National Bank of Oman	
Set to outperform	
Company Update	
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Stock Rating Buy	Target Price OMR0.330	Closing Price OMR0.250
What's Changed	From	То
Target price	0.320	0.330

Superior loan growth, strong revenue momentum, and attractive valuation: reiterate Buy

NBO is trading at an attractive 9.2x 2023e P/E, which we view as a good entry point given its robust profitability outlook. We expect its ROE to widen to 9/11% in 2023/24e, from 5/8% in 2021a/22e, underpinned by cost efficiency improvement, above-peers' loan growth, and solid fee income. We expect above-sector loan growth to sustain as NBO continues to grab market share in infrastructure and GRE funding. We factor in 8% loan growth in 2023e, above the sector's 5%, and 6/8% in 2021a/22e. NBO's superior funding profile (CASA mix of 63% vs. BKMB's 59% and sector's 45%) and its efforts to shed expensive deposits are driving lower funding costs. We, however, conservatively expect broadly stable spreads in 2023e as the change in loan mix towards lower yielding GREs will slightly pressure asset yields. 9M22 earnings rose 51% Y-o-Y, fueled by strong net interest income, fee income, cost control, and lower provisioning. We tweak our TP to OMR0.330 (OMR0.320) post the 3Q22 strong results, reiterate Buy.

Positive JAWS set to continue in 2023e

We expect cost discipline and strong revenue momentum to drive a further decline in its cost-to-income ratio to 44/42% in 2022/23e from a peak of 55/52% in 2020/21a. The cost-to-income ratio fell 7ppt Y-o-Y to 43% in 9M22 on account of strong revenue growth of 14% Y-o-Y and a 5% Y-o-Y drop in operating costs on cost rationalisation efforts. While cost discipline remains a key strategic focus, spending on digitalisation should drive some incremental costs in 2023 and we expect OPEX to grow 3% next year, post a 1% and 4% drop in 2021a and 2022e.

We conservatively factor in a stable cost of risk next year

The post-pandemic loan restructuring exercise was completed in Oct. 2022 – as per CBO guidelines – and this drove a 30bps YTD increase in NPL ratio to 5.6% in 3Q. Mgmt. is comfortable with credit quality and NPLs are fully collateralised. The performance testing of restructured loans next year will determine the need for provisions. Thus, we conservatively maintain a stable cost of risk of 63bps in 2022/23e vs. 107/76bps in 2020/21a. NBO's Stage 2 loan exposure fell to 16% in 3Q22, from 20/18% in 2020/21 and is below BKMB's 20% and BKDB's 22%. We expect NPL coverage to slowly rise to 96/102% in 2023/24e from 88% in 2021a/22e.

Key Financial Highlights (Dec Year End)							
In OMRmn, unless otherwise stated	2021a	2022e	2023e	2024e			
Total banking income	123	138	149	166			
Operating income	60	77	86	101			
Net income	22	38	44	57			
EPS (OMR)	0.013	0.023	0.027	0.035			
EPS consensus (OMR)	0.013	0.017	N/A	N/A			
Price to earnings	18.6x	10.7x	9.2x	7.1x			
Dividend yield	1.5%	2.8%	3.8%	4.9%			
Price to book value (tangible)	0.9x	0.9x	0.8x	0.8x			
ROAE (tangible)	5.1%	8.4%	9.2%	11.1%			
Capital adequacy ratio	15.8%	15.3%	14.9%	14.5%			
NPL coverage	88.2%	88.0%	95.8%	101.9%			

Stock Data	
Closing Price	OMR0.250 as of 15 Nov 2022
Last Div. / Ex. Date	OMR0.017 / 26 Mar 2020
Mkt. Cap / Shares (mn)	USD1,059 / 1,626
Av. Daily Liquidity (mn)	USD0.14
52-Week High / Low	OMR0.280 / OMR0.181
Bloomberg / Reuters	NBOB OM / NBOB.OM
Est. Free Float	39.0%

Source: National Bank of Oman, Bloomberg and EFG Hermes estimates

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Data Miner

Investment Thesis

Following the acquisition of a 34.9% stake by Commercial Bank of Qatar (CBQ) back in 2007, NBO underwent a restructuring phase through the rebranding of the franchise and re-modelling of NBO's branch network, coupled with the expansion of its geographical footprint in Oman. NBO has de-risked its balance sheet both domestically and in the UAE, and is now regaining market share lost by growing in the GRE and infrastructure projects financing. The bank has substantially improved its funding profile, and has the highest CASA mix amongst our coverage at 66%, which drives lower funding costs. Strong cost optimization efforts have improved its cost-to-income ratio to 44% in 1H22 from a peak of 55/52% in 2020/21 and we see room for further cost efficiency improvement. We have a Buy rating on National Bank of Oman.

