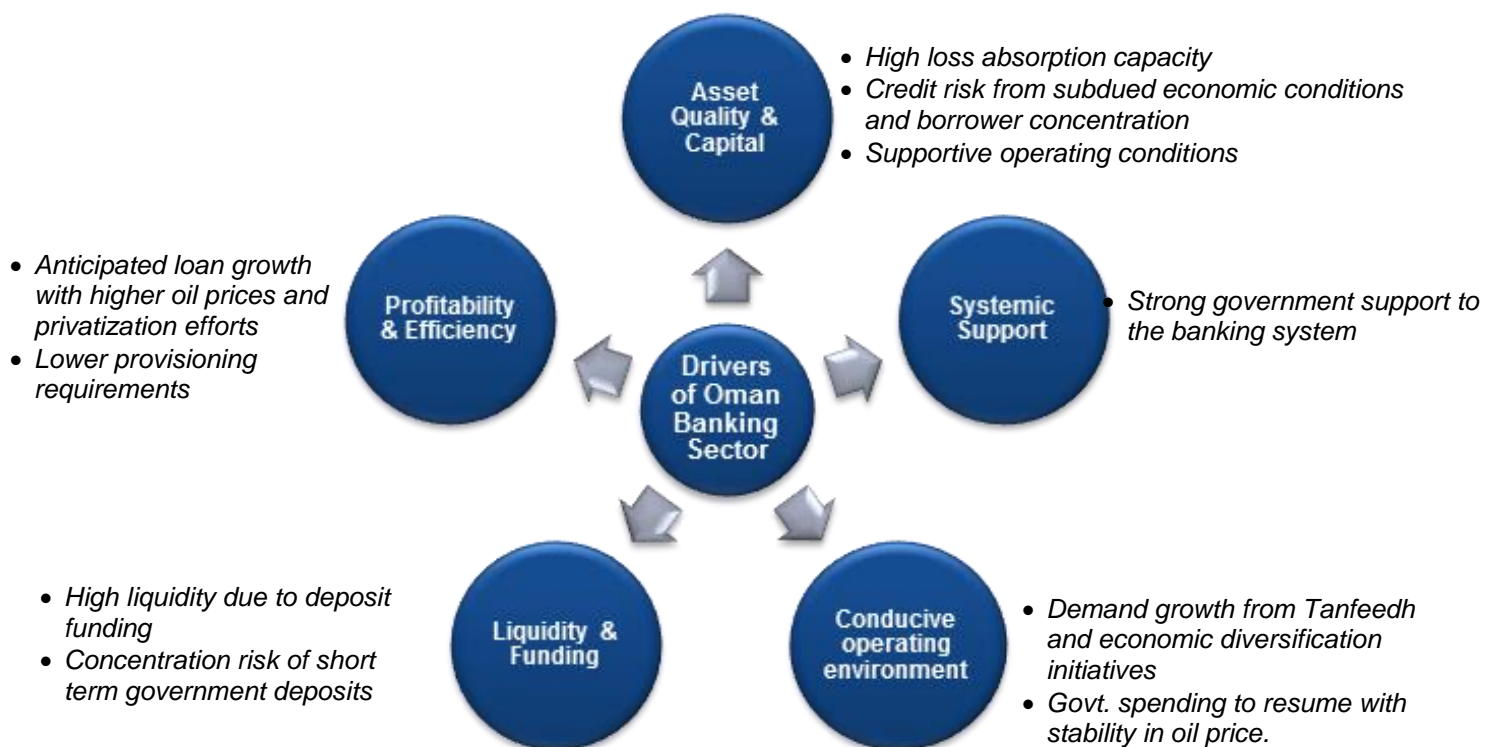


We believe that Omani banks are well positioned to overcome any temporary shocks from the decline in economic activities. Our investment case on Omani banks revolve around the government's commitment to diversify its economy away from oil income, increase the private public participation in developmental projects, relatively lower level of external debt to GDP of the country, reasonably good liquidity available in the system, and comfortable system-wide capital ratios. Historical return profiles of Omani banks were a tad lower as compared to its regional peers due to higher dependency on interest income. Conservative provisioning policies and proactive regulatory supervision are leading these banks to report good asset quality with very low NPL ratios and high provisions coverages. We feel that the banks' credit costs are likely to come down in the range of 25 bps as a result of the new provisioning regime from IFRS 9. Government's focus on diversifying the economy away from oil is gaining momentum with the EPC contract award and ground breaking of Duqm Refinery, which is slated to be operational by 2022. Government's focus to support manufacturing, construction, and transport sectors are expected to provide enough fire power for economic expansion even in a low oil price scenario in the future.



