

COMPANY BACKGROUND

National Bank of Oman ("NBO") is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman and through overseas branches in the United Arab Emirates and Egypt. The bank has 66 branches in Oman and 2 branches in the UAE. The Bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the year 2023. The Bank's equity shares are listed on the Muscat Stock Exchange. Perpetual bonds and bonds issued under EMTN programme are listed in the Euronext Dublin. NBO had 1,432 employees as on 31 December 2022.

Major Shareholding Structure

S.No	Name	Total Shares owned	Ownership %
1	The Commercial Bank Of Qatar	567,452,883	34.9%
2	Suhail Salim Abdullah Al Mukhaini Bahwan	239,804,865	14.7%
3	Civil Service Employees Pension Fund	178,565,709	11.0%
4	Ministry Of Defense Pension Fund	123,907,327	7.6%
5	Public Authority For Social Insurance	123,246,034	7.6%
6	Oman Investment Authority	81,664,887	5.0%
7	Other Shareholders	311,304,650	19.1%
Total		1,625,946,355	100.0%

Source: Muscat Clearing & Depository Oman

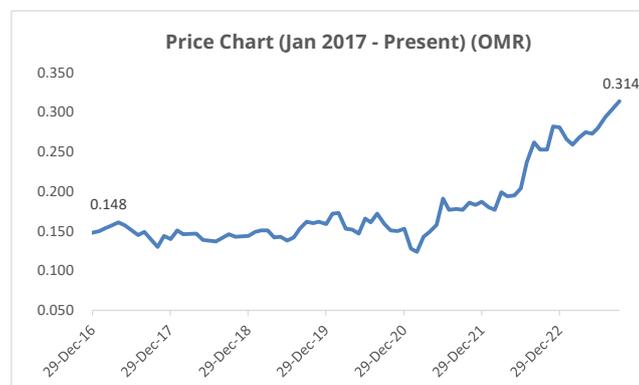
Board of Directors

S.No	Name	Board Position
1	Amal Suhail Bahwan	Chairman
2	H.E. Sheikh Abdulla bin Ali bin Jabor Al Thani	Deputy Chairman
3	Najat Ali Al Lawatia	Director
4	Hamad Mohammad Al Wahaibi	Director
5	Mohammed Ismail Mandani Al Emadi	Director
6	Fahad Badar	Director
7	Joseph Abraham	Director
8	Said Hilal Al Habsi	Director
9	Nabil Hamad Al Mahrouqi	Director
10	Padmanabhan Ananthan	Director
11	Jamal Said Al Taie	Director

Source: msx website

Upcoming Board of Directors Elections

The company held its last Board of Directors elections in March 2023. The next board elections will be held in 2026.



Source: Bloomberg

RESULTS UPDATE – Q2 2023

Description (OMR mn)	Q1 22	Q2 22	Q1 23	Q2 23	Q2 23 q/q	Q2 23 y/y	H1 22	H1 23	H1 23 y/y
Core Income	21	25	29	28	-1.8% ▼	11.4% ▲	47	57	21.8% ▲
Other Operating Income	12	7	9	9	3.3% ▲	26.0% ▲	19	18	-4.1% ▼
Total Income	33	33	38	38	-0.5% ▼	14.7% ▲	66	75	14.3% ▲
Operating Expense	15	15	15	16	2.4% ▲	5.6% ▲	29	31	5.3% ▲
Operating Profit	19	18	23	22	-2.6% ▼	22.2% ▲	37	45	21.4% ▲
Net Provisions	7	4	5	4	-22.3% ▼	6.1% ▲	10	10	-8.7% ▼
Net Profit	10	12	14	15	4.3% ▲	26.4% ▲	22	29	32.8% ▲
Perpetual Interest	2	2	3	3	-	37.7% ▲	5	6	37.7% ▲
Adjusted Net Profit	8	10	11	12	5.5% ▲	23.7% ▲	17	23	31.4% ▲
Net Loans	3,189	3,261	3,415	3,443	0.8% ▲	5.6% ▲	3,261	3,443	5.6% ▲
Deposits	3,134	3,040	3,249	3,304	1.7% ▲	8.7% ▲	3,040	3,304	8.7% ▲
Assets	4,258	4,199	4,434	4,487	1.2% ▲	6.9% ▲	4,199	4,487	6.9% ▲
Equity	446	450	477	485	1.7% ▲	7.7% ▲	450	485	7.7% ▲
Ratios									
Cost to income	43.8%	45.1%	40.3%	41.5%	3.0% ▲	-7.9% ▼	44.4%	40.9%	-7.9% ▼
Cost of risk	0.86%	0.51%	0.65%	0.50%	-23.5% ▼	-1.5% ▼	0.7%	0.6%	-15.6% ▼
Return on Equity	9.4%	10.7%	12.4%	12.7%	2.6% ▲	18.5% ▲	10.1%	12.6%	24.7% ▲
Adjusted Return on Equity	7.3%	8.6%	9.7%	10.0%	3.8% ▲	15.9% ▲	8.0%	9.8%	23.5% ▲
Adjusted Return on Assets	0.8%	0.9%	1.0%	1.1%	4.4% ▲	16.1% ▲	0.9%	1.1%	22.8% ▲
Loan to deposit Ratio	101.8%	107.3%	105.1%	104.2%	-0.9% ▼	-2.8% ▼	107.3%	104.2%	-2.8% ▼
Gross NPL Ratio	5.2%	5.2%	5.2%	5.2%	1.4% ▲	-0.1% ▼	5.2%	5.2%	-0.1% ▼
Provision Coverage Ratio	91.3%	90.9%	98.5%	99.1%	0.5% ▲	9.0% ▲	91.1%	98.8%	8.5% ▲

