GCC CORPORATE EARNINGS ESTIMATES

FY 2022e / 4Q22e

Abstract

Sector-wise outlook for companies under our coverage.
Earnings estimates for the most recent quarter-end, as well as valuation metrics.

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Contents

Sector-wise Outlook

Corporate Earnings Estimates FY22e / 4Q22e

#	Company Name	CMP (LCY)	YTD Chg. (%)	Market Cap (LCY mn)	Revenue FY22e (LCY mn)	YoY %	Revenue 4Q22e (LCY mn)	YoY %	QoQ %	Net Profit FY22e (LCY mn)	YoY %	Net Profit 4Q22e (LCY mn)	YoY %	QoQ %	P/E'22e (x)	P/E'23e (x)	P/B'22e (x)	P/B'23e (x)	Dividend Yield'22e (%)	RoE'22e (%)	RoA'22e (%)	Target Price, LCY
A. Banks																						
1	Bank Muscat	0.276	0%	2,071.8	500.4	5%	**127.5**	9%	2%	197.5	4%	**49.3**	0%	0%	10.5	9.4	1.2	1.1	5%	11%	1%	0.320
2	Sohar International	0.107	1%	491.1	132.1	19%	**35.5**	24%	-1%	34.6	22%	**6.5**	44%	-32%	14.2	13.3	0.9	0.9	2%	6%	1%	UR
3	Bank Dhofar	0.172	-2%	515.4	143.8	14%	**37.2**	28%	2%	34.8	39%	**8.7**	nm	-10%	14.8	11.7	0.9	0.9	2%	6%	1%	0.151
4	National Bank of Oman	0.285	-1%	463.4	139.5	13%	**37.6**	20%	4%	48.3	59%	**12.8**	88%	-5%	9.6	7.3	1.0	1.0	4%	11%	1%	0.322
5	Oman Arab Bank	0.140	2%	233.7	126.5	4%	**32.9**	9%	5%	14.2	101%	**3.6**	nm	1%	16.4	9.8	0.6	0.6	0%	4%	0%	0.150
6	Ahli Bank	0.166	-3%	323.6	91.3	11%	**23.3**	5%	0%	34.5	25%	**9.4**	45%	1%	9.4	9.1	1.0	1.0	5%	11%	1%	0.147
7	HSBC Oman	0.165	-1%	330.1	74.0	9%	**19.4**	9%	-1%	32.1	75%	**8.4**	93%	-4%	10.3	13.0	0.9	0.9	4%	9%	1%	UR
8	Bank Nizwa	0.100	0%	223.7	51.4	16%	**13.2**	15%	0%	15.4	23%	**4.7**	36%	9%	14.5	11.9	0.9	0.8	5%	6%	1%	0.108
9	Saudi National Bank	50.40	0%	225,691.2	33,555.9	17%	**8,670.0**	17%	3%	18,773.0	48%	**4,957.0**	48%	5%	12.0	10.9	1.6	1.5	5%	13%	2%	67.10
10	Al Rajhi Bank	76.20	1%	304,800.0	29,078.0	13%	**7,766.2**	15%	8%	16,089.0	9%	**4,380.9**	9%	1%	18.9	16.0	3.8	3.2	2%	20%	2%	91.00
11	Saudi British Bank	39.00	0%	80,137.0	10,481.0	32%	**2,760.1**	39%	8%	4,650.4	45%	**1,245.4**	192%	-11%	17.2	12.7	1.5	1.3	4%	8%	2%	UR
12	Qatar National Bank	18.29	2%	168,934.3	34,925.0	23%	**9,280.3**	22%	0%	16,924.0	28%	**4,568.2**	54%	1%	10.0	9.2	2.0	1.9	4%	20%	2%	28.70
B. Leasing																						
13	National Finance	0.115	0%	61.9	28.4	7%	**7.4**	8%	12%	9.5	10%	**2.7**	-8%	48%	6.5	5.7	0.5	0.5	9%	8%	2%	0.150
14	Taageer Finance	0.098	0%	24.9	12.7	20%	**2.9**	-1%	-11%	2.6	2%	**0.6**	-42%	-10%	9.5	7.8	0.5	0.5	6%	5%	1%	0.114
15	Al Omaniya Fin Services	0.155	1%	45.2	10.6	-3%	**3.1**	34%	21%	2.8	11%	**0.8**	nm	12%	16.0	14.3	0.7	0.7	5%	4%	2%	0.160
16	Muscat Finance	0.067	3%	20.6	6.5	-2%	**1.7**	11%	8%	1.3	16%	**0.3**	3%	18%	15.4	10.9	0.5	0.5	0%	3%	1%	0.076
17	United Finance	0.067	-1%	23.4	6.4	-5%	**1.7**	-39%	13%	1.8	-7%	**0.7**	-48%	98%	13.2	11.0	0.5	0.5	4%	4%	2%	0.080
C. Insurance																						
18	Bupa Arabia Insurance	145.00	1%	21,750.0	13,929.3	22%	**2,529.2**	20%	-39%	666.5	7%	**15.1**	-25%	-95%	32.6	34.9	5.3	5.2	3%	16%	5%	195.78
19	Tawuniya Insurance	79.80	-1%	9,975.0	13,461.3	32%	**3,810.8**	20%	30%	348.1	31%	**25.8**	nm	-78%	28.7	23.4	3.2	3.0	1%	11%	2%	95.43
20	Saudi Reinsurance	13.80	1%	1,229.6	1,323.4	19%	**125.6**	7807%	-55%	42.0	10%	**2.7**	259%	-92%	29.3	21.8	1.2	1.2	0%	4%	1%	15.64
21	Qatar Insurance Co	1.96	2%	6,388.5	12,886.6	2%	**4,327.8**	28%	91%	151.8	-75%	**282.5**	140%	-154%	42.1	8.9	0.7	0.6	1%	2%	0%	2.29
22	Oman Qatar Insurance Company	0.200	0%	20.0	40.6	29%	**9.6**	62%	-21%	3.6	15%	**0.7**	130%	-37%	5.5	5.3	0.9	0.8	4%	15%	3%	0.243
23	National Life & General Insurance Company	0.338	-1%	89.6	198.5	36%	**28.1**	13%	-63%	4.3	-43%	**0.8**	-56%	182%	20.9	11.8	0.9	0.9	9%	4%	1%	0.391
24	Oman United Insurance Company	0.300	0%	30.0	33.6	10%	**7.9**	229%	3%	3.1	-22%	**1.7**	86%	224%	9.7	8.3	1.0	1.0	10%	10%	2%	0.303
25	Al Madina Takaful	0.094	4%	16.5	46.3	5%	**15.2**	7%	57%	1.6	70%	**0.3**	-116%	-52%	10.1	9.7	0.8	0.8	9%	8%	1%	0.109

Source: Bloomberg & U Capital , Price as of 02-Jan-23 UR = Under Review; nm = not meaningful

A. Banking | Outlook:

The banking sector in the GCC is expected to witness increased activity, from the investors' point of view, with increase in interest rates. As Governments remain keen on spending on economic development, we will continue to see an increase in net loans & financing of the sector. As the monetary policies of GCC countries is linked to that of the US, attributable to their currency peg, this is likely to have an impact on the regional banks' net interest and financing income. However, capital adequacy and asset quality metrics need to be watched as higher borrowing costs might weigh on borrowers' ability to pay off loans & financing. In Oman, we expect credit growth to pick up to an average of 6% over 2023-26e on faster GDP growth., while deposit growth is likely to remain robust on Government's higher oil & gas revenues as Government debt repayments taper off. Net interest margins (NIMs) are expected to increase on rising interest rates while interest rate ceiling of 6% on personal loans to weigh on NIM expansion. Cost of risk likely to have peaked in 2022 and taper off over our forecast horizon due to the upbeat macroeconomic scenario.

1. **Bank Muscat (BKMB)**
   The largest Bank in Oman with a market share of about 34% in terms of loans & Islamic financing. Boast a solid capital position, CAR of 20.42% as at the end of 9M22. Recent financial engineering has been completed where shareholders have been rewarded with a 100% bonus share and 1-for-10 Tier 1 Perpetual Note from existing reserves, only affecting CET1 Ratio (18.1% at end-9M22). The bank's credit quality metrics are expected to remain robust, while earnings are expected to grow as credit offtake rises.

2. **Sohar International Bank (BKSB)**
From 9M22 financials, we note that (1) the bank's core equity Tier 1 (CET1) ratio has been boosted through a 50% share capital increase through rights issue (2) its net interest margin has been improving during 9M22 (3) its asset quality has declined and we expect cost of risk for FY22e to rise to bring provision cover to 90%. We believe that if the merger goes through, it will be value accretive for BKSB shareholders, as HBMO has a stronger capital adequacy as compared to BKSB. Further, HBMO has a higher CASA ratio. Furthermore, since HBMO's cost-to-income ratio is higher than BKSB, BKSB can extract cost synergies from the merged entity.

3. **Bank Dhofar (BKDB)**
BKDB's NIM has improved during the last 12M due to the new management's focus on better pricing of assets as well as shedding of legacy high-cost deposits. The bank's ROE is expected to have expanded to 6.3% in 2022e vs. 4.6% in FY21 and 5.7% in FY20. Further, the bank's new management is now focusing on improving its fee income through a wider product offering and increased customer reach through branch network expansion. The bank's cost of risk is also expected to peak at end-FY22e, supporting net income growth going forward. Since the bank has been able to improve its provision coverage ratio to above 100%, we see a better dividend pay-out ratio over the coming years, however, reserve requirements and interest payments on Tier 1 notes will likely be a drag on improvement. Operating income growth over 2022-2026e is expected to be notable, growing at a CAGR of 9%, as loan book growth picks up and spreads improve further. Operating expenses are expected to lag operating income growth and provide the much-needed impetus to operating profit growth. While cost of risk is expected to peak in 2022e, it is likely to remain close to 90bps on gross loans for the bank to improve provision coverage further.

4. **National Bank of Oman (NBOB)**
We believe that NBO's cost of risk has peaked, but we expect it to remain elevated this year as the bank improves its provision cover which is currently below 100%. The bank could potentially see improvement in its earnings as efficiency is expected to improve and cost of risk is expected to decline from 2023e onwards. Recent Tier 1 issuance to support its capital adequacy, warranting a higher dividend payout in 2022e vs. our earlier estimate.

5. **Oman Arab Bank (OAB)**
Excluding the impact of insurance claim on fraud in 2020 that was received in 2021, the bank has grown its profit before tax by about 65%YoY during 9M22, indicating continued recovery to reaching pre-covid levels by 2023. Its net interest income is up by 11%YoY, despite a relatively low CASA ratio of 53%, and due to growth in net loans & Islamic financing. We believe that OAB will be grow its net loans & Islamic financing at a CAGR of 6.5%, given its solid capital adequacy metrics. Furthermore, its operating income is expected to grow at a CAGR of 7.7% over the forecast period from growth in total interest & Islamic finance income. Its operating expenses are expected to decline in 2022e but increase from 2023e-2026e albeit at a slower pace than operating income. OAB's cost of risk is expected to have peaked in 2022 and is expected to taper off over the forecast period. We have been conservative in our estimates for the reduction in the cost of risk and we believe that if the bank is able to bring the cost of risk down at a faster pace, then this will pose an upside risk to our valuation. The bank has historically relied heavily on term funding resulting in higher than peer-group average cost of funding. A faster deterioration in asset quality is likely to pose a downside risk to our valuation.

