Omani Leasing Sector

December 2, 2019

Company	Rating
National Finance (NFCI)	HOLD
Al Omaniya Financial Services (AOFS)	HOLD
Muscat Finance (MFCI)	HOLD
Taageer Finance (TFCI)	NR
United Finance (UFCI)	HOLD

- **Finance asset growth to remain stagnant**
- **Net finance margins showing some signs of recovery; falling yields as cost of funding eases will continue to dampen spread expansion**
- **Consolidation to remain key survival tactic; ongoing UFCI/TFCI collaboration talks**

- ***We revise our target prices and ratings on the Omani Leasing sector as follows: National Finance (NFCI) –OMR 0.151 per share, Al Omaniya Financial Services (AOFS) – OMR 0.101 per share, Muscat Finance (MFCI) – OMR 0.059 per share and United Finance (UFCI) – OMR 0.066 per share-. We have placed Taageer Finance (TFCI) on Not Rated (NR) status due to its ongoing bond issuance where U Capital is the issue manager.***
- Oman's leasing sector is currently facing multiple challenges, from liquidity crunch to increasing defaults and delayed payments. Additionally, there has been tough competition from commercial as well as Islamic banks. As overall credit growth stagnates, banks are also becoming aggressive in the SME segment, crowding out the leasing companies. We are forecasting a stalled sector-wide finance asset growth over the near to medium term.
- Nevertheless, we expect credit growth to improve at the end of the forecast period on anticipation of improvements in macroeconomic situation as various Government-led diversification efforts like Tanfeedh program bear fruition in addition to improvement in hydrocarbon revenues (Khazzan Gas field capacity utilization), assuming oil prices remain at the current levels.
- The World Bank forecasts Oman's GDP growth to slow down to 0.3% in 2019 as Oman's commitment to the December 2018 OPEC+ output cut constrains oil production. There will be a one-off spike in growth to 3.7% in 2020 as the government plans to significantly increase investment in the Khazzan gas field. The potential boost from the diversification investment spending would continue supporting growth in 2021 and the medium term.
- We have assumed spreads to remain under pressure as interest yields fall due to a drop in cost of funding. However, further deterioration in the macroeconomic situation warrants downside risk to our valuation as it will have direct impact on credit growth.
- Currently, two companies (TFCI and UFCI) are undergoing talks on a possible strategic collaboration. We believe that consolidation efforts will continue throughout the sector, and are necessary in an over-crowded leasing market like Oman's.

Name	Last Px (OMR)	P/B'19e, (x)	P/E'19e, (x)	ROE'19e, (%)	Div Yield, %	Target Price (OMR)	Upside / (Downside)
NFCI	0.139	0.93	9.09	9.6%	6.0%	0.151	8.6%
AOFS	0.105	0.47	8.23	5.7%	9.5%	0.101	-3.8%
TFCI	0.108	0.65	6.64	9.9%	9.3%	-	-
MFCI	0.060	0.45	63.04	0.7%	0.0%	0.059	-1.7%
UFCI	0.072	0.57	33.28	1.7%	0.0%	0.066	-8.3%

Source: Bloomberg, U Capital Research

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Sector Overview

Sector trading at fair Price-to-Book, in our view

Oman's leasing sector's credit offtake has slowed down drastically from the highs of pre-2015 era, due to reduced Government revenues of an oil-dependent economy inevitably resulting in the slowdown of the economy. Furthermore, the companies' asset quality has markedly deteriorated. We believe that the sector's de-rating to about 0.58x book value is justified, because:

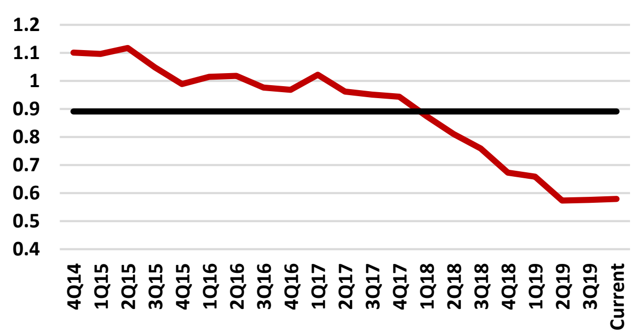
(1) The companies' balance sheets are weaker now and warrant trading values below post 2008-2009 or Global Financial Crisis (GFC) levels,

(2) Higher risk-free rate already accounts for higher sovereign risk, translating into higher cost of equity, resulting in reduced valuations of the companies, and

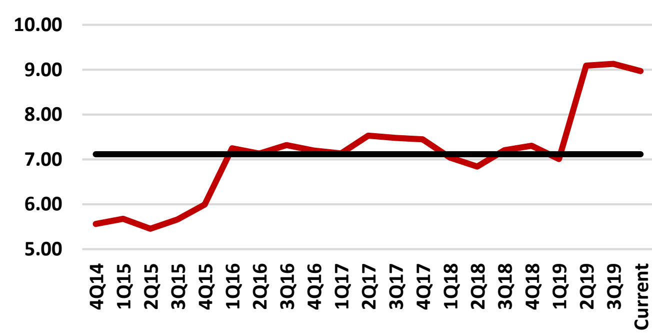
(3) Some of the companies' dividend paying ability has markedly reduced, with net profit levels drastically down amidst weak asset quality metrics.

Modest growth assumptions justify the current trading levels for some of the stocks and are supported by fundamentals.

