



10-FOR-20

MSM TOP PICKS FOR 2020

In this report we are presenting our top 10 stock picks in MSM for the year 2020.

The stocks are selected based on historical stability in earnings while it offers continuity in earnings growth.

We have 3 banks, 2 insurance companies, 2 industrial companies, 2 services sector companies, and 1 telecom company.

The stocks offer a mix of growth and value for a long term investor. They have FY20E P/Es ranging from 5.9x to 16.2x, P/B between 0.6x to 1.3, and March 2020E dividend yield in the range of 2.6% to 10.3%.

The total market cap of these companies is RO 2.7 billion, which is 40% of the total market cap of the MSM listed companies.

Based on our target price, these companies offer average upside potential of 25%, in addition to average dividend yield of 6.7%. The long term return potential for individual companies in this list ranges from 16% to 38%.

We hope that you will find this report useful and should there be any need, we are happy to discuss the stocks mentioned here.

Company	CMP (RO)	Market Cap (RO mn)	Net income (RO mn)		Total equity (RO mn)		ROE (%) FY20e	P/E (x) FY20e	P/B (x) FY20e	Dvdnd Yield (%)	Target price (RO)	Potential upside (%)	Implied valuation	
			2019	FY20e	2019	FY20e							P/E (x)	P/B (x)
Ahli Bank Oman	0.140	220	31	33	267	284	12.3%	6.7	0.8	7.1%	0.163	16%	7.7	0.9
Al Ahlia Insurance	0.400	40	4	4	40	40	11.0%	9.2	1.0	10.3%	0.488	22%	11.3	1.2
Al Anwar Ceramic Tiles	0.173	51	2	3	38	39	8.4%	16.2	1.3	4.1%	0.213	23%	20.0	1.6
Al Jazeera Services	0.174	19	2	2	18	18	11.1%	9.9	1.1	7.5%	0.215	24%	12.2	1.3
Bank Muscat	0.440	1362	186	195	1,875	1,969	10.4%	7.0	0.7	8.0%	0.560	27%	8.9	0.9
National Bank of Oman	0.199	324	51	55	438	467	12.6%	5.9	0.7	8.4%	0.258	30%	7.6	0.9
Oman United Insurance	0.330	33	3	4	29	30	14.5%	7.9	1.1	9.1%	0.417	26%	9.9	1.4
Omantel	0.624	468	72	78	570	611	13.8%	6.0	0.8	8.0%	0.738	18%	7.1	0.9
Raysut Cement	0.474	95	4	7	148	152	4.8%	13.5	0.6	2.7%	0.656	38%	15.2	0.9
Renaissance Services	0.506	120	13	14	107	118	12.8%	8.7	1.0	2.6%	0.628	24%	10.8	1.3

12M Target Price RO 0.215

Price (RO)	0.175		
PER (x)	11.4		
P/Book (x)	1.1		
P/Sales (x)	2.6		
EV/Sales (x)	1.7		
EV/EBITDA (x)	11.5		
Dividend Yield (%)	5.7		
Free Float (%)	54%		
Shares O/S (mn)	61		
YTD Return (%)	17%		
Beta	1.6		
(mn)	OMR	USD	
Market Cap	20	51	
EV	17	45	
Price performance (%)	1M	3M	12M
AJSS	17%	34%	62%
MSM 30 Index	4%	2%	-3%
MSM Services Index	3%	1%	-9%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.08	0.08	0.05
Avg Daily Volume (,000)	417	517	318
52 week	High	Low	CTL*
Price (RO)	0.176	0.099	76.8
* CTL is % change in CMP to 52wk low			
Major shareholders			
Tharwa Invest muscat		28.0%	
DICO Investment		10.0%	
Sur Foodstuff		8.0%	
Others		54.0%	
Other details			
Exchange		MSM	
Sector		Diversified Services	
Index weight (%)		NA	
Key ratios	2016	2017	2018
EPS (RO)	0.015	0.015	-0.046
BVPS (RO)	0.213	0.213	0.153
DPS (RO)	0.015	0.015	0.010
Payout ratio (%)	100%	100%	-22%

We believe that AJSS is trading at a steep discount to the company's long term fair value and expect it to witness a valuation re-rating due to (i) improved outlook on the country's economic and political landscape (ii) anticipated profitability growth of Al Anwar Ceramic to contribute to increased profitability of AJSS, (iii) developments in GCC ceramic market regulations to lead to enhanced investment valuation of AJSS's stake in AACT, and (iv) the consistency in cash flow generation and regular dividend payout.