6. **HSBC Oman (HBMO)**
We have placed HSBC Oman on Under Review as the bank has entered into a binding merger agreement with BKSB. The outcome of the AGM where shareholder and regulatory approval will be taken on the merger is uncertain. We saw that the merger news supported HBMO's price to almost 1.0 times its book value (as was the up to 70% cash offer from BKSB), and to a price level not seen since 2014.

7. **Ahli Bank (ABOB)**
8. Earnings growth for ABOB will continue given the positive macroeconomic environment. The bank has shown consistent performance with no surprises. It boasts a superior-than-sector average ROE, which justifies a higher P/B multiple as compared to some peers. The only caveat is a low CET1 ratio (despite being above regulatory threshold) might negatively affect dividend pay-out for the forecast period.

9. **Bank Nizwa (BKNZ)**
Net financing margin to improve albeit slowly, while loan growth to pick up as macroeconomic situation improves. Cash dividend per share expected to sequentially increase over the forecast period as earnings continue to grow; payout assumed at the regulatory maximum of 60%.

10. **Qatar National Bank (QNBK)**
The bank has posted a net profit of QAR 3.97bn in 3Q22, which is up +14%YoY and 2%QoQ. The bank's 2Q22 net interest income beat our expectation by 14% while other operating income was in line with our estimate. Operating expenses for 2Q22 dropped 2% on QoQ basis, with cost-to-income ratio at a superior 17.8% vs. 19.6% a quarter ago, commendable for a bank of this size. Net ECL charges for the quarter stood at QAR 2.3bn, which are up 39%YoY and 14%QoQ, landing 9% above estimate. Asset quality remained sound, with NPLs creeping up to 2.4% of gross loans (from 2.1% in FY20; and 2.3% in FY21) while provision cover of bad loans stood at 125% (as compared to 117% at end-FY21). Cost of risk is in line with QNB's approach of increasing provisioning when revenue increases, with FY 22e CoR guidance at 75-80bps. We expect credit growth to revert to historical levels in FY23e as compared to a soft 2022e, as new projects are launched under Qatar's National Vision 2030. We believe that projects associated with LNG expansion will also support credit growth.

11. **Al Rajhi Bank (RJHI)**

RJHI's fundamentals are superior to local peers in almost all aspects: (i) Lowest non-performing asset (NPA) ratio a 0.55%; (iii) highest NPA provision coverage ratio at about 272% at end-9M22 iii) CASA stock has weakened but still remains high at 68% to support low-cost funding; (iv) Best cost efficiency ratio, 25.6% during 9M22 (v) Regulatory Loan-to-deposit (LTD) ratio at 88.4% at end-9M22 (vi) fastest-growing bank in terms of assets (+27%YoY), deposits (+16%YoY) and profit before taxes and provisions (+19%YoY) within the peer-group. (v) Well-positioned as a mortgage lender to benefit from Saudi's Vision 2030 Housing Program, with the country's mortgage penetration being low as compared to other Emerging Market (EM) countries.

12. **Saudi National Bank (SNB)**
The bank's net finance margin (NFM) expanded on higher yields on assets but was weighed down by contraction in its CASA mix (2021: 77%, 9M22: 73%). The bank's loan book remained relatively unchanged QoQ in 3Q22, having grown by 8% YTD (vs. sector growth at 12.4%). SNB also lost some deposit market share, with total deposits up by 0.6%QoQ and 1.7%YTD (vs. sector growth at 7.7% YTD). The bank's capital adequacy is strong, albeit on the lower end of the peer-group spectrum, but its low leverage with asset to equity of 6.6x provides room for ROA expansion. SNB has said that its investment in Credit Suisse is purely

a financial transaction as CS had a low P/tangBVPS, and SNB has no plans to increase the stake beyond 9.9%. However, we believe that investors might want to assign a higher risk to the bank for unexpected corporate actions and may have penalized the bank's valuation to attractive levels, currently yielding 5.7% as dividend for 2023e.

13. **Saudi British Bank (SABB)**

The bank has one of the best ALM profiles to benefit from interest rate increases for asset re-pricing. In fact, NIM expansion has continued over 9M22, due to loan concentration in the higher-yielding corporate sector, despite some reduction in CASA mix (still at a favorable 73%). We believe this NIM expansion trend to continue to support earnings into the next year. The bank has a strong capital base and healthy liquidity supporting high pay-out and lending growth prospects.

B. Leasing | Outlook: ●

The leasing sector of Oman is strongly tied to the Government's expenditure. Given the budget announcement for 2023, we believe that selected companies within the sector will continue to re-rate, as has been the case since 2021-end.

C. Insurance | Outlook: ●

The Insurance industry in Oman is expected to achieve a CAGR of more than 5% during FY21-FY26e as per Global Data with growth in life and non-life segments. Health insurance is one of the fastest-growing segments in terms of premiums as of FY21. The health insurance segment is expected to get a boost from the implementation of a mandatory health insurance scheme for the private sector, known as Dhamani which will commence in 2023. The private sector employees and their dependents, tourists, and visitors to Oman will be covered by the mandatory health insurance further supporting the overall GWP of the sector. The claims ratio of the sector is expected to remain below 71% due to better claim management under non-life segments. The retention ratio of the industry is expected to remain within 55-60% with the higher reinsurance premiums under the Motor and health segment. The Investment income is likely to recover in the 2023 period with the better performance of fixed income securities amid a rising interest rate scenario, as most of the insurance companies in Oman are planning to diversify their portfolios and shift from equity to fixed securities, which will lead to increase in the bottom line in the near term.

Companies in Oman

1. **National Life and General Insurance Company (NLIF)**
   The company is the market leader in Oman and has the largest business volume with its business majorly in Health and Life Insurance. The GWP of the company is expected to get a boost from mandatory health insurance schemes in Oman. As the company generates 45% of its premium from the UAE market, with the implementation of compulsory health insurance starting from January 2023 for all Emirates, citizens and residents will also support the GWP growth of the company. The company also holds the highest retention ratio of 86% amongst all players which will improve its net written premiums in future periods.
2. **Oman Qatar Insurance (OQIC)**
   The company holds the second-highest market share at 15% as of 1H22. The company majorly focuses on the property and casualty segment, going forward with the rise in construction activities supported by higher oil prices and developments considering vision 2040 will lead to an increase in the property premiums. The Investment income of the company is likely to recover in future periods with better-fixed instruments performance as the company shifts from equity to fixed securities. The company has entered a merger agreement with Vision Insurance which will impact the top-line and bottom-line growth of the company in 2023 and further as the company generates 91% of its premiums in the General segment. With the merger, the company also plans to increase the authorized capital to OMR 30mn from OMR 20mn.
3. **Oman United Insurance (OUIC)**
   The company majorly focuses on the General segment instead of the life and medical segment. The GWP of the company is expected to increase in future periods supported by growth in the general segment with a large portion of premium coming from the motor segment with a likely increase in the economic activities and focus on the quality of business. In Oman, it is mandatory for vehicle owners to get their vehicles insured, this will lead to the growth in motor premiums. The combined ratio of this company is likely expected to decline with the company's effective cost measures under management expenses. Though the company resulted in a net loss with higher claim expenses and lower investment income in 2Q22 but going ahead in the 2023 Periods we expect the bottom line to increase with the recovery in the investment income with likely better market performance.
4. **Al Madina Takaful (AMAT)**
   Out of 10 listed insurance companies, only 2 operators including AMAT operates as Takaful Insurers. The company has a market share of 7% as of H1 22. The company majorly operates in the general segment (Fire, engineering, energy, and general accident). In Q3 22 the company has pressure on premiums but going ahead we expect the GWP of the company likely to increase supported by the growth in the general segment with the likely increase in economic activities in Oman. The underwriting profit is expected to improve with likely less impact from motor segment claims, and accordingly lead to an increase in the bottom line in the 2023 periods.

KSA has an insurance penetration rate of 1.34% as of 2021 which is very lower compared to the penetration rate of Taiwan, the US, and the UK with 12-14%. Considering the rise in the population supported by expats, increased awareness among people, compulsory health insurance for expats and their families by employers, mandatory health insurance for hajj and umrah pilgrimages will lead to an increase in the penetration rate in 2023 and positively impact the GWP of health segment which constitutes 60% of the overall GWP as of 2021. The motor segment is the second largest contributor to the GWP with 19% of the overall GWP. Increased vehicle sales with the rise in economic activities will increase the growth of the premium for this segment in future periods. The industry's combined ratio is expected to remain under pressure with a likely increase in health and motor claims in 2023. However, in 2024 better claim management and a higher focus on digitalization will lead to cost control under G&A expenses and will improve the combined ratio. Investment income is expected to improve in future periods with likely better market performance of securities supported by increasing interest rates. Further, the increased GWP and higher underwriting profits will improve the bottom line of the industry going ahead.

Companies in GCC ex-Oman

1. **Bupa Arabia Insurance (BUPA)**

The company is the leader in health insurance holding 27% of the market share as of 2021. The GWP of the company is expected to get a boost in 2023 from the compulsory health insurance for expats, hajj, and umrah pilgrimages. The rising medical cost will also lead to an increase in the premiums as the company is the major player and will get an advantage from it. The company holds the highest retention in the industry with 99% as of 2021. Going ahead, we expect the company to maintain its retention rate which will help in better net written premiums. Higher GWP and better margins in the medium term will lead to improvement in the net profit. The payout ratio is also expected to increase supported by bottom-line growth.

2. **Tawuniya Insurance (TAWUNIYA)**

The company is the second major leader in health insurance in KSA with a market share of 24% as of 2021. The company majorly focuses on the medical, motor, and P&C segments. Going ahead with the rising medical costs and compulsory lines under the health segment will increase medical premiums. The motor segment is expected to increase with the rise in vehicle sales supported by a rise in population, a rise in economic activities, and smart pricing technology adopted by the company. The P&C segment is expected to increase with the increase in construction activities in the KSA. The company also has a healthy retention ratio of 85% with lowering reinsurance premiums under the medical and motor segment, we expect the company to maintain its retention ratio to book better net written premiums. The combined ratio of the company is expected to decline in the medium term with likely lower claims under the medical and motor segment with increased awareness programs, better road standards, implementation of speed cameras, and discounts on improved driving behavior. The company has a major part of its investments in Mutual funds and fixed-income instruments, which is likely to improve in the near term and positively impact the bottom line for the company.