Valuation and Risks

Our target price of OMR0.330/share is based on a residual income model. In this approach, we value the bank using a combination of book value and present values of the residual income: the amount by which 2023-27e profit is expected to exceed the required cost of equity. We use a discount rate of 12.0% for NBO and a perpetual growth rate of 2.5% for the terminal value. Key downside risks to our Buy rating include: i) lower-than-expected loan growth on competitive pressures; and ii) higher-than-expected provisioning costs should NPL formation accelerate post the end of the moratorium period in September 2022.

2021a	2022e	2023e	2024e
92	102	113	127
32	36	36	39
123	138	149	166
(63)	(61)	(63)	(65)
60	77	86	101
(24)	(21)	(23)	(23)
0	0	0	0
36	56	64	78
(6)	(9)	(10)	(12)
(8)	(9)	(9)	(9)
22	38	44	57
3,089	3,327	3,584	3,901
3,897	4,224	4,586	4,993
3,558	3,843	4,150	4,524
4,081	4,379	4,746	5,158
2,918	3,093	3,340	3,641
3,408	3,559	3,862	4,193
434	466	495	532
0.013	0.023	0.027	0.035
0.004	0.007	0.010	0.012
0.27	0.29	0.30	0.33
0.27	0.29	0.30	0.33
	32 123 (63) 60 (24) 0 36 (6) (8) 22 3,089 3,897 3,558 4,081 2,918 3,408 434 0.013 0.004 0.27	32 36 123 138 (63) (61) 60 77 (24) (21) 0 0 36 56 (6) (9) (8) (9) 22 38 3,089 3,327 3,897 4,224 3,558 3,843 4,081 4,379 2,918 3,093 3,408 3,559 434 466 0.013 0.023 0.004 0.007 0.27 0.29	32 36 36 123 138 149 (63) (61) (63) 60 77 86 (24) (21) (23) 0 0 0 36 56 64 (6) (9) (10) (8) (9) (9) 22 38 44 3,089 3,327 3,584 3,897 4,224 4,586 3,558 3,843 4,150 4,081 4,379 4,746 2,918 3,093 3,340 3,408 3,559 3,862 434 466 495 0.013 0.023 0.027 0.004 0.007 0.010 0.27 0.29 0.30

Dec Year End				
In OMRmn, unless otherwise stated	2021a	2022e	2023e	2024e
Valuation Metrics				
Price to earnings	18.6x	10.7x	9.2x	7.1x
Price to pre-provision earnings	6.8x	5.3x	4.7x	4.0x
Price to book value	0.9x	0.9x	0.8x	0.8x
Price to book value (tangible)	0.9x	0.9x	0.8x	0.8x
Dividend yield	1.5%	2.8%	3.8%	4.9%
ROAA	0.6%	0.9%	1.0%	1.2%
ROAE	5.1%	8.4%	9.2%	11.1%
ROAE (tangible)	5.1%	8.4%	9.2%	11.1%
Leverage (Assets / Equity)	9.1x	9.4x	9.5x	9.6x
KPIs				
Loan growth (Y-o-Y)	7.0%	7.7%	7.7%	8.9%
Loans / Deposits	105.9%	107.6%	107.3%	107.1%
Banking income growth (Y-o-Y)	5.5%	11.8%	8.2%	11.2%
Operating income growth (Y-o-Y)	12.6%	28.6%	12.4%	17.2%
Earnings growth (Y-o-Y)	141.0%	73.3%	17.5%	28.3%
Net interest spread	2.15%	2.16%	2.18%	2.27%
Non-interest income / Banking inc.	25.8%	25.9%	24.2%	23.7%
Cost-to-income	51.5%	44.2%	42.1%	38.9%
NPL ratio	5.3%	5.6%	5.4%	5.2%
NPL coverage	88.2%	88.0%	95.8%	101.9%
Cost of risk (bps)	75.9	63.0	63.0	58.0
Tier 1 ratio	15.0%	14.6%	14.2%	13.9%
Capital adequacy ratio	15.8%	15.3%	14.9%	14.5%

Source: National Bank of Oman, EFG Hermes estimates

Source: National Bank of Oman, EFG Hermes estimates

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9M22 earnings up 51% Y-o-Y on strong revenue, cost rationalisation, and provisioning normalisation

