



الخليجية بادر للأسواق المال ش.م.ع.م
Gulf Baader Capital Markets S.A.O.C.



Oman Strategy - MSM Ready for Mean Reversion...

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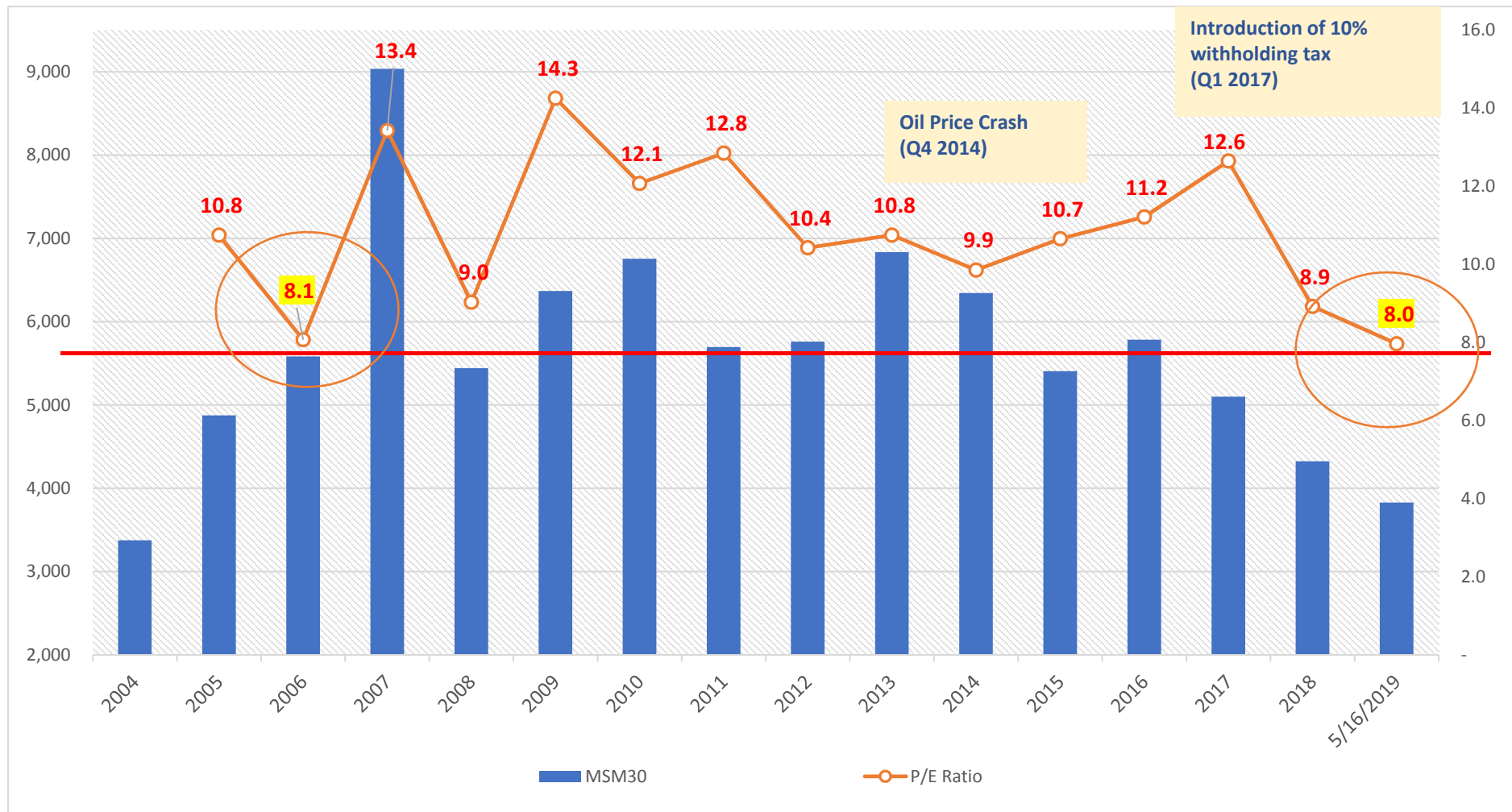
May 23, 2019