3. **Saudi Reinsurance (SAUDIRE)**

Saudi Re is a major reinsurance player in KSA. It has a market presence in 40+ countries including MENA, Asia, and Africa region. The company operates in various segments such as Motor, Fire, specialty, Engineering, and others. In 2022, the company started a new segment called IDI (Inherent Defect Insurance). This segment has contributed 29% to the GWP as of 9M22. We expect the GWP of the company to get a boost with an increased focus on the IDI segment. The growth in this segment is supported by mandatory IDI policy in the construction sector as per the govt, as the rise in construction activities will generate higher premiums. The company's second major focus is specialty segment, we expect growth in the future periods supported by an increase in property demand. Recently, SAMA (Saudi Arabia Monetary Authority) has implemented a local cession program capturing at least 30% of total reinsured premiums paid by the insured parties in the kingdom. This program will hugely benefit the GWP of the company in future periods as it is the major player in KSA. The company retention ratio is expected to decline with increased reinsurance premiums under the IDI segment. The combined ratio is expected to improve in the medium term with likely lower policy acquisition costs. The Investment income of the company is majorly supported by money market funds, with the likely increase in the near term and better underwriting profits will lead higher bottom line.

4. **Qatar Insurance Co. (QATI)**

Qatar Insurance is the major leader in Qatar with a market share of 85% as of 2021. The company manages three segments P&C, Marine & Aviation, and Health & Life. We expect growth in the GWP in 2023 with the increased focus on the P&C segment supported by higher construction activities in Qatar. The company has a retention ratio of 67% as of FY21 and its likely to increase in the medium term with likely lower reinsurance premiums under the P&C segment. Better claim management and improvement in Investment income with likely better debt performance will increase the bottom line in the medium term. Further, an increase in the bottom line will lead to higher dividend payments providing a yield of 7% in the medium term.

Corporate Earnings Estimates FY22e / 4Q22e

	Company Name	CMP (LCY)	YTD Chg. (%)	Market Cap (LCY mn)	Revenue FY22e (LCY mn)	YoY %	Revenue 4Q22e (LCY mn)	YoY %	QoQ %	Net Profit FY22e (LCY mn)	YoY %	Net Profit 4Q22e (LCY mn)	YoY %	QoQ %	P/E'22e (x)	P/E'23e (x)	P/B'22e (x)	P/B'23e (x)	Dividend Yield'22e (%)	RoE'22e (%)	RoA'22e (%)	Target Price, LCY
	D. Telecommunications																					
26	Omantel	0.920	0%	690.0	2,640.7	10%	**659.1**	9%	-4%	60.3	-10%	**10.5**	-43%	-31%	11.4	9.1	1.1	1.0	5%	10%	1%	1.008
27	Ooredoo Oman	0.430	-2%	279.9	265.9	8%	**68.9**	11%	1%	18.2	43%	**4.0**	86%	-11%	15.4	13.3	1.1	1.1	6%	7%	4%	0.404
28	Saudi Telecom (STC)	37.50	2%	187,500.0	67,151.3	6%	**16,753.6**	4%	2%	12,222.5	8%	**3,136.6**	20%	-11%	15.3	14.8	2.5	2.4	4%	16%	9%	38.43
29	Etihad Etisalat (Mobily)	34.90	0%	26,873.0	15,174.1	2%	**4,020.0**	3%	5%	1,274.1	19%	**389.4**	21%	5%	21.1	20.9	1.7	1.6	3%	8%	3%	32.42
30	Ooredoo QSC (Qatar)	9.44	3%	30,238.2	22,216.4	-26%	**5,362.9**	-31%	-7%	2,974.1	183%	**610.3**	-45%	-11%	10.2	12.5	1.0	1.0	4%	10%	5%	11.09
31	Emirates Telecommunication Group (Etisalat)	23.10	1%	200,895.0	52,224.3	-2%	**12,924.6**	-5%	0%	10,470.2	-5%	**2,631.8**	3%	-6%	19.2	19.1	3.4	3.2	4%	17%	8%	18.79
32	Mobile Telecommunication Co KSA (Zain KSA)	10.36	3%	9,310.8	8,873.4	12%	**2,202.1**	6%	-4%	331.8	55%	**32.3**	-55%	-62%	28.1	31.4	1.0	1.0	0%	4%	1%	14.67
	E. Ceramics																					
33	Saudi Ceramic Co.	30.10	5%	2,408.0	1,491.7	-3%	**390.2**	3%	6%	182.8	-22%	**50.8**	5%	19%	13.2	10.7	1.5	1.3	4%	11%	6%	47.36
34	RAK Ceramics	2.83	0%	2,812.2	3,565.4	25%	**948.9**	26%	5%	343.3	39%	**110.5**	144%	30%	8.2	6.9	1.4	1.3	7%	17%	7%	3.67
35	Al Anwar Ceramic	0.414	10%	91.1	28.3	9%	**6.9**	6%	2%	2.9	-54%	**1.3**	-13%	-169%	31.5	12.2	2.8	2.8	7%	9%	6%	0.485
36	Al Maha Ceramic	0.436	0%	24.0	10.3	5%	**2.7**	8%	8%	2.5	1%	**0.6**	0%	20%	9.6	7.7	2.5	2.2	11%	26%	18%	0.485
	F.Consumer																					
37	Jarir Marketing Company	153.80	3%	18,456.0	9,192.9	1%	**2,378.5**	3%	-6%	943.2	-5%	**241.0**	-8%	-12%	19.6	17.9	10.1	9.3	5%	51%	23%	187.00
38	Saudia Dairy and Foodstuff Co. (SADAFCO)	225.00	4%	7,312.5	2,496.0	15%	**576.7**	11%	-17%	297.0	43%	**75.2**	40%	-12%	24.6	19.7	4.5	4.1	3%	18%	12%	252.00
39	Almarai Company	53.30	0%	53,300.0	18,377.7	16%	**4,494.7**	6%	-6%	1,847.6	18%	**443.6**	55%	-4%	28.8	25.2	3.1	3.0	2%	11%	6%	50.50
40	BinDawood Holding	48.95	1%	5,595.0	4,748.8	8%	**1,170.1**	11%	-1%	72.2	-70%	**12.7**	-4%	-126%	77.5	47.5	4.1	3.9	2%	5%	2%	84.50
41	Abdullah Al Othaim Marketing	105.60	2%	9,504.0	9,393.3	12%	**2,328.2**	9%	-1%	897.3	194%	**125.4**	-19%	-83%	10.6	25.9	7.1	7.1	11%	67%	16%	130.00
42	Al Meera Consumer Goods	15.75	0%	3,150.0	2,852.7	1%	**792.9**	15%	22%	196.2	0%	**75.0**	9%	135%	16.1	12.3	2.0	1.9	6%	12%	7%	22.50
43	Alandalus Property	15.64	1%	1,459.7	215.8	1%	**55.1**	-2%	3%	69.3	2%	**16.0**	53%	-12%	21.1	21.5	1.3	1.3	3%	6%	3%	20.80
44	Arabian Centres	19.86	4%	9,433.5	2,408.6	18%	**608.5**	22%	6%	679.8	56%	**150.0**	64%	-39%	13.9	10.8	1.6	1.5	5%	11%	4%	25.50
45	Leejam Sports	86.90	3%	4,552.1	1,003.3	13%	**274.3**	5%	4%	220.6	7%	**69.0**	-18%	1%	20.6	19.2	5.0	4.6	3%	24%	8%	89.00
	G. Cement																					
46	Qatar National Cement	4.89	1%	3,195.1	762.6	-7%	**211.0**	-3%	28%	217.6	-3%	**46.9**	-18%	-21%	14.7	11.7	1.0	1.0	6%	7%	6%	6.30
47	Oman Cement	0.304	-1%	100.6	65.9	40%	**16.5**	31%	4%	5.9	32%	**1.2**	-26%	-16%	17.1	18.5	0.7	0.7	3%	4%	6%	0.356
48	Raysut Cement	0.164	4%	32.8	77.2	-18%	**26.5**	24%	45%	-94.4	593%	**-3.4**	-70%	-96%	(0.3)	(4.8)	1.7	2.6	0%	-483%	-57%	UR

Source: Bloomberg & U Capital , Price as of 02-Jan-23 UR = Under Review; nm = not meaningful

D. Telecommunications | Outlook:

In Oman, the penetration level of 29.4% in the postpaid market provides ample room for growth. Increased usage of smartphones by the rising young population will create demand for data services and increase the top line in 2023. Vodafone's second year of operation in Oman might lead to a price war in the sector in the near term. Many of the operators are looking to expand the 5G network, which will provide growth opportunities in the fixed-line business in 2023.

In 2022, telecom companies in GCC region witnessed relative stability as compared to previous year, with COVID-related restrictions on travel mostly lifted and usage mostly returning to pre-COVID years. ARPU growth is expected to be muted in 2023, as economic risks are more towards the downside (higher chances of economic slowdown or recession), resulting in impact on consumer sentiment and thereby usage. Margins are expected to remain broadly steady in 2023 as companies would like to focus on curtailing expenses in a low growth scenario; higher energy costs could be a key factor influencing margins. Interest rate rises are expected to hit bottom-line in 2023 as the full effect of higher rates will be visible on highly leveraged balance sheets of telecom companies. 5G rollout and strategic partnership between telecom companies and digital service providers are key points to watch out for in 2023.

1. **Omantel (OTEL)**
   The Revenue of the company is expected to increase in the 2023 period supported by a likely increase in the ARPU under the fixed line segment. A likely increase in the ARPU of the Zain subsidiary will also impact the top line of the company**.** In 3Q22, the company collaborated with OIA to launch a new real estate fund (Pearl REIF). The company holds a 65.7% stake and the company planned to sell 49% of units, this transaction is likely to increase the cash balance of the company by ~4%. The company announced a cash tender offer for two series of notes issued by Oztel holdings and has accepted the purchase on the final

settlement date with an agreed amount of USD 2.4mn of the 2023 notes, this will reduce the outstanding borrowings of the company in 2023 periods as well as lower the interest payments. The company has also sold its passive infrastructure of 2,519 sites in Oman for a gross consideration of USD 495mn to Helios Towers, it will likely increase the cash balance of the company in 2023 periods. Going ahead, the expected increase in revenue and likely lower service expenses will increase the bottom line of the company in the 2023 periods and lead to an increase in dividend yield to 6.8% by FY23.

