

Bank Sohar (CMP: RO 0.158) - FY2011 Earnings - Initial View

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Overall Review: Operating Income - In line; Net Profit - Below our estimates

(Loan Book growth remains steady)

Gross Loan book grew by 13.1% YoY: Overall gross loan addition of Bank Sohar during FY11 stood at RO 120.788 million as against an addition of RO 120.689 million during FY2010. As at end of FY2011, the gross loan book of the bank stood at RO 1.041 billion, reporting an increase of 13.1% for the year. The growth remains steady similar to the growth seen in 2010 and also came in line with our estimates of 13% increase for the year. During Q4FY11, the bank has added RO 39.654 million, showing an increase of 4% sequentially. While for Jan to Oct 2011, the overall credit addition of the Oman banking sector is at RO 1.386 billion, an increase of 12.9% year to date (YTD).

(Deposit growth on a higher note)

Deposit growth at 17.2% for 2011: The total customer deposits of the bank for the year 2011 increased by 17.2% YoY to RO 1.171 billion. In absolute terms, the bank has added about RO 172.302 million in deposits during FY2011 as compared to an increase 166.686 million during FY10. This is well above our estimates. During Q4 FY11, the deposit addition remained stronger with an increase of about RO 124.737 million, which reveal the prevailing liquidity in the banking system. This deposits buildup trend is clearly seen in most of the listed banks for the last fiscal. As at end of Dec 2011, the total credit to deposit ratio of the bank is at 87% levels, the lowest levels seen since the inception of the bank.

Balance Sheet Data - Annual Trend

Balance Sheet (In RO 000s)	2007	2008	2009	2010	2011
Gross Loans	303,339	644,101	799,451	920,140	1,040,928
YoY (%)		112.3%	24.1%	15.1%	13.1%
Net Loans & Advances	298,936	634,265	786,784	903,034	1,019,554
YoY (%)		112.2%	24.0%	14.8%	12.9%
Total Assets	420,342	842,911	1,024,610	1,257,871	1,431,963
YoY (%)		100.5%	21.6%	22.8%	13.8%
Customer Deposits	242,822	547,913	832,449	999,135	1,171,437
YoY (%)		125.6%	51.9%	20.0%	17.2%
Credit to Deposit Ratio (%)	123.1%	115.8%	94.5%	90.4%	87.0%

Source: MSM Announcement, Company Reports, GBCM Research

(Stronger Operating Performance)

Net operating Income growth - In Line: Bank Sohar has reported FY11 net operating income of RO 43.186 million, reporting an increase of 22.6% on a YoY basis. This is in line with our estimates of RO 42.612 million. On back of improved credit off take during Q4 along with the mobilization of low cost deposits, the bank has been able to show improvement in operating performance for the last quarter. For Q4 FY11, the bank has reported total operating income of RO 11.632 million, an increase of 26.2% YoY. While the same has grown by about 7.4% sequentially, this is on a positive note. The Breakup of operating and non-operating income is not disclosed in the initial 2011 numbers of the bank.

(Operating expenses - Lower during the last quarter)

Operating expenses declined during Q4 FY11: Total operating expenses of the bank for the year 2011 (Including Depreciation) increased to RO 23.179 million, an increase of 18.3% YoY. This is marginally below our estimates of RO 23.410 million. The breakup of expenses is not disclosed in the preliminary results. During Q4 FY11, the bank has reported total operating expenses of RO 5.562 million, reporting a decline of 1.4% YoY. While the same has declined by 7% sequentially, this is noteworthy.

(PAT - Below our estimates)

Net profit grew by 41.8% YoY: Owing to stronger operating performance with the revival of credit off-take along with the lowering cost of funds, FY11 net profit of the bank stood at RO 14.495 million, reporting an increase of 41.8% YoY. This is below our estimates of RO 14.996 million. For Q4FY11, the bank has reported PAT of RO 3.564 million, an increase of 82.2% YoY. The same has declined by 11% sequentially. This is lower than our expectations of RO 4.065 million for the quarter. We believe the lower numbers could be on the back of higher provisioning requirements during the last quarter.

(Estimates higher Provisioning during Q4)

Overall provisioning for loan losses of the bank is not disclosed in the initial numbers. For 9MFY11, the bank saw its total loan loss provisioning (portfolio and specific) at RO 1.594 million, a decline of about 40.8% YoY.

Q4 FY11 - Provisioning levels remained higher: As per our initial workings, we estimate the total provisioning levels of the bank for 2011E to be about RO 3.535 million, which is still lower than FY10 numbers. We estimate the provisioning levels of bank to be seen at higher levels during Q4 2011. As per our calculations, the Q4 FY11 provisioning is estimated at about RO 1.941 million, the highest levels reported by the bank. With the maturing loan book, we believe that the Bank has shown higher NPA buildup over the last six quarters, which needs to be watched out.

NPL shows increasing trend: As at end of 9MFY11, the total Non Performing Loans (NPL) of the bank is at RO 10.883 million. By end of Q3FY11, the total NPLs to gross loan ratio is at 1.1% levels. The bank has not disclosed the breakup of NPLs in its initial FY11 results. However, we believe that the NPL levels may have increased during Q4 FY11, which needs to be carefully monitored in the coming quarters.

Income Statement Data - Annual Trend

Income Statement (In RO 000s)	2008	2009	2010	2011**
Net Operating Income	17,729	29,131	35,415	43,186
YoY (%)		64.3%	21.6%	22.6%
Total Operating Expenses	12,581	17,215	19,586	23,179
YoY (%)		36.8%	13.8%	18.3%
Operating Expense (Inc. Impairment loss)**	20,366	20,023	23,631	26,714
YoY (%)		-1.7%	18.0%	13.2%
Profit before taxation**	(2,637)	9,108	11,600	16,472
YoY (%)		NM	27.4%	41.5%
Net Profit for the year	(2,264)	8,022	10,220	14,495
YoY (%)		NM	27.4%	41.8%

Source: MSM Announcement, Company Reports, GBCM Research; ** Estimates for 2011

Outlook: Growth to remain higher; NPA levels to watch out...