Average Quarterly Px to Book (x)



Average Gross Dividend Yield (%)



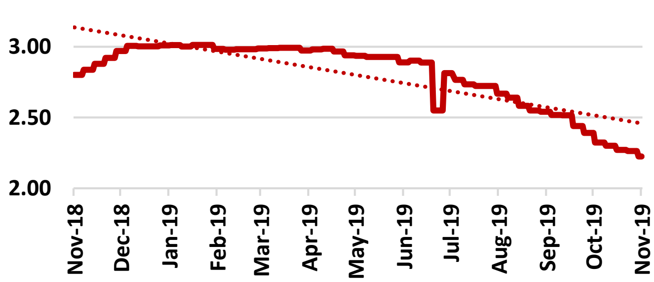
Source: Bloomberg

Lending rates have improved on YTD basis; Spreads expected to improve as cost of funding falls

The US Fed's recent rate cuts so far and expectation of further cuts from 2019 onwards indicates that Oman's interest rates will decrease in sync with the US policy interest rates due to the OMR-USD peg.

As can be seen from the following graph, Central Bank of Oman (CBO)'s repo rate, as tracked by Bloomberg, is also down about 20% since last year, reaching 2.224% in Nov'19, down from 3.003% in Jan'19. The rate has eased by about 79bps on YTD basis.

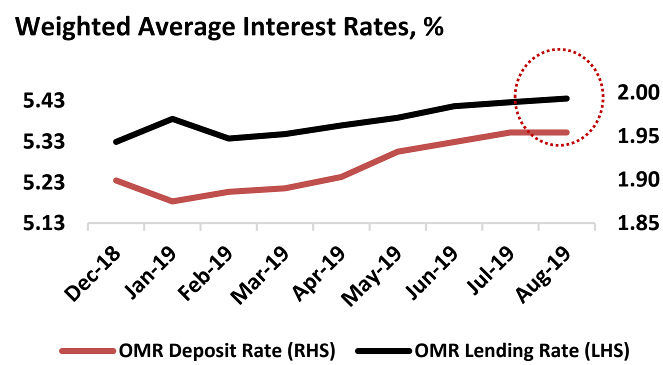
CBO Repo Rate (%)

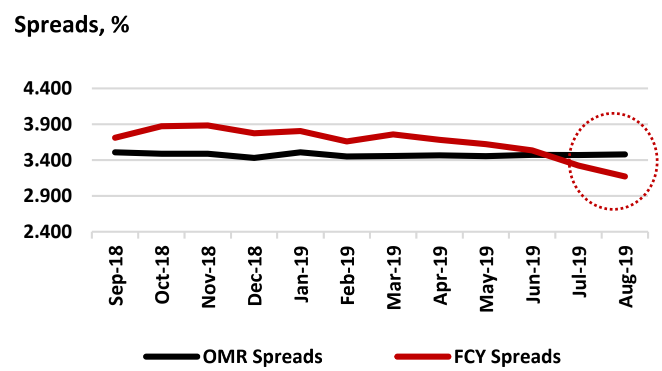


Source: CBO, Bloomberg

Furthermore, we have seen that the weighted average cost of OMR deposits was flat on MoM basis in Aug'19 at 1.954%, whereas weighted average lending rate improved by 0.9bps on MoM basis during Aug'19 to reach 5.435%.

The foreign currency (FCY) spread has contracted by 15.1bps MoM during Aug'19, and is down 49.3bps on YoY basis. The OMR spread has been improving since May'19, and has shown an improvement of 0.9bps during Aug'18. Therefore, we believe that the leasing companies will have limited potential to grow their finance income on the back of easing interest rates, but falling cost of funding should ease the burden on net finance margin slightly, resulting in stable spreads for some time.

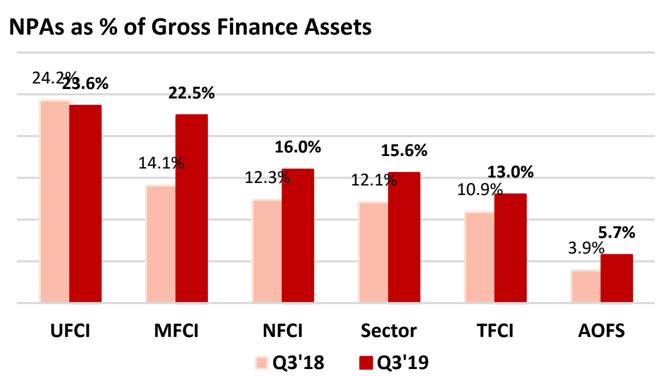


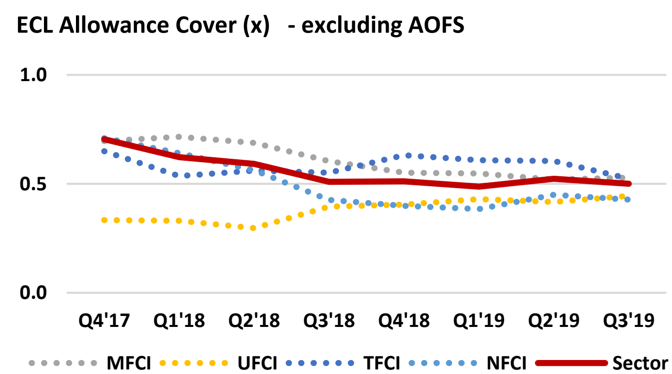


Source: CBO

High non-performing asset (NPA) ratio across the board; TFCI and AOFS remain below sector average

The NPAs of the sector as at the end of 9M'19 were at a record 15.6% of total gross finance assets. The high NPA ratio suggests unsatisfactory asset quality and a rampant deterioration in credit risk of the leasing companies of Oman. The Expected Credit Loss (ECL) Allowance cover has also deteriorated for the sector to a mere 0.51x as at 9M'19-end, flat on YoY basis. We believe that there will be further deterioration in asset quality of some companies in the short to medium term. However, as cost of funding eases, borrower capacity to pay off delinquent loans is expected to increase in the medium term.