2. **Ooredoo Oman (ORDS)**
   The Revenue of the company is expected to grow in the 2023 period with increased ARPU under the postpaid segment. The company expects its market share to increase with the increase in the postpaid segment and fixed-line segment. The company has come up with amazing offers on Shahry Plans which will support the postpaid segment growth in 2023. The company is continuously working with OBB to expand FTTH service in Oman which will lead to an increase in the top line in the near term. The company does not expect any huge Capex in 2023 as in 2022 it has made huge investments related to 5G, digital transformations, and data centers. The company is also exploring cost control measures through a partnership with Vodafone Oman for IP peering which will likely improve the margins of the company and lead to an increase in the top line and further lead to a higher dividend payout in the medium term.
3. **Saudi Telecom Co. (STC)**
   STC's topline grew by 6.5% YoY in 9M22. We attribute this growth to growth in the number of subscribers and ARPU. In 9M22, the EBITDA margin increased by 7.7% YoY while the net margin increased by 0.5%. High mobile penetration in the Saudi market indicates a mature market leading to a muted growth in subscribers. However, returns may increase if STC resorts to monetizing non-core assets.
4. **Etihad Etisalat Co. (Mobily)**
   Mobily's topline grew by 5.5% YoY in 9M22. We believe the growth came from an increase in subscribers and ARPU. In 9M22, the EBITDA margin increased by 2.4% YoY while the net margin increased by 2.2%. Saudi Arabia's mature telecom market with a high mobile penetration rate indicates slow subscriber growth. Monetization of non-core assets provides upside potential.
5. **Ooredoo Qatar (Ooredoo)**
   Ooredoo achieved robust growth on a YTD basis, with proforma (PF) revenue growing by 4% YoY, PF EBITDA margin declining by 211bps and PF net margin improving by 273bps. Ooredoo is focused on strengthening its existing asset base to drive higher returns, with the company seeing additional growth opportunities from fintech and the digitalization of traditional services.
6. **Emirates Telecommunications Group Company P.J.S.C.**
   Revenue dropped by 1.1%, operating profit witnessed a marginal rise of 1.0%, while net profit declined 7.9% YoY in 9M22. The company revised its guidance upward, reflecting increasing EPS and profitability margin and lower CAPEX leading to higher free cash flow. Low-to-mid-single-digit surge is expected in the top line. Growth in all key markets is expected to drive the top line, while disciplined capital spending would enhance the quality of investment, performance, and coverage of its networks.
7. **Mobile Telecommunication Company Saudi Arabia (ZAIN KSA)**
   ZAIN KSA increased its topline by 15% YoY in 9M22, with EBIT margin and net margin increasing by 195bps and 202bps, respectively, over 9M21. Profitability was driven by increases in B2B, 5G, and international visitor return (for Umrah and business). ZAIN KSA anticipates a 20% equity stake in the new tower company and receive SAR 2.4 bn in cash from the sale of tower assets. The funds will be used to pay down debt, invest in the consumer microfinance arm Tamam and Yaqoot, the company's digital arm, and improve the 5G network, which will help the company's growth and provide revenue visibility.

E. Ceramics | Outlook: ●

Increased construction activities in the GCC supported by higher oil prices will create a demand for ceramic tiles in 2023. Higher raw material costs despite softening in freight costs might create pressure on the margins in the near term. Companies are planning to expand production capacity to fulfill the demand. An increase in religious tourism supported by Hajj and Umrah pilgrimages will drive the hospitality business and further lead to demand for ceramic tiles. Major projects in the pipeline in the GCC considering Saudi Vision 2030, Oman Vision 2040, and UAE Vision 2023 drive the growth in the construction market in 2023 and beyond increase in expat population in the GCC will boost the housing demand in future periods and positively impact the sales of ceramic tiles in 2023. Higher customs duties imposed by Saudi Arabia for selling tiles will be challenging for players in Oman.

1. **Al Anwar ceramics (AACT)**
   The company is the largest ceramic company in Oman which accounts for 40% of its revenue. The revenue of the company is likely to increase in the 2023 period with its major focus on the export business with the major demand coming from redevelopment in Riyadh and Jeddah. The company is looking at full utilization in 2023 considering its demand in Saudi Arabia for bigger-size tiles. Higher raw material prices and higher customs duties imposed by Saudi Arabia for selling tiles will likely create pressure on margins in the near term.
2. **Al Maha ceramics (AMCI)**
   The company majorly focuses on the GCC markets which contribute 76% to its revenue. The company's top line is expected to increase in 2023 with increased demand for ceramic tiles considering the rise in the GCC construction activity. The company has also acquired a 45% stake in Al Hael which is equipped with the latest Italian technologies which will boost the tiles sales in the near term. We expect slight pressure on the net margins considering the likely increase in production costs.
3. **Saudi Ceramics (SCERCO)**
   The company is a market leader in ceramic tiles with a 20% market share in KSA. We expect the revenue to increase in 2023 majorly supported by increasing demand for ceramic tiles and sanitary ware. The company has an expansion plan related to porcelain tiles which will lead to an increase in the Capex for 2023. Higher production costs despite softening in freight costs will have pressure on the margins in 2023 and accordingly impact the bottom-line growth of the company.
4. **RAK Ceramics (RAKCEC)**
   The company is a leading player in GCC with the highest production capacity. The company has a market presence in the Middle East, Europe, and Asian countries. The company revenue is expected to get a boost in 2023 with the increasing demand for ceramic products, and increased focus on the faucets division. The company has also acquired kludi group which will support the top-line growth of the company. Considering its demand for tiles and sanitary wares, the company does not see any downward sales with an impact from increased capacity by Chinese players in the 2022 period. Going ahead, with higher input costs and energy prices, Saudi custom duty will tend to create pressure in the margins in the 2023 periods and decline the bottom-line growth of the company.

F. KSA Consumer | Outlook:

The outlook for the KSA consumer sector, particularly retail, appears cloudy in the backdrop of rising inflation and an unabated increase in the interest rates in the region driven by the firming up of US interest rates. The outcome of the latest US Federal Reserve meeting suggests that the interest rates in the US would increase at least by 50-60 basis points over the next 4-6 months which will mostly be replicated by the GCC central banks. This is not conducive for the consumer retail companies, in our view, as this leads to an increase in consumer finance costs which adversely impacts the purchasing power of the consumers. In addition, growing expectations that the world economy is heading towards recession or near recessionary conditions are likely to weigh on consumer sentiments which, again, is not a desirable situation for the consumer sector as it could induce people to hold back their spending. However, despite the headwinds, the region is expected to remain in an expansionary mode in the coming year which could offset some respite to the consumer companies.

1. **Almarai**
   Almarai has retained its leading market share in most of the categories under adverse operating conditions. Almarai has undertaken several steps over the past few months introducing new and innovative products, increasing product prices, secured supplies of some feedstocks, which has aided it in registering around 13% YoY growth in 9M22 net profit. In FY22, the company also benefitted from the physical reopening of schools as well as an increase in visitors which drive sales of the food services sector, one of the major markets for Almarai. As a result, the company's bakery and poultry segment has posted strong growth. Overall, we estimate Almarai to record healthy revenue and earnings growth in FY22e and expect it to maintain its growth momentum in FY23e, albeit at a reduced rate, supported by the company's continued rollout of new products as well as price hikes as and when necessary. We expect Almarai to announce details of its proposed SAR 6.6bn poultry expansion during FY23e. The company does not expect commodity cost inflation to ease materially next year and hence margins are likely to stay suppressed as compared to the historical average.
2. **SADAFCO**
   For SADAFCO, commodity cost inflation has proven to be a blessing in disguise as it has been able to source feedstocks at competitive prices from its Polish subsidiary Mlekoma which has partially aided it in enhancing its margins. Sales of Mlekoma have also surged on the back of high commodity prices thereby boosting SADAFCO's sales. In addition, SADAFCO has undertaken several strategic initiatives pushing sales of high-margin SKUs, factory automation, accessing new sales routes, and other logistical initiatives apart from favorable changes like back-to-school. As a result, SADAFCO's revenue and net income have increased at a solid c. 30% and 55% YoY, respectively during 1H FY22-23 (ending Mar 2023). The company is a market leader in all its product categories — Long-life milk, tomato paste, and ice cream that have been registering strong growth. Hence, backed by its various strategies, we expect SADAFCO to end FY23 on a strong note.
3. **Jarir Marketing**
   Jarir Marketing hasn't been able to benefit from an improvement in the economic environment with the removal of COVID restrictions, the opening of schools, and an increase in visitors. In 9M22, the company's revenue has stood flat while net profit edged lower about 4% YoY. The company's store count on a net basis has stood flat at 68 this year. This contrasts with the past 4-5 years where it had consistently added 3-5 stores per annum and indicates the company is facing tough operating conditions. Accordingly, we expect Jarir to close FY22 on a flattish note in terms of its financials. Further, rising inflation and credit costs could pose challenges next year as well.
4. **Leejam Sports**
   Like Jarir, Leejam is also facing deteriorating operating conditions as it has posted bottom-line contraction during 2Q and 3Q22. The company, however, has continued to expand its gyms and so far, this year added 10 fitness centers, reaching 155 centers (FY22 guidance: 157-164 fitness centers). However, the company is facing pressure on subscriptions and membership income amid a change in consumers' spending behavior which we attribute to the rising uncertainty about the economic outlook. In the backdrop of a weakening economic environment, we opine that a firming interest rate environment could force consumers to cut or defer their non-discretionary spendings which might lead to hardships for the company in ramping up its newly opened centers and put pressure on the bottom line in the near-term.
5. **Abdullah Al-Othaim Markets**
   The market leader in consumer retail stores Al-Othaim has continued to boost its market presence as it added 18 new stores during 9M22 vs. 22 stores added in FY21. While the company posted solid top and bottom-line growth during 1Q22, earnings growth faltered in 2Q and 3Q22 (excluding one-off gains in 3Q, according to our back-of-the-envelope calculations) despite the economy welcoming foreign religious visitors for Hajj this year after a gap of two years. This suggests inflationary conditions are taking a toll on the company's operating performance which, we believe, is reflected in new stores addition. Al Othaim added just two stores during 3Q22 vs. 7 in 1Q22 and 9 in 2Q22. We would like to reiterate that rising interest rates and inflation could pose headwinds for the company in the near term and hence we expect it to go slow in new stores addition next fiscal year.
6. **BinDawood Holding**
   BinDawood is grappling with serious operational issues as it posted a net loss during 3Q22. While the company's sales grew ~7.6% YoY during 9M22 partly supported by the resumption of pilgrimage, net income shrank about 74% YoY. The company opened four stores during 9M22 apart from a branch in Bahrain and plans to add three Danube stores and a pastry shop in FY23, apart from finalizing suitable locations for opening BinDawood stores in Riyadh. However, the company is facing pressure in its premium Danube stores sales, which account for over 70% of its revenue, and we opine the going could get tough for this format, given the likelihood of a weakening in consumer sentiments. Also, in our view, the issues which the company is currently witnessing like higher promotional & marketing costs, rise in staff costs, and higher bank charges on credit sales due to rising interest rates could very well persist next year, thereby increasing difficulties for the group. Leadership issue with its CEO resigning in Sept, 2022 is also problematic.
7. **Arabian Centres *now known as Ceromi Centers***
   Arabian Centres **(now Cenomi Centers)** is a leading retail player in Saudi Arabia having 21 malls currently under its ambit. The company is working to set up 8 new malls with one mall expected to commence operations during the last quarter of the current fiscal year ending Mar 2023. Arabian Centers has posted strong growth in its top and bottom line during 1H FY 2022-23 driven by significant improvement in like-for-like occupancy, which reached ~94% by the end of Sept 2022 vs. ~92% at the end of Sept 2021 and close to management's objective of ~94-95% occupancy for FY23. The company also posted over a 40% increase in footfalls during 1H FY 2022-23 to reach c. 57mn visitors and the management expects total footfalls in FY23 to match the footfalls of the pre-COVID year. Accordingly, we expect the company to register strong earnings growth in the year ending Mar 2023. Further, the company is undertaking several strategic financial initiatives like i) off-loading non-core land banks (it has identified such land banks having a market value exceeding SAR 2bn of which it sold a land plot worth ~SAR 230mn during the Sept 2022 quarter, booking SAR 75.5mn gain), and ii) establishing real estate investment funds which will help it in becoming asset-light and expedite the launching of new projects. We believe these initiatives would help the company tide over the headwinds we have pointed out above for the retail companies.
8. **Alandalus Property**
   Alandalus Property's 9M22 results corroborate our assumptions that rising inflation and interest rates are pushing costs higher than revenue where the rising macroeconomic uncertainty is likely increasing caution among consumers. After posting nominal growth during 1Q22, Alandalus' net profit in 2Q22 and 3Q22 declined as the company is facing pressure in its dominant revenue provider Retail segment. Hence,

we expect the company to most marginal growth this year, assuming the business improves in 4Q aided by a rise in consumer spending during the year-end holidays. Also, we opine retail companies would need to increase their agility and efficiency to tackle increasing adversities.