GBCM Research



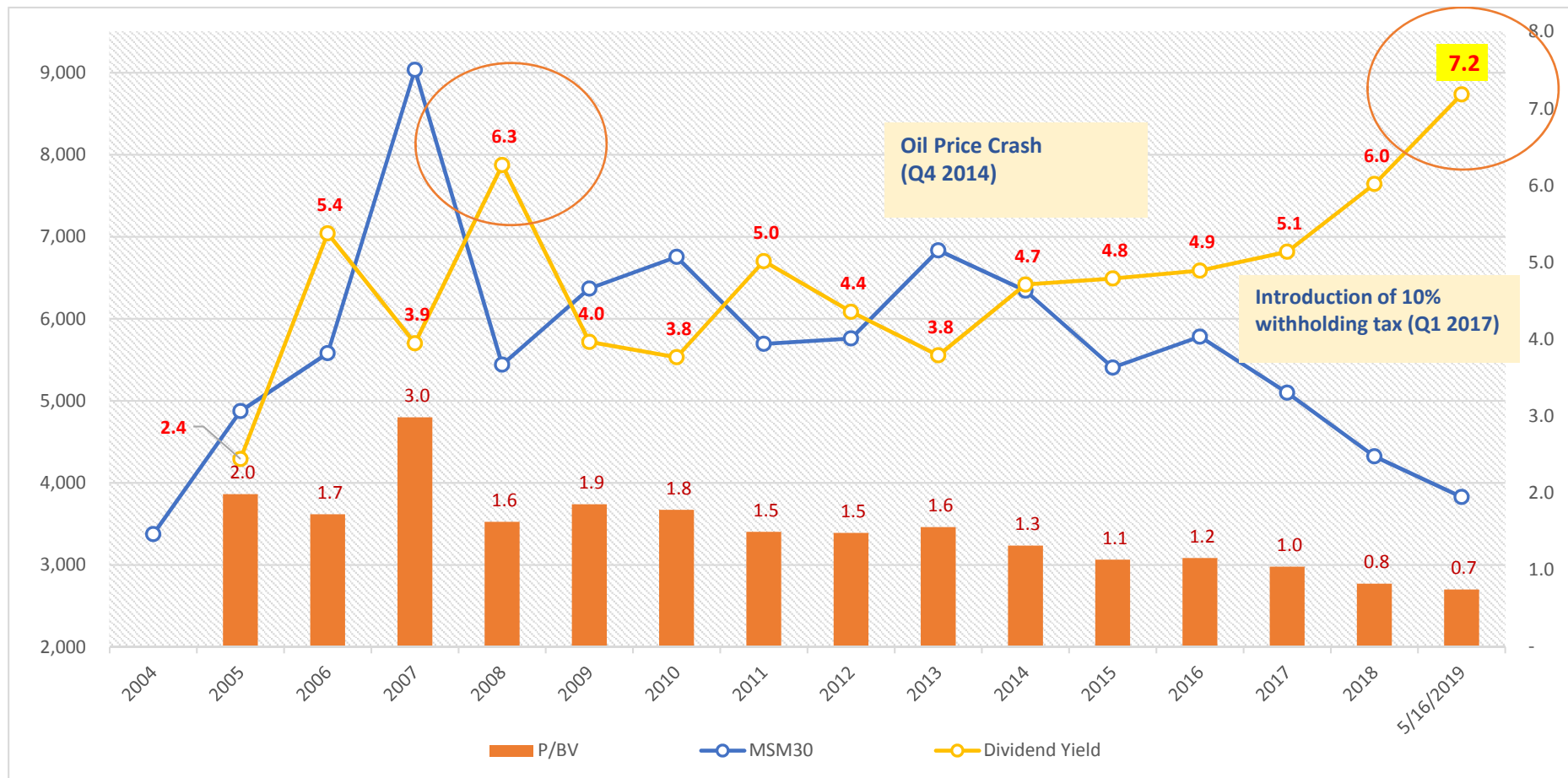
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MSM 30 Index Vs Price to Earnings (P/E-TTM)- Since 2004



MSM30 Index currently trades at 3,861 levels (closing as on 22-May-19), closer to the lowest levels since 2004. At the current levels, the Index trades at Price to Earnings (P/E – TTM) of 8X, the lowest levels since 2004.

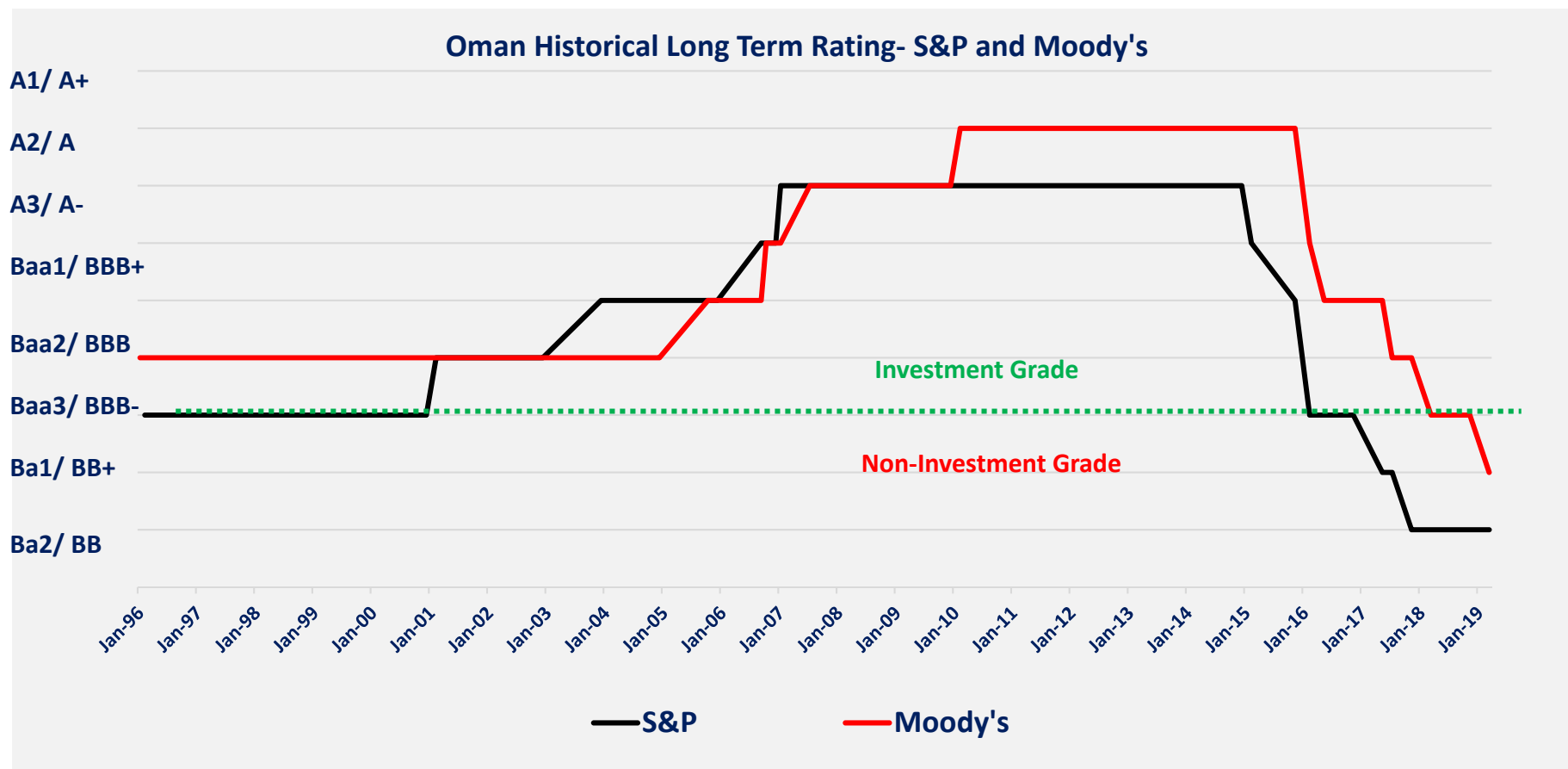
MSM 30 Index Vs Div. Yield Vs PBV - Since 2004



Amid stable earnings and dividends over last four years, the correction in the market has led to an increase in **overall dividend yield for MSM to 7.2% levels (May 2019)** as compared to about 5% levels in 2014.