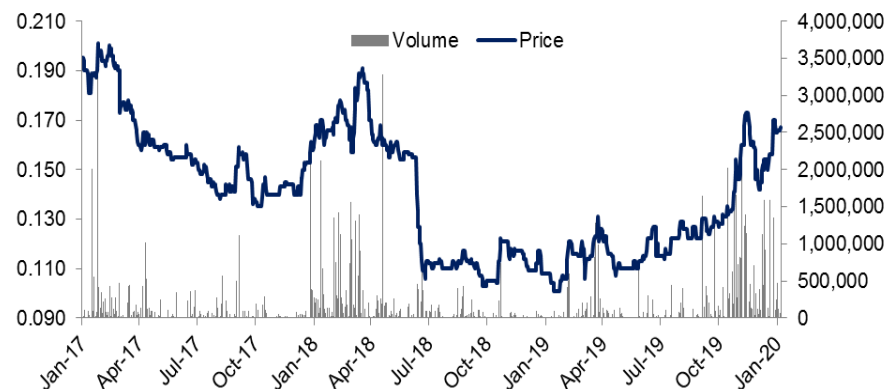
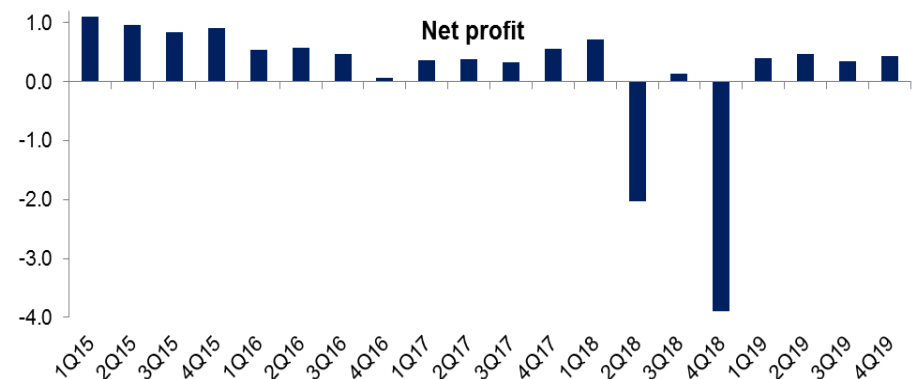
Improved investment outlook: The smooth transition of power in the Sultanate following the passing away of late HM Sultan Qaboos should lead to improved investor sentiment in the country. Also, Sultan Haitham Bin Tariq has indicated that he would continue with the development strategies initiated by the late HM Sultan Qaboos would be continued. We expect a fast formulation of rules and regulations relating to the recently issued Royal Decrees this year, enhancing the investor confidence. The cheap valuations experienced by Omani companies are likely to see a valuation rerating once the new laws are implemented in full swing.

Developments in the GCC Ceramic market bodes well for regional ceramic players, and indirectly to AJSS as well: AJSS owns 37% of Al Anwar Ceramics, which has a tile capacity of 19 mn sq mtr per annum. The company's price realization levels and business volume from Saudi Arabia is expected to grow significantly in the near future due to reduced competition from import players. The strict implementation of anti-dumping duties against cheap imports from India and China plays in favour of AACT, who's 40% of volume is sold in Saudi Arabia. We expect both price and volume recovery for AACT from this year, and the initial results to be visible from 2Q20. Our estimates suggest AACT revenue growing by 25% and profit by 52% in 2020.

CMP is at discount to adjusted NAV; 12M target price RO 0.215: AJSS' adjusted NAV to witness significant improvement: We calculated the company's adjusted NAV after applying a holding company discount of 25% to the value of investments held by AJSS. Additionally, the operational business of the company was valued at 10x earnings owing to the stability and high quality of earnings. We arrived at adjusted NAV of RO 0.215/Share for AJSS, which is 24% higher than the CMP. The fair value thus arrived implies FY20E P/E of 12.2x and 1.3x its reported book value. We anticipate the company to distribute cash dividend of 13 bz/Share, resulting in an attractive dividend yield of 7.5%. Owing to the cheap valuations and big gap between CMP and adjusted NAV, we have a STRONG BUY rating on the stock.