9. **Al Meera Consumer Goods**
Qatar-based Al Meera has also faced pressure at the top-line and operating level despite relatively better economic conditions this year amid the subsiding of COVID infections and optimism in the economy related to the FIFA world cup. The company's average per store sales declined during 9M22 as store count increased by two during this period. Net earnings decreased ~5% YoY, even as net income expanded by 18% during 3Q22. However, we expect the recently concluded soccer world cup to have boosted the company's earnings, which should help it offset the weakness of the previous two quarters. Qatari government expects the FIFA world cup to boost the country's appeal as a travel destination which could provide some fillip to the company's business next year and aid it in navigating the deteriorating operating conditions.

G. Cement | Outlook: ●

Oman's cement industry's top revenues are expected to increase going forward, supported by continued increase in the country's construction activity and supported by higher hydrocarbon prices. There are big ticket projects in the pipeline that reflect the government's commitment to spending in the construction sector, which will positively impact cement demand. Further, favorable demographics and rapid urbanization will drive housing demand and increase cement sales. Most of the companies in Oman are also increasing their production capacity to fulfill the impending increase in demand. Despite a higher top line, the cost of production is expected to increase with a likely increase in coal prices which have already increased from USD 80/metric tons to USD 360/metric tons in 2022 periods. Accordingly, higher raw material prices will negatively affect margins and create pressure on the bottom line in the near term.

1. **Oman Cement Company (OCOI)**
Oman cement revenue is expected to increase going ahead due to a likely increase in cement sales domestically supported by the increased activities in the construction sector. The company is the second-largest producer in Oman, and it has been facing pricing pressure due to the import of cement from neighboring countries at cheap prices. However, likely increased raw material prices and an increase in freight charges will lead to an increase in price in the near term by the foreign players. The company majorly focusing on domestic sales will likely get an advantage from it. The company proposes to boost production capacity and build a new production line in the current factory in Muscat, which will have the largest clinker production capacity in the nation at 10,000 TPD. It also plans to modernize production line 3 to raise capacity by 25% to 5,000 TPD of clinker. In the medium term, the company's overall production will rise from the present 8,700tpd to 15,000tpd which will impact the top-line growth of the company. Despite pressure on margins arising from the higher raw material prices, the bottom line is likely to recover with higher revenues.
2. **Raysut Cement (RCCI)**
The company is successful in selling its products in Oman, other GCC nations, Bangladesh, and Africa. Given increasing volume sales to meet the rising demand for construction in the GCC and the probable lessening pricing pressure, we anticipate a rise in revenue in the 2023 period. To enter the northern region of Oman, the company launched two new items, which will assist revenue growth. The company's Salalah Plant anticipates 2.6 mn metric tonnes (MT) of annual cement production and sales for 2023, of which 1.7 mn MT has already been observed, or 65% of the sales have already been reserved; the cement will then be sold/shipped on a FOB basis against payment, and the Sohar cement factory is currently operating at 80% capacity. Yemen and Somalia are two more key export destinations on which the company is concentrating. To deliver 1.2 mn tonnes of cement yearly, or 46% of annual production, the company inked an arrangement with a major Somalian enterprise. This would consequently boost the company's continued revenue growth through the year 2023. The adjustments made in accordance with CMA's advice, including the goodwill impairment loss related to subsidiary Pioneer Cement Industries, greater provisions of ECL against trade, and other receivables, had a significant negative impact on the company's bottom line in 3Q22. We don't anticipate any unexpected costs in the future, but the likely rise in the price of raw materials like coal and higher energy costs, despite likely softening freight costs will put pressure on margins and have an impact on the bottom line in the 2023 periods.
3. **Qatar National Cement (QNCC)**
In Qatar's cement industry, the company has a market share of 50%. Qatar made significant infrastructure investments in 2022 in preparation for the FIFA World Cup. Due to seasonality, the company reported decreased revenue and a lower volume of cement sold in Q322. In the future, several projects that are in the works as part of Vision 2030 (such as the Lusail City Project and the Water Security Mega Projects) will likely boost the demand for cement and increase the volume of cement sold in 2023 when considering Qatar's building ambitions. Various cement producers have expressed concern about higher raw material prices in the 2022 timeframe because of rising coal and natural gas prices. Qatar is the world's largest producer of natural gas, and domestic businesses like Qatar Cement have long-term contracts with the government for the supply of natural gas, which also has the benefit of enabling them to purchase raw materials at lower costs, improving their profit margins. Additionally, cost control under costs will enhance the company's ability to grow its bottom line in 2023 years due to the likelihood of lower raw material prices.

Ubhar Capital

Research

Corporate Earnings Estimates FY22e / 4Q22e

	Company Name	CMP (LCY)	YTD Chg. (%)	Market Cap (LCY mn)	Revenue FY22e (LCY mn)	YoY %	Revenue 4Q22e (LCY mn)	YoY %	QoQ %	Net Profit FY22e (LCY mn)	YoY %	Net Profit 4Q22e (LCY mn)	YoY %	QoQ %	P/E'22e (x)	P/E'23e (x)	P/B'22e (x)	P/B'23e (x)	Dividend Yield'22e (%)	RoE'22e (%)	RoA'22e (%)	Target Price, LCY
H. Petrochemicals																						
49	Saudi Basic Industries Corp.(SABIC)	90.00	1%	270,000.0	200,146.1	14%	**44,660.4**	-13%	-5%	17,661.4	-23%	**1,424.4**	-71%	-22%	15.3	25.5	1.2	1.2	5%	8%	5%	94.97
50	Rabigh Refining and Petrochemical Co.	11.10	4%	18,548.1	55,228.8	21%	**10,082.3**	-23%	-20%	-172.8	-108%	**-868.8**	-294%	-39%	(107.4)	38.8	1.2	1.1	0%	-1%	0%	9.82
51	Sahara International Petrochemical	34.05	0%	24,970.0	10,571.0	6%	**2,029.7**	-34%	-31%	3,396.5	-5%	**280.2**	-79%	-64%	7.4	12.2	1.5	1.4	9%	20%	14%	35.57
52	National Industrialization Co. (Tasnee)	12.36	0%	8,267.8	3,820.7	4%	**877.3**	-24%	-1%	1,178.8	-13%	**329.0**	-3%	1821%	7.0	16.7	0.6	0.6	0%	9%	5%	14.95
53	Advanced Petrochemicals	42.80	1%	11,128.0	2,945.3	-5%	**608.5**	-33%	-7%	302.9	-63%	**10.5**	-94%	-61%	36.7	31.3	3.0	3.2	5%	8%	4%	46.33
54	Yanbu National Petrochemical Company (YANSA	41.50	0%	23,343.8	7,102.1	-4%	**1,474.1**	-23%	-8%	426.3	-72%	**-84.3**	-125%	38%	54.8	31.7	1.7	1.8	7%	3%	2%	38.01
55	Saudi Industrial Investment Group (SIIG)	22.26	1%	16,801.8	898.6	-53%	**116.3**	-61%	79%	682.7	-40%	**108.8**	-11%	99%	24.6	15.3	1.5	1.5	7%	6%	6%	20.16
56	Mesaieed Petrochemical Holding Co.	2.09	-2%	26,282.2	1,848.5	0%	**385.1**	-7%	-8%	1,894.3	2%	**397.8**	-6%	-8%	13.9	12.7	1.5	1.4	5%	11%	11%	2.57
57	Industries Qatar	13.03	2%	78,831.5	18,726.6	32%	**4,102.8**	-13%	-3%	8,348.4	3%	**1,301.2**	-50%	-19%	9.4	10.0	1.9	1.8	8%	20%	18%	14.05
I. UAE Real Estate																						
58	Emaar Properties	5.90	1%	52,148.9	24,119.8	-15%	**5,218.9**	-43%	-2%	8,423.8	47%	**1,612.1**	-5%	-9%	6.2	10.8	0.7	0.7	4%	11%	7%	6.76
59	Aldar Properties	4.48	1%	35,224.6	10,815.0	26%	**2,749.0**	22%	1%	2,679.7	15%	**549.3**	-31%	-9%	13.1	12.7	1.1	1.1	3%	9%	5%	5.52
J. Information Technology																						
60	Solutions by STC	241.80	0%	29,016.0	9,174.0	17%	**2,273.8**	10%	2%	1,135.8	36%	**279.9**	145%	-7%	25.5	21.5	10.5	8.6	2%	41%	12%	233.50
61	Al Moammar Information Systems (MIS)	93.80	1%	2,814.0	685.1	7%	**166.7**	-5%	3%	76.3	35%	**29.8**	58%	19%	36.9	49.3	8.0	7.9	2%	22%	4%	135.40
K. Agri-nutrients / Oil & Gas Sector																						
62	SABIC Agri	146.60	0%	69,786.8	18,836.0	96%	**4,061.6**	1%	-8%	10,061.4	92%	**2,126.8**	-23%	-9%	6.9	11.0	3.1	2.9	8%	45%	39%	165.05
63	Adnoc Drilling	3.03	2%	48,480.0	2,410.2	6%	**685.7**	19%	2%	665.7	10%	**192.5**	34%	2%	72.8	62.8	17.4	17.1	1%	24%	13%	4.44
64	Maaden	67.20	4%	165,391.5	40,327.1	51%	**9,522.5**	12%	-5%	10,087.2	93%	**1,784.6**	-15%	-15%	16.4	17.4	2.9	2.4	0%	18%	9%	66.47
L. Utilities																						
65	TAQA	3.51	2%	394,644.2	53,315.7	17%	**14,192.7**	24%	4%	9,499.2	58%	**3,059.2**	80%	39%	41.5	23.1	5.1	4.5	1%	12%	5%	3.43
66	Phoenix Power	0.044	2%	64.4	147.8	1%	**24.5**	3%	-52%	20.6	22%	**-3.7**	-19%	-125%	3.1	3.2	0.3	0.3	10%	10%	3%	0.051
67	Sembcorp Salalah	0.066	0%	63.0	73.1	1%	**17.2**	3%	-5%	19.3	5%	**4.6**	0%	4%	3.3	3.0	0.5	0.4	9%	15%	7%	0.084
68	Sharqiya Deslination	0.117	0%	11.4	13.7	-1%	**3.3**	-2%	-9%	1.0	2%	**0.3**	113%	-3%	11.8	12.4	0.8	0.6	9%	7%	1%	0.145
69	Musandam Power	0.310	0%	21.8	18.5	2%	**2.9**	2%	-56%	2.8	-9%	**-0.5**	-32%	-124%	7.7	7.8	2.0	1.8	10%	25%	3%	0.393
70	Tabreed	2.980	1%	8,478.9	2,228.4	14%	**568.9**	16%	-17%	561.3	-4%	**161.7**	-18%	2%	15.1	12.0	1.4	1.3	4%	9%	4%	3.400
M. Education																						
71	Ataa Educational Company	53.70	-1%	2,260.1	656.9	11%	**161.8**	21%	-6%	71.2	1%	**17.8**	1109%	-15%	31.8	27.9	2.6	2.5	2%	8%	3%	68.00
72	Humasoft Holding	3,460.00	-2%	422.9	83.1	-13%	**20.4**	-27%	11%	48.9	-22%	**11.0**	-45%	1%	8.7	10.9	3.2	2.9	8%	37%	29%	4.10