**We like four Omani banks:** We believe Bank Muscat, NBO, Bank Sohar, and HSBC Bank Oman all are well positioned to benefit from the economic recovery cycle in Oman. These banks are trading at undemanding valuations and maintain steady dividend payout levels resulting in attractive dividend yields to investors. The combined effects of rising interest rate regime, and anticipated loan growth of 7% should help banks report higher net interest income in 2018. Noninterest income growth is likely to remain muted as competition for market share intensifies within the domestic lending market. However, barring specific instances of delinquencies, the lower provisioning expenses resulting from IFRS 9 implementation should help banks report growth in profitability in 2018-20E. We expect the diversification efforts by the government to stimulate economic activities and create lending opportunities. We are optimistic on the four banks and assign BUY recommendations on them with target returns ranging from 17% to 37% over the long term.

**Bank Muscat - The largest yet the cheapest bank in Oman:** Bank Muscat's loan growth is likely to gain momentum in 2018 with financial closure of high value project finances and increased corporate borrowing setting in this year. The bank had net loan addition of 2% in 1Q18, a pace which we feel, will be maintained throughout this year. Furthermore Bank Muscat would be able to contain the decline in NIM during 2017–19E with relatively lower increase in funding cost. The bank changed its deposit mix with increased proportion of CASA deposits, and was able to pass on higher cost of funds to its corporate customers. Driven by growth in operating income and lower provisioning expenses, we expect Bank Muscat's net income to grow at a CAGR of 3.5% during 2017–19E and generate ROE of 10.4% in 2018e. Bank Muscat shares are trading at 0.63x Book value and 6.0x P/E. The shares offer dividend yield of 7.8%, which we believe is very attractive. We have arrived at fair value target price of RO 0.520 for the stock, which offers upside potential of 37% from current levels. At the target price, the shares imply 2018E P/B of 0.86x, P/E of 8.25x, and dividend yield of 5.8%.

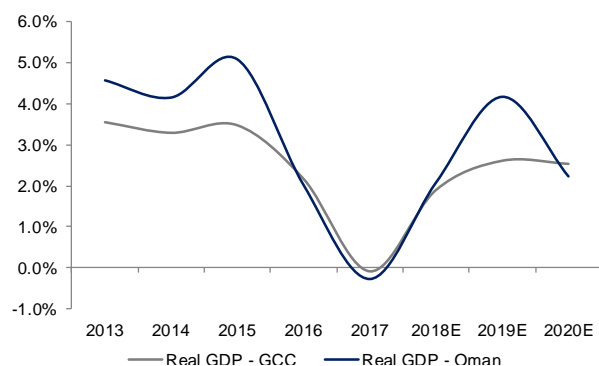
**NBO – Recovering from the provisioning cycle:** We remain convinced on the positive price outlook for National bank of Oman due to the undemanding valuations as a result of higher delinquencies on its UAE exposure. Having provided for most of the exposure, we feel that the bank is back on its growth track in 2018 and we expect the bank to witness decent volume growth through 2019E supported by increased corporate sector and project based loan demand while retail sector disbursements are expected to remain stable. Profitability growth of NBO is expected to resume in 2018E, after witnessing a dip in 2017E due to high provision expenses emanating from challenging economic conditions as a result of low oil prices. Despite the recovery in volume growth and profitability outlook, NBO shares are trading near the bottom of its historical valuation range, which makes us to believe that it presents a convincing investment case for a long term investor. At current price, the shares are being traded at 0.69x its book value and 6.2x its FY 2018E earnings. The shares offer FY18E dividend yield of 7.1%, which is very attractive in our view. We have arrived at long term fair value target price of RO 0.217/Share for NBO, implying upside potential of 19% from the current levels. We recommend long term investors to stay invested in the stock for handsome dividend yield and potential capital gains.