Financial Statements (RO mn)	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
Revenue	7.9	7.4	7.5	1.7	1.8	1.9	2.1
Gross profit	2.2	2.0	1.9	0.5	0.4	0.5	0.6
EBITDA	1.1	1.1	0.9	0.2	0.2	0.2	0.2
EBIT	1.1	1.1	0.9	0.2	0.2	0.2	0.2
Interest expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	1.8	-4.9	1.8	0.5	0.5	0.4	0.5
Net income	1.6	-5.1	1.7	0.4	0.5	0.4	0.4
Cash & equivalents	1.6	1.4	1.3	1.5	0.8	1.3	1.3
Inventories	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Accounts receivable	2.4	2.6	2.7	2.5	2.9	2.7	2.7
Total current assets	5.0	5.3	5.3	5.9	5.1	5.3	5.3
PPE	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	21.1	14.1	14.1	13.7	13.9	14.1	14.1
Total assets	26.0	19.4	19.4	19.6	19.0	19.4	19.4
Long term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Accounts payable	0.8	1.0	1.0	0.8	1.0	1.0	1.0
Short term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	1.7	1.8	1.6	2.7	1.6	1.6	1.6
Share capital	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Equity reserves	12.6	5.9	6.1	5.2	5.7	6.1	6.1
Total common equity	23.8	17.0	17.3	16.4	16.9	17.3	17.3
Cash from operations	1.9	1.5	1.5	1.2	-0.7	0.5	1.5
Cash from investing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from financing activities	-1.7	-1.7	-1.1	-1.1	0.0	0.0	-1.1
Free cash flow	1.9	1.5	1.5	1.2	-0.7	0.5	1.5

Ratio analysis	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
DIO	14	14	14	13	15	14	13
DSO	120	125	128	135	140	132	116
DPO	66	61	65	54	60	62	59
CCC	68	78	77	83	89	78	70
ROE (%)	7	-25	10	10	11	10	10
ROA (%)	6	-22	9	8	9	9	9
ROCE (%)	7	-28	10	11	11	10	10
Debt/Equity (x)	0	0	0	0	0	0	0
Long term debt/Equity (x)	0	0	0	0	0	0	0
Net debt/EBITDA (x)	-2	-2	-2	-2	-4	-7	-9
Gross margin (%)	27	27	25	27	24	24	26
EBITDA margin (%)	14	15	12	14	12	12	11
Operating profit margin (%)	14	15	12	14	12	12	11
Net profit margin (%)	21	-69	22	23	27	18	21
Market cap (RO mn)	16	12	19	13	13	15	17
Enterprise value (RO mn)	14	10	17	10	11	12	15
EV/EBITDA (x)	12.4	8.8	18.3	10.9	12.7	13.8	16.2
EV/EBIT (x)	12.4	8.9	18.4	11.0	12.8	13.8	16.3
Value of AACT stake (RO mn)	13	8	18	8	11	11	15
EPS (RO)	0.015	-0.046	0.015	0.015	0.016	0.015	0.015
BVPS (RO)	0.213	0.153	0.155	0.147	0.151	0.155	0.155
DPS (RO)	0.015	0.010	N/A				
CMP (RO)	0.140	0.109	0.167	0.114	0.117	0.130	0.150
P/E (x)	9.6	-2.4	11.1	7.8	7.4	8.8	10.0
P/B (x)	0.7	0.7	1.1	0.8	0.8	0.8	1.0
Div Yield (%)	10.7	9.2	#VALUE!	0.0	0.0	0.0	0.0



12M Target Price RO 0.628

Valuation Summary (TTM)

Price (RO)	0.514
PER (x)	9.6
P/Book (x)	1.0
Dividend Yield (%)	0.0
Free Float (%)	65%
Shares O/S (mn)	236
YTD Return (%)	7%
Beta	1.3

(mn)	OMR	USD
Market Cap	121	314
EV	160	417

Price performance (%)	1M	3M	12M
RNSS	14%	19%	3%
MSM 30 Index	4%	2%	-3%
MSM Services Index	3%	1%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.08	0.09	0.07
Avg Daily Volume (,000)	140	187	159

52 week	High	Low	CTL*
Price (RO)	0.814	0.373	37.9

* CTL is % change in CMP to 52wk low

Major shareholders

Cyclical Services LLC	13.6%
Tawoos LLC	11.6%
Tawoos Industrial Services Co	9.7%
Others	65.2%

Other details

Exchange	MSM
Sector	Diversified Services
Index weight (%)	5%

Key ratios	2016	2017	2018
EPS (RO)	-0.263	-0.252	0.014
BVPS (RO)	0.753	0.449	0.463
DPS (RO)	0.000	0.000	0.000
Payout ratio (%)	0%	0%	0%

Cleaner and healthier balance sheet; Company to focus only on Facilities Management Business: After exiting OSV business, RNSS has its focus on financial restructuring and business growth in the FMS segment. The company has reduced its borrowings, negotiated successfully on the finance costs, and reduced capital to enable the company to pay dividends. Management's focus is back on nurturing the Duqm accommodation facilities and growth of FMS segment. Supported by increased contribution from Duqm operations, the company reported FY19 EBITDA of 22.3 million and net income of RO 12.6 million. The company has plans to expand its capacity at Duqm, and is in the race to secure a major contract for PAC facilities floated by the PDO. We expect the company to report growth in operations and profitability through 2023, making it one of the attractive long term stories in the market.