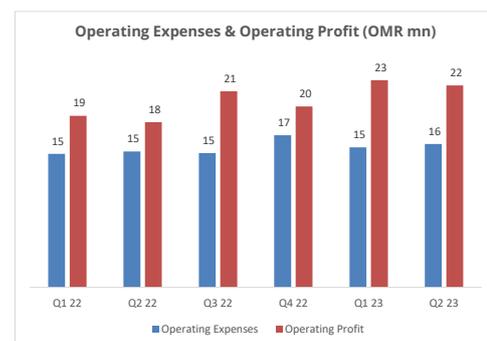
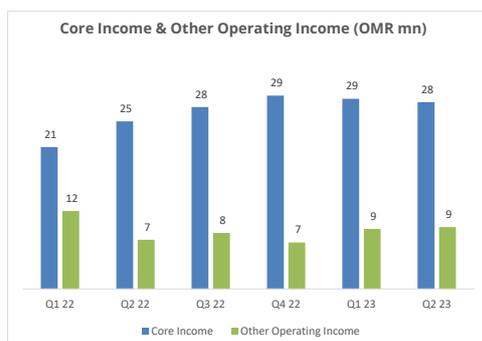
Operating Performance

Core income decreased slightly by 1.8% in Q2 2023 compared to Q1 2023 but showed significant growth of 11.4% compared to Q2 2022. For H1 2023, core income increased by 21.8% compared to H1 2022. The growth in core income was a result of y/y loan growth of 5.6% aided by a high CASA ratio which has enabled the bank to improve its net interest margin significantly. Other operating income increased by 3.3% in Q2 2023 compared to Q1 2023 and showed impressive growth of 26.0% compared to Q2 2022. However, for H1 2023, other operating income declined by 4.1% compared to H1 2022.

Total income remained stable, showing a marginal decrease of 0.5% in Q2 2023 compared to Q1 2023 but exhibited strong growth of 14.7% compared to Q2 2022. For H1 2023, total income increased by 14.3% compared to H1 2022.

Operating expenses increased by 2.4% in Q2 2023 compared to Q1 2023 and grew by 5.6% compared to Q2 2022. For H1 2023, operating expenses increased by 5.3% compared to H1 2022. Cost to Income Ratio increased by 3.0% in Q2 2023 compared to Q1 2023 but decreased by 7.9% compared to Q2 2022. For H1 2023, the cost to income ratio decreased by 7.9% compared to H1 2022. The bank has significantly improved its cost to income ratio to 40.9% during H1 2023 as compared with 44.4% during H1 2022 with its cost control initiatives. The management has indicated that it will continue to invest in the right talent going forward.