**Bank Sohar – Strong BoD and new management expected to lead to potential turnaround:** In the previous Years, Bank Sohar had to book significant losses on its investment book, leading to serious decline in profitability. We believe that the bank had learned from its past experiences and is geared for growth. The bank has a strong franchise among mid-size corporates in the country and possess strong leverage on technology applications. Bank Sohar's capacity to expand its retail loan book faster than peers is expected to help it deliver an above average loan growth. The term funded nature of the bank's deposits has pressurized its NIMs. However, the bank has been shifting focus toward improving the proportion of CASA deposits, which would ease the strain on margins. Furthermore, the renewed focus on retail sector would augur well for stable yields. We estimate Bank Sohar's net income to grow at a CAGR of 13.5% over 2017-20E. The bank would also enjoy a superior profitability profile with a ROAE of 11.2% in 2019E. At current valuations, the shares are being traded at 8.6x P/E and 0.97x FY2019E Book value per share. The shares offer dividend yield of 5.3% in 2019E. We have arrived at fair value target price of RO 0.165/Share for Bank Sohar, which offers potential upside of 17% from current levels.

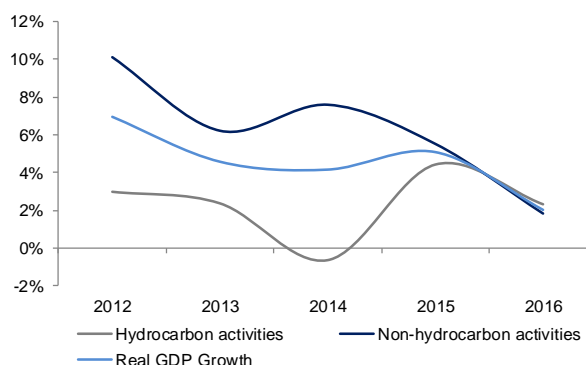
**HSBC Bank Oman – Leveraging on interbank exposure for profit growth:** We believe the recent regulatory change that allows banks to include their interbank borrowings in calculation of Loan to Deposit ratio would help building an active interbank market in the country, which could ultimately lead to creation of an interbank lending rate bench mark. HBMO is maintaining a very conservative and cautious stance on its loan book growth even while it is flooded with low cost deposit base. We believe that the bank would utilize this opportunity to act as a lender to other financial institutions in the market to help plug their short term liquidity gap while earning quality return on its assets. While the market consensus believes that current valuation of the company's shares fairly reflects its low ROE and stagnant core profitability, we tend to differ that the recent change in regulations has opened up a new revenue stream for the otherwise conservative bank. We believe that the bank will seize this opportunity to enhance its profitability growth and report net income CAGR of 13% over 2017-20E. The shares of HBMO are currently trading at 0.60x to its 2019E tangible book value, 7.7x P/E, and offer dividend yield of 6.5% over the next three years. We have arrived at long term fair value of RO 0.128/Share for HBMO shares, offering potential upside of 23% from current levels. Our target price implies 2019E P/B of 0.75x, P/E of 9.5x, and dividend yield of 5.2%.

**Economic growth on recovery path; Oman poised to lead the growth:** The regional economy is showing signs of recovery, driven by stability in oil prices easing financial market conditions and improved consumer & business sentiment. GCC GDP growth was stagnant in 2017 versus 2.2% growth in 2016 due to lower contribution from the oil sector. The IMF estimates GCC's GDP growth to pick up from 2018 on higher oil prices and various economic diversification initiatives undertaken by the regional governments. Oman is estimated to report the highest GDP growth of 4.17% in 2019E as the effects of economic diversification starts to kick in. A significant portion of this growth is estimated to be contributed by the non-oil segment, which grew at 6.2% per annum during the past 5 years, and we believe that the improving diversification provides scope for sustainable growth.

Real GDP growth in GCC and Oman



Contribution of oil and non-oil sectors to GDP



**Improved oil prices to instill business confidence:** The volatility in prices has affected Oman's revenue from oil, which constituted 30.3% of nominal GDP in 2017. Average price of Oman crude oil in 2017 increased by 27.8% to USD 51.3/bbl from average of USD 40 in 2016. Even though Oman's fiscal breakeven price of oil stands at USD 94/bbl, the recent rise in oil price to USD 60/bbl in 1Q18 is instilling a lot of confidence to businesses. With US exiting the JCPOA and imposing new sanctions on Iran, we expect a resurgence of geopolitical tensions in the Middle East, which is expected to keep oil prices higher going forward. If Oman realizes average oil price of USD 65/bbl in 2018, its state budget would be balanced. With gross debt to GDP of 44% in 2017, and high oil prices, we do not anticipate the government to borrow further in the near future for bridging the budget gap. This should provide the much needed respite to high debt service costs and ratings downgrade pressures for the government.