Duqm expansion to come on stream in 2020: RNSS has announced that the company would be increasing bed capacity in Duqm by 33% from current 18,700 to 24,900 current year by employing rapid construction techniques. This expansion requires total capex of RO 20 million, raised through a 60:40 mix of debt and equity. Additionally, RNSS is planning to increase the total capacity of its Duqm Village to 37,500 beds in a series of four further expansions by 2024E.

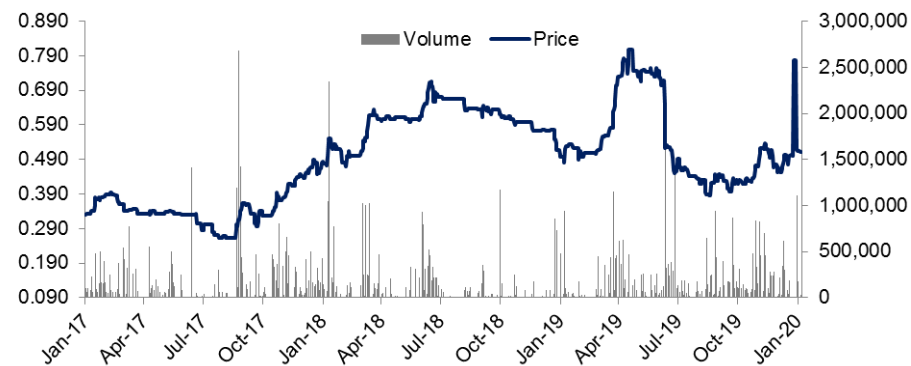
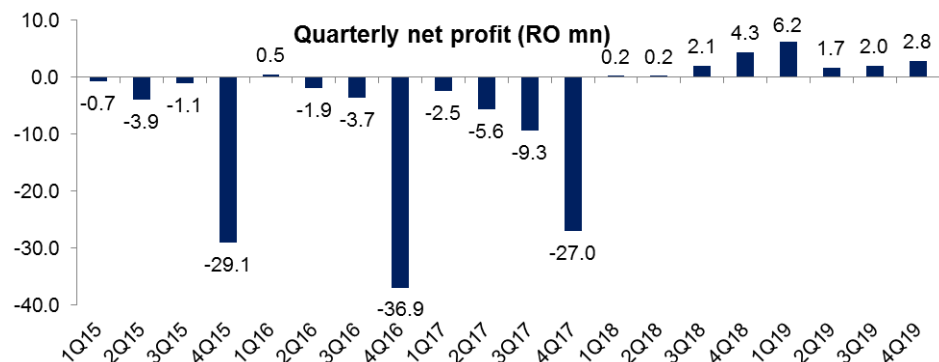
Duqm earnings growth momentum to continue through 2022: As we are likely to witness the full impact of Duqm operations this year, we are quite upbeat about the contribution of Duqm to RNSS's EBITDA and profitability. We estimate Duqm could contribute revenue, EBITDA, and net profit of around RO 35mn, 15mn, and RO 8 million respectively in 2020. Beyond 2024, the company sees a sustainable demand of 22,000 beds at Duqm. Additionally, there could be pent-up seasonal demand. PDO has floated a pre-qual tender for increasing the accommodation facilities at various PACs by 18,000 beds by 2022E. We see RNSS with its current capacity of 7,500 beds and good standing with PDO, as a serious player for getting a significant share of these new additions. We believe that this would significantly enhance the continued earnings growth potential of the company over the long term.

Profit to grow at 11% CAGR for 2019-24 on capacity expansions and new contract wins: Supported by the favourable demand conditions at Duqm as well as PDO's initiative on PACs, we feel that RNSS is currently operating in a favourable business environment. Underpinned by the management's renewed focus on single segment growth, We estimate RNSS to report FY20 EBITDA of 28.6 million, and net income of RO 13.7 million. As the new capacity is fully utilized by 2022, and aided by growth from other demand areas, we estimate the company's profit to reach RO 21.3 mn by 2024.

