

## Result Update

**HOLD: 12M TP @ 0.176**

### Valuation Summary (TTM)

Price (RO)	0.169
PER TTM (x)	9.9
P/Book (x)	1.1
Dividend Yield (%)	5.3
Free Float (%)	32%
Shares O/S (mn)	1,950
YTD Return (%)	-1%
Beta	0.9

(mn)	OMR	USD
Market Cap	329	856
Total assets	3,053	7,929

Price performance (%)	1M	3M	12M
Ahli Bank SAOG	6%	13%	42%
MSX 30 Index	-3%	2%	15%
Financial index	-3%	2%	18%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	4	49	51
Avg Daily Volume (,000)	18	305	346

52 week	High	Low	CTL*
Price (RO)	0.171	0.116	45.7

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

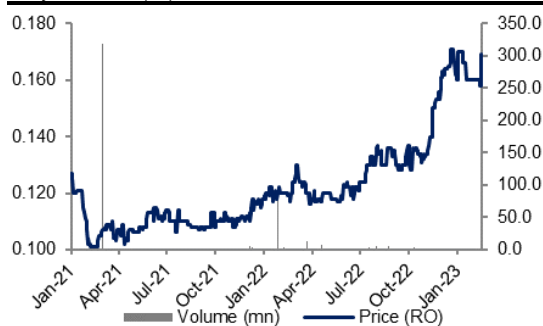
### Major shareholders

Ahli United Bank	35.0%
Al Hosn Investments	23.8%
Jabreen Investments	8.8%
Others	32.4%

### Other details

Exchange	MSX
Sector	Banks
Index weight (%)	5.3%

Key ratios	2020	2021	2022
EPS (RO)	0.009	0.010	0.012
BVPS (RO)	0.160	0.155	0.160
DPS (RO)	0.005	0.008	0.009
Payout ratio (%)	56%	77%	74%



## Ahli Bank SAOG

ABOB's FY22 net income of RO 33.1 mn was 3% lower than our estimates of 34.2 mn, mainly on account of 3% miss in NII and higher ECL provisions. The bank's loan book growth fell short of estimates while deposit growth was a beat. ABOB failed to maintain quarterly momentum in loan growth during 4Q22, which decelerated to 4.1% from 7.3% in 9M22. We believe that the bank would continue to aggressively build CASA book and corporate lending portfolio going forward. ABOB has improved its CASA book to 48.8% of total deposits vs 42.7% in FY21. ABOB's 20% growth in net income was on the back of 25% growth in fee income and 11% decline in ECL provisions. We expect continued loan book growth, marginal expansion in NIM, and lower provisions driving earnings growth in FY23E. At current levels, the shares are trading at 11.5x FY23E adjusted EPS, 1.1x book value, and offers dividend yield of 5.2%. We have adjusted our price target marginally higher to RO 0.176/Share on account of relative valuation reference adjustments. As the stock rallied 20% in the last three months, we downgrade our recommendation to HOLD. ABOB is planning for a rights issue of RO 50 million in the near future. As the stock is trading near our fair value, we expect the bank to price the rights at attractive discount to current levels.

ABOB reported FY22 net interest income of RO 73.8mn as against FY21 interest income of RO 65.6mn, a growth of 12.5% YoY, and marginally missed our estimates of RO 75.6mn. Inability of the bank to maintain positive momentum in loan book growth coupled with an increased cost of funds in 4Q22 have led to the miss. ABOB reported its first sequential quarterly decline of loan book since 4Q19. The bank witnessed net loans declining by RO 38 million, or 1.5% as compared to 3Q22, and against our estimates of net addition of similar magnitude. 4Q22 NIM got squeezed to 2.56% vs estimated 2.71% on account of sharp increase in CoF. FY22 NIM, however, reached 2.57%, an expansion of 28 bps. We estimate 7% loan book growth and stable NIMs of 2.63% for FY23E, leading to NII growth of 11.7%.