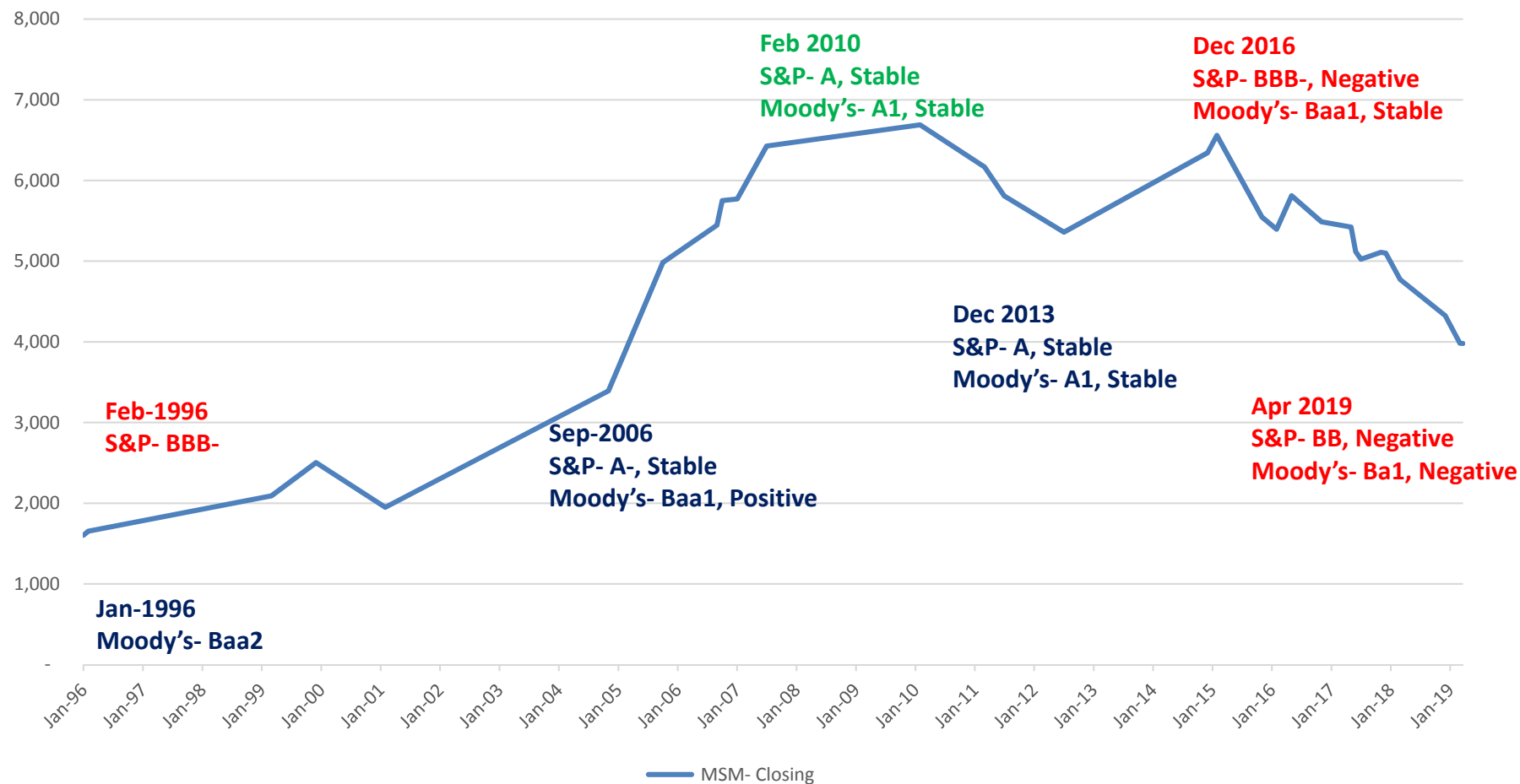
In terms of Price to Book Value, MSM30 Index is trading at about 0.74X and provides Return on Equity of about 9.4% levels. This trend also reveals attractive trading range for MSM looking at a medium-term perspective.

OMAN – SOVEREIGN CREDIT RATINGS- HISTORICAL TREND



Agency	Rating	Outlook	Grade	Last Update	Next Review**
S&P	BB	Negative	Non-Investment	Apr-2019	H2 2019
Moody's	Ba1	Negative	Non-Investment	Mar-2019	H2 2019
Fitch	BB+	Stable	Non-Investment	Dec-2018	H1 2019

OMAN – SOVEREIGN CREDIT RATINGS VS MSM30 INDEX PERFORMANCE



Strong Positive correlation seen on Oman Sovereign Ratings trend and Oman Equity Market (MSM) Performance historically. Markets have corrected sharply since Q4 2014 along with the decline in Sovereign Ratings.

MSM30 INDEX PERFORMANCE- SINCE 1993



Historical MSM Performance (since 1993) reveal select long term patterns and cycles (different stages of market development).

MSM30 Index current trading levels indicates steep discount to long term average. **We expect Mean Reversion to be seen during 2019-20 on expected revival in macro economic environment, Government reforms (FDI, PPP) and opening up of market to foreign investors.**

MSM30 INDEX PERFORMANCE- 10 YEAR TOTAL RETURN



MSM Total return assuming dividends are reinvested for the holding period over 10 Year Period (May-2009 to May 2019) is at 12.6% as against negative price return of 29.2% over the same period.