Source: Bloomberg & U Capital , Price as of 02-Jan-23 UR = Under Review; nm = not meaningful

H. Petrochemicals | Outlook: ●

The middle east petrochemicals sector had a challenging 3Q22 after strong start to the year in first half of 2022. As global fuel prices rose post escalation of Russia Ukraine conflict, feedstock prices rose, compressing margins. Demand continued to recover from previous year but is likely to be under pressure if continued rate increases by US Federal Reserve led to economic recession. Prices are likely to fluctuate in an uncertain demand scenario, with product-specific demand-supply factors weighing in more than general trend across prices. Any moderation in oil prices can be expected to flow in to moderated feedstock prices, which could help companies broadly maintain operating margins. The sharp rise in interest rates is expected to result in higher interest outgo for companies with higher leverage, which in turn will impact net profits for such companies.

1. **Advanced Petrochemical Co. (Advanced)**
   Despite an increase in topline during 9M22 by 6% YoY, Advanced's profitability took a hit due to a fall in end-product price by 9% YoY and feedstock price propane which increased by 32% YoY and propylene price increasing by 10% YoY. Advanced is less diversified segmentally and product-wise by just selling polypropylene, leaving the company exposed to the product price and demand volatility.
2. **Yanbu National Petrochemical Co. (YANSAB)**

The company in 9M22 reported topline growth of 3% YoY, with EBITDA and net profit falling by 38% YoY and 57% YoY, respectively. Profitability during 9M22 took a hit mainly due to a fall in petrochemical prices. YANSAB derives ~38% of total sales from MEG, which on average, fell by 20% YoY during 9M22.

3. **Saudi Industrial Investment Group (SIIG)**
SIIG reported net profits of SAR 574 mn in 9M22, a drop of 43.45% from SAR 1.01 bn the previous year. The decline was primarily caused by a decrease in the company's profit share of jointly managed projects due to higher feedstock costs and reduced sales volume. The company has stated ambitions to diversify its current portfolio by continuing expansion in petrochemical projects as well as creating strategic tie-ups in new sectors, which bodes well for the company's growth.
4. **Mesaieed Petrochemical Holding Company (Mesaieed)**
After record performance in 1Q22 and 2Q22, Mesaieed reported a relatively subdued 3Q22. The company's share of profits from joint ventures grew by 0.9% YoY in 9M22, and net profit in 9M22 grew by 2.3% YoY. Net margin increased by 141bps YoY. Declining prices of HDPE and Chlor-alkali products due to robust supply and muted demand are expected to suppress profits in 2023.
5. **Industries Qatar (IQCD)**
IQCD clocked robust performance during 9M22, with revenue increasing by 42% YoY, EBITDA by 23% YoY and net profit by 28% YoY. However, IQCD's profitability in 9M22 took a hit with increased natural gas (feedstock) price, which almost doubled and, on average lower petrochemical price. IQCD derives its topline from Fertilizer and steel segment, while revenue garnered through petrochemicals is via a joint venture.
6. **Saudi Basic Industries Corp. (SABIC)**
SABIC reported net earnings of SAR 16.2 bn in 9M22, a 10.3% decrease from SAR 18.1 bn the previous year, with EBITDA margin falling by 734bps and net margin falling by 419bps. The decline is due to higher feedstock prices as well as greater selling and distribution costs. SABIC's outstanding operating track record, high utilization levels, rising safety standards, a strong commitment to capital discipline, credit rating, and stable to growing dividend add to the company's prospects. Furthermore, the company is poised to enter a new chapter of domestic project growth in the coming years as the Kingdom's Shareek programme kicks in, which bodes well for the company.
7. **Sahara International Petrochemical Co. (SIPCHEM)**
SIPCHEM's revenue grew by 23.8% YoY in 9M22. The operating margin declined by 355bps YoY, and the net margin declined by 340bps YoY. A weak demand environment fueled by recession fears and aggressive rate hikes by the Fed is expected to keep prices low, leading to lower revenues and profits.
8. **National Industrialization Co. (TASNEE)**
TASNEE's revenue grew by 17.2% YoY in 9M22. Operating and net margins both declined by 32.7% YoY. Low prices are anticipated to continue by a weak demand environment caused by recession fears and aggressive rate hikes by the Fed, resulting in reduced revenues and profits.
9. **Rabigh Refining and Petrochemical Co. (Petro Rabigh)**
During 9M22, the company recorded topline growth of 38.8% year on year, while EBIT and net profit margins declined by 427bps and 334bps, respectively, compared to 9M21. Profitability was primarily harmed by negative market circumstances for refined and petrochemical products, particularly in 3Q22. In terms of its working capital cycle, the company enjoys a large cash cost advantage. The Company receives money for the product it sells in fewer days than it takes to pay its suppliers for the feedstock it uses, which strengthens its liquidity position. Because of the company's strategic placement near the high-demand cities of Jeddah and Makkah, it is able to mitigate volume risk and maintain an industry-leading utilization rate.
10. **SABIC Agri-Nutrients Co. (SABIC Agri-Nutrients)**
SABIC Agri-Nutrients recorded net earnings of SAR 7.9 bn in 9M22, compared to SAR 2.5 bn in a year ago period. Compared to 9M21, the operating margin improved by 434bps, and the net margin increased by 886bps. Sabic Agri-Nutrients expects volumes to rebound in 4Q22 after humidity hindered loadings in 3Q22. Going forward, the company intends to expand through greenfield, brownfield, and M&A channels. Blue ammonia is a big prospect, and with Aramco's 11 Mton target for blue ammonia by 2030, SABIC Agri-Nutrients is likely to be heavily involved in major expansions.
11. **Saudi Arabian Mining Co. (MAADEN)**
MAADEN reported 69% YoY topline growth in 9M22, with EBITDA margin and net margin increasing by 633bps and 976bps, respectively, compared to 9M21. Profitability and performance were boosted by greater sales volumes and favourable commodity market prices. The company operates in a capital-intensive industry, which presents its own set of challenges. MAADEN has a distinct commodity mix (fertilisers, base and precious metals) as well as a well-diversified sales structure. Furthermore, because MAADEN is vertically integrated, it is able to secure feedstocks at cheap costs, putting the company ahead of the cost curve.

I. Real Estate | Outlook: ●

In 2022, real estate companies witnessed strong demand on the development side of the business, benefiting from continued demand for residential properties. The investment properties business also continued to recover with lifting of COVID-related restrictions on economic activities leading to greater footfalls in retail and hospitality segments. Demand for residential properties could moderate in 2023, with continued rise in interest rates. However, residential real estate demand in UAE is more skewed towards higher-end properties, which would likely be relatively insulated from rate increases. Like 2022, investment properties business is likely to perform well in 2023 across retail, commercial and hospitality segment, although not at same growth rate in 2022, due to likely economic slowdown following rapid rate increases. Interest rate increases have not materially impacted demand in 2022 but continue to remain a key risk to watch out in 2023.

1. **Emaar Properties**
Emaar Properties' topline declined by 1.2% YoY in 9M22. Development revenues contributed 65.8% to total revenues, while the balance came from recurring businesses such as malls and hotels. In 9M22, the EBITDA margin increased by 12.2% YoY while the net margin increased by 15.3%, the property market of Dubai is still resilient. However, rising interest rates and a global slowdown may lead borrowers to postpone investment decisions, reducing revenues and increasing downside risk.
2. **Aldar Properties**
Record performance achieved on a YTD basis with topline in 9M22 growing by 28% YoY, EBITDA margin improving by 160bps and net margin improving by 210bps. Asset class diversification and expanding the development land bank is at the crux of Aldar's transformational journey helping Aldar deliver world-class real estate projects.

J. Information Technology | Outlook: ●

Government and related entities drive most of the business for KSA IT companies. This casts a risk on their growth prospects of the IT sector under the current environment, in our opinion, as a souring global economic outlook is putting pressure on crude oil prices. This is because low crude oil prices curtail the government's revenue and its spending capabilities, which could lead to a decrease in the value and volume of business from them. This could also lead to an increase in the receivables' impairment of the IT companies, as we witnessed in the past two years during COVID.

1. **SOLUTIONS**
   We expect the earnings growth of SOLUTIONS to accelerate in FY22e (vs. FY21), supported by likely NIL impairment on accounts receivables (FY21: ~SAR 151mn). We expect the company to remain on a growth path in FY23 benefitting from its market-leading position, the backing of a strong parent, and diverse business offerings. SOLUTIONS is also expected to conclude its c. 89.5% acquisition of Egypt-based Giza Systems by the end of FY22 which will bring some diversification benefits.
2. **Al Moammar Information Systems (MIS)**
   MIS had a healthy order backlog of SAR 2.7bn as of 1H22-end, including SAR 1.2bn attributable to data centers. The company secured new orders worth over SAR 900mn during 1H22 and received another ~SAR 500mn worth of new projects during 2H22, as per our calculations, which provides good revenue visibility (FY22e revenue: around SAR 600mn). However, achieving revenue recognition milestones will be crucial for the company to convert the order backlog into revenue. Income from data centers could also be a catalyst for earnings growth.

