

Bank Muscat (BKMB)

Recommendation	OUTPERFORM	Risk Rating	R-2
Share Price	OMR0.528	Target Price	OMR0.69
Implied Upside	30.7%		

Rights Issue and 2Q2012 Results Update; Maintain Outperform

Bank Muscat rights issue has been oversubscribed. The subscription for the rights issue was 1.275 times higher in terms of the actual number of shares. BKMB has now successfully raised OMR96.7mn in equity capital through the rights issue; where total shareholders' equity will rise by approximately 11%. On an YTD basis, the stock has outperformed the MSM Index; the stock is down 15.6% (total return) versus the benchmark index, which is down 1.0%. On the valuation front, the stock is trading at a P/E ratio of 8.0x on our 2012 estimates. At current price, the stock offers 30.7% upside potential and we maintain our Outperform recommendation on BKMB.

Rights Issue Details

- The subscription period was from July 09, 2012 to July 22, 2012. The bank received 1,675 applications for a total subscription of 288,787,840 shares as against the rights offer for 226,501,187 shares. Shareholders including investors who had purchased rights from the MSM exchange subscribed to 221,182,742 shares. As per the subscription rules, 100% allotment will be made to those subscribers who have applied to the extent of their rights. The total number of additional shares applied was 67,605,098. The balance after 100% allotment was 5,318,445 shares. The balance shares have been allotted against eligible applications for a total of 67,169,709 shares resulting in an allotment of 7.92% for additional shares.
- Proceeds of the rights issue would be used to fund future credit growth. The funds raised will be used to launch BKMB's Islamic window (Meethaq) and strengthen the capital base in anticipation of Basel III. The bank intends to allocate up to OMR150 million as capital for its Islamic banking operations. However, this amount is subject to change depending on the market conditions.
- The plan to raise another OMR60mn from a private placement in 4Q2012 is still on the cards. Bank Muscat also believes that the private placement will add strategic value to its franchise but we note pricing is yet to be decided.

2Q2012 Results Update

- Net Interest income came at OMR54.5mn in 2Q2012 versus OMR54.4mn in 1Q2012, up 0.1% QoQ (+4.3% YoY).
- Net impairments (after adjusting for recoveries) declined to OMR2.8mn in 2Q2012 versus OMR6.9mn in 1Q2012, down 59.6% QoQ (-39.8% YoY).
- Loans and advances were up by 3.9% QoQ to OMR5,181mn, meanwhile customer deposits declined by 0.3% QoQ to OMR4,944mn.

Key Data:

Bloomberg Ticker	BKMB OM
ADR/GDR Ticker	BMUSY US
Reuters Ticker	BMAO.OM
ISIN	OM000002796
Sector	Financials
52wk High/52wk Low (OMR)	0.654/.049
3-m average volume ('000)	767.2
Mkt. cap. (\$ bn/OMR bn)	2.8/1.1
Shares Outstanding (mn)	2038.5
FO* (%)	35.89
1-year total return (%)	(9.92)
Fiscal year end	Dec. 31

Source: Bloomberg (as of August 06, 2012), *MSM Exchange (as of August 06, 2012); Note: FO is foreign ownership

Broker Recommendations

Recommendation	Number
Buy	12
Hold	3
Sell	0

Source: Bloomberg

Abdullah Amin, CFA

+974 4476 6569

abdullah.amin@qnbfs.com.qa

Saugata Sarkar

+974 4476 6534

saugata.sarkar@qnbfs.com.qa

BKMB Income Statement (In OMR mn)	2Q2011	1Q2012	2Q2012	Change YoY (%)	Change QoQ (%)
Net interest income	52.2	54.4	54.5	4.3	0.1
Operating Income	70.5	79.0	75.7	7.3	(4.2)
Profit to Equity Holders	29.4	33.4	35.0	18.9	4.6
BKMB Balance Sheet (In OMR mn)	2011	1Q2012	2Q2012	Change YTD (%)	Change QoQ (%)
Loan Book	4,267.3	4,988.1	5,180.9	21.4	3.9
Customer Deposits	4,199.9	4,958.9	4,943.6	17.7	(0.3)

Source: Company data

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

Contacts

Ahmed M. Shehada

Head of Trading

Tel: (+974) 4476 6535

ahmed.shehada@qnbfs.com.qa

Keith Whitney

Head of Sales

Tel: (+974) 4476 6533

keith.whitney@qnbfs.com.qa

Saugata Sarkar

Head of Research

Tel: (+974) 4476 6534

saugata.sarkar@qnbfs.com.qa

Sahbi Kasraoui

Manager - HNWI

Tel: (+974) 4476 6544

sahbi.alkasraoui@qnbfs.com.qa

QNB Financial Services SPC

Contact Center: (+974) 4476 6666

PO Box 24025

Doha, Qatar

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