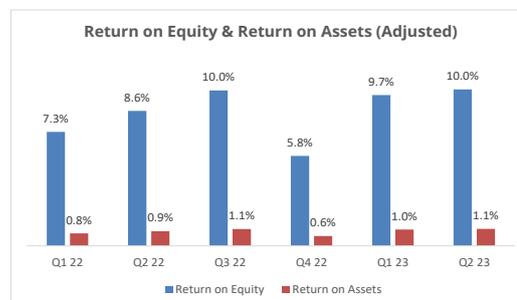
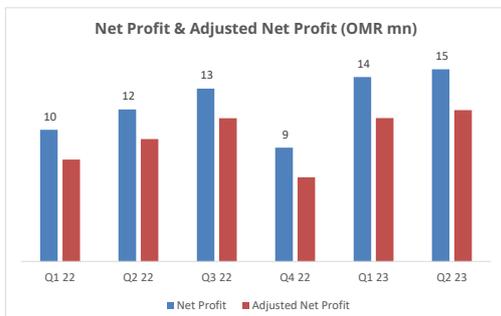
Cost of risk significantly to 50 bps during Q2 2023 compared which led to a surge in the H1 2023 operating profit. Operating profit declined slightly by 2.6% in Q2 2023 compared to Q1 2023 but showed substantial growth of 22.2% compared to Q2 2022. For H1 2023, operating profit increased by 21.4% compared to H1 2022.



Net Profit & Return Metrics

Net profit increased by 4.3% in Q2 2023 compared to Q1 2023 and showed strong growth of 26.4% compared to Q2 2022. For H1 2023, net profit increased impressively by 32.8% compared to H1 2022. The key drivers for the growth in net profit were higher operating income, lower pace of growth of operating expenses, and a decline in cost of risk via net provisions.

ROE increased by 3.8% in Q2 2023 compared to Q1 2023 and showed strong growth of 15.9% compared to Q2 2022. For H1 2023, ROE increased by 23.5% compared to H1 2022. ROA increased by 4.4% in Q2 2023 compared to Q1 2023 and showed impressive growth of 16.1% compared to Q2 2022. For H1 2023, ROA increased by 22.8% compared to H1 2022.

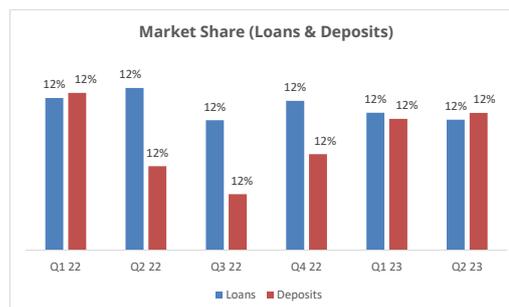
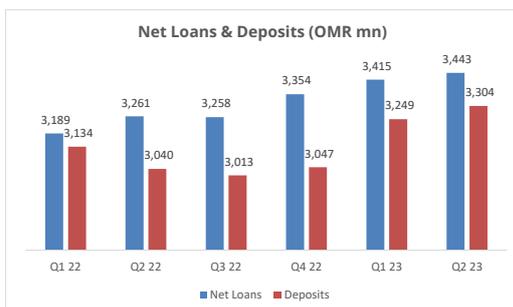


Net Loans & Deposits

Net loans increased by 0.8% in Q2 2023 compared to Q1 2023 and 5.6% compared to Q2 2022. For H1 2023, net loans increased by 5.6% compared to H1 2022.

Deposits increased by 1.7% in Q2 2023 compared to Q1 2023 and exhibited impressive growth of 8.7% compared to Q2 2022. For H1 2023, deposits increased by 8.7% compared to H1 2022. The loan to deposit ratio decreased by 0.9% in Q2 2023 compared to Q1 2023 and showed a decrease of 2.8% compared to Q2 2022.

CASA stood at 59% at the end of Q2 2023. The bank continues to have a healthy CASA Ratio.

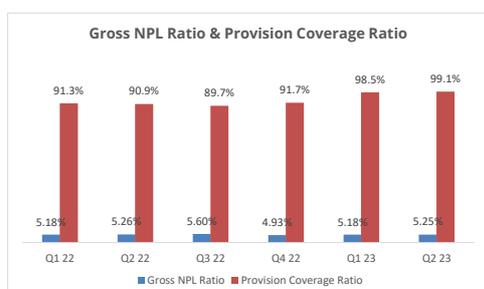


Risk Metrics

The cost of risk declined by 23.5% in Q2 2023 compared to Q1 2023 and showed a decrease of 1.5% compared to Q2 2022. For H1 2023, the cost of risk decreased by 15.6% compared to H1 2022. Net provisions decreased by 22.3% in Q2 2023 compared to Q1 2023 but increased slightly by 6.1% compared to Q2 2022. For H1 2023, net provisions decreased by 8.7% compared to H1 2022.