**Increasing diversification in non-oil sector:** Oman's Vision 2020 actively pursues a development plan focusing on diversification, privatization, and industrialization with a view of increasing employment opportunities to locals while reducing the country's reliance on oil GDP. The plan aims at economic development of the country by enhancing the private sector competitiveness and efficiency of government spending by stimulating private investments in non-oil sectors. The plan anticipates significant structural changes in Oman's economy by estimating net increase in the contribution of the non oil GDP to 80% by 2020. It also aims to increase the contribution of the services sector to the GDP on the back of strong and growing local demand. The plan anticipates doubling the contribution of trade, tourism & real estate from 13% in 2014 to 26% in 2020. Similarly, contribution from sectors such as manufacturing, construction and transport is expected to improve, thus reducing the reliance on oil revenues. Oman's government is continuously undertaking many initiatives to develop the non-hydrocarbon sector. The main objectives include the development of SMEs and financial sector, financing of the private sector, improving the investment climate, and developing infrastructure. Duqm Special Economic Zone was developed to diversify the industrial base in Oman and provide a hub for oil & gas, mineral, and fish & aquaculture industries. The government plans to spend USD 25 bn on various projects in the next 10 years to provide better rail, road, and air connectivity. These measures would support the growth of Oman's tourism industry, which is expected to contribute 9.2% to the country's economy by 2020.

## Banking

**BUY: TP @ 0.217**

### Valuation Summary (TTM)

Price (OM)	0.182
PER (x)	7.0
P/Book (x)	0.7
Dividend Yield (%)	7.8
Free Float (%)	40%
Shares O/S (mn)	1,626
YTD Return (%)	-4%
Beta	1.0

(mn)	OMR	USD
Market Cap	296	769
Total Assets	3,470	9,014

Price performance (%)	1M	3M	12M
NBOB	-6	-7%	-14%
MSM 30 Index	-3%	-7%	-14%
Financial	-2%	-2%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.04	0.06	0.05
Avg Daily Volume (,000)	184	291	259

52 week	High	Low	CTL*
Price (RO)	0.216	0.171	6.17

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

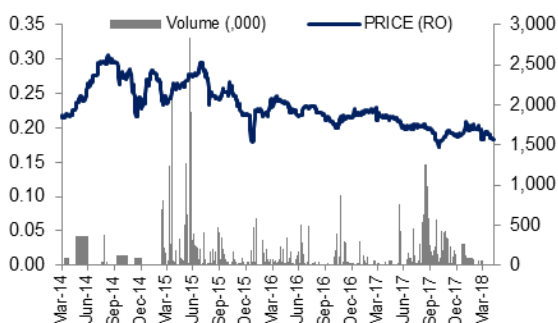
### Major shareholders

Commercail Bank of Qatar	34.9%
Suhail Bahwan Holding Co	14.7%
MOD Pension Fund	10.7%
Others	39.7%

### Other details

Exchange	MSM
Sector	Financial
Index weight (%)	5.4

Key ratios	2015	2016	2017
EPS (RO)	0.035	0.029	0.022
BVPS (RO)	0.245	0.260	0.265
DPS (RO)	0.014	0.015	0.014
Payout ratio (%)	40	50	65



## National Bank of Oman – Attractive valuations

We remain convinced on the positive price outlook for National bank of Oman due to the undemanding valuations as a result of higher delinquencies on its UAE exposure. Having provided for most of the exposure, we feel that the bank is bank on its growth track in 2018 and we expect the bank to witness decent volume growth through 2019E supported by increased corporate sector and project based loan demand while retail sector disbursements are expected to remain stable. Profitability growth of NBO is expected to resume in 2018E, after witnessing a dip in 2017E due to high provision expenses emanating from challenging economic conditions as a result of low oil prices. Despite the recovery in volume growth and profitability outlook, NBO shares are trading near the bottom of its historical valuation range, which makes us to believe that it presents a convincing investment case for a long term investor. At current price, the shares are being traded at 0.69x its book value and 6.2x its FY 2018E earnings. The shares offer FY18E dividend yield of 7.1%, which is very attractive in our view. We have arrived at long term fair value target price of RO 0.217/Share for NBO, implying upside potential of 19% from the current levels. We recommend long term investors to stay invested in the stock for handsome dividend yield and potential capital gains.