ABOB reported operating income of RO 91.7mn in FY22, a growth of 11.2% YoY, and in line with our estimates of RO 91.9mn. Higher than estimated growth in fee income resulted in operating income meeting estimates despite the miss on interest income side. Fee & commissions grew by 25% YoY, with 4Q22 contributing 30% of FY22 revenue. Operating expenses were in line with our estimates, that resulted in cost to income ratio matching our estimates of 44%. We estimate further improvement in cost to income ratio to 42.8% in FY23E as a result of operating revenue growth. ABOB has grown its branches to 42 as compared to 37 in FY21 and total employees from 795 to 864.

ABOB booked higher than estimated ECL provisions, which resulted in net income falling short of our estimates by 3%. We believe gross NPL has peaked at FY22 levels of 3.8%, leading to lower provisioning needs. We believe peak NPL in FY22 to help in lower ECL provisions and higher write backs going forward, thereby ABOB maintaining 20% profit growth in FY23E as well. At current valuation, the stock is trading at 11.5x net profit, 1.1x book value, and 5.2% yield. Operational results that are in line with our estimates have prompted us to marginally hike the target price to RO 0.176/Share, while the recent rally in share price led to rating downgrade to HOLD.



**Share of Islamic Banking book up at 18%:** The Gross/Net Loan book as at FY22 is at RO 2,589.0mn / RO 2,500.4 mn, a growth of 4.4% / 4.1% over the previous year. The loan book growth was on the back to two years of higher loan book increase of 8.6% and 8.8% in FY20 and FY21 respectively, however, this is lower than the pre-covid levels of 10% in FY19. Out of the total loan book, the share of Islamic loan book grew from 16% in FY21 to 18% in FY22. The growth in Islamic loan book of 11% YoY outpaces the de-growth in conventional loan book of 1.2%, confirming that the Bank is focused on Islamic Banking book as well as challenges in growth due to higher base in conventional banking book.

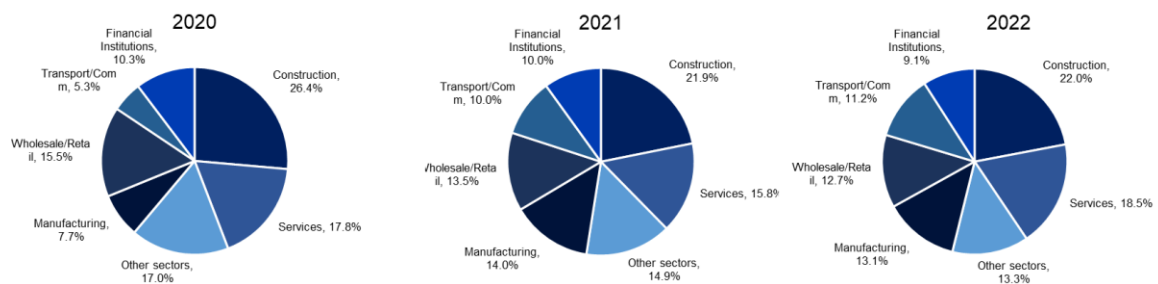
Loan Book Structure (in RO '000)	2018	2019	2020	2021	2022	5yr CAGR
Conventional loans	1,603,610	1,756,777	1,920,525	2,074,241	2,050,357	5.0%
<i>Growth</i>		9.6%	9.3%	8.0%	-1.2%	
Islamic loans	301,485	339,738	356,972	404,614	450,078	8.3%
<i>Growth</i>		12.7%	5.1%	13.3%	11.2%	
<b>Total Loan Book</b>	<b>1,905,095</b>	<b>2,096,515</b>	<b>2,277,497</b>	<b>2,478,855</b>	<b>2,500,435</b>	<b>5.6%</b>
<i>Loan growth</i>	<i>14.9%</i>	<i>10.0%</i>	<i>8.6%</i>	<i>8.8%</i>	<i>4.4%</i>	
<i>Islamic Book Share</i>	<i>15.8%</i>	<i>16.2%</i>	<i>15.7%</i>	<i>16.3%</i>	<i>18.0%</i>	

The Bank has been focusing on growing its corporate book both under the Conventional and Islamic banking, the share of corporate exposure to the total exposure has gone up from 67.1% in 2020 to 71.3% in 2022. NPL is still on the rise, but we believe it has peaked in 2022 and expect NPL ratio to improve from current levels. This would result in lower provision expenses going forward.