Key positives

- Provisioning costs fell 11% Y-o-Y with cost of risk down 11bps Y-o-Y to 60bps
- E Operating expenses down 5% Y-o-Y on cost optimisation efforts leading to a drop in cost-to-income ratio of 7ppt Y-o-Y to 43%
- Solid net interest income growth of 10% Y-o-Y underpinned by lower funding costs and strong volume growth
- \$\frac{1}{2}\$ Strong non-interest income growth of 14% Y-o-Y, driven by solid fee income (+9% Y-o-Y), as well as trading income

Key negatives

- Loan book was broadly flat sequentially in 3Q22, but loan growth continues to outperform peers at 7% Y-o-Y
- NPL ratio rose 71bps Y-o-Y in 9M22 to 5.6% with NPL formation of 24% Y-o-Y
- NPL coverage down 3ppt Y-o-Y to 90%, a level that management is comfortable with

Figure 1: Strong revenue momentum, cost control, and lower provisioning drive 51% Y-o-Y earnings growth in 9M22

In OMRmn, unless otherwise stated

	9M21	9M22	Y-o-Y	3Q21	2Q22	3Q22a	3Q22e	Y-o-Y	Q-o-Q	Vs. Est.
Net interest income	67.8	74.3	9.6%	22.8	25.4	27.5	25.2	20.8%	8.5%	9.2%
Fee income	14.4	15.7	9.2%	4.2	5.1	5.1	5.1	20.2%	-0.1%	-0.3%
Other non-interest income	9.8	11.9	21.4%	2.7	2.3	3.4	2.8	23.7%	44.2%	20.5%
Non-interest income	24.2	27.7	14.1%	7.0	7.4	8.5	7.9	21.6%	13.8%	7.1%
Total banking income	92.0	102.0	10.8%	29.7	32.8	36.0	33.1	21.0%	9.7%	8.7%
Operating expenses	(46.4)	(43.9)	-5.3%	(14.8)	(14.8)	(14.6)	(14.5)	-1.4%	-1.1%	1.2%
Pre-provisions income	45.6	58.0	27.2%	14.9	18.0	21.3	18.7	43.3%	18.6%	14.4%
Loan loss provisions	(17.6)	(15.9)	-9.6%	(5.5)	(4.0)	(5.3)	(5.0)	-2.9%	32.4%	6.6%
Other provisions	(0.2)	0.1		(0.1)	0.1	(0.0)	(0.0)			
Total provisions	(17.8)	(15.8)	-11.3%	(5.6)	(3.9)	(5.3)	(5.1)	-4.5%	35.3%	5.6%
Pre-tax income	27.8	42.2	51.9%	9.3	14.0	16.0	13.6	72.0%	13.9%	17.7%
Taxes	(4.3)	(6.7)		(1.4)	(2.2)	(2.6)	(2.1)			
Effective tax rate	15%	16%		16%	16%	16%	15%			
Net income	23.5	35.5	51.2%	7.9	11.8	13.5	11.5	71.2%	13.7%	16.9%
Customers loans	3,033	3,258	7.4%	3,033	3,261	3,258	3,326	7.4%	-0.1%	-2.1%
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Customers deposits	2,750	3,013	9.6%	2,750	3,040	3,013	3,101	9.6%	-0.9%	-2.8%
Total assets	3,917	4,194	7.1%	3,917	4,199	4,194	4,283	7.1%	-0.1%	-2.1%
Net interest spread	2.03%	2.07%	+0.03%	2.13%	2.24%	2.46%		+0.33%	+0.22%	
Cost-to-income	50%	43%	-7.34%	50%	45%	41%		-9.22%	-4.46%	
Loan-to-deposit ratio	110%	108%	-2.18%	110%	107%	108%		-2.18%	+0.85%	
Cost-of-risk (in bps)	71bps	60bps	-11bps	70bps	48bps	62bps		-7bps	+15bps	
NPL ratio	4.9%	5.6%	+0.71%	4.9%	5.3%	5.6%		+0.71%	+0.34%	
NPL coverage	93%	90%	-2.89%	93%	91%	90%		-2.89%	-1.09%	

Source: Company data, EFG Hermes estimates

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Valuation snapshot

Figure 2: We value NBO at a TP of OMR0.330, which implies 32% upside to the current share price