Gross NPL ratio increased slightly by 1.4% in Q2 2023 compared to Q1 2023 but remained stable, with a decrease of 0.1% compared to Q2 2022. For H1 2023, the NPL ratio remained stable, showing a decrease of 0.1% compared to H1 2022.

The provision coverage ratio increased by 0.5% in Q2 2023 compared to Q1 2023 and 9.0% compared to Q2 2022 and stood at 99.1%. For H1 2023, the provision coverage ratio increased by 8.5% compared to H1 2022.



FINANCIAL ANALYSIS

Description (OMR mn)	2022	2023est	2024est	2025est
Net interest income	104	118	127	136
Other operating income	35	38	43	48
Total income	138	156	170	185
Operating expense	61	66	68	72
Operating profit	78	91	102	113
Net provisions	20	20	20	19
Net profit	48	60	70	79
Perpetual Interest on AET1 Bonds	9	13	13	13
Adjusted Net Profit	39	47	57	66
Net Loans	3,354	3,579	3,785	4,004
Deposits	3,047	3,409	3,604	3,814
Total Assets	4,294	4,699	4,948	5,220
Net worth	474	517	570	633
Ratios				
Cost to Income	43.8%	42.0%	40.0%	39.0%
Cost of Risk	0.63%	0.58%	0.55%	0.50%
Return on Equity	10.6%	12.1%	12.8%	13.2%
Adjusted Return on Equity	8.6%	9.5%	10.5%	11.0%
Adjusted Return on Assets	0.9%	1.0%	2.1%	2.2%
Loan to Deposit Ratio	110.1%	105.0%	105.0%	105.0%
Gross NPL Ratio	4.9%	5.2%	5.1%	5.0%
Provision Coverage Ratio	91.7%	99.0%	100.0%	100.0%
Capital Adequacy Ratio				
CET1 Ratio	11.9%	12.3%	13.0%	13.8%
Tier 1 Ratio	16.3%	16.5%	17.0%	17.5%
Total Regulatory Capital Ratio	16.9%	17.1%	17.5%	18.1%
Forecast Period Growth Rates (y/y)		2023	2024	2025
Net interest income		13.8% ▲	7.8% ▲	7.3% ▲
Other operating income		10.1% ▲	13.6% ▲	11.3% ▲
Total income		12.9% ▲	9.2% ▲	8.3% ▲
Operating expense		8.3% ▲	4.0% ▲	5.6% ▲
Operating profit		16.5% ▲	13.0% ▲	10.1% ▲
Net provisions		-0.7% ▼	0.7% ▲	-3.8% ▼
Net profit		24.2% ▲	16.5% ▲	13.6% ▲
Perpetual Interest on AET1 Bonds		37.7% ▲	-	-
Adjusted Net Profit		20.9% ▲	20.9% ▲	16.6% ▲
Net Loans		6.7% ▲	5.7% ▲	5.8% ▲
Deposits		11.9% ▲	5.7% ▲	5.8% ▲
Total Assets		9.4% ▲	5.3% ▲	5.5% ▲
Net worth		9.1% ▲	10.3% ▲	11.0% ▲

Key Assumptions

- We estimate the loan book to grow at a CAGR of 6.1% during the forecast period from 2023-2025. The bank has mentioned during its investor call that their strategy is to preserve capital for the right growth opportunities (as evidenced by a lower dividend payout during for FY 2022). We opine going forward, as the Government turns its attention towards infrastructure spending on the back of improved credit ratings and stable oil process, NBO is extremely well positioned to capitalize on potential growth opportunities.