Armt in RO '000	2020	%	2021	%	2022	%	3 yr CAGR
Corporate Lending	1,528,009	67.1%	1,739,210	70.2%	1,846,676	71.3%	6.5%
Retail lending	749,488	32.9%	739,645	29.8%	742,389	28.7%	-0.3%
<b>Gross Loan Book</b>	<b>2,277,497</b>	<b>100.0%</b>	<b>2,478,855</b>	<b>100.0%</b>	<b>2,589,065</b>	<b>100.0%</b>	<b>4.4%</b>
<b>NPL Ratio</b>	<b>2.9%</b>		<b>3.2%</b>		<b>3.8%</b>		

The corporate book is fairly diversified across sectors, with major exposure to construction companies, followed by services and manufacturing. The diversified book helps the Bank navigate the industry specific risk adequately. With the focus of Oman government on infrastructure spends, we see demand from construction and manufacturing sector go up and ABOB is well placed to cash in on the growth from these sectors going forward. The Bank has zero sovereign exposure, however there is an insignificant exposure to government entities, which was at a negligible 2.97% of its total gross loan book.

#### Loan book composition





The stage wise exposure of the loan book has seen a movement to stage 2 in FY19. However, since FY19, the stage wise mix has been little changed. The Bank has adequate coverage for Stage 3 exposure, where the risk of default is highest. The overall coverage over the period has reduced from 105% in FY18 to around 90.8%.

Stage wise Exposure	2018	2019	2020	2021	2022
Stage 1	89.6%	80.3%	77.7%	77.9%	79.6%
Stage 2	8.7%	17.9%	19.4%	18.9%	16.7%
Stage 3	1.7%	1.7%	2.9%	3.2%	3.8%
<b>Stage wise coverage</b>					
Stage 1	0.4%	0.4%	0.5%	0.5%	0.4%
Stage 2	6.1%	3.9%	4.2%	4.6%	5.1%
Stage 3	53.7%	56.8%	39.9%	48.4%	60.2%
<b>Overall Coverage</b>	<b>105.04%</b>	<b>113.97%</b>	<b>80.32%</b>	<b>87.56%</b>	<b>90.83%</b>

**Growth in Islamic Banking deposits outstrips Conventional Banking** The total customer deposits stood at RO 2,296.2mn in FY22 as compared to RO 2,181.4mn in FY21, a growth of 5.3%, however, the growth mix was in favor of Islamic Banking, which grew by 21.7% as compared to Conventional Banking. The focus is clearly growing the deposit as well as the loan book in tandem under the Islamic Banking segment.

Deposits (in RO Mn)	2021	%	2022	%	YoY
Conventional	1,787,534	81.9%	1,816,996	79.1%	1.6%
Islamic	393,857	18.1%	479,235	20.9%	21.7%
<b>Total</b>	<b>2,181,391</b>	<b>100.0%</b>	<b>2,296,231</b>	<b>100.0%</b>	<b>5.3%</b>

The Bank has elucidated a strategy of increasing the CASA ratio and the Bank has taken adequate steps to improve the same as can be validated from the performance so far. The CASA ratio has improved from 48.8% in FY22 as compared to 42.7% in FY21. It is pertinent to note that the CASA ratio was at 35% in FY19. We believe the management is clearly walking the talk. The growth in savings account over a 5-year CAGR has been at 20.7%, albeit on a lower base. Overall, the deposit growth over a 5 yr CAGR has been at 6.7%. We believe that the CASA component of the deposits would continue to go up given the focus on branch expansion resulting in granular reach.