In OMRmn, unless otherwise stated

	2023e	2024e	2025e	2026e	2027e	Terminal
Net attributable income	44	57	72	87	102	84
- Equity cost	56	59	64	69	75	77
Excess equity return	(12)	(2)	8	18	27	8
Terminal value of excess equity	return					82
Discounting factor	1.1	1.3	1.4	1.6	1.8	1.8
Present Value	(10)	(2)	6	11	16	47
Beginning BV of Equity	466	495	532	576	623	639
CoE (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Cost of Equity	56	59	64	69	75	77
Return on beginning equity	9.5%	11.5%	13.6%	15.1%	16.4%	13.2%
Equity invested	466					
PV of equity excess return	67					
Value of equity	534					
Number of shares (mn)	1,626					
Target Price (OMR)	0.330					
Price (OMR)	0.250					
Upside/ downside	32%					

Source: Company data, EFG Hermes estimates

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Key changes to our estimates

Figure 3: We raise our net interest spreads and fee income forecasts post strong trends in 9M22, but we reduce our loan growth estimates (on lower gov't spending outlook) and raise our operating expenses estimates (on digital spending) in 2023/24e

In OMRmn, unless otherwise stated

	2021a	2022e	2023e	2024e
Loan growth (revised)	7.0%	7.7%	7.7%	8.9%
Loan growth (old)		7.0%	9.8%	9.8%
Change		0.8%	-2.1%	-1.0%
Net interest spread (revised)	2.15%	2.16%	2.18%	2.27%
Net interest spread (old)		2.04%	2.10%	2.20%
Change		0.12%	0.08%	0.07%
Net interest income (revised)	92	102	113	127
Net interest income (old)		92	97	111
Change		11.6%	16.3%	14.1%
Non-interest income (revised)	32	36	36	39
Non-interest income (old)		32	35	35
Change		12.5%	3.3%	11.5%
Operating costs (revised)	(63)	(61)	(63)	(65)
Operating costs (old)		(63)	(61)	(59)
Change		-4.0%	3.5%	8.8%
Cost of risk (revised)	76 bps	63 bps	63 bps	58 bps
Cost of risk (old)		76 bps	61 bps	61 bps
Change		-13bps	2 bps	-3bps
Net attributable income (revised)	22	38	44	57
Net attributable income (old)		22	34	45
Change		73%	32%	27%

Source: Company data, EFG Hermes estimates

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Financial Statements

Income Statement (Dec Year End))			
In OMRmn	2021a	2022e	2023e	2024e
Net interest income	92	102	113	127
Fees & commissions	19	21	23	26
Forex income	6	6	6	7
Investment income	2	5	2	2
Other operating inc. (expense)	5	4	5	5
Non interest income	32	36	36	39
Total banking income	123	138	149	166
Operating expenses	(63)	(61)	(63)	(65)
Operating income	60	77	86	101
Loan loss provisions	(24)	(21)	(23)	(23)
Other provisions	(0)	0	0	0
Other income / expense	0	0	0	0
Income before taxes or zakat	36	56	64	78
Taxes or zakat	(6)	(9)	(10)	(12)
Net inc. before minority interest	30	47	54	66
Minority interest	0	0	0	0
Net income after minorities	30	47	54	66
Cost of AT1 cap.,pref.div.&others	(8)	(9)	(9)	(9)
Net income	22	38	44	57

Source: National Bank of Oman, EFG Hermes estimates

Balance Sheet (Dec Year End)				
In OMRmn	2021a	2022e	2023e	2024e
Cash & central bank deposits	308	309	367	400
Interbank assets	115	170	134	146
Investments	447	418	501	546
Customer loans	3,089	3,327	3,584	3,901
Goodwill & intangibles	0	0	0	0
Fixed & other assets	123	155	160	165
Total assets	4,081	4,379	4,746	5,158
Interbank deposits	298	278	334	364
Customer deposits	2,918	3,093	3,340	3,641
Borrowings	193	188	188	188
Other liabilities	118	227	258	298
Total liabilities	3,532	3,797	4,135	4,511
Common shareholders' equity	434	466	495	532
Additional tier I capital	116	116	116	116
Preferred share capital	0	0	0	0
Minority interest	0	0	0	0
Total equity and liabilities	4,081	4,379	4,746	5,158

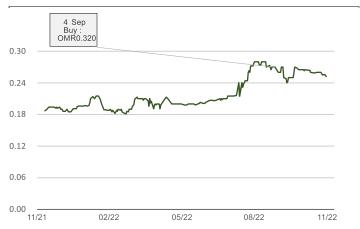
Source: National Bank of Oman, EFG Hermes estimates