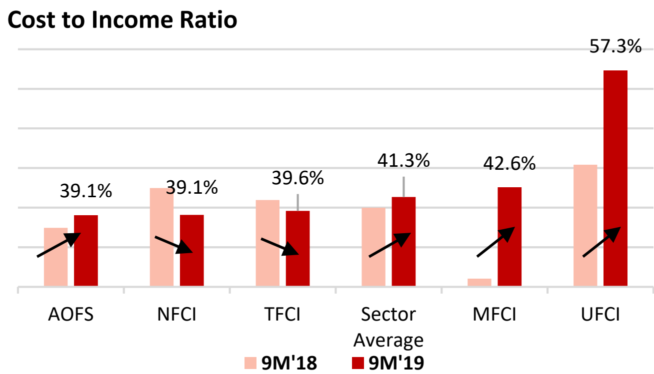


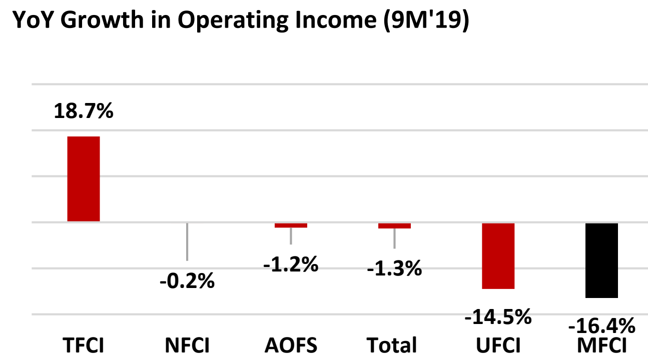
Source: Company Financials, U Capital Research

We have conservatively decreased the cost of risk slightly for each company over the first couple of years during the forecast period before leveling it out for the remaining forecast period, on falling cost of funding which will improve borrowers' ability to re-pay loans.

Efficiency for most companies has declined; TFCI and NFCI beat the trend

Most of the leasing companies have been working on controlling costs under tepid income growth outlook. However, due to income declines for most, operating cost to income ratio increased for most of them, other than National Finance and Taageer Finance, which have shown improvements in their cost-to-income ratio. Amongst the leasing companies, Taageer Finance (TFCI) is the only company to have shown a rise in its operating income on the back of rising net finance assets and improvement in spreads.



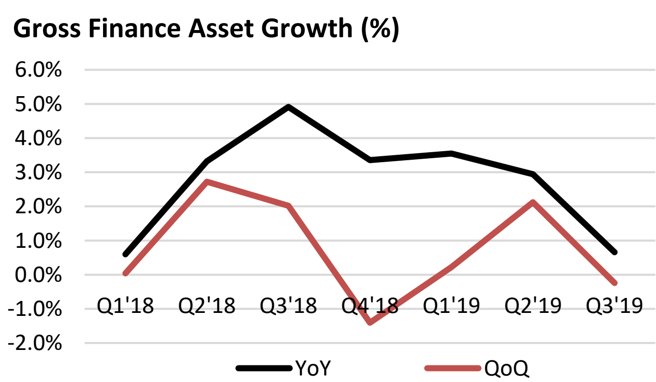


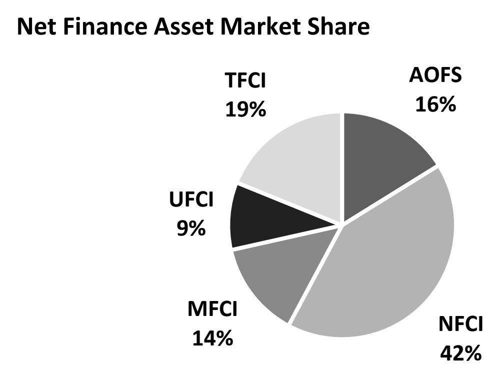
Source: Company Financials, U Capital Research

Overall net finance asset growth has stalled; TFCI and NFCI refute sector-wide decline

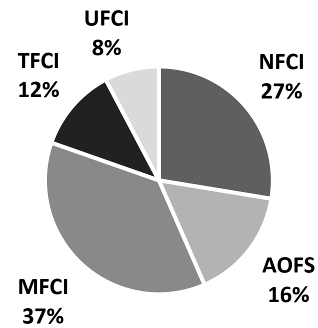
The total net finance assets for the six listed leasing companies reached OMR 1.03bn (2.9%YoY and -1.3%QoQ) as of Q3’19, with negative YoY growth recorded for the first time in 2019. The total gross finance assets (excluding unearned finance income) of the five listed leasing companies reached OMR 1.32bn (+0.7%YoY, -0.2%QoQ) as at the end of 9M’19.