CASA Ratio (in RO Mn)	2018	2019	2020	2021	2022	5Y CAGR
Current account	519,890	416,984	398,654	541,156	717,364	6.7%
Savings account	157,987	183,646	254,790	389,403	403,908	20.7%
Other deposits	983,768	1,111,096	1,271,210	1,250,832	1,174,959	3.6%
<b>Total deposits</b>	<b>1,661,645</b>	<b>1,711,726</b>	<b>1,924,654</b>	<b>2,181,391</b>	<b>2,296,231</b>	<b>6.7%</b>
CASA	40.8%	35.1%	34.0%	42.7%	48.8%	

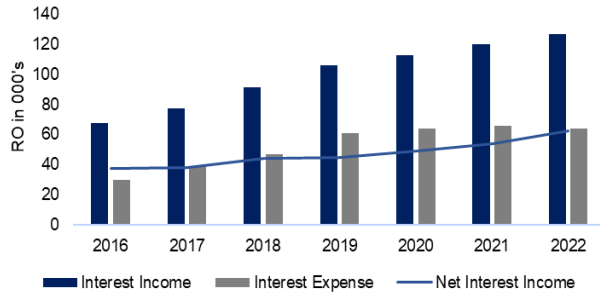
**Return Metrics improve:** The Bank has improved upon its return metrics, with the Adjusted Return on Equity improving to 7.9% in FY22 from 6.3% in FY21, the Return on Assets have improved to 0.8% in FY22 from 0.6% in FY21. The Return on Risk Weighted Assets have also improved in similar fashion from 0.7% in FY21 to 0.9% in FY22. However, the return metrics are yet to revert to pre-covid levels. To bolster its capital the bank has issued Tier I bonds of RO 75mn in August 2022, the proceeds of which were partly used to redeem bonds of RO 50.0mn issued in October 2017. The Bank continues to maintain a CAR of 17.0% as at the year end well above the statutory requirement of 12.0%, providing adequate cushion for future loan growth. The Tier 1 perpetual bonds of RO 149mn constitutes around 32% of the total equity of RO 461mn as on FY22.

**Q4 results update** Q422, saw a good growth in profitability YoY, however as compared to Q322, there was a dip in profits, mainly on account of increase in provisions by 32.8% QoQ and increase in taxes by 34.4%. Operating profit was flat at RO 13.0mn for 4Q22, due to an increase in operating expense by 5.5% QoQ. The loan book de-grew by 1.5% QoQ while the deposit book grew by 3.0% to close at RO 2,296.2mn. Equity including Tier 1 bond increased by 7.9% YoY due to issuance of Tier 1 bond in Nov 2022 for RO 75mn, bonds for a value of RO 50.0mn were redeemed during the year.

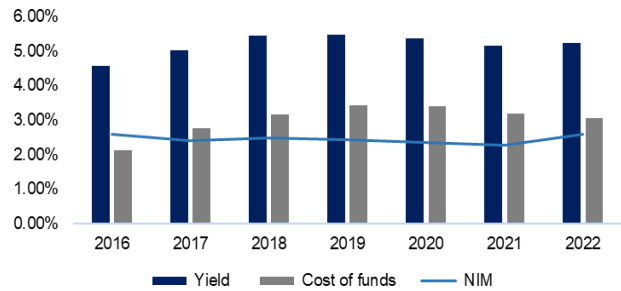
in RO mn	4Q22	3Q22	QoQ (%)	4Q21	YoY (%)
Operating Income	23.8	23.2	2.4%	22.3	6.6%
Operating Expenses	10.7	10.2	5.5%	11.0	-2.7%
Operating Profit	13.0	13.0	-0.1%	11.3	15.7%
Provision Expenses	3.6	2.7	32.8%	3.5	2.5%
Profit before tax	9.4	10.3	-8.8%	7.7	21.8%
Taxation	1.4	1.0	34.4%	1.2	13.9%
Profit after tax	8.0	9.3	-13.5%	6.5	23.3%
Loan Book	2,500.4	2,538.1	-1.5%	2,402.0	4.1%
Deposits	2,296.2	2,228.4	3.0%	2,181.4	5.3%
Total Equity	460.9	453.5	1.6%	427.0	7.9%
Cost to Income	45.19%	43.84%		49.51%	
Cost of credit	0.58%	0.43%		0.59%	
Loan to Deposit	108.89%	113.90%		110.11%	
Reported ROE	6.97%	8.19%		6.10%	