- We estimate deposits to grow at a CAGR of 8% during the forecast period. NBO has historically had one of the best CASA ratios in the banking sector and we opine the bank will continue to maintain its ~ 65% ratio going forward.
- Core income is estimated to grow at a CAGR of 9.6% while other operating income is estimated to grow at a CAGR of 11.6% during the forecast period as the bank will look to improve the utilization of its balance sheet to generate higher non-core income.
- A higher CASA ratio coupled with loan growth will lead to an improvement in Net Interest Margins. We estimate an overall improvement of 20-30 bps in the net interest margin during the forecast period.
- Operating expenses are estimated to grow at a CAGR of 8.6% from 2022-2025. We opine the cost to income ratio will improve significantly from 43.8% during 2022 to 39.0% by 2025.
- We estimate that the cost of risk will gradually decline during the forecast period given the improvement in the macro-economic scenario, coupled with stable oil prices, infrastructure spending and tight credit policy adopted by the bank. As a consequence, we estimate that Net profit will grow at a CAGR of 18.0% during the forecast period. The bank has significantly improved its provision coverage ratio to 99.1% during Q2 2023 from 91.7% during Q4 2022 and we opine the bank will maintain its 100% provision coverage ratio.
- We estimate that the bank will meaningfully improve its return on adjusted equity to the high double digits in line with the sector leader bank muscat. Adjusted RoE is forecasted to grow to 11.0% by 2023 from 8.6% in 2022.

INVESTMENT THESIS

At current prices (OMR 0.314), National Bank of Oman is trading at a 2023e Adjusted PE of 11.7x, PB of 1.05x, and a 2023e dividend yield of 3.2%.

- NBO was the first bank to be incorporated in the Sultanate of Oman in 1973 and has one of the largest branch networks serving over half a million retail customers and 25,000 SME and corporate customers.
- NBO is the second largest bank with a 12.2% market share of Net Loans and 12.3% of Deposits as of 30 June 2023. The bank has been able to utilize its branch network and strong relationships to maintain a healthy CASA (59% vs Sector Average of 54% as of 30 June 2023) in spite of stiff competition.
- The bank has a new senior management team in place bringing considerable experience. The board of directors approved 15 year strategic map in 2020 with the overall objective of regaining and increasing market share while significantly improving profitability metrics. The bank has delivered on both fronts already and we remain confident that the bank will continue on its growth and profitability path.
- NBO's cost of deposit for 2022 stood at 2.2% vs the banking sector average of 2.3%. Low cost deposits (58% of total deposits) from wholesale and retail clients contribute to the stability of funds in addition to maintaining net interest margins.
- The contribution of fee income to total income for the banks stood at 25% and remains a key focus area for the bank. The Fee income as a % of assets for NBO stood at 0.8% as of 31 December 2022.
- The bank maintains a tight grip on its costs while investing in technology to enhance customer experience. The cost to income for the bank stood at 41% vs sector average of 47% as of 30 June 2023.
- The company has a long track record of profitability and dividend payment. The company has paid uninterrupted dividends since 2006. The management was prudent in its dividend distribution for 2022 as they maintained that preserving capital for growth was the key priority for the bank which would lead to shareholder value creation in the medium to long term.
- The bank adopts a prudent provisioning policy. Provision Coverage ratio stood at 99% as of 30 June 2023. Gross NPL ratio stood at 5.3% which was slightly above the sector average. However, the restructured loan ratio for the bank was the lowest in the sector and stood at 6.5% vs sector average of 12%.
- The return metrics of the bank are among the highest in the sector. As of H1 2023, the bank generated an annualized Adjusted Return on Equity of 9.8% vs the banking sector average of 7.4%. We opine the bank will continue to be the sector leader in generating ROEs of ~ 10-12%.
- The bank has a strong capital base and is well above the regulatory requirements. As of 30 June 2023, the Tier 1 Ratio for the Bank stood at 11.6% (vs regulatory requirement of 9.5%) and Total Capital Ratio of 16.6% (vs requirement of 13.5%).

OMAN BANKING SECTOR KEY HIGHLIGHTS
Market Share – Net Loans (as of 30 June 2023)