Taageer Finance (TFCI) posted the highest growth rate for it net finance asset at 15.6%YoY, although its net finance assets were down 2.8%QoQ. National Finance (NFCI) grew its net finance asset by 1.7%YoY and 2.2%QoQ. The remaining three leasing companies saw contraction in their net finance asset at the end of 9M’19, with Al Omaniya Financial Services’ (AOFS) asset declining by 18%YoY and 6.7%QoQ, Muscat Finance’s (MFCI) declining by 14.0%YoY and 3.0%QoQ, and United Finance’s (UFCI) asset declining by 4.1%YoY and 1.0%QoQ.

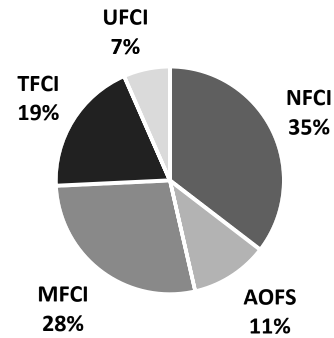




Corporate Market Share



Retail Market Share



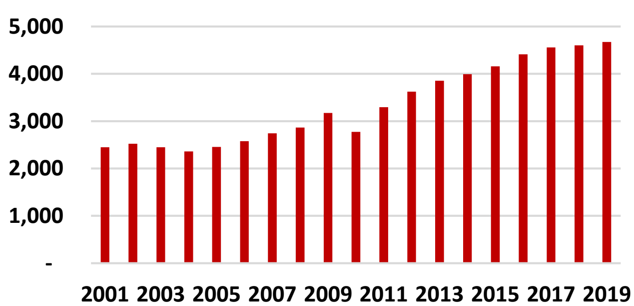
Source: 9M'19 Company Financials, U Capital Research

Favorable demographics for leasing sector growth, however, capacity to lend remains under pressure

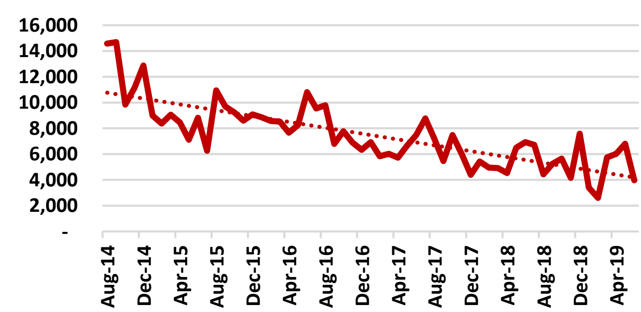
The population of Oman reached 4.67mn in 2019 according to the latest data from the National Centre of Statistics and Information in Oman (NCSI), growing by 1.6%YTD. As per the World Population Review, the median age of Oman's population is currently at 25.6 years of age. The population of Oman is expected to grow to 7.66mn by 2040, according to NCSI estimates.

The leasing sector primarily caters to the financing needs of smaller sized businesses which are uncaptured by the banking sector. Therefore, we believe that leasing companies will be able to opportunistically grow their net finance assets over the next few years, given the sheer size of working age population. Nonetheless, competition from other players in the market especially Islamic banks remains high. Furthermore, due to deteriorating asset quality which weighs down on capital adequacy, the companies may not have the capacity to pursue growth in net finance assets.

Oman Population (000)



Number of new vehicles registered in Oman



Source: NCSI Oman

Challenging retail car financing segment growth

Roughly about 35% of finance assets of the sector are comprised of retail segment, with car financing as a major chunk. The sector as a whole is expected to continue to face challenges in growing their retail portfolios in this segment as new vehicle registrations have continuously been dropping as compared to the previous years.

United Finance & Taageer Finance exploring possibility of a strategic collaboration

United Finance & Taageer Finance are exploring possibility of a strategic collaboration. If this results in a merger, then we believe the following will hold true:

- ✓ The new entity will have net finance assets in excess of OMR 300mn, ranking number 2 in the leasing space in terms of net finance assets after National Finance. (Currently, TFCI is a distant second-largest after NFCI, UFCI is the smallest within the sector)
- ✓ Cost efficiency will improve as synergies establish between the two entities post-merger.
- ✓ NPA Coverage of merged entity will improve
- ✓ Merged financing portfolio is expected to be well diversified as opposed to the current opposing concentrations (TFCI: Retail Portfolio 46% of total as of 9M'19; UFCI: Retail Portfolio 31% of total as of 9M'19. Combined portfolio will be 58.9% corporate and 41.1% retail.
- ✓ The merged entity will likely be able to finance larger projects in lieu of a larger capital base and higher leverage potential.
- ✓ TFCI's efficiency will help boost the merged entity's ROE.

Key Risks to Valuation

Key **downside** risks to our valuations include:

- A slower-than-expected credit offtake.
- Any regulatory action, which has a negative impact on the profitability of leasing companies.
- Higher-than-expected sovereign risk resulting in cost of equity to rise further.
- Rapid deterioration in asset quality and ECL Allowance Cover levels resulting in higher-than-expected cost of risk.

Key **upside** risks to our valuation include:

- Better-than-expected sovereign risk profile resulting in a lower cost of equity.
- Better-than-expected credit offtake.