K. Agri-Nutrients / Oil & Gas | Outlook: ●

1. **SABIC Agri-Nutrients Co. (SABIC Agri-Nutrients)**
   SABIC Agri-Nutrients recorded net earnings of SAR 7.9 bn in 9M22, compared to SAR 2.5 bn in a year ago period. Compared to 9M21, the operating margin improved by 434bps, and the net margin increased by 886bps. Sabic Agri-Nutrients expects volumes to rebound in Q4 after humidity hindered loadings in Q3. Going forward, the company intends to expand through greenfield, brownfield, and M&A channels. Blue ammonia is a big prospect, and with Aramco's 11 Mton target for blue ammonia by 2030, SABIC Agri-Nutrients is likely to be heavily involved in major expansions.
2. **Saudi Arabian Mining Co. (MAADEN)**
   MAADEN reported 69% YoY topline growth in 9M22, with EBITDA margin and net margin increasing by 633bps and 976bps, respectively, compared to 9M21. Profitability and performance were boosted by greater sales volumes and favorable commodity market prices. The company operates in a capital-intensive industry, which presents its own set of challenges. MAADEN has a distinct commodity mix (fertilizers, base, and precious metals) as well as a well-diversified sales structure. Furthermore, because MAADEN is vertically integrated, it can secure feedstocks at cheap costs, putting the company ahead of the cost curve.
3. **ADNOC Drilling**
   ADNOC Drilling had a stellar 2022, with the topline growing by 14.5% YoY in 9M22, propelled by increasing drilling rigs under operation and contract additions. In 9M22, the operating margin increased by 2.7% YoY while the net margin increased by 2.1%. The company's business model and strong ties with ADNOC in the form of long-term contracts provide business resilience despite oil price volatility.

L. Utilities | Outlook: ●

We expect utilities to post largely stable performances in 2023 vs. 2022 given the virtue of a regulated operating environment. However, we expect margins of all utilities to stay relatively stable supported by largely pre-set costs and decreasing finance costs due to sustained reduction in outstanding debt for some names.

1. **Oman utility companies**
   We expect the four Omani utilities under our coverage to post largely stable performances in FY23 vs. FY22 given the virtue of a regulated operating environment. All the companies are expected to maintain solid plant availability as in the past in the range of 96-100% backed by regular plant maintenance, which is crucial for them to receive full capacity charges from OPWP {around 70% of total revenue for Sembcorp Salalah (SSPW), close to 60% for Musandam Power (MSPW), and between 43% and 45% for Phoenix Power (PHPC) in FY23e}. Sharqiyah Desalination (SHRQ), on the other hand, is likely to generate one-fourth of its revenue in FY23e through capacity charges, while nearly 40% would come from interest income on finance lease. Hence, SHRQ's top line in FY23e is estimated to fall marginally as interest income on finance leases is declining each year with the decrease in outstanding finance lease receivables. However, we expect margins of all utilities to stay relatively stable supported by largely pre-set costs and decreasing finance costs due to sustained reduction in outstanding debt.
2. **National Central Cooling Company (Tabreed)**
   The UAE-based Tabreed plans to add around 60k RT of cooling capacities in FY23 which would bring the consolidated capacities to over 1,300k RT by FY23-end vs. around 1,260k RT of estimated cooling capacities by the end of this year. Accordingly, we estimate the top line to increase at low double-digit rates in FY23e (like in FY22e). Bottom-line, though, is forecasted to post strong double-digit growth after likely edging lower in FY22e due to unfavorable comparables (Tabreed booked over AED 130mn in one-off other gains during FY21).
3. **Abu Dhabi National Energy Co. (TAQA)**
   Substantial growth was achieved on a YTD basis, with the top line in 9M22 growing by 14.2% YoY and operating profit advancing 54.4% YoY. Moreover, TAQA recorded a robust bottom line performance as net profit rose 50.0% YoY in 9M22. TAQA's ambitious growth trajectory will be strengthened by its diverse business units and enhanced segmental performance. The company decided to retain all their existing oil and gas businesses except its upstream business in the Netherlands. Higher production volumes are likely to drive the oil and gas revenue as we advance.

M. Education | Outlook: ●

Post the disruption caused by the COVID-19 pandemic, the GCC education sector is gradually aligning with the pre-COVID normal. Tracking the performance of education companies under our coverage, we believe the pandemic impacted differently to different companies, as it boosted the earnings of some while weighing on others. Hence, normalization is likely to reverse this pattern for the companies, in our view. Overall, we opine the players would witness an increase in enrollments as the physical classes have resumed for all grades at the K-12 level as well as higher education. This should lead to higher revenues, though margins may reduce owing to a rise in operational costs associated with the physical functioning of the educational establishments. The GCC region is expected to fare relatively better in terms of economic growth vs. the world average during 2023 which bodes well for the education sector, in our opinion. This is because an increase in per capita income and rising employment opportunities will lead to higher demand for education, particularly higher education. A predominantly young demography in the GCC region is also positive for the sector. Meanwhile, the sector might witness consolidation as some players face earnings pressure and consolidation/acquisition will result in a decrease in competition.

1. **Ataa Educational Holding (Saudi Arabia)**
   Ataa posted stupendous growth in its top-line (+106% YoY) and bottom-line (c. +99% YoY) in FY 2021-22 (ended July) backed by 33% YoY growth in its portfolio of schools through acquisitions as well as reopening of the physical mode of schooling. The company has concluded the acquisition of Naba'a Educational Company toward the end of July 2022 and hence its impact will appear during the current financial year ending July 2023. This year will mark the first full-fledged academic year of offline learning for the company's schools as Saudi authorities reopened schools in a staggered manner over 6-9 months last year starting Aug 2021. Hence, we opine a comparison between Ataa's current and last year's financials is not feasible given acquisition-related one-offs and disruption caused by COVID-19. That said, we expect the company to post revenue growth in mid-single digits on a higher base, while the bottom line is likely to post a decline since the company booked c. SAR 52mn gain from acquisition during FY 2021-22.
2. **Humansoft Holding (Kuwait)**
   Humansoft's revenue recognition got disturbed during COVID-19 which inflated its earnings in FY21. However, the revenue recognition is now gradually moving towards normalcy and hence, the company's revenue and net income in FY22e are likely to post a YoY decline. Next year, given that the company is operating near full capacity, we expect revenue to remain largely stable, though, margins are likely to contract towards the 2019 level, which was the pre-COVID normal, as costs are likely to go up due to inflation and expenses related with conducting physical classes.

Corporate Earnings Estimates FY22e / 4Q22e

#	Company Name	CMP (LCY)	YTD Chg. (%)	Market Cap (LCY mn)	Revenue FY22e (LCY mn)	YoY %	Revenue 4Q22e (LCY mn)	YoY %	QoQ %	Net Profit FY22e (LCY mn)	YoY %	Net Profit 4Q22e (LCY mn)	YoY %	QoQ %	P/E'22e (x)	P/E'23e (x)	P/B'22e (x)	P/B'23e (x)	Dividend Yield'22e (%)	RoE'22e (%)	RoA'22e (%)	Target Price, LCY
N. Healthcare																						
73	Dr. Sulaiman Al Habib Medical Services Group (H	220.20	0%	77,070.0	8,156.5	12%	**2,099.4**	7%	2%	1,633.5	19%	**424.3**	11%	1%	47.2	43.3	13.3	12.3	2%	28%	13%	220.00
74	Mouwasat Medical Services (MMS)	205.40	-2%	20,540.0	2,264.2	6%	**590.2**	7%	7%	554.3	-4%	**140.4**	-4%	15%	37.1	29.7	7.1	6.3	1%	19%	12%	195.00
75	Dallah Healthcare Co. (DHC)	145.60	-2%	13,104.0	2,433.8	16%	**639.7**	11%	6%	265.8	3%	**69.8**	-36%	59%	49.3	37.3	4.9	4.7	1%	10%	4%	170.50
76	Al Hammadi Holding Co. (HHC)	41.25	3%	6,600.0	1,067.2	12%	**287.4**	2%	16%	241.8	168%	**57.6**	440%	1%	27.3	25.0	3.9	3.8	2%	14%	10%	47.50
77	Middle East Healthcare (MEH)	26.15	3%	2,406.8	2,101.4	12%	**567.6**	14%	11%	54.1	214%	**12.1**	-166%	9%	44.5	32.7	1.8	1.7	0%	4%	1%	25.50
O. Base Metals																						
78	Qatar Aluminum Manufacturing Company (QAMC	1.53	1%	8,543.2	967.4	16%	**177.6**	-43%	-6%	984.4	18%	**181.3**	-42%	-6%	8.7	10.5	1.2	1.2	5%	14%	14%	1.77
P. Logistics & Transport																						
79	Qatar Gas Transport QPSC (Nakilat)	3.68	0%	20,388.2	3,626.3	1%	**910.5**	-1%	0%	1,481.1	9%	**395.1**	13%	-3%	13.8	14.7	2.1	2.0	4%	15%	5%	6.15
80	Qatar Navigation QPSC (Milaha)	9.80	-3%	11,135.6	3,324.0	19%	**761.1**	2%	-4%	1,112.4	53%	**271.8**	283%	29%	10.0	10.1	0.7	0.7	3%	7%	6%	9.60
81	Agility Public Warehousing Company KPSC (Agil	685.00	-5%	1,748.4	742.0	53%	**253.0**	79%	-1%	63.7	-94%	**19.9**	421%	13%	27.4	17.5	0.9	0.9	1%	3%	2%	0.61
82	Air Arabia PJSC (Air Arabia)	2.17	1%	10,126.7	4,632.8	46%	**1,671.8**	28%	4%	796.2	11%	**330.3**	-29%	-21%	12.7	12.1	1.6	1.5	4%	12%	5%	2.31
83	Aramex PJSC (Aramex)	3.49	-1%	5,109.7	6,022.7	-1%	**1,614.9**	0%	13%	171.2	-24%	**39.2**	-15%	-1%	29.8	25.6	2.0	1.9	4%	7%	3%	3.66
Q. Other																						
84	Renaissance Services	0.466	0%	110.2	119.6	9%	**30.9**	8%	6%	11.2	-16%	**2.7**	-60%	6%	9.8	9.5	1.1	1.1	5%	12%	5%	UR
85	Al Jazeera Steel Products	0.230	2%	28.7	149.4	-1%	**33.4**	-25%	0%	2.7	-71%	**0.5**	-78%	-181%	10.6	14.3	0.6	0.5	4%	5%	3%	0.273
86	Galfar Engineering & Contracting	0.170	-2%	104.9	162.3	-7%	**49.5**	27%	22%	1.4	6%	**1.2**	1156%	-281%	77.6	19.6	4.5	3.6	0%	6%	1%	0.201

Source: Bloomberg & U Capital , Price as of 02-Jan-23 UR = Under Review; nm = not meaningful

N. KSA Healthcare| Outlook: ●

Saudi Arabia's healthcare sector is witnessing healthy growth with rising private sector participation driven by the Kingdom's Vision 2030 objectives. Operating conditions of the sector have improved post-COVID and most of the players are expanding their capacities either through greenfield or brownfield projects. Majority of the healthcare companies under our coverage are also undertaking an inorganic route to boost their capacities and diversify as a newly constructed healthcare facility takes around two-three years to reach an optimum level, and hence we expect the trend to continue in FY23 as well. Most of the companies under our coverage have remained largely resilient during COVID given the healthcare services being a necessity.