**Banking sector growth to pick up from 2018E:** Although Oman's 2018 budget envisages little growth in development expenditure, we assume that private sector participation would be encouraged by the government in the future, and increased participation by private sector in developmental projects could be witnessed from later this year. As a result, we expect Oman's loan growth to pick up again in 2018E, driven by project finance demand. The improved oil price regime and return of business confidence are likely to play pivotal role in the revival of loan book growth. With a large number of Public-Private partnership projects resulting from Tanfeedh expected in the coming years, we estimate credit demand from private sector to drive Omani banks' asset growth over the medium term.

**NBO has increased deposits; but at a cost:** NBO's customer deposits grew by 2.6% in 2017 as compared to banking sector deposit growth of 3.2%. The deposit growth, however, has resulted in the bank's cost of funds going up by 25 bps as against asset yield expansion of 18 bps in 2017. This has resulted in a marginal decline in NIM of 3.35% in 2016. We estimate the bank's CoF to increase by another 25 bps in 2018, as the share of low cost deposits in the funding mix is on a declining path. This should result in margin compression of 10 bps as repricing of its asset book will be lagging behind that of the CoF.

**NPL ratios spiked in 2017, and likely to moderate in 2018 as loan growth picks up:** NBO's NPL ratio has been stable over the three years to 2016. However, a gradual increase in NPL was observed in 2017 due to stressed exposures from UAE. We expect the trend to subside in 2018 with moderation of UAE exposure and loan growth in 2018. We estimate the NPL ratio of the bank to decline by 20 bps and reach 3.9% by 2018E as we see the delinquencies declining as the asset growth picks up. NBO's construction sector exposure is c.8.0%. The CBO has directed the banks not to classify these receivable if the client of the construction company is a government entity. We assume that this has been a major breather for the banks in Oman.

**Improvement in fee income and tight cost controls to drive earnings:** Fee income of NBO has declined last year, primarily due to lower retail loan growth and limited opportunities in the corporate sector. We estimate the trend to continue in 2018 as well, but recover growth from 2019E as loan growth and corporate finance activities pickup. We think NBO has further room to improve its cost to income ratio and expect the bank to deliver stable cost to income ratio of 42% as against the current level of 46%.

## Banking

**BUY: TP @ 0.520**

### Valuation Summary (TTM)

Price (OM)	0.378
PER (x)	6.2
P/Book (x)	0.7
Dividend Yield (%)	7.6
Free Float (%)	58%
Shares O/S (mn)	2,947
YTD Return (%)	1%
Beta	1.4

(mn)	OMR	USD
Market Cap	1,114	2,894
Total Assets	11,149	28,959

Price performance (%)	1M	3M	12M
BKMB	-1	-4%	0%
MSM 30 Index	-3%	-7%	-14%
Financial	-2%	-2%	-9%

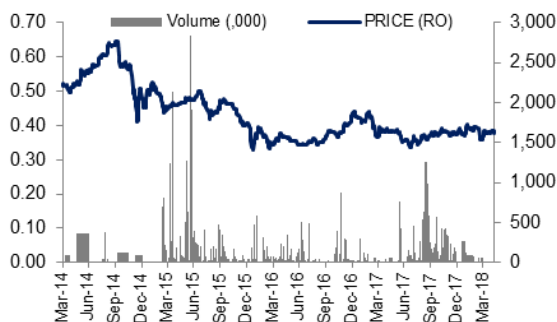
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.31	0.53	0.46
Avg Daily Volume (,000)	1,171	1,349	1,179

52 week	High	Low	CTL*
Price (RO)	0.404	0.337	12.12

Major shareholders	
Royal Court Affairs	23.6%
Dubai Financial Group	11.8%
Civil Service Pension Fund	6.9%
Others	57.7%

Other details	
Exchange	MSM
Sector	Financial
Index weight (%)	10.6

Key ratios	2015	2016	2017
EPS (RO)	0.067	0.061	0.061
BVPS (RO)	0.527	0.562	0.593
DPS (RO)	0.022	0.023	0.024
Payout ratio (%)	32	37	39



## Bank Muscat – Largest yet very cheap

Bank Muscat's loan growth is likely to gain momentum in 2018 with financial closure of high value project finances and increased corporate borrowing setting in this year. The bank had net loan addition of 2% in 1Q18, a pace which we feel, will be maintained throughout this year. Furthermore Bank Muscat would be able to contain the decline in NIM during 2017–19E with relatively lower increase in funding cost. The bank changed its deposit mix with increased proportion of CASA deposits, and was able to pass on higher cost of funds to its corporate customers. Driven by growth in operating income and lower provisioning expenses, we expect Bank Muscat's net income to grow at a CAGR of 3.5% during 2017–19E and generate ROE of 10.4% in 2018e. Bank Muscat shares are trading at 0.63x Book value and 6.0x P/E. The shares offer dividend yield of 7.8%, which we believe is very attractive. We have arrived at fair value target price of RO 0.520 for the stock, which offers upside potential of 37% from current levels. At the target price, the shares imply 2018E P/B of 0.86x, P/E of 8.25x, and dividend yield of 5.8%.