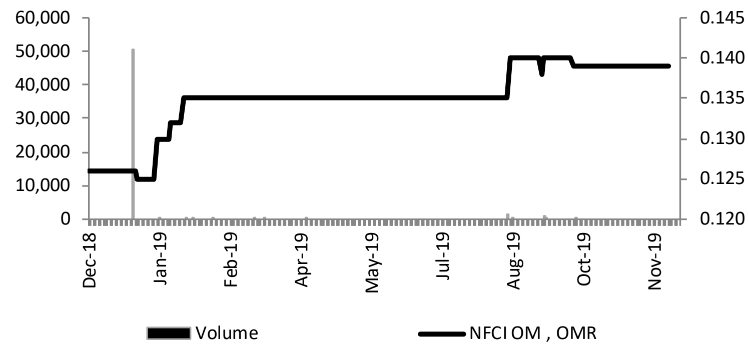
National Finance (NFCI)

Recommendation: **Hold** **TP (OMR):** **0.151 /share**

Upside / (Downside): 9%

Analyst: Ayisha Zia

Bloomberg Ticker	NFCI OM
Current Market Price (OMR)	0.139
52wk High / Low (OMR)	0.144/0.125
12m Average Vol. (000)	217.5
Mkt. Cap. (USD/OMR mn)	194 / 75
Shares Outstanding (mn)	538.6
Free Float (%)	37%
3m Avg Daily Turnover (000)	2.4
6m Avg Daily Turnover (000)	2.7
PE 2020e (x)	8.5
PBv 2020e (x)	0.9
Dividend Yield '19e (%)	6.0%
Price Perf. (1m/3m) (%)	0 / -0.71



Muted profitability growth expectation over forecast period

The company is expected to post a muted profitability growth over the near-to-medium term on the back of a tepid growth in net finance debtors which will result in a modest increase in net interest income over the forecast period. The bottom line will be further weighed down by growing credit costs, in lieu of the current macroeconomic scenario which might result in an upward pressure on NPAs. We have remained very cautious in our stance on growth prospects of the company, where we expect the company's total income to increase at a CAGR of 2.6% over 2019-2021E. Additionally, we expect operating costs to remain at about 40% of total income resulting in a muted profit growth.

Increasing competition to further constrain financing asset growth

We believe that the company's net finance debtors will grow marginally going forward, due to partial oil price recovery resulting in an uplift for the Omani economy. Intense competition from other leasing companies and banks, however, will continue to constrain financing asset growth. Additionally, cost of funding is expected to ease, and hence re-pricing of financing assets will play a key role in net finance income growth.

NPAs have risen in FY19; a trend likely to continue

Non-performing asset as a % of gross finance asset rose from 6.9% in FY17 to 12.0% in FY18, bringing the NPA coverage ratio down from 0.71x in FY17 to 0.40% in FY18, pointing towards deterioation in quality of the finance assets. As at 9M'19, NPAs stood at 14.3% of total gross finance assets. However, we believe that cost of risk will sequentially decline as cost of funding declines, and borrowers' ability to pay off loans improves.

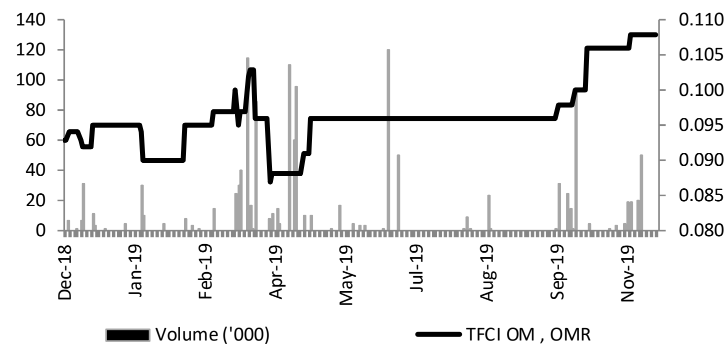
Income Statement					
(OMR '000)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Total Income	18,610	42,347	43,539	45,327	47,036
Total Expenses	(4,902)	(13,415)	(17,637)	(18,072)	(19,110)
Profit Before Tax	7,924	14,083	9,664	9,903	10,283
Profit After Tax	7,020	12,015	8,277	8,417	8,741
Balance Sheet					
(OMR mn)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Assets	207	442	461	467	477
Shareholders' Equity	49	86	87	83	87
Net finance debtors	201	420	428	441	447
Borrowings	129	298	329	339	344
Key Ratios					
	2017	**2018**	**2019E**	**2020E**	**2021E**
Cost to Income	38.7%	42.2%	41.2%	40.4%	40.8%
Finance Debtors to Total Assets	97.1%	94.9%	92.9%	94.4%	93.8%
ROaE	14.9%	17.9%	9.6%	9.9%	10.3%
Dividend yield	0.0%	6.2%	6.0%	6.0%	6.0%
EPS (OMR)	0.025	0.023	0.015	0.016	0.017
BVPS (OMR)	0.153	0.153	0.149	0.149	0.157
P/E (x)*	5.7	5.8	9.1	8.5	8.2
P/BV (x)*	0.9	0.9	0.9	0.9	0.9

Source: Company Reports, U Capital Research **P/E and P/B from current year onwards calculated on price of 12/01/2019*

Taageer Finance (TFCI)

Recommendation:	Not Rated (NR)	TP (OMR):	-
		Upside / (Downside):	-
		Analyst: Ayisha Zia	

Bloomberg Ticker	TFCI OM
Current Market Price (OMR)	0.108
52wk High / Low (OMR)	0.109/0.085
12m Average Vol. (000)	5.2
Mkt. Cap. (USD/OMR mn)	71 / 27
Shares Outstanding (mn)	253.6
Free Float (%)	35%
3m Avg Daily Turnover (000)	0.5
6m Avg Daily Turnover (000)	0.4
PE 2020e (x)	6.0
PBv 2020e (x)	0.6
Dividend Yield '19e (%)	9.3%
Price Perf. (1m/3m) (%)	1.89 / 12.5