**Valuations:** The operating results have been in line with our expectations. We roll over our projections to FY23e. We marginally increase our fair value target price to RO 0.176 from earlier target of RO 0.170, on account of lower cost of equity, stemming from lower equity beta. Favorable interest margins coupled with increased fee income should help the bank continue with its momentum in earnings growth. We reiterate our BUY recommendation on the stock at the current price, the stock trades at FY23E P/E of 11.5x and P/B of 1.1x. The bank has announced plans for rights issue of RO 50 million. We believe that the proposed capital hike is to replace its AT1 of 54 million that would become callable in December this year. We see it as positive development for ABOB's shareholders. As the bank's shares are currently trading at highest level in 6 years, and the share price rally has happened in the recent past, we expect the rights to be priced at attractive discount to CMP, prompting good participation from investors.

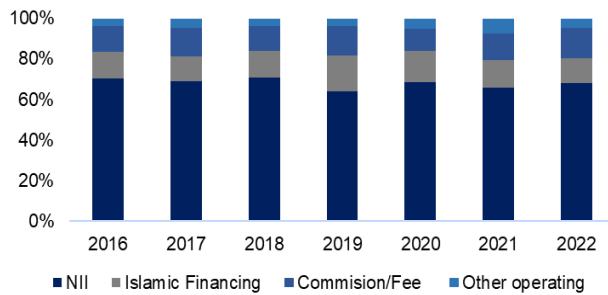
7Y CAGR growth of Interest income at 9%, Interest expenses at 11% and NII of 7.5%



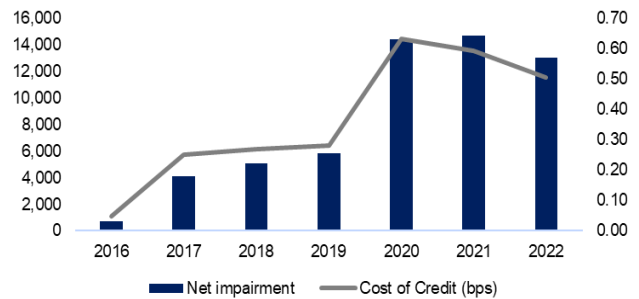
Increase in COF was faster than yield, resulting movement of NIMs in narrow range



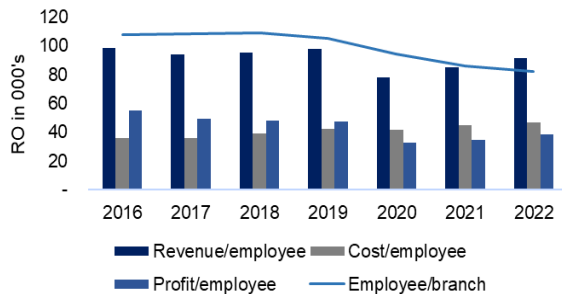
Contribution of Non Interest income (Fee+Other operating Income) up by 300bps



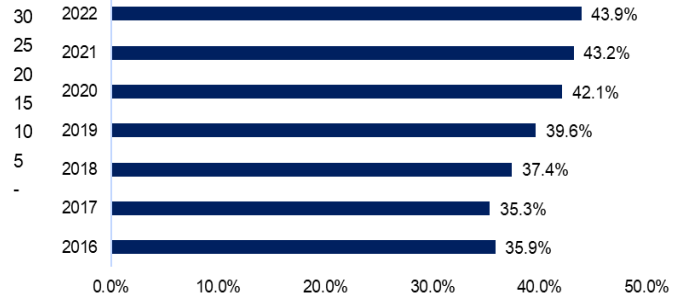
Impairment provisions on loans and Credit cost shoots up from 2020 onwards