BKMB is the largest financial institution in Oman, with more than 35% of the total credit market share in Oman. It has loan book and deposits of RO 8.5 billion and 7.6 bn respectively, total assets of RO 11.3 billion, and shareholder net worth of RO 1.7 bn. It reported 2017 net profit of RO 177 mn and distributed cash dividend of RO 75 million in March this year. The bank has never reported a decline in its profits during the past 9 years, instead reported 12% CAGR in its profits during the same period. Its loan book grew at CAGR of 10% during the past 9 years and asset growth was 8% during the same period. The bank has maintained a steady ROE in excess of 12% over the past 6 years. BKMB is rated BB (Stable) by S&P, Baa3 (Neg) by Moody's, and BBB- (Neg) by Fitch.

In addition to being the market leader in the conventional banking space, BKMB also enjoys leadership position in the high-growth Islamic banking sector with the strongest Islamic franchise in the market. Supported by the growth in Islamic portfolio and profitability, BKMB reported incremental loan addition of 1.9% during the first three months of 2016, and profitability growth of 1.3% compared to year ago levels. Despite the low oil price regime resulted in subdued economic growth in the country during 2015-17, BKMB enjoyed good liquidity as expressed by 99% Loan to deposit ratio. It has one of the well capitalised banks in the country with total capital adequacy ratio of 17.1% against the regulatory requirement of 12.9%. Tier-I capital ratio of the bank stood at 15.3% at the end of 1Q18. BKMB's ownership is widespread and ranges from The Royal Court Affairs of Oman, government and pension funds entities, renowned SWFs, Global asset managers, local corporates, family houses, and retail investors. The improvement in oil price and resulting economic activities should have a positive bearing on the Bank's financial in 2018-19E. Additionally, the bank's strong management and customer franchise would help it retain its market leadership position for very long time in the future.

The negative investor sentiment prevailing in the region has caused the bank's share price to decline severely during the recent months. Currently, the bank has a market capitalization of RO 1.1 bn, resulting in **FY18e P/E ratio of 6.0x** and **price to book value of 0.63x**. The shares offer **dividend yield of 7.8%** in a currency which is pegged to dollar. On a relative valuation perspective, it is currently the cheapest bank available in the entire gulf region. We have arrived at a **fair value target price of RO 0.520/share** using blended excess ROE and relative valuation methodology. We have used cost of equity of 11.6% derived from risk free rate of 5%, equity risk premium of 5.5%, and 5 year weekly stock beta of 1.2. At the target price, the stock would have an implied valuation of 2018e P/E of 8.3x, P/B of 0.9x, and dividend yield of 5.8%. Our target price offers an upside potential of 37% from the current levels and hence we have a **STRONG BUY** recommendation on the stock

## Banking

**BUY: TP @ 0.165**

### Valuation Summary (TTM)

Price (OM)	0.141
PER (x)	10.1
P/Book (x)	1.1
Dividend Yield (%)	3.2
Free Float (%)	61%
Shares O/S (mn)	1,983
YTD Return (%)	2%
Beta	1.3

(mn)	OMR	USD
Market Cap	280	726
Total Assets	2,843	7,384

Price performance (%)	1M	3M	12M
BKSB	-5	-1%	7%
MSM 30 Index	-3%	-7%	-14%
Financial	-2%	-2%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.12	0.08	0.11
Avg Daily Volume (,000)	977	527	472