1. **Dr. Sulaiman Al Habib**
   Dr. Sulaiman Al Habib is the largest player in terms of revenue and hospital beds and clinics with prudent financials we expect it to retain this position in the near-to-medium term. No new healthcare facility of the company is expected to come online during FY23 and hence we estimate it to post a mid-to-high single-digit earnings growth rate next year, driven by an increase in utilization.
2. **Mouwasat Medical Services**
   Mouwasat Medical Services added new capacities during FY22 and as a result total beds and clinics likely reached 1,600 and about 600 by the end of this year vs. nearly 1,180 and 500 by the end of FY21. However, since the current expansions were brownfield, we expect the company would be able to ramp up relatively quickly as compared to greenfield projects. Hence, assuming the utilization of the newly added facilities to improve notably by next year, we estimate this will accelerate earnings growth in FY23. While Mouwasat's healthcare network is spread in six Saudi cities currently, the company plans to diversify overseas and is in the process to acquire a 100% stake of the owners of Egypt-based Al-Marasem International Hospital Company. The deal is expected to conclude by the end of 2Q23. Apart from this, Mouwasat is currently developing a new 200 beds hospital in Yanbu whose construction is likely to get completed during FY25, while another hospital in Riyadh is in the planning stage. Also, we believe the company would utilize its excess cash flows in debt repayments, thereby bringing its D/E to ~0.2x by FY 2023e vs. ~0.3x at the end of FY22e. However, the company's nearly six months of receivables days are quite stretched and could be a cause of concern going forward.

3. **Dallah Healthcare**
Dallah Healthcare has added new capacities at regular intervals during the past five years, as a result of which its total hospital beds and outpatient clinics grew at 32% and 27% CAGR, respectively, during FY 2017-2021. The company has no significant capacity additions pipeline currently and its hospital beds capacity is estimated to only rise slightly by about 3% in FY23, partially driven by the completion of renovation at its biggest hospital Al Nakheel. However, we expect revenue growth in FY23e to remain healthy in the range of 10-15% (FY22e revenue growth: c. 15% YoY), partly driven by a likely improvement in the utilization of Dallah's healthcare facilities, which stood in the range of 51%-66% in FY21. Dallah's debt/equity has increased over the years on the back of sustained expansion and reached ~0.9x currently, which exposes the company to interest rate risks under the current rising interest rate environment.
4. **Al Hammadi Holding**
Al Hammadi Holding's business is likely to remain in a steady state over the next year with two hospitals currently in operation in Riyadh and a replacement of Al Hammadi Olaya hospital closed in FY21 to come only by FY26. We expect the company's earnings to more than double in FY22e vs. FY21 supported by strong revenue growth on the back of improved operating conditions, a significant reduction in receivables' impairment, and no one-offs (Al Hammadi booked about SAR 9mn loss in FY21 from discontinued operations). However, earnings growth is likely to taper in FY23 on a like-for-like basis in mid-to-high single digits, as per our estimate.
5. **Middle East Healthcare (MEH)**
MEH has medical facilities spread across six Saudi cities. MEH has launched several new projects during FY22 likely boosting its operational hospital beds and clinics by 27% and 75% YoY, respectively. As a result, the company's licensed beds capacity likely reached 1,986 in the current year, the highest among the five healthcare companies under our coverage. MEH is undertaking a restructuring exercise and has posted about 18% YoY growth in its bottom line during 9M22, which has consistently decreased since FY17 (FY17-21 bottom line CAGR: -52%). Hence, we expect earnings to reverse their declining trend this year. Backed by continued restructuring efforts and a significant capacity increase in FY22e, we expect the company's earnings to expand at a strong rate next year also. However, MEH's financial performance over the next couple of quarters will be crucial to ascertain if the restructuring is working, in our view. Another sore point with MEH is its significantly high receivables days (slightly over 9 months during FY20 and FY21). While the situation has improved slightly, whether this sustains is to be watched out for since any deterioration will adversely impact the company's liquidity and could lift the already high leverage position (D/E: ~1.7x as of FY22e), which is surely not desirable under the current rising rate scenario. MEH, meanwhile, has proposed a rights issue worth SAR 240mn to help it in implementing strategic and operational plans and supporting future activities. EGM dates to approve the issue and other details are yet to be revealed.

O. Base metals | Outlook: ●

The prices of base metals have declined from the highs reached during Mar-Apr 2022 after the invasion of Ukraine by Russia. Going into 2023, the prices of base metals are largely likely to soften vs. the 2022 average. Some of the major factors for these expectations are – i) the likelihood of a significant decrease in global economic growth, ii) a slowdown in China and its real estate sector (among the largest in the world and a major demand driver for base metals) largely due to its no-COVID tolerance policy, iii) a probable increase in supply from China amid an improvement in the country's power supply situation, iv) continued tightening of interest rates by major global central that is anticipated to adversely impact consumers' spending capacity and demand, v) an appreciation in the value of US dollar which leads to an increase in the landed cost of the commodities, denting their demand.

1. **Qatar Aluminum Manufacturing (QAMCO)**
QAMCO's aluminum JV Qatalum is expected to continue operating at 100% utilization during the coming year despite weakening aluminum demand globally. This is because the company can alter its product mix swiftly as per the market conditions. QAMCO says while demand for value-added products decreases, it increases for standard ingots during weak market conditions which help the company to maintain full production levels. However, QAMCO's earnings are estimated to decline next year owing to a similar performance at its JV. The movement in Qatalum's average realizations is closely linked to the LME aluminum price movements and considering the prospects that aluminum prices will average lower in FY 2023 vs. FY 2022 amid a weakening demand, this is expected to drag down the company's top and bottom line.

P. Logistics & Transportation | Outlook: ●

Airlines witnessed surge in passenger traffic in 2022, but this kind of growth is expected to level off in 2023 due to high base effect. For sea transportation line of logistics business, growth in 2022 was driven by higher container and freight rates, while onshore business witnessed improved utilization of assets compared to previous year. In 2023, growth in container and freight rates are likely to be muted, unless an escalation of geopolitical tensions lead to restrictions on trade routes. Any likely economic slowdown or recession will also impact overall logistics demand (both passenger and cargo side). Operating margins in 2023 are expected to remain broadly similar to 2022 levels, as companies will likely undertake cost saving measures in response to any likely slowdown in revenues. Interest rate increases in 2022 will see the full effect in 2023, but companies have improved their leverage position in first nine months of 2022, which will help in limiting the impact of rate increases in 2023.

1. **Nakilat | Qatar Gas Transport Company Ltd. (Nakilat)**
In 9M22, Nakilat reported 0.8% YoY growth in the top line. EBITDA margin declined by 9bps while the net margin increased by 460bps. Higher gas demand from European countries and delivery by container ships are positive for Nakilat. Additionally, the contract award from Qatar Energy provides additional upside. Nakilat has a resilient business model and earns stable revenues by chartering ships on long-term contracts providing long-term visibility in revenues and profits.
2. **QATAR Navigation (Milaha)**
Robust growth was recorded, with operating revenue increasing 26.0%, operating profit rising 121.2% and net income expanding 30.0% YoY in 9M22. Overall, shipping rates are expected to decline in 2022, and warehousing & freight are expected to rise, mainly from world cup related activities. Harbor operations are expected to generate stable revenue. Jointly and fully owned L.N.G. carriers are expected to generate regular earnings due to the long-term nature of contracts. However, charter rates have been extremely volatile, making the outlook unpredictable.
3. **Air Arabia**
Air Arabia recorded a strong recovery backed by high customer demand for air travel on a YTD basis, with topline growing by 106% YoY and net profit increased by 242% YoY during 9M22. Air Arabia remains committed to its long-term growth ambition with the addition of new fleets and routes despite global economic uncertainty and geo-political challenges creating short-term headwinds for the aviation industry
4. **Agility Public Warehousing Company (Agility)**

Considerable growth accomplished on a YoY basis with top line enhancing 52.9% and EBITDA expanding 33.5% in 9M22. Additionally, net profit rose 63.7% YoY in 9M22. Leveraging the robust network of the combined entity to create a business leader in the aviation segment and global expansion on its land portfolio and state-of-the-art warehousing services in the M.E.A. will be the key drivers of growth. However, the dominant factor on the investment side remains D.S.V., which tanked amid higher interest rates, and rising inflation may drag the bottom line downwards.

5. **ARAMEX**

   Revenue tanked by 1.5%, EBITDA dropped 1.2%, and net profit margin declined 1.0% on a YoY basis in 9M22. Same-day volume continued to rise in the major cities in Saudi Arabia, U.A.E. and Egypt, while international express business was primarily impacted due to declining volumes. Moreover, the company is not well diversified across customers and geographies, which may have an unfavorable impact. Dynamic macroeconomic outlook and industry-related headwinds can be challenging, while premiumization of product offerings and business enhancement may drive profitability.

Q. Others | Outlook: ●

1. **Al Jazeera Steel**

   Oman steel industry sales volume is expected to increase in 2023 with a likely increase in capacity utilization considering the rise in construction activities supported by higher oil prices. Despite higher sales volume, steel prices are expected to remain under pressure with a likely slowdown in the global economy impacting the revenue for steel companies. Going ahead from FY 24 onwards the steel prices are expected to recover from the low base expectations of economic recovery and easing supply side concerns. Margins are also likely to be impacted by higher raw material costs such as coal etc. Al Jazeera steel (ATMI) is a leading steel producer in Oman with a 70% presence in GCC markets, 25% presence in North America, and 5% in others. The company has a production capacity utilization level in the range of 60-70%. We expect the utilization levels to increase considering demand for the Merchant bar which is mostly used in construction activities. Further, the top line is expected to remain under pressure with lower steel prices. The company has also opened a yard in Mubailla to increase market reach and generate a 1000-1500MT monthly addition for the Tube mill. Also, the likely increase in the S&D expense and higher raw material prices will decline the margins and impact the bottom-line growth of the company in 2023. However, with a likely recovery in the steel price and no major impact on the raw material prices will improve the bottom line from FY24 onwards. The company is paying 14% of duties imposed by KSA, however, the merchant Bar qualifies for the exemption and the company is likely to get the refund by 2024.

2. **Galfar**

   Oman's construction sector is expected to register annual average growth of 4.2% during FY23-26e as per business wire supported by investments in the construction of transport, electricity, oil, and housing infrastructure projects. The sector is also expected to increase supported by the Five-Year Development Plan and Oman Vision 2040. There are various projects such as Industrial cities in Sur, Al Buraimi, and Suhar, Mahas Industrial City in the wilayat of Khasab, construction of Sur refinery, petrochemicals complex, shipyard complex, integrated workforce township in sur and construction of 100MW solar power plant in suhar which will increase the growth in the construction sector in the future periods. The increase in construction activities in Oman is due to the impact of rising oil prices, we expect the oil prices to remain higher and continue supporting government spending. Galfar engineering & contracting (GECS) is the leading player in the industry and was able to generate higher revenue by receiving large tender awards. However, the bottom line declined due to increased raw material prices amid global tension between Russia and Ukraine, and higher freight costs. Going ahead in 2023, we expect the top line of the company to increase supported with tender awards such as the construction of roads, infrastructure, and utility works at Mahas Industrial city, the construction of a new public health laboratory at Al Khoud wilayat and contract for field operating base in Block 10 to be commenced within next 24 months. Despite the top-line growth, we expect the bottom line to be under pressure with a likely increase in raw material prices in future periods.

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Legend	Outlook	Meaning
	● (green)	Positive
	● (yellow)	Neutral/Negative

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