

Date: 20th Sep, 2018

ONIC / Oinvest Treatment of Bank Muscat Stake

- **ONIC, a fully owned subsidiary of Oinvest, to treat Bank Muscat as an associate after acquisition of 8.93% stake.**
- **Full consolidation with parent to improve bottom-line of Oinvest through higher associate income**
- **Oinvest / ONIC appoints Mr. Jeyaretna Sunderlal George as a Provisional Director in the Board of Directors of Bank Muscat**

ONIC, a fully owned subsidiary of Oinvest, announced that it will treat Bank Muscat investment in its books from "Investment at Fair Value through Other Comprehensive Income" to "Investment in Associate". As per MCD, ONIC has 8.93% stake (263.2mn shares) in Bank Muscat and has received a board member seat on the Bank. Since ONIC is a fully owned subsidiary of Oinvest, financial statement consolidation will raise the net income of Oinvest through a higher income from associates.

As per our calculation, the 8.93% stake in Bank Muscat will add between OMR 16 - 22mn per year to Oinvest's bottom-line; however, since Bank Muscat pays out dividend, the net effect would be in the range of OMR 8-14mn per year over the next five years.

Discounting the additional income of Oinvest because of Bank Muscat alone, raises the fair price by 89 baizas or 26%, assuming the average cost of acquisition is OMR 0.400/share. Current market price is OMR 0.340/share and the fair value comes out to be OMR 0.431/share assuming ceteris paribus.

The earnings multiple of Oinvest also changes because of the accounting treatment of Bank Muscat. Price to Earnings (P/E) on 2018e changes from 9.0x to 8.3x while Price to Book multiple changes from 1.55x to 1.53x. Return on equity of Oinvest also rises to 18.5% from 17.5%, as we are only consolidating it from the date of announcement. Significant change would appear on 2019 earnings and onwards.

OMR'000	FY-18e	FY-19e	FY-20e	FY-21e	FY-22e	CAGR
Bank Muscat's Net Profit Attributable to Shareholders (U Capital Estimates**)	178,554	193,358	208,076	224,914	243,070	8.0%
ONIC's share of profit @ 8.93% shareholding	15,945	17,267	18,581	20,085	21,706	
Less: Cash dividend expected @ OMR 0.030 per share	7,896	7,896	7,896	7,896	7,896	
ONIC's net share of profit	8,049	9,371	10,685	12,189	13,810	
Oinvest shareholding of Bank Muscat - %	8.93%					
Bank Muscat's shares out (000)	2,947,413					
Shares held by ONIC	263,194					
Cost of Equity - %	14.03%					
Present Value of extra profit (A)	2,205	8,218	8,218	8,221	8,168	
Terminal Value (B)	138,976					
Additional Value from Bank Muscat Holding of 8.93% (A+B)	174,006					
Less: Cost of acquisition assumed @ OMR 0.400 per share	105,278					
Net Additional Value	68,728					
Oinvest shares out (000)	769,307					
Net Additional Value per share, OMR	0.089					
Oinvest's Current Price, OMR	0.342					
Fair Price, OMR*	0.431					
Upside, %	26.1%					

Source: U Capital Research

* Fair Price on account of Bank Muscat shareholding alone, assuming Ceteris Paribus

Note 1: Stable period ROE assumed at 11% and retention ratio at 70%. We have not assumed any stock dividend by Bank Muscat

Note 2: Year 2018 consolidation assumed from date of disclosure i.e. 20 Sept 2018

** Link

Sensitivity Analysis

		Stable Period ROE				
		9.0%	10.0%	11.0%	12.0%	13.0%
Cost of Equity	12.0%	0.464	0.495	0.536	0.593	0.677
	13.0%	0.425	0.447	0.474	0.509	0.557
	14.0%	0.397	0.412	0.431	0.455	0.486
	15.0%	0.375	0.386	0.400	0.417	0.438
	16.0%	0.357	0.366	0.377	0.390	0.405

		Dividend Payout as % of Share Capital				
		20%	25%	30%	35%	40%
Cost of Equity	12.0%	0.721	0.616	0.536	0.473	0.422
	13.0%	0.600	0.530	0.474	0.427	0.388
	14.0%	0.525	0.474	0.431	0.395	0.363
	15.0%	0.474	0.434	0.400	0.371	0.344
	16.0%	0.437	0.405	0.377	0.352	0.329

Related Party Disclosure:

OMINVEST and U Capital are considered related parties. OMINVEST owns 36% of U Capital.

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