52 week	High	Low	CTL*
Price (RO)	0.154	0.128	10.00

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

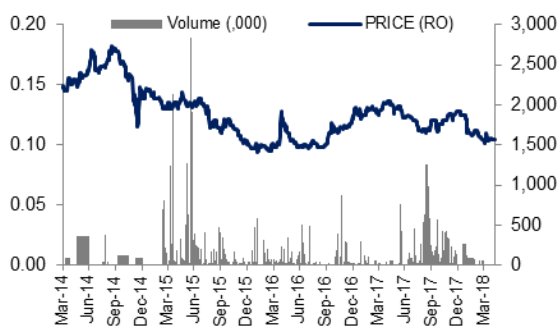
### Major shareholders

OIFC	15.4%
Royal Court Affairs	14.6%
7th Moon Investment	9.0%
Others	61.0%

### Other details

Exchange	MSM
Sector	Financial
Index weight (%)	8.3

Key ratios	2015	2016	2017
EPS (RO)	0.015	0.010	0.013
BVPS (RO)	0.145	0.141	0.150
DPS (RO)	0.004	0.004	0.005
Payout ratio (%)	28	42	35



## Bank Sohar – Anticipating faster growth

Bank Sohar – Strong BoD and new management expected to lead to potential turnaround: In the previous Years, Bank Sohar had to book significant losses on its investment book, leading to serious decline in profitability. We believe that the bank had learned from its past experiences and is geared for growth. The bank has a strong franchise among mid-size corporates in the country and possess strong leverage on technology applications. Bank Sohar's capacity to expand its retail loan book faster than peers is expected to help it deliver an above average loan growth. The term funded nature of the bank's deposits has pressurized its NIMs. However, the bank has been shifting focus toward improving the proportion of CASA deposits, which would ease the strain on margins. Furthermore, the renewed focus on retail sector would augur well for stable yields. We estimate Bank Sohar's net income to grow at a CAGR of 13.5% over 2017-20E. The bank would also enjoy a superior profitability profile with a ROAE of 11.2% in 2019E. At current valuations, the shares are being traded at 8.6x P/E and 0.97x FY2019E Book value per share. The shares offer dividend yield of 5.3% in 2019E. We have arrived at fair value target price of RO 0.165/Share for Bank Sohar, which offers potential upside of 17% from current levels.

**Good set of 1Q18 numbers; visible improvement in core performance:** BKSB has reported 48% growth in net income to RO 8.9 mn as compared to similar period last year. The profit growth was driven by 13% growth in net loans to RO 2.2 bn and 2% decline in customer deposits. Supported by higher asset yield and stable cost of funding, operating income of the bank grew by 43%. This, along with successful cost control initiatives have led to the growth in first quarter profitability

**Maintains good quality of asset:** Being a relatively new loan book, Bank Sohar's NPL ratio has been one of the lowest with absence of any significant legacy exposures. While it has the NPL ratio of 2.2%, the NPL to total equity stands at a lower level of 16.6%. Even though the bank's provision coverage is one of the lowest among peer group banks, we believe that it will be covered fully before the end of this year. With OFRS 9 implementation, the provisioning expenses has reduced for the bank, which is likely to boost the net profit.

**New GRE shareholders to provide strength:** Bank Sohar enjoys a strong parentage from GRE shareholders who recently took exposure to the bank's ownership. We estimate around 49% of the bank's ownership is in entities which are closely related to sovereign funds, and an additional 6% is with government pension funds. We believe this parentage could provide the bank with strong support in times of need.

**Dividend distribution to improve in line with profitability growth:** We estimate the bank's dividend distribution to grow in line with profitability growth over the long term. We estimate the current dividend yield of 3.2% to increase to 5% by the end of FY2020E. As a result, we anticipate average annual returns in excess of 14% from Bank Sohar for a long term investor. Hence we recommend BUY.

## Banking

**BUY: TP @ 0.128**

### Valuation Summary (TTM)

Price (OM)	0.104
PER (x)	9.7
P/Book (x)	0.7
Dividend Yield (%)	5.5
Free Float (%)	40%
Shares O/S (mn)	2,000
YTD Return (%)	-19%
Beta	0.7

(mn)	OMR	USD
Market Cap	208	540
Total Assets	2,334	6,062

Price performance (%)	1M	3M	12M
HBMO	-5	-5%	-24%
MSM 30 Index	-3%	-7%	-14%
Financial	-2%	-2%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.06	0.06	0.03
Avg Daily Volume (,000)	1,194	605	328

52 week	High	Low	CTL*
Price (RO)	0.136	0.100	4.00

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

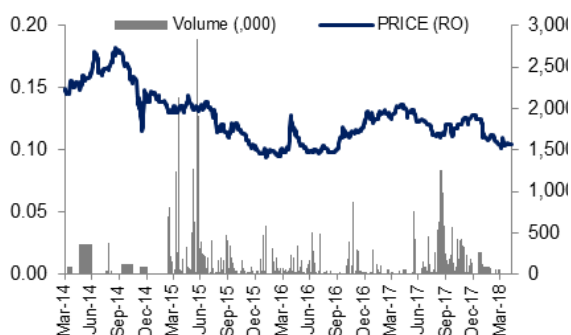
### Major shareholders

HSBC Middle East	51.0%
Dr. Omar Zawawi	5.0%
Zawawi Trading Company	4.4%
Others	39.6%