Net profit likely to remain under pressure on inflated net ECL allowance charge

The company's total income is expected to grow at a CAGR of 11.5% over the forecast period on a better-than-sector average growth in net finance debtors, a CAGR of 12.5%. The company's operating expenses are expected to remain stable, however, higher net ECL allowance charges are expected to weigh down net profit over the forecast period. The company's cost of risk is expected to rise to 146bps in 2019 as compared to 103bps in 2018. 4Q18 saw higher recoveries, but we have conservatively assumed slower recoveries this year, given the subdued macroeconomic situation. After 2019, we expect cost of risk to ease slightly, translating into net profit growth.

Net finance debtors to grow at a CAGR of 12% the forecast period

The current macroeconomic environment warrants a cautious view on the growth expcted in net financing assets of the company. In spite of that, we believe that Taageer Finance will be able to grow its net finance asset at a CAGR of 12% as the company competes to increase its market share. Undoubtedly, given the macroeconomic outlook, all banks & leasing companies will be fiercely competing with each other in order to maintain market share, but we believe given Taageer Finance's solid balance sheet position, it will be able to fare better than its peers.

Profitability to remain under pressure

The company's ROAE and ROAA has been under pressure as net profit has declined. We believe that this trend will continue until macroeconomic situation becomes conducive for leasing sector business growth. If the company is able to improve its asset quality through faster recoveries and/or through more conservative financing asset growth, then we believe that the stock price will have a positive trigger.

Income Statement					
(OMR '000)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Total Income	15,301	16,464	20,126	22,037	23,060
Total Expenses	(4,720)	(5,815)	(7,645)	(8,270)	(8,320)
Profit Before Tax	5,661	5,192	4,848	5,340	5,837
Profit After Tax	4,703	4,867	4,123	4,542	4,964
Balance Sheet					
(OMR mn)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Assets	151	168	207	226	239
Shareholders' Equity	39	41	42	44	46
Net finance debtors	147	164	202	222	234
Borrowings	108	116	152	167	175
Key Ratios					
	2017	**2018**	**2019E**	**2020E**	**2021E**
Cost to Income	38.9%	38.3%	39.8%	40.4%	40.2%
Finance Debtors to Total Assets	97.5%	97.8%	97.4%	98.2%	97.8%
ROAE	12.5%	12.2%	9.9%	10.6%	11.1%
Dividend yield	8.4%	10.5%	9.3%	9.3%	9.3%
EPS (OMR)	0.019	0.019	0.016	0.018	0.020
BVPS (OMR)	0.152	0.162	0.166	0.172	0.181
P/E (x)*	6.4	4.9	6.6	6.0	5.5
P/BV (x)*	0.8	0.6	0.7	0.6	0.6

Source: Company Reports, U Capital Research

**P/E and P/B from current year onwards calculated on the price as of 12/02/2019*

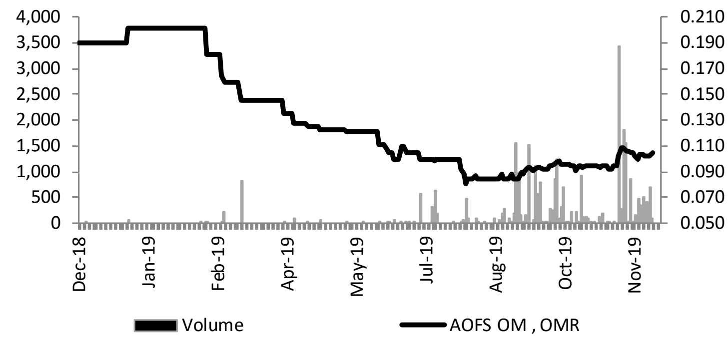
Al Omaniya Financial Services (AOFS)

Recommendation: **Hold** **TP (OMR):** **0.101 /share**

Upside / (Downside): **6%**

Analyst: Ayisha Zia

Bloomberg Ticker	AOFS OM
Current Market Price (OMR)	0.105
52wk High / Low (OMR)	0.202/0.08
12m Average Vol. (000)	119.2
Mkt. Cap. (USD/OMR mn)	78 / 30
Shares Outstanding (mn)	285.6
Free Float (%)	18%
3m Avg Daily Turnover (000)	36.2
6m Avg Daily Turnover (000)	21.6
PE 2020e (x)	8.2
PBv 2020e (x)	0.5
Dividend Yield '19e (%)	9.8%
Price Perf. (1m/3m) (%)	14.13 / 23.53



Muted net profit growth expected over the MT; Dividend payout likely to be at 10% of par value

The company is expected to post a flat net profit growth over the near-to-medium term on the back of a tepid growth expected in net finance debtors, which will result in marginal growth in total income which has a trickle down effect. Furthermore, upward pressure on operating costs is likely to continue, resulting in further erosion of net profit margin, given that credit cost is also highly likely to remain at current level on the back of the current macroeconomic situation and the company's skewed exposure (~69% of the total financing portfolio as at 9M'19 end) to corporate finance debtors. On the dividend front, we believe that the company will pay out 10% of its paid-up share capital as dividends for FY19.

