
Price	0.184	0.160	0.196	0.266	0.266	0.266	0.266
P/E (x)	6.7	28.7	14.6	11.1	9.7	8.4	8.2
P/B (x)	0.7	0.6	0.7	0.9	0.9	0.8	0.8
Dividend Yield (x)	9.2%	0.0%	1.9%	2.8%	5.1%	7.1%	7.3%





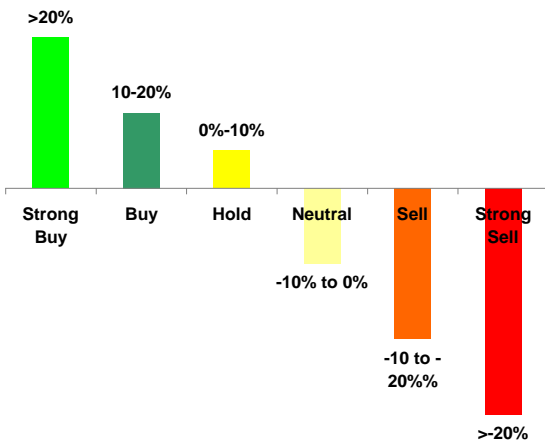
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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