### Other details

Exchange	MSM
Sector	Financial
Index weight (%)	3.9

Key ratios	2015	2016	2017
EPS (RO)	0.006	0.008	0.010
BVPS (RO)	0.154	0.157	0.162
DPS (RO)	0.004	0.005	0.006
Payout ratio (%)	65	63	57



## HSBC Bank Oman – Cheap Valuation

We believe the recent regulatory change that allows banks to include their interbank borrowings in calculation of Loan to Deposit ratio would help building an active interbank market in the country, which could ultimately lead to creation of an interbank lending rate bench mark. HBMO is maintaining a very conservative and cautious stance on its loan book growth even while it is flooded with low cost deposit base. We believe that the bank would utilize this opportunity to act as a lender to other financial institutions in the market to help plug their short term liquidity gap while earning quality return on its assets. While the market consensus believes that current valuation of the company's shares fairly reflects its low ROE and stagnant core profitability, we tend to differ that the recent change in regulations has opened up a new revenue stream for the otherwise conservative bank. We believe that the bank will seize this opportunity to enhance its profitability growth and report net income CAGR of 13% over 2017-20E. The shares of HBMO are currently trading at 0.60x to its 2019E tangible book value, 7.7x P/E, and offer dividend yield of 6.5% over the next three years. We have arrived at long term fair value of RO 0.128/Share for HBMO shares, offering potential upside of 23% from current levels. Our target price implies 2019E P/B of 0.75x, P/E of 9.5x, and dividend yield of 5.2%.

**Strong capital and low funding cost:** HBMO enjoys the lowest CoF among Omani banks at 45 bps per annum. However, the reluctance to place these low cost deposits for high yielding assets results in 25% of the bank's assets being placed in Oman T bills. We feel that the recent announcement by the CBO which allowed banks to include interbank placements while calculating L/D ratio has opened up an opportunity for increasing the margins for HBMO. The bank can effectively place these funds in higher yielding assets, thereby increasing the yield and profitability. We are seeing some efforts by the bank to increase its interbank exposure during 1Q18.

**Margin expansion and profitability growth likely to continue:** We expect the profitability of the bank to improve going forward as it tries to place its liquidity in relatively higher yielding assets. The uptick that is being observed in HBMO's interest margin is likely to gain further momentum in the current rising interest rate regime. The bank has added further liquidity in 1Q18, and we anticipate the trend to continue as oil prices remain high. While we estimate the bank to participate in selected project finance syndications this year, the marginal growth in profitability is expected to come from growth in interbank lending.

**Unwarranted sharp correction in share price creates an attractive entry point:** HSBC Bank Oman is one of the biggest losers among MSM listed companies this year. The lower than expected 4Q17 profitability has caused the panic among shareholders, but the bank has reported a good set of 1Q18 numbers recently. At current prices, the shares are trading at dirt cheap valuations of 0.6x FY19E P/B and 7.7x its earnings. We feel that these price levels present an attractive opportunity for long term value investors. We do not expect the shares to continue at these depressed price levels for prolonged period of time, and expect the prices to rise by 23% to RO 0.128/Share. At our target price, HBMO shares would have an implied valuation of 0.75x book and 9.5x net income, which we feel are still undemanding. Hence we recommend **STRONG BUY** rating on the stock.

## Key Contacts

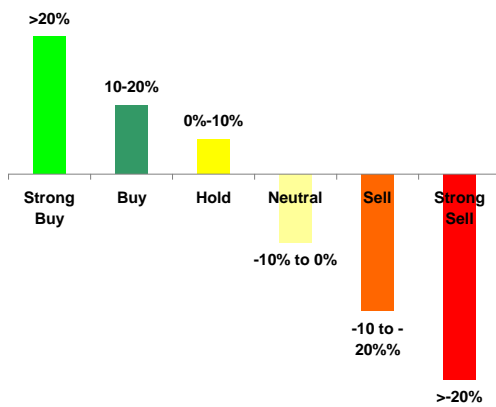
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## Rating Criteria and Definitions

### 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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