Oman Banking Sector Loans & Deposits Market Share										
Oman Banking Sector Market Share - Net Loans (Post BKSb - HSBC Transaction) - Q2 2023										
Description (OMR Mn)	Bank Muscat	NBO	Bank Dhofar	Oman Arab Bank	Sohar International Bank	Ahli Bank	Bank Nizwa	HSBC Oman	Total	BKSb + HSBC
Loans	9,878	3,443	3,420	3,258	3,041	2,663	1,319	1,152	28,174	4,081
Deposits	9,083	3,304	3,073	3,201	2,709	2,411	1,244	1,920	26,944	4,498
Market Share	Bank Muscat	NBO	Bank Dhofar	Oman Arab Bank	Sohar International Bank	Ahli Bank	Bank Nizwa	HSBC Oman	Total	BKSb + HSBC
Loans	35.1%	12.2%	12.1%	11.6%	10.8%	9.5%	4.7%	4.1%	100.0%	14.5%
Deposits	33.7%	12.3%	11.4%	11.9%	10.1%	8.9%	4.6%	7.1%	100.0%	16.7%
Loan to Deposit Ratio	108.8%	104.2%	111.3%	101.8%	112.3%	110.4%	106.1%	60.0%	104.6%	90.7%

The Oman Banking sector has witnessed consolidation with the HSBC – Sohar International merger which is estimated to be completed during Q3 2023 and hence we present sector data individually for HSBC & Sohar International Bank as of 30 June 2023.

Market Share & Split - Gross Loans (as of 30 June 2023)

Description (OMR mn)	Corporate Loans	Market Share	Retail Loans	Market Share	Total Gross Loans	Market Share
Ahli Bank	2,018	10.6%	743	6.9%	2,761	9.2%
Bank Dhofar	2,242	11.8%	1,369	12.6%	3,610	12.1%
Bank Muscat	6,248	32.8%	4,228	39.0%	10,476	35.0%
Bank Sohar	2,185	11.5%	1,009	9.3%	3,194	10.7%
HSBC	749	3.9%	455	4.2%	1,204	4.0%
NBO	2,150	11.3%	1,462	13.5%	3,612	12.1%
OAB	2,131	11.2%	1,237	11.4%	3,368	11.3%
Bank Nizwa	1,334	7.0%	333	3.1%	1,667	5.6%
Total	19,058	100.0%	10,836	100.0%	29,894	100.0%

Operating Branches & Employees (31 December 2022)

Description	Conventional Branches	Islamic Branches	Total Branches	Market Share	Employees	Employees to Branch Ratio
Ahli Bank	24	19	43	8%	864	20
Bank Dhofar	60	10	70	14%	1,509	22
Bank Muscat	145	24	169	33%	3,973	24
Bank Sohar	30	8	38	7%	884	23
HSBC	46	0	46	9%	898	20
NBO	59	6	65	13%	1,432	22
OAB	47	16	63	12%	862	14
Bank Nizwa	na	19	19	4%	436	23
Total	411	102	513	100%	10,858	21

Cost to Income Ratio (as of 30 June 2023)

Description (OMR mn)	2021	2022	H1 2023
Ahli Bank	43.2%	43.9%	39.9%
Bank Dhofar	57.2%	48.7%	45.5%
Bank Muscat	40.3%	41.2%	38.8%
Bank Sohar	45.4%	41.5%	43.9%
HSBC	78.3%	67.1%	52.1%
NBO	51.5%	43.8%	40.9%
OAB	63.4%	61.0%	58.7%
Bank Nizwa	48.4%	53.6%	52.3%
Average	53.5%	50.1%	46.5%

Net Interest Margin (as of 30 June 2023)

Description (OMR mn)	2021	2022	Q1 2023	Q2 2023
Ahli Bank	2.8%	3.0%	3.0%	3.1%
Bank Dhofar	3.1%	3.6%	3.5%	3.2%
Bank Muscat	3.7%	3.7%	3.9%	3.9%
Bank Sohar	2.7%	3.7%	3.6%	3.3%
HSBC	3.8%	4.2%	6.5%	6.1%
NBO	3.1%	3.1%	3.5%	3.4%
OAB	3.3%	3.0%	3.1%	3.1%
Bank Nizwa	2.9%	3.3%	3.1%	2.7%
Average	3.2%	3.5%	3.8%	3.6%

CASA Ratio (as of 30 June 2023)

Description (OMR mn)	2021	2022	Q2 2023
Ahli Bank	34.0%	48.8%	45.9%
Bank Dhofar	43.8%	44.5%	43.6%
Bank Muscat	62.4%	62.0%	59.0%
Bank Sohar	54.7%	61.2%	58.5%
HSBC	74.8%	70.4%	62.8%
NBO	66.5%	63.0%	58.8%
OAB	54.7%	52.9%	50.8%
Average	55.8%	57.5%	54.2%