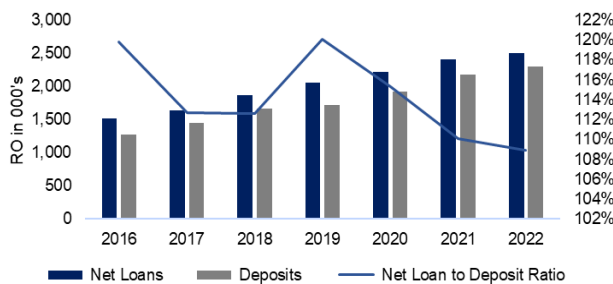
Employee/Branch has gone down, while Cost/Employee has gone up



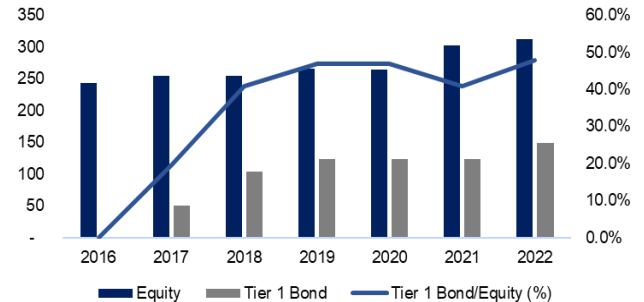
CI Ratio has gone up over the years



Deposits grew at a faster pace than Net Advances over 7 yr period



Tier 1 Bond as a source of Equity has gone up significantly





Income Statement (RO 000')	FY 2019	FY 2020	FY 2021	FY2022	FY23E	FY24E	FY25E
Interest Income	105,504	112,604	119,896	126,436	136,827	142,077	149,181
Interest Expense	-60,769	-63,754	-65,759	-63,982	-67,089	-68,223	-72,121
<b>Net Interest Income</b>	<b>44,735</b>	<b>48,850</b>	<b>54,137</b>	<b>62,454</b>	<b>69,738</b>	<b>73,854</b>	<b>77,060</b>
Net islamic segment income	12,304	11,244	11,427	11,390	11,377	11,366	11,934
Non Interest Income	12,710	11,402	16,874	17,854	20,117	21,581	23,155
<b>Net Operating Income</b>	<b>69,749</b>	<b>71,496</b>	<b>82,438</b>	<b>91,698</b>	<b>101,233</b>	<b>106,801</b>	<b>112,150</b>
Operating expenses	-27,649	-30,095	-35,598	-40,232	-43,328	-44,643	-47,103
<b>Operating profit</b>	<b>42,100</b>	<b>41,401</b>	<b>46,840</b>	<b>51,466</b>	<b>57,905</b>	<b>62,158</b>	<b>65,047</b>
ECL provisions	-5,871	-14,402	-14,680	-13,064	-11,081	-11,635	-12,217
<b>Profit Before Taxation</b>	<b>36,229</b>	<b>26,999</b>	<b>32,160</b>	<b>38,402</b>	<b>46,824</b>	<b>50,523</b>	<b>52,830</b>
Tax expense	-5,214	-3,031	-4,554	-5,312	-7,024	-7,578	-7,925
<b>Profit for the year</b>	<b>31,015</b>	<b>23,968</b>	<b>27,606</b>	<b>33,090</b>	<b>39,800</b>	<b>42,944</b>	<b>44,906</b>
Balance sheet	FY 2019	FY 2020	FY 2021	FY2022	FY23E	FY24E	FY25E
Cash and balances with CBO	108,492	79,020	114,703	132,212	54,622	89,999	79,159
Due from banks	50,276	46,174	44,694	75,147	78,904	82,850	86,992
Loans & advances and financing	2,054,986	2,218,897	2,401,979	2,500,435	2,678,880	2,812,824	2,953,465
Investment securities	258,148	306,368	428,377	293,163	322,479	338,603	355,533