While over a 5 Year Period, the total return is -23.6% as against Price return of -41.3%, this reveal significant de-rating of MSM.

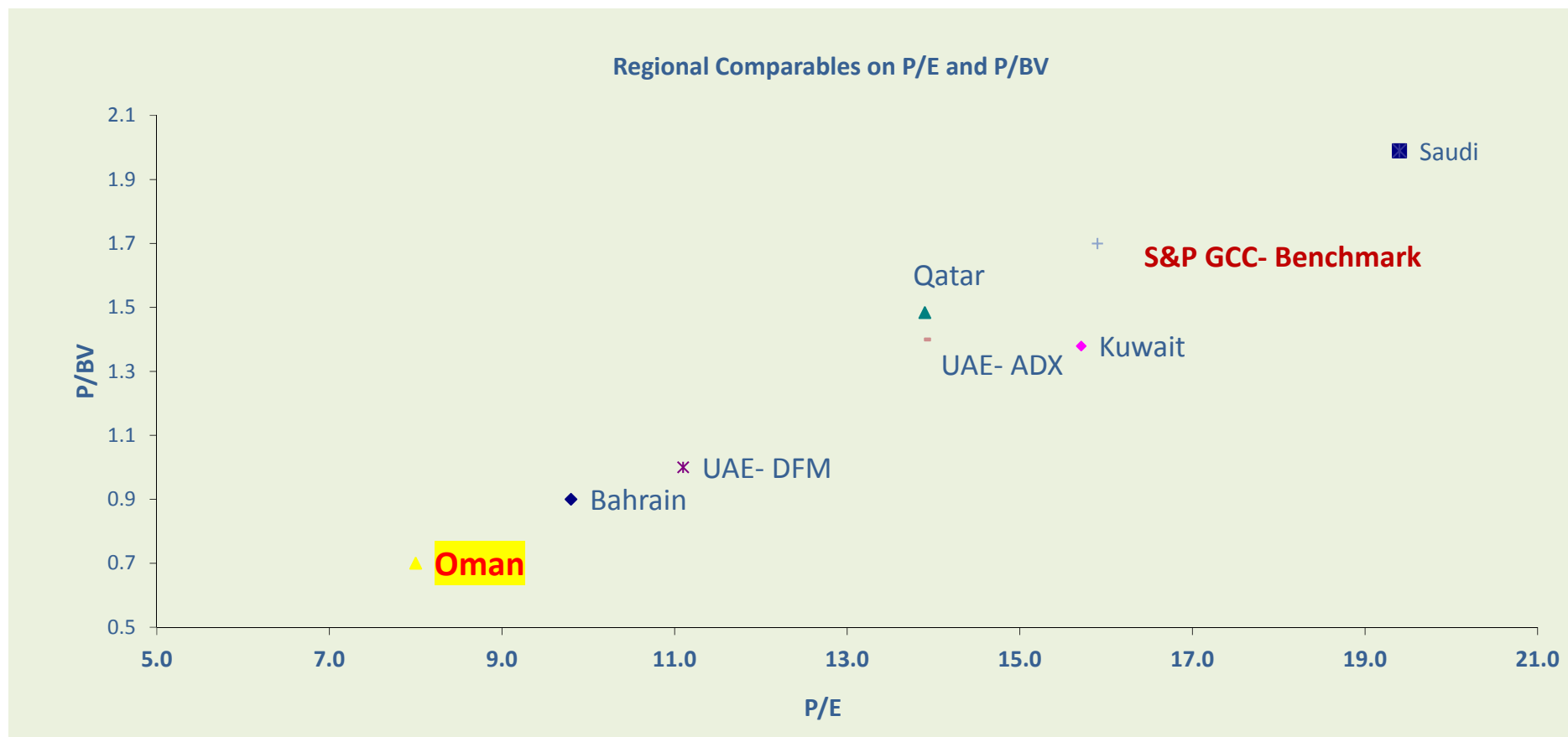
MSM30 INDEX PERFORMANCE- 10 YEAR- PE VALUATION BAND



MSM30 Index trades at PE (TTM) of 8X (lower end of PE Band) as compared to 10 Year average PE of 11.8X.

In P/BV basis, MSM Index is trading at 0.7X as against 10 Year average PBV of 1.4X.