Fee Income to Total Income & Assets (as of 31 December 2022)

Description (OMR mn)	Fee Income	Total Income	Total Assets	Fee Income to Total Income	Fee Income to Assets
Ahli Bank	17,854	91,698	3,075,466	19.5%	0.6%
Bank Dhofar	20,736	143,152	4,317,332	14.5%	0.5%
Bank Muscat	157,955	502,810	12,775,982	31.4%	1.2%
Bank Sohar	29,163	132,846	4,131,001	22.0%	0.7%
HSBC	17,579	74,624	2,241,628	23.6%	0.8%
NBO	34,698	138,237	4,294,080	25.1%	0.8%
OAB	22,424	122,576	3,681,800	18.3%	0.6%
Bank Nizwa	10,302	52,496	1,486,123	19.6%	0.7%
Total	310,711	1,258,439	36,003,412	24.7%	0.9%

Capital Adequacy Ratio (as of 30 June 2023)

Description (OMR mn)	Common Equity Tier 1	Total Tier 1	Total Regulatory Capital
Ahli Bank	9.9%	15.2%	15.6%
Bank Dhofar	14.1%	18.3%	19.0%
Bank Muscat	14.6%	19.4%	20.4%
Bank Sohar	16.3%	19.4%	19.8%
HSBC	24.8%	24.8%	25.0%
NBO	11.6%	16.1%	16.6%
OAB	10.8%	15.2%	16.2%
Bank Nizwa	15.7%	15.7%	16.4%
Average	14.7%	18.0%	18.6%

Cost of Risk (as of 30 June 2023)

Description (OMR mn)	2021	2022	Q1 2023
Ahli Bank	0.62%	0.53%	0.53%
Bank Dhofar	0.75%	0.98%	1.13%
Bank Muscat	0.66%	0.64%	0.63%
Bank Sohar	1.06%	1.43%	0.75%
HSBC	-0.57%	-0.54%	-0.36%
NBO	0.80%	0.70%	0.58%
OAB	1.31%	1.04%	0.75%
Bank Nizwa	0.64%	0.89%	0.76%
Average	0.66%	0.71%	0.59%

Market Share Split – Net Loans (as of 31 December 2022)

Description (OMR mn)	Ahli Bank	Bank Dhofar	Bank Muscat	Bank Sohar	HSBC	NBO	OAB	Bank Nizwa
Personal Loans	7%	12%	39%	9%	4%	13%	11%	5%
Agriculture	0%	0%	83%	2%	0%	4%	11%	0%
Construction	18%	20%	21%	18%	4%	6%	12%	0%
Export trade	0%	65%	26%	9%	0%	0%	0%	0%
Financial institutions	13%	18%	33%	6%	0%	19%	12%	0%
Government	7%	12%	4%	1%	0%	24%	0%	52%
Import trade	0%	0%	63%	0%	15%	8%	13%	0%
Manufacturing	11%	10%	36%	17%	6%	8%	12%	0%
Mining and quarrying	1%	0%	41%	19%	3%	18%	18%	0%
Real estate	0%	0%	100%	0%	0%	0%	0%	0%
Services	12%	19%	27%	15%	2%	12%	12%	1%
Transport	13%	0%	54%	7%	0%	15%	11%	0%
Utilities	5%	7%	53%	9%	4%	14%	7%	0%
Wholesale/Retail trade	19%	9%	17%	28%	2%	13%	11%	0%
Others	6%	31%	5%	0%	22%	7%	23%	5%
Total	9%	13%	35%	11%	5%	12%	11%	4%

Sector Split - Net Loans (as of 31 December 2022)

Description (OMR mn)	Ahli Bank	Bank Dhofar	Bank Muscat	Bank Sohar	HSBC	NBO	OAB	Bank Nizwa
Personal Loans	29%	35%	42%	32%	37%	41%	37%	43%
Agriculture	0%	0%	2%	0%	0%	0%	1%	0%
Construction	16%	13%	5%	13%	7%	4%	9%	1%
Export trade	0%	4%	1%	1%	0%	0%	0%	0%
Financial institutions	6%	6%	4%	2%	0%	7%	5%	0%
Government	3%	4%	0%	0%	0%	7%	0%	48%
Import trade	0%	0%	5%	0%	9%	2%	3%	0%
Manufacturing	9%	6%	8%	13%	10%	5%	8%	0%
Mining and quarrying	0%	0%	3%	5%	2%	4%	5%	0%
Real estate	0%	0%	3%	0%	0%	0%	0%	0%
Services	13%	15%	8%	15%	5%	10%	11%	2%
Transport	8%	0%	9%	3%	0%	7%	5%	0%
Utilities	3%	3%	8%	4%	4%	6%	3%	0%
Wholesale/Retail trade	9%	3%	2%	11%	2%	4%	4%	0%
Others	3%	12%	1%	0%	24%	3%	10%	6%
Total	100%							