Fixed Assets	21,194	22,864	26,649	35,104	36,319	37,600	38,722
Other Assets	25,431	29,154	36,154	39,405	41,375	43,444	45,616
<b>Total Assets</b>	<b>2,518,527</b>	<b>2,702,477</b>	<b>3,052,556</b>	<b>3,075,466</b>	<b>3,212,579</b>	<b>3,405,319</b>	<b>3,559,487</b>
Due to banks	197,705	135,244	262,340	223,353	230,054	236,955	244,064
Customers' deposits	1,711,726	1,924,654	2,181,391	2,296,231	2,411,043	2,579,816	2,708,806
Borrowings	127,050	159,775	92,400	0	0	0	0
Other liabilities	92,851	94,454	89,428	94,943	99,094	103,452	108,028
<b>Total Liabilities</b>	<b>2,129,332</b>	<b>2,314,127</b>	<b>2,625,559</b>	<b>2,614,527</b>	<b>2,740,190</b>	<b>2,920,223</b>	<b>3,060,898</b>
Paid-up Capital	157,110	164,966	194,966	194,966	194,966	194,966	194,966
Other Reserves	52,626	52,487	48,477	48,875	48,875	48,875	48,875
Retained earnings	55,459	46,897	59,554	68,098	79,548	92,256	105,748
<b>Shareholder's Equity</b>	<b>265,195</b>	<b>264,350</b>	<b>302,997</b>	<b>311,939</b>	<b>323,389</b>	<b>336,097</b>	<b>349,589</b>
Tier 1 Perpetual subordinated bonds	124,000	124,000	124,000	149,000	149,000	149,000	149,000
<b>Total Equity</b>	<b>389,195</b>	<b>388,350</b>	<b>426,997</b>	<b>460,939</b>	<b>472,389</b>	<b>485,097</b>	<b>498,589</b>
<b>Total Liabilities and Equity</b>	<b>2,518,527</b>	<b>2,702,477</b>	<b>3,052,556</b>	<b>3,075,466</b>	<b>3,212,579</b>	<b>3,405,319</b>	<b>3,559,487</b>
Cash Flow Statement	FY 2019	FY 2020	FY 2021	FY2022	FY23E	FY24E	FY25E
Cash flow from operating activities	-88,276	160,108	221,455	20,044	-14,862	87,078	43,111
Cash flow from investing activities	-44,884	-27,474	-55,449	-17,671	-34,378	-21,464	-22,538
Cash flow from financing activities	62,759	1,769	-65,653	-95,562	-28,350	-30,237	-31,413
Net change in cash	-70,401	134,403	100,353	-93,189	-77,590	35,377	-10,840
<b>Cash at the end of period</b>	<b>65,266</b>	<b>199,669</b>	<b>300,022</b>	<b>206,833</b>	<b>129,243</b>	<b>164,620</b>	<b>153,780</b>