Net financing asset to remain flat over 2019-2021E

We expect the company to grow its net financing asset by a mere 1.0% CAGR over 2019-2021E on the back of the current macroeconomic situation, which is likely to result in increased competition between banks & leasing companies alike as companies try to retain market share of the entire Omani credit pie. Nonetheless, we believe that the company has the potential to grow faster in case economic activity improves as it has a strong funding mix as well as ability to improve its gearing ratio further.

Asset quality expected to remain under pressure

We believe that credit cost will remain largely stable over the forecast period given the macroeconomic situation. We expect non-performing loans as a % of gross loans to remain stable at historical levels. Credit cost rose from 7 bps in FY17 to 145 bps in FY18. NPAs as % of net finance assets dropped from 1.2% in FY17 to 0.7% in FY18. As at the end of 9M'19, the company's NPL ratio is 6.0%, with provision cover at 0.9x.

Income Statement					
(OMR '000)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Total Income	19,790	18,284	17,297	17,870	18,250
Total Expenses	(11,368)	(13,546)	(13,031)	(13,375)	(13,689)
Profit Before Tax	8,422	4,738	4,266	4,494	4,561
Profit After Tax	6,981	4,027	3,723	3,825	3,882
Balance Sheet					
(OMR mn)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Assets	245	236	215	221	225
Shareholders' Equity	65	65	66	69	71
Net finance debtors	217	190	168	169	171
Borrowings	166	156	129	131	132
Key Ratios					
	2017	**2018**	**2019E**	**2020E**	**2021E**
Cost to Income	35.6%	36.6%	38.8%	39.0%	38.8%
Finance Debtors to Total Assets	88.6%	80.3%	77.9%	76.6%	76.2%
ROAE	10.9%	6.2%	5.7%	5.7%	5.6%
Dividend yield	6.2%	5.6%	9.8%	9.8%	9.8%
EPS (OMR)	0.025	0.014	0.013	0.013	0.012
BVPS (OMR)	0.235	0.229	0.225	0.224	0.221
P/E (x)*	10.9	14.3	8.0	8.2	8.4
P/BV (x)*	1.2	0.9	0.5	0.5	0.5

Source: Company Reports, U Capital Research **P/E and P/B from current year onwards calculated on price of 12/01/2019*

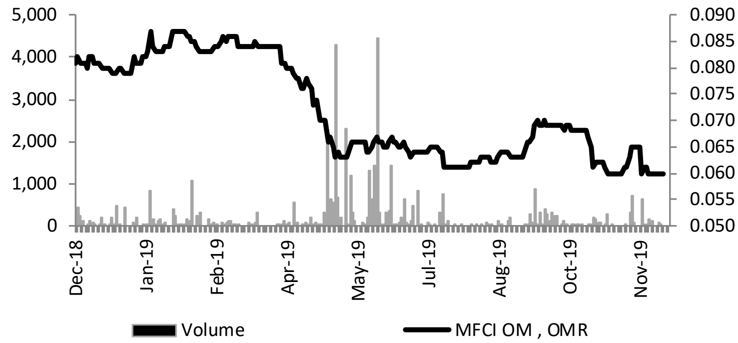
Muscat Finance (MFCI)

Recommendation: **Hold** **TP (OMR):** **0.059 /share**

Upside / (Downside): -3%

Analyst: Ayisha Zia

Bloomberg Ticker	MFCI OM
Current Market Price (OMR)	0.060
52wk High / Low (OMR)	0.088/0.059
12m Average Vol. (000)	181.1
Mkt. Cap. (USD/OMR mn)	48 / 18
Shares Outstanding (mn)	307.1
Free Float (%)	59%
3m Avg Daily Turnover (000)	6.7
6m Avg Daily Turnover (000)	11.5
PE 2020e (x)	57.4
PBv 2020e (x)	0.5
Dividend Yield '19e (%)	0.0%
Price Perf. (1m/3m) (%)	0 / -4.76



Net profit to remain under pressure due to mounting bad debts

The company's total income for 9M'19 is down 6%YoY on lower net financing margin, as interest rates are declining but at the same time cost of funds has not eased for the leasing sector. In addition to this, the company's cost of risk has shot up, with ECL allowance charge more than doubling up. This has resulted in the company's 9M'19 net profit to halve on YoY basis, i.e. OMR 343k only for 9M'19. We expect this trend to continue until cost of risk begins to ease as bad debts decline or are recovered. Non performing assets as of 9M'19 stood at 26.1% of net finance assets, with ECL allowance cover at a mere 0.53x.

Net finance assets likely to continue to decline as the company provides for and/or sheds non-performing assets

The company's net finance asset has been declining since 4Q18 on quarterly basis due to higher ECL allowance. We expect this trend to continue as the company battles the overall subdued macroeconomic outlook amidst rising bad debts. Gross finance assets have grown marginally over the previous few quarters, and we expect this trend to conitnue until macroeconomic situation eases.

A notable recovery in asset quality is the only positive trigger for the stock

If the company manages to shed non-performing assets, and is more conservative in net finance asset growth, thereby improving its asset quality metrics, then we can see that as a positive trigger for the stock price. We have assumed a modest reduction in cost of risk of the company sequentially over the next few years, however, if this reduction exceeds our expectation then the company's stock price can see an increase.