Oman Banking Sector Risk Metrics (as of 30 June 2023)

Bank	Gross Loan Book (OMR)	Provisions	NPL	Gross NPL %	Provision Coverage Ratio	Restructured Loans (OMR)	Restructured Loans as % of Gross Loans
Ahli Bank	2,760,974	98,360	104,515	3.8%	94.1%	459,945	16.7%
Bank Dhofar	3,610,449	190,230	211,679	5.9%	89.9%	542,341	15.0%
Bank Muscat	10,475,957	596,503	394,537	3.8%	151.2%	1,042,133	11.4%
Bank Sohar	3,194,220	153,512	164,468	5.1%	93.3%	349,228	10.9%
HSBC	1,203,940	52,230	43,981	3.7%	118.8%	61,946	5.1%
NBO	3,612,385	169,385	171,042	4.7%	99.0%	234,314	6.5%
Oman Arab Bank	3,456,624	198,426	198,426	5.7%	100.0%	502,953	14.4%
Bank Nizwa	1,669,464	40,460	31,625	1.9%	127.9%	203,922	12.2%
Sector Average				4.3%	109.3%		11.5%

VALUATION & RECOMMENDATION

Oman Banking Sector Comparative Valuation						
S.No	2023e Reported PE	2023e Adjusted PE	PB Multiple	2023e Dividend Yield	2023e Adjusted Return on Equity	CMP
Ahli Bank	10.9	15.8	1.04	5.5%	7.0%	0.165
Bank Dhofar	14.0	19.6	0.94	2.9%	4.7%	0.175
Bank Muscat	9.9	11.1	1.24	5.2%	10.9%	0.286
Bank Sohar	7.0	8.1	0.85	5.7%	8.1%	0.105
NBO	9.1	11.7	1.05	3.2%	8.8%	0.314
OAB	9.9	13.0	0.63	3.6%	4.8%	0.138
Bank Nizwa	15.1	15.1	0.91	4.1%	6.0%	0.099
Sector Average	10.8	13.5	0.95	4.3%	7.2%	
Sector Median	9.9	13.0	0.94	4.1%	7.0%	

*As on 05 October 2023

We use the Dividend Discount Model Valuation Methodology to arrive at the fair value of NBO:

Dividend Discount Model

The dividend discount model (DDM) is a quantitative method used for predicting the price of a company's stock based on the theory that its present day price is worth the sum of all of its future dividend payments when discounted back to their present value. We compute the fair value of NBO using the Dividend Discount Model. We assume a cost of equity of **10.0%** and a terminal growth rate of **4.4%** (we calculate terminal growth rate using the retention ratio & sustainable adjusted return on Equity of the bank, ie $g = RoE * RR$, sustainable RoE: 11.0%, sustainable Retention Ratio: 40%)

Description	2023est	2024est	2025est	Terminal Value
Net Profit (OMR mn)	60	70	79	
EPS	0.037	0.043	0.049	
Payout Ratio	40%	40%	40%	
Cash DPS	0.015	0.017	0.019	0.364
Present Value of DPS	0.015	0.016	0.016	0.301
Fair Value per share	0.347			

Our valuation indicates a fair value of OMR 0.347 per share, an upside of 10.5%. We opine the bank is extremely well positioned to capitalize on growth opportunities in the economy. The management is pro-active and follows a prudent and disciplined risk and credit policy which should help in growing the balance sheet meaningfully over the next 3-4 years. We project return on adjusted equity to meaningfully grow during the forecast period on the back of strong core income growth, better utilization of the balance sheet to generate higher other operating income, moderate growth in operating expenses and a stable cost of risk. The above factors make the bank an extremely attractive investment.

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