Key Performance Indicators (%)				
In OMRmn	2021a	2022e	2023e	2024e
DuPont analysis (%) of average assets				
Net interest income	2.4%	2.4%	2.5%	2.6%
Non interest income	0.8%	0.8%	0.8%	0.8%
Operating expenses	-1.6%	-1.4%	-1.4%	-1.3%
Other revenue (expense)	-0.2%	-0.2%	-0.2%	-0.2%
Provisioning	-0.6%	-0.5%	-0.5%	-0.5%
Taxes	-0.1%	-0.2%	-0.2%	-0.2%
Other items	0.0%	0.0%	0.0%	0.0%
ROAA	0.6%	0.9%	1.0%	1.2%
Leverage (assets / equity)	9.1x	9.4x	9.5x	9.6x
ROAE (tangible)	5.1%	8.4%	9.2%	11.1%
Profitability				
Yield on interest earning assets	4.8%	4.7%	4.7%	4.6%
Cost of funds	2.6%	2.5%	2.5%	2.4%
Net interest spread	2.15%	2.16%	2.18%	2.27%
Net interest margin	2.49%	2.52%	2.57%	2.64%
Non-interest inc. / Banking inc.	25.8%	25.9%	24.2%	23.7%
Cost-to-income	51.5%	44.2%	42.1%	38.9%
Effective tax rate	15.6%	15.8%	15.6%	15.6%
Asset Quality				
NPL ratio	5.3%	5.6%	5.4%	5.2%
NPL coverage	88.2%	88.0%	95.8%	101.9%
Cost of risk (bps)	75.9	63.0	63.0	58.0
Capital				
CET1 ratio	11.8%	11.6%	11.5%	11.3%
Tier 1 ratio	15.0%	14.6%	14.2%	13.9%
Capital adequacy ratio	15.8%	15.3%	14.9%	14.5%
Risk weight. assets / Total assets	87.2%	87.8%	87.5%	87.7%
Growth Rates (Y-o-Y)				
Loan growth	7.0%	7.7%	7.7%	8.9%
Deposits growth	15.5%	6.0%	8.0%	9.0%
Assets growth	12.3%	7.3%	8.4%	8.7%
Risk-weighted assets growth	5.9%	8.0%	8.0%	9.0%
Net interest income growth	0.7%	11.6%	10.8%	11.9%
Fees & commissions inc. growth	45.8%	11.0%	11.0%	10.0%
Non interest income growth	21.9%	12.5%	1.1%	9.1%
Banking income growth	5.5%	11.8%	8.2%	11.2%
Operating expenses growth	-0.5%	-4.0%	3.0%	3.0%
Operating income growth	12.6%	28.6%	12.4%	17.2%
Earnings growth	141.0%	73.3%	17.5%	28.3%
Other Ratios				
Loans / Deposits	105.9%	107.6%	107.3%	107.1%
Loans / Assets	75.7%	76.0%	75.5%	75.6%
Deposits / Interest bearing liab.	85.6%	86.9%	86.5%	86.8%

Source: National Bank of Oman, EFG Hermes estimates

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Rating and Target Price chart



Rating Distribution

_	
Rating	Coverage Universe%
Buy	57%
Neutral	32%
Sell	11%
Not Rated	0%
Under Review	0%

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Company (Reuters/Bloomberg)	Last Rating	Price (15 Nov 2022)
AD National Ins. (ADNIC.AD/ADNIC UH)	Buy	AED5.90
Al Rajhi Insurance (8230.SE/ARCCI AB)	Neutral	SAR90.70
Bank Dhofar (BKDB.OM/BKDB OM)	Neutral	OMR0.15
Bank Muscat (BKMB.OM/BKMB OM)	Neutral	OMR0.28
Bank Sohar (BKSB.OM/BKSB OM)	Sell	OMR0.10
Bupa (8210.SE/BUPA AB)	Neutral	SAR180.00
Buruj Cooperative Insurance Company (8270.SE/BURUJ AB)	Sell	SAR16.82
Gulf Insurance Group (8250.SE/GIG AB)	Neutral	SAR25.35
HPS (HPS.CS/HPS MC)	Buy	MAD6369.00
Label Vie (LBV.CS/LBV MC)	Neutral	MAD4350.00
Malath Insurance (8020.SE/MALATH AB)	Sell	SAR12.50
National Bank of Oman (NBOB.OM/NBOB OM)	Buy	OMR0.25
Tawuniya (8010.SE/TAWUNIYA AB)	Buy	SAR79.00
Wala'a Insurance (8060.SE/WALAA AB)	Neutral	SAR13.60