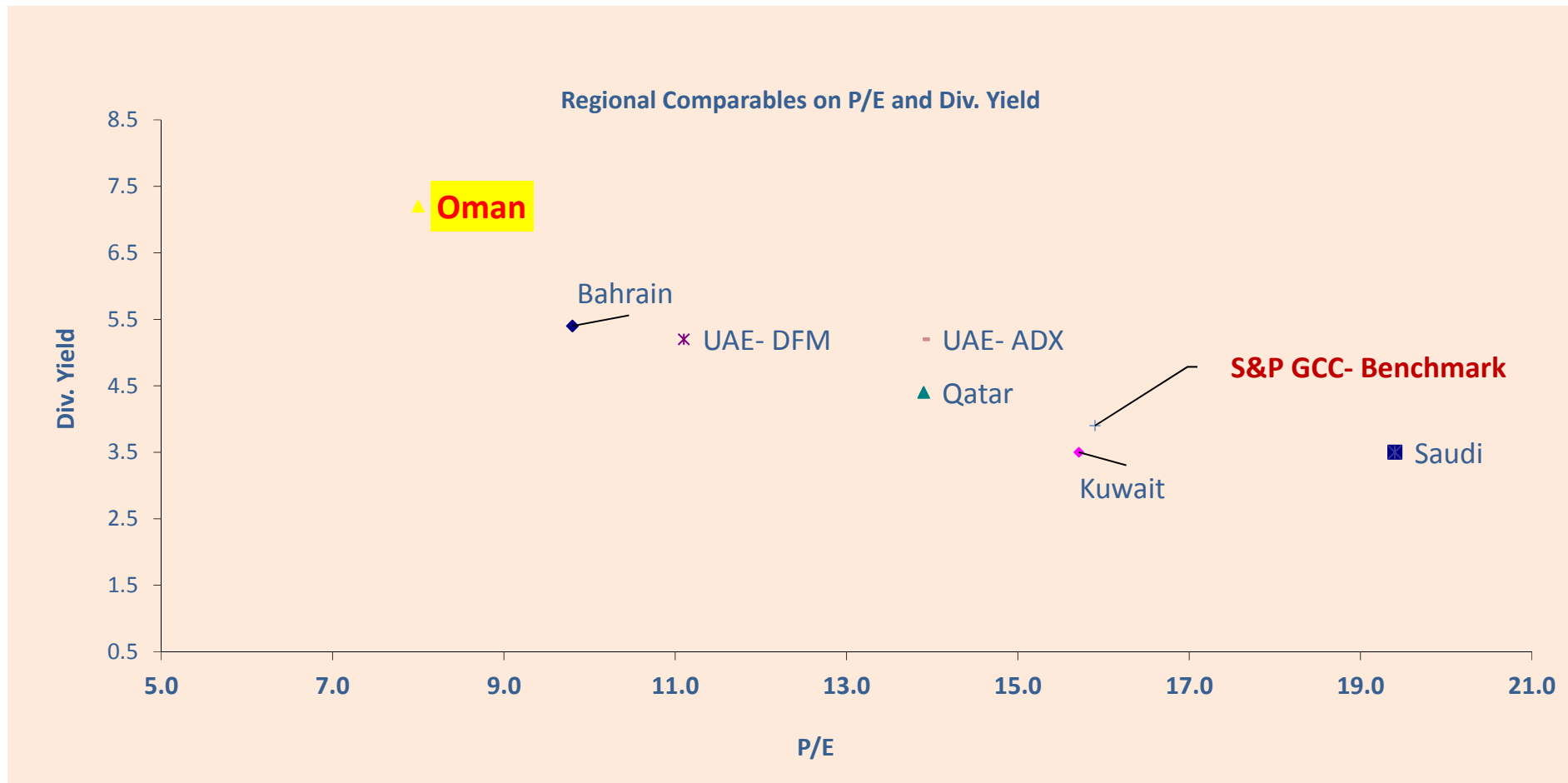
GCC Markets- Price to Earnings (P/E) and Price to Book Value (P/BV)



Source: Bloomberg, GBCM Research, ** PE refers Price to Earnings ratio (TTM- Trailing Twelve Months)

At current levels, GCC Benchmark- S&P GCC Composite- USD trades at average PE (TTM) of 16X. Saudi equities trading at around PE-TTM of 20X. **Oman (MSM) trades cheap at PE-TTM of 8X, trading at the lowest levels since 2004.**

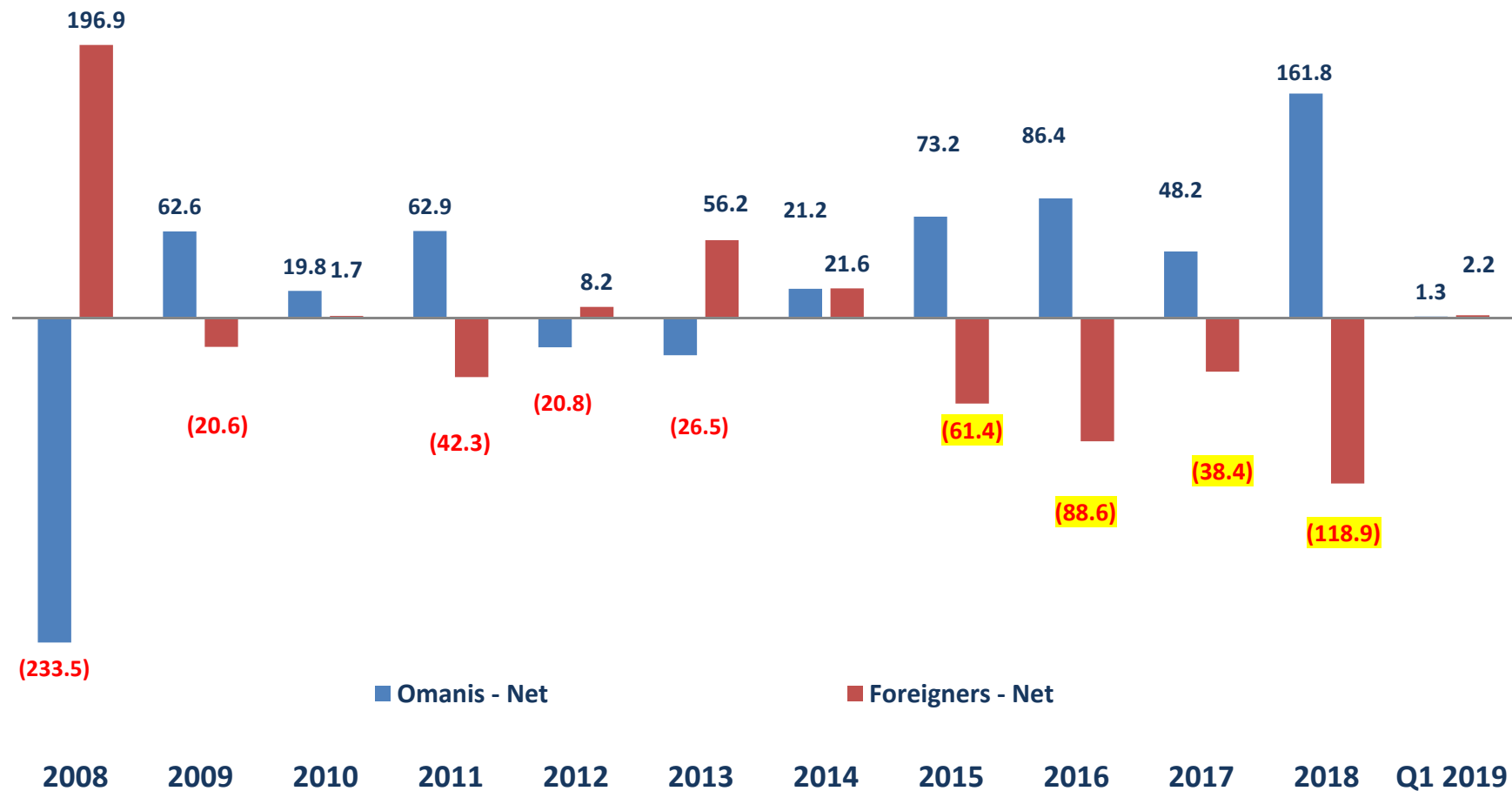
GCC Markets- Price to Earnings (P/E) and Dividend Yield



Oman (MSM30 Index) offers highest dividend yield of 7.2% among the GCC markets. The removal of 10% withholding tax to bring confidence to foreign flows during the coming months.