Key ratios	FY 2019	FY 2020	FY 2021	FY2022	FY23E	FY24E	FY25E
<b><u>Operating performance</u></b>							
Yield on average earning assets	5.5%	5.4%	5.1%	5.2%	5.5%	5.3%	5.3%
Cost of funds	3.4%	3.4%	3.2%	3.1%	3.1%	3.0%	3.0%
Interest spread	2.1%	2.0%	2.0%	2.2%	2.3%	2.3%	2.3%
NIM	2.4%	2.3%	2.280%	2.574%	2.633%	2.63%	2.62%
Interest income/operating income	179%	184%	172%	165%	160%	157%	157%
Net interest income/operating incom	81.8%	84.1%	79.5%	80.5%	80.1%	79.8%	79.4%
Non interest income/operating incorr	18.2%	15.9%	20.5%	19.5%	19.9%	20.2%	20.6%
Cost to income ratio	39.6%	42.1%	43.2%	43.9%	42.8%	41.8%	42.0%
<b><u>Liquidity</u></b>							
Net Loan to Deposit Ratio	108%	108%	98%	99%	101%	100%	100%
Customer deposits/total deposits	90%	93%	89%	91%	91%	92%	92%
Net loans to customer deposits	120%	115%	110%	109%	111%	109%	109%
Investments/total assets	10%	11%	14%	10%	10%	10%	10%
<b><u>Asset quality</u></b>							
Stage 1 loan ratio	80%	78%	78%	80%	78%	78%	78%
Stage 2 loan ratio	18%	19%	19%	17%	19%	19%	19%
Gross NPL ratio	1.7%	2.9%	3.2%	3.8%	3.3%	3.1%	3.0%
Provision as a % of gross loans	2.0%	2.3%	2.8%	3.4%	3.3%	3.3%	3.3%
NPL Coverage	114%	80%	88%	91%	102%	106%	110%
Cost of credit	28.00%	63.24%	59.22%	50.46%	40.00%	40.00%	40.00%
Stage 1 coverage	0.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%
Stage 2 coverage	3.9%	4.2%	4.6%	5.1%	4.7%	5.1%	5.5%
Stage 3 coverage	57%	40%	48%	60%	65%	65%	65%
<b><u>Capital adequacy</u></b>							
Tier I ratio	16.0%	14.8%	15.9%	16.4%	16.3%	15.8%	15.6%
Tier II ratio	0.9%	0.9%	0.8%	0.5%	1.1%	1.0%	1.0%
CAR	16.9%	15.7%	16.7%	17.0%	17.4%	16.9%	16.6%
Net Equity to Gross Loans	12.6%	11.6%	12.2%	12.0%	11.7%	11.6%	11.4%
Net Equity to Total Assets	10.5%	9.8%	9.9%	10.1%	10.1%	9.9%	9.8%
<b><u>Return ratios</u></b>							
Reported ROE	12.1%	9.4%	9.5%	10.9%	12.5%	13.0%	13.1%
Adjusted ROE	8.5%	5.7%	6.3%	7.9%	9.0%	9.6%	9.8%
ROA	0.9%	0.6%	0.6%	0.8%	0.9%	1.0%	1.0%
RoRWA	1.0%	0.6%	0.7%	0.9%	1.0%	1.1%	1.1%
<b><u>Per share ratios</u></b>							
EPS	0.019	0.009	0.010	0.012	0.015	0.016	0.017
BVPS	0.169	0.160	0.155	0.160	0.166	0.172	0.179
DPS	0.010	0.005	0.008	0.009	0.009	0.010	0.010
<b><u>Valuation</u></b>							
Price	0.130	0.127	0.116	0.169	0.169	0.169	0.169
P/E	6.9	14.3	11.9	13.9	11.5	10.4	9.8
P/B	0.8	0.8	0.7	1.1	1.0	1.0	0.9
Dividend Yield	7.7%	3.9%	6.5%	5.3%	5.2%	5.8%	6.1%



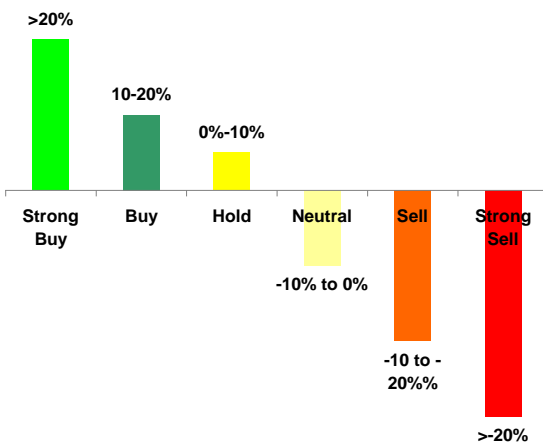
## Key contacts

### Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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