Income Statement					
(OMR '000)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Total Income	13,266	14,066	12,837	11,912	12,114
Total Expenses	(8,631)	(9,407)	(12,493)	(11,521)	(11,585)
Profit Before Tax	4,635	4,659	344	391	530
Profit After Tax	4,048	4,051	292	332	450
Balance Sheet					
(OMR mn)	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Assets	145	166	149	165	167
Shareholders' Equity	40	42	41	40	41
Net finance debtors	142	161	136	142	144
Borrowings	73	85	83	100	101
Key Ratios					
	2017	**2018**	**2019E**	**2020E**	**2021E**
Cost to Income	38.0%	31.6%	42.6%	42.6%	42.6%
Finance Debtors to Total Assets	97.9%	97.1%	91.3%	86.3%	86.3%
ROAE	10.4%	10.0%	0.7%	0.8%	1.1%
Dividend yield	7.3%	7.7%	0.0%	0.0%	0.0%
EPS (OMR)	0.014	0.014	0.001	0.001	0.001
BVPS (OMR)	0.139	0.139	0.135	0.128	0.130
P/E (x)*	7.8	6.0	64.1	57.4	42.3
P/BV (x)*	0.8	0.6	0.5	0.5	0.5

Source: Company Reports, U Capital Research

**P/E and P/B from current year onwards calculated on price of 12/01/2019*

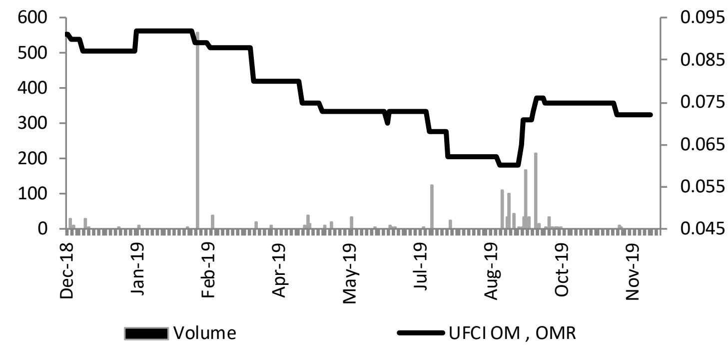
United Finance (UFCI)

Recommendation: **Hold** **TP (OMR):** **0.066 /share**

Upside / (Downside): **-8%**

Analyst: Ayisha Zia

Bloomberg Ticker	UFCI OM
Current Market Price (OMR)	0.072
52wk High / Low (OMR)	0.095/0.06
12m Average Vol. (000)	7.3
Mkt. Cap. (USD/OMR mn)	65 / 25
Shares Outstanding (mn)	349.1
Free Float (%)	53%
3m Avg Daily Turnover (000)	0.8
6m Avg Daily Turnover (000)	0.5
PE 2020e (x)	45.6
PBv 2020e (x)	0.6
Dividend Yield '19e (%)	0.0%
Price Perf. (1m/3m) (%)	-4 / 20



Net profit will remain under pressure over the forecast period on high cost of risk

The company's net profit will remain under pressure over the forecast period because (1) net finance debtor growth will likely remain flattish (2) net ECL allowance charge will remain high, unless higher recoveries emerge, probability of which is currently low, and (3) operating expenses are expected to remain at current levels.

Net finance debtors to remain flat over the forecast period

The current macroeconomic environment warrants a cautious view on the growth expected in net financing assets of the company. We believe that banks and leasing companies alike will continue to compete fiercely in order to maintain or expand market share within the Omani credit pie. Our expectation is that United Finance will be not be able to maintain its market share, as seen over the last few quarters, and its net financing assets will remain flat over the forecast period.

Asset quality to remain weak

Non-performing assets (including reserved interest) as of 9M'19 stood at OMR 27.36mn, down by 3.8%YoY and 1.5%QoQ. However, as % of net finance assets, the figure remains high, with NPAs at 20.5% of the total finance debtors. This indicates a marked deterioration in asset quality of the company, as this ratio stood at 8.3% in 2016, 15.2% in 2017, and 20.7% in 2018. We do not see the situaton improving unless macroeconomic situation improves.

Income Statement					
(OMR '000)	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Total Income	11,335	9,850	9,010	8,956	9,045
Total Expenses	(10,131)	(8,961)	(8,513)	(8,307)	(8,131)
Profit Before Tax	1,203	889	498	649	914
Profit After Tax	1,023	755	423	551	777
Balance Sheet					
(OMR mn)	**2017**	**2018**	**2019e**	**2020e**	**2021e**
Assets	118	105	103	105	105
Shareholders' Equity	44	44	44	44	43
Net finance debtors	114	101	99	100	101
Borrowings	61	48	45	47	48
Key Ratios					
	2017	**2018**	**2019e**	**2020e**	**2021e**
Cost to Income	39.8%	46.8%	57.3%	40.0%	41.0%
Finance Debtors to Total Assets	96.3%	96.5%	96.4%	94.8%	96.6%
ROAE	2.3%	1.7%	1.0%	1.3%	1.8%
Dividend yield	0.0%	0.0%	0.0%	0.0%	8.3%
EPS (OMR)	0.003	0.002	0.001	0.002	0.002
BVPS (OMR)	0.126	0.126	0.125	0.127	0.123
P/E (x)*	49.5	40.2	59.4	45.6	32.4
P/BV (x)*	1.2	0.7	0.6	0.6	0.6

Source: Company Reports, U Capital Research **P/E and P/B from curret year onwards calculated on the price as of 12/01/2019*

Recommendation

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

Additional Disclosure: OMINVEST is a shareholder of U Capital as well as National Finance

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