We believe the suspension of 10% dividend withholding tax is a positive event for MSM and a confidence boosting step to ignite a revival in MSM's performance

MSM- Foreign Investor Participation Trend



Source: Bloomberg, GBCM Research, ** PE refers Price to Earnings ratio (TTM- Trailing Twelve Months)

Foreign investors (ex- GCC) were net sellers during the last four years, with about USD 1 billion outflows seen since Q4 2014.

Foreign Ownership (ex- GCC) in MSM has lowered to about 11.74% levels (end 2018)

Oman Economy- Key Indicators

(Source: IMF)

Key Economic Indicators	Units	2014	2015	2016	2017	2018	2019E	2020E
Real GDP	% Change- YoY	1.4	4.7	5.0	-0.9	2.1	1.1	6.2
Nominal GDP	In USD Billions	81.1	68.9	65.9	70.8	82.2	79.4	84.1
Nominal GDP Growth	% Change- YoY	2.9	-15.0	-4.3	7.3	16.2	-3.4	5.9
Inflation, average consumer prices	% Change- YoY	1.0	0.1	1.1	1.6	0.9	1.5	1.8
Total investment	% of GDP	20.3	30.2	29.3	31.3	31.5	31.8	32.0
Government gross debt	% of GDP	4.9	15.5	32.5	46.9	50.9	61.3	63.1
Government revenue	% of GDP	46.3	34.9	29.7	31.7	35.2	33.4	34.6
Government total expenditure	% of GDP	47.4	50.9	50.8	44.6	42.9	43.3	41.6
Fiscal balance	% of GDP	-1.1	-15.9	-21.2	-12.9	-7.7	-9.9	-7.0
Current Account Balance	In USD Billions	4.2	-11.0	-12.3	-10.8	-4.9	-6.9	-4.5
Current Account Balance	% of GDP	5.2	-15.9	-18.7	-15.2	-5.9	-8.7	-5.4

Oman twin deficit levels and higher level of Government debt continued to impact the fiscal strength which led to rating downgrades. As per IMF, Fiscal deficit as % of GDP to lower to 7% levels in 2020. Overall Current account deficit to decline to 5.4% levels in 2020.

MSM 30 - EARNINGS TREND

	Aggregate Earnings (Absolute)- RO 000's **										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	Earnings CAGR (2011-19E)
Financial	216,337	218,689	280,060	308,389	332,305	364,239	377,635	365,895	409,436	415,900	8.4%
Industry	66,627	44,449	66,155	65,187	56,928	16,838	36,324	26,487	19,707	28,050	-5.6%
Services	207,865	178,203	176,409	199,754	215,604	123,348	180,118	105,012	148,770	162,800	-1.1%
MSM 30 Index Cos	490,829	441,340	522,625	573,330	604,837	504,425	594,077	497,394	577,913	606,750	4.1%
MSM Index Earnings (YoY, %)	9.4%	-10.1%	18.4%	9.7%	5.5%	-16.6%	17.8%	-16.3%	16.2%	5.0%	
	P/E Multiple (X) **										
Banking & Investment	16.3	14.3	12.9	10.7	10.9	10.0	7.9	8.5	7.9	7.5	
Industry	12.0	10.5	10.6	10.7	14.0	12.1	28.0	14.9	17.5	10.8	
Services	6.7	9.9	10.3	10.5	10.4	10.5	19.2	12.8	10.8	8.3	
MSM 30 Index	11.2	11.9	11.6	10.6	11.1	10.4	11.3	10.2	9.0	7.9	

• Figures for 2019E Earnings based on GBCM Research Estimates; MSM Index closing taken as 3,960 points, Based on New index constituents - MSM 30 Index revised during July 2018

The Earnings of MSM30 Companies remain stable over the last four years primarily driven by Financial sector companies. On the contrary, MSM30 Index Performance has declined about 40% since 2014.

During 2018, MSM30 Index companies' earnings increased about 16.2% YoY, while the market performance has declined about 15.2%.

On the other hand, PE (TTM) has declined to 8X (May 2019) as compared to the levels of about 11X during 2014 end.

MSM 30 - SECTORAL EARNINGS TREND

Aggregate Sectoral Earnings Trend (Absolute)- RO 000's										
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019E
Banking – Earnings	203,951	214,955	263,351	282,347	308,066	340,109	340,930	340,376	379,563	383,400
YoY (%)	28.8%	5.4%	22.5%	7.2%	9.1%	10.4%	0.2%	-0.2%	11.5%	1.0%
Inv. Holding & Ins – Earnings	16,078	6,286	18,285	28,721	26,992	28,142	39,889	28,488	31,466	31,700
YoY (%)	-4.0%	-60.9%	190.9%	57.1%	-6.0%	4.3%	41.7%	-28.6%	10.5%	0.7%
Financial Sector – Earnings	216,337	218,689	280,060	308,389	332,305	364,239	377,635	365,895	409,436	415,900
YoY (%)	26.3%	1.1%	28.1%	10.1%	7.8%	9.6%	3.7%	-3.1%	11.9%	1.6%
Industry – Earnings	66,627	44,449	66,155	65,187	56,928	16,838	36,324	26,487	19,707	28,050
YoY (%)	2.5%	-33.3%	48.8%	-1.5%	-12.7%	-70.4%	115.7%	-27.1%	-25.6%	42.3%
Services – Earnings	207,865	178,203	176,409	199,754	215,604	123,348	180,118	105,012	148,770	162,800
YoY (%)	-2.2%	-14.3%	-1.0%	13.2%	7.9%	-42.8%	46.0%	-41.7%	41.7%	9.4%
MSM30 Index – Earnings	490,829	441,340	522,625	573,330	604,837	504,425	594,077	497,394	577,913	606,750
YoY (%)	9.4%	-10.1%	18.4%	9.7%	5.5%	-16.6%	17.8%	-16.3%	16.2%	5.0%