Banking Sector Credit growth outlook remains positive: GBCM Research expects the overall Credit Growth of Oman Banking Sector to stay close to about 12% levels for FY2012E on back of robust Government Infrastructure spending along with the expected revival in the Private sector investments during the year. We expect Bank Sohar to continue its steady growth rate during 2012E with the challenges continue to remain being one of the smaller players in the market. The launch of Islamic products cum the entry of two new Islamic Banks in Oman would also be the factors to watch out in the Banking space in this fiscal.

We expect the challenge for Bank Sohar to remain in the form of higher NPA buildup during the current fiscal with the maturing loan book showing signs of slippage (since H2 2010). This may increase the provisioning requirements of the bank going forward. We would look for the detailed FY11 results and do a revision to our FY12E earnings of Bank Sohar.

Valuations remains Attractive: Bank Sohar has maintained steady loan book growth during the last fiscal year. We believe the growth to improve during FY11E with the presence of higher project spending plans and the presence of improved funding mix and the relatively higher capitalization levels. While the concern in the form of incremental NPAs needs to be addressed. At the current levels, the bank trades at 1.3X of FY11E P/BV, which is still attractive and also lower than the Oman Banking sector average of about 1.5X levels. We maintain our **BUY** rating on the stock with the target price of **RO 0.190**, an upside of 20% from the current levels.

FY11E Dividend yield at 5.7% levels: On the dividends front, we expect the bank to maintain dividend payout ratio of about 60% levels for FY11. We estimate the cash dividend disbursement of RO 0.009 (60% Dividend Payout), which provides an attractive dividend yield of 5.7% at the current levels.

*** Previous Rating and Recommendation: BUY with a target price of RO 0.195*

We would update a detailed Investment note post announcement of FY2011 audited numbers.

Balance Sheet Data - Quarterly Trend

Balance Sheet (In RO 000s)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Gross Loans & Advances	834,496	860,989	883,776	920,140	948,446	1,001,021	1,001,274	1,040,928
YoY (% Chg)	20.6%	14.6%	14.9%	15.1%	13.7%	16.3%	13.3%	13.1%
QoQ (% Chg)	4.4%	3.2%	2.6%	4.1%	3.1%	5.5%	0.0%	4.0%
Net Loans & Advances	820,994	847,031	868,116	903,034	930,488	982,262	982,078	1,019,554
YoY (% Chg)	20.6%	14.6%	14.6%	14.8%	13.3%	16.0%	13.1%	12.9%
QoQ (% Chg)	4.3%	3.2%	2.5%	4.0%	3.0%	5.6%	0.0%	3.8%
Liabilities								
Customer Deposits	814,453	877,876	906,773	999,135	940,310	988,197	1,046,700	1,171,437
YoY (% Chg)	45.2%	32.7%	39.6%	20.0%	15.5%	12.6%	15.4%	17.2%
QoQ (% Chg)	-2.2%	7.8%	3.3%	10.2%	-5.9%	5.1%	5.9%	11.9%

Source: MSM Announcement, Company Reports, GBCM Research

Income Statement Data - Quarterly Trend

Income Statement (In RO 000s)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11**
Net Operating Income	8,370	8,891	8,755	9,215	9,937	10,790	10,827	11,632
YoY (% Chg)	79.7%	19.6%	14.4%	-1.8%	18.7%	21.4%	23.7%	26.2%
QoQ (% Chg)	-10.8%	6.2%	-1.5%	5.3%	7.8%	8.6%	0.3%	7.4%
Total Operating Expenses	4,379	4,837	4,729	5,641	5,861	5,775	5,980	5,562
YoY (% Chg)	7.2%	17.2%	9.3%	20.6%	33.8%	19.4%	26.5%	-1.4%
QoQ (% Chg)	-6.4%	10.5%	-2.2%	19.3%	3.9%	-1.5%	3.5%	-7.0%
Total Impairment allowance**	783	418	1,493	1,290	695	620	279	1,941
YoY (% Chg)	-35.1%	-43.0%	440.9%	154.9%	-11.2%	48.3%	-81.3%	50.5%
QoQ (% Chg)	54.7%	-46.6%	257.2%	-13.6%	-46.1%	-10.8%	-55.0%	595.7%
Operating Exp (Inc. Imp. loss)**	5,162	5,255	6,222	6,952	6,556	6,395	6,276	7,503
YoY (% Chg)	-6.9%	14.0%	35.2%	31.9%	27.0%	21.7%	0.9%	7.9%
QoQ (% Chg)	-2.1%	1.8%	18.4%	11.7%	-5.7%	-2.5%	-1.9%	19.6%
Profit before taxation**	3,208	3,636	2,533	2,263	3,381	4,395	4,551	4,146
Income Tax**	377	432	304	307	323	525	547	582
Net Profit for the year	2,831	3,204	2,229	1,956	3,058	3,870	4,004	3,564
YoY (% Chg)	-464.8%	30.9%	-19.5%	-45.4%	8.0%	20.8%	79.6%	82.2%
QoQ (% Chg)	-21.0%	13.2%	-30.4%	-12.2%	56.3%	26.6%	3.5%	-11.0%

Source: MSM Announcement, Company Reports, GBCM Research; ** Estimated Figures for Q4FY11



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