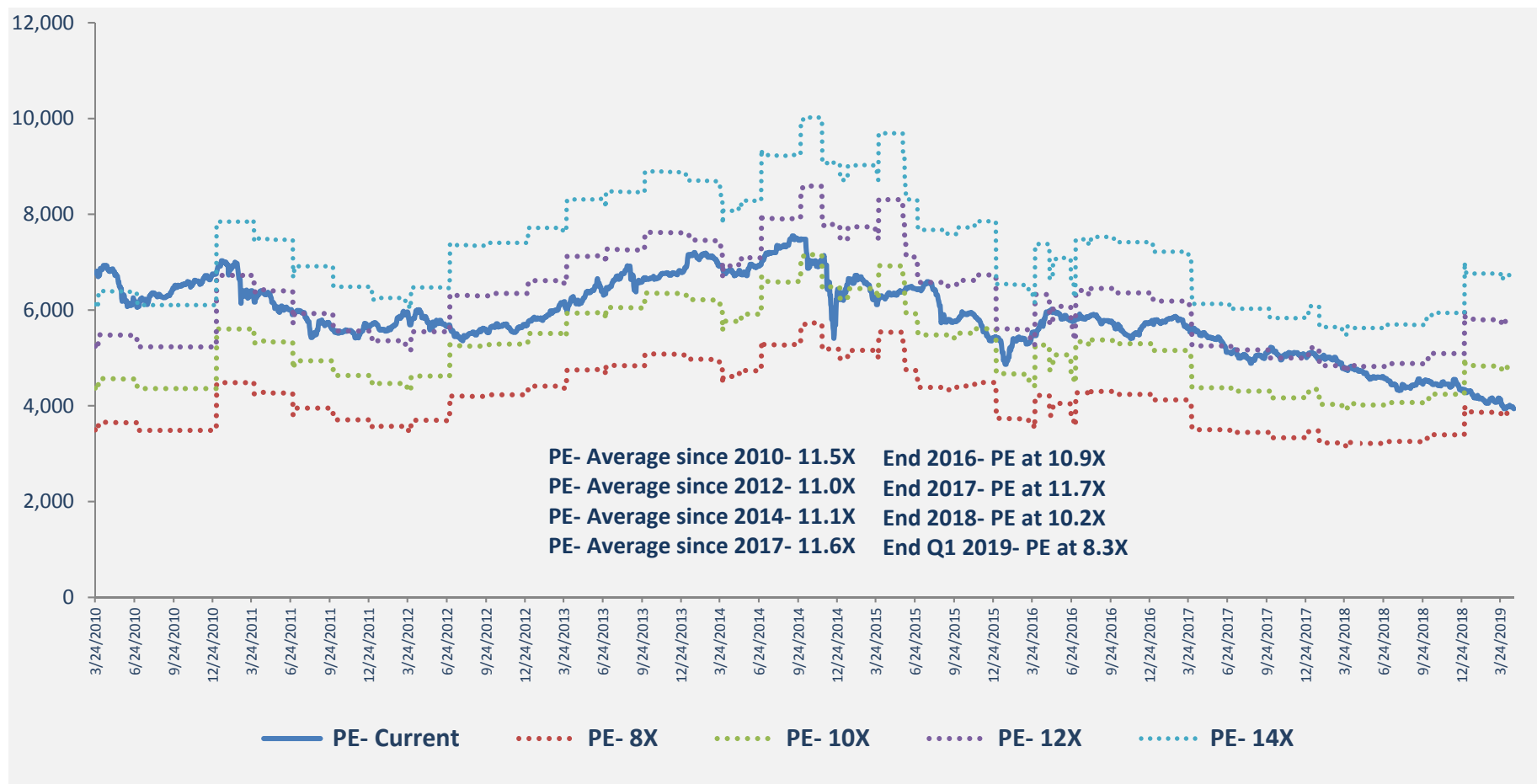
• Figures for 2019E earnings based on GBCM Research Estimates

The Banking sector earnings remained steady and supportive to overall MSM earnings during last four years amid credit growth, diversified non-interest income growth and stable cost of risk; Inv. Holding sector earnings remained volatile amid challenging market conditions.

The Industrial / Services Sector earnings saw major erosion over the years amid increase in operating costs and removal of subsidies. Select major companies within Industrial and Services sector had difficult period since 2014.

As per our estimates, 2019E MSM30 Index earnings is estimated to increase 5% YoY. Caveat to remain on ongoing economic challenges, slowdown in consumer spend and the impact of introduction of new accounting standards (IFRS 9, IFRS 15 and IFRS 16)

MSM 30 Index- PE (TTM) Band Chart- since 2010



Source: Bloomberg, GBCM Research, ** PE refers Price to Earnings ratio (TTM- Trailing Twelve Months)

At current levels, MSM30 Index trades at PE (TTM) of 8X (lower end of PE Band) as compared to 5 Year/ 3 Year average PE of 11X.

Omani Equity Market Outlook

2019E Outlook- Focus remain on Fiscal Sustainability, Cost rationalization remain critical...

- ✓ As per IMF, Oman Economy is estimated to reveal growth of 1.1% in 2019E and increase to about 6% in 2020E (in real terms)
 - Focus on Priority Projects and implementation remain key for the upcoming Investments and new project cycle revival.
 - Commencement of BP Khazzan project remain beneficial to the local economy. Incremental gas availability to support industrial projects.
 - Duqm Refinery Project finalized with the award of contract; Expect more foreign investments in allied industries in Duqm
 - Rationalization of subsidies and other austerity measures to impact the economic growth over the short term
- ✓ **Improvement in oil prices to lower fiscal deficit levels, Banking sector liquidity remain stable**
 - Banking system liquidity remained stable. Large banks expect to see yield improvement post US Fed rate increase.
 - With the decline in consumer spending, we estimate overall decline in credit growth and asset quality issues to be emerge in certain sectors. Estimate higher level of cost of risk for certain local banks during coming quarters.
- ✓ We expect corporate earnings to see impact of economic slowdown during H1 2019. We estimate overall growth to improve during later part of the year and predominantly in 2020.
- ✓ We recommend to adopt bottom up approach in local equities. **Investor buying interest seen amid attractive valuations and dividends;**
 - IPO of mandatory Utility sector companies estimated during H2 2019; Select Government Privatization program to commence.
- ✓ Key triggers to come from revival of Government Infrastructure Project spending (Duqm, Tanfeedh initiatives), efforts taken towards increase in foreign direct investments (PPP and Foreign Investment Promotion law) and emergence of consolidation stories in Banking and other sectors. **Overall Investor sentiments and Investment climate to improve going forward amid increase in oil prices and anticipated Government reforms.**
- ✓ Fiscal deficit would be funded by asset sale and external borrowings. The Government payments to contractors/ other private sector players to improve– this would start next cycle of economic growth. **We estimate incremental foreign project investments in Oman during 2019.**
- ✓ We expect select Banks, Industrial and Services sector companies to benefit. Most of the frontline stocks are trading at attractive valuations looking at medium term perspective.
- ✓ **MSM trades at PE of 8X on 2019E Earnings, lower end of historical trading PE Band of MSM is between 8X and 12X.**
 - *Recommend Marketweight rating on Oman Banking Sector- Bank Nizwa, Bank Muscat and HSBC Oman remain as favorite stock pick.*
 - *Select opportunities seen in the Industrial sector post correction. Top picks- Al Anwar Ceramics. Turnaround themes- Galfar and Raysut.*
 - *Recommend Marketweight on Services Sector. Top picks- Sembcorp Salalah. Valuation upside seen in Omantel and Ooredoo post correction.*
- ✓ **On a technical perspective, MSM may reveal Mean Reversion during 2019-20, subject to improvement in fundamentals and investor confidence.**

MSM- TOP 10 RECOMMENDATIONS- (May 2019) ##					2018			2019E		
STOCKS	Closing**	Market Cap (RO 000s)	Rating	12M Target (RO)	PE (x)	PBV (x)	Div. Yield (%)	PE (x)	PBV (x)	Div. Yield (%)
Financial Sector										
Bank Muscat	0.404	1,250,291	Accumulate	0.466	6.8	0.72	8.7%	6.8	0.67	7.4%
Bank Nizwa	0.087	130,500	Accumulate	0.106	15.4	0.94	0.0%	10.9	0.86	0.0%
HSBC Bank Oman	0.118	236,037	Accumulate	0.135	7.3	0.72	7.9%	9.1	0.70	6.7%
Industry Sector										
Galfar	0.081	33,633	Accumulate	0.106	15.1	0.61	0.0%	6.7	0.56	0.0%
Raysut Cement	0.316	63,200	Buy	0.442	-	0.44	3.8%	9.0	0.43	7.9%
Oman Flour Mills	0.612	96,390	Buy	0.627	10.0	1.33	8.2%	10.1	1.30	6.5%
Services Sector										
Ooredoo	0.460	299,432	Accumulate	0.580	8.8	1.26	9.8%	7.5	1.21	9.1%
Oman Inv. & Finance (OIFC)	0.085	17,000	Buy	0.100	3.6	0.59	5.9%	11.3	0.58	7.1%
Sembcorp Salalah	0.110	105,003	Buy	0.144	12.0	1.08	11.1%	8.4	1.07	10.0%
Dhofar Generating Co	0.192	42,670	Buy	0.232	NM	0.93	9.4%	27.4	0.94	9.4%

Source: GBCM Research Estimates, ** Closing price as at end of 22-May-2019, ## Pertaining to May 2019 Top Recommendations, Subject to Changes in our next review expected Jun 2019

MSM- TOP 10 RECOMMENDATIONS- (May 2019)

STOCKS	Comments
Financial Sector	
Bank Muscat	Strong Capital Position to participate in big ticket projects, Attractive valuations, Discounted for macro concerns
Bank Nizwa	Strong revenue growth along with lower expenses and cost of risk to increase profitability, Expect higher 2019 earnings.
HSBC Bank Oman	Highly Liquid and Well Capitalized Bank, Quality Loan Book and Stable CASA deposits, Operating costs continued to lower for the Bank.
Industry Sector	
Galfar	Sale of loss making Indian Operations, Cost optimization to improve earnings, Receivables recovery to remain critical
Raysut Cement	New Strategic Growth Plan- Geographic expansion, Recovery in Yemen, Trading well below its Net Replacement Value
Oman Flour Mills	Earnings revealed uptrend during Q1 2019, Expansion benefits to be seen in 2019/ 2020, valuation attractiveness
Services Sector	
Ooredoo	Underleveraged Balance Sheet, Strong Dividend Yield, Well positioned to face impending competition
Oman Inv. & Finance (OIFC)	Operational turnaround estimated in subsidiary companies, Increase in contribution from Sohar International Bank (Associate) to remain positive
Sembcorp Salalah	Post sharp correction, the stock provides dividend yield of above 9% levels, No Cash Sweep, Stable Cash flow during PPA (till 2027)
Dhofar Generating Co	Highest Dividend Yield among peer group companies with relative longer PPA expiry date (till 2032)

Source: GBCM Research Estimates, ** Closing price as at end of 22-May-2019, ## Pertaining to May 2019 Top Recommendations, Subject to Changes in our next review expected Jun 2019

Thank You

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