Attractive growth prospects and cheap valuations; 12M fair value at RO 0.628: Despite offering attractive growth visibility, RNSS shares are trading at FY20E P/E of 8.7x which we feel is undervalued. The company has high cash flow visibility, and we value the stock at RO 0.628/Share, offering upside potential of 24% from current levels. We have STRONG BUY rating on the stock.

Financial Statements (RO mn)	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
Revenue	194.6	244.0	106.7	25.6	25.4	27.4	28.3
Gross profit	43.6	115.6	22.3	27.2	4.6	5.4	5.6
EBITDA	60.0	93.3	22.3	5.3	4.7	5.6	6.7
EBIT	24.9	54.7	11.9	19.7	-14.4	3.3	3.3
Interest expense	28.2	33.0	5.5	1.3	1.3	1.5	1.4
Pre-tax income	-40.5	17.1	12.6	6.2	1.7	1.9	3.0
Net income	-44.5	6.8	12.6	6.2	1.7	2.0	2.8
Cash & equivalents	50.9	31.9	57.7	23.8	8.4	57.7	57.7
Inventories	7.2	9.2	4.0	10.7	4.2	4.0	4.0
Accounts receivable	61.6	64.4	53.8	80.1	43.3	53.8	53.8
Total current assets	134.6	120.8	115.8	119.2	668.8	115.8	115.8
PPE	612.0	636.5	134.7	665.8	136.2	134.7	134.7
Total non-current assets	647.9	668.3	136.9	697.4	139.3	136.9	136.9
Total assets	782.5	789.1	252.7	816.6	808.1	252.7	252.7
Long term debt	366.6	357.6	76.0	387.3	103.2	76.0	76.0
Non current liabilities	465.7	441.8	88.4	463.6	115.3	88.4	88.4
Accounts payable	22.8	14.8	38.8	36.8	37.1	38.8	38.8
Short term debt	26.8	29.0	8.0	36.8	23.5	8.0	8.0
Total current liabilities	134.0	163.2	46.8	162.8	497.7	46.8	46.8
Share capital	33.2	33.2	33.2	33.2	33.2	33.2	33.2
Equity reserves	32.2	35.2	41.0	39.4	40.8	41.0	41.0
Total common equity	95.9	98.8	104.6	103.1	104.5	104.6	104.6
Cash from operations	103.3	71.9	-1.5	-4.4	9.2	-3.1	-1.5
Cash from investing activities	-83.3	-74.1	156.1	-39.3	-6.1	100.8	156.1
Cash from financing activities	-0.4	-18.1	-71.2	35.6	-3.9	-51.5	-71.2
Free cash flow	18.4	-4.1	154.6	-43.8	3.0	97.7	154.6

Ratio analysis	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
DIO	15	23	29	-552	33	17	16
DSO	119	94	202	257	221	161	173
DPO	55	53	116	-1432	161	157	155
CCC	78	65	115	1136	92	21	33
ROE (%)	-42	7	12	24	15	13	12
ROA (%)	-6	1	2	3	2	2	2
ROCE (%)	-7	3	7	4	7	7	7
Debt/Equity (x)	410	391	1	4	1	1	1
Long term debt/Equity (x)	382	362	0	376	99	73	0
Net debt/EBITDA (x)	6	4	1	19	13	3	4
Gross margin (%)	22	47	21	106	18	20	20
EBITDA margin (%)	31	38	21	21	19	20	24
Operating profit margin (%)	13	22	11	77	-57	12	12
Net profit margin (%)	-23	3	12	24	7	7	10
Market cap (RO mn)	153	190	170	184	238	142	159
Enterprise value (RO mn)	102	158	112	160	230	84	101
EV/EBITDA (x)	1.7	1.7	5.0	7.6	11.5	4.0	4.5
EV/EBIT (x)	4.1	2.9	9.4	2.0	21.8	7.3	8.5
EPS (RO)	-0.134	0.021	0.038	0.074	0.047	0.039	0.038
BVPS (RO)	0.289	0.298	0.315	0.311	0.315	0.315	0.315
DPS (RO)	0.000	0.000	0.015				
CMP (RO)	0.461	0.572	0.512	0.556	0.718	0.427	0.478
P/E (x)	-3.4	27.9	13.4	7.5	15.2	10.9	12.6
P/B (x)	1.6	1.9	1.6	1.8	2.3	1.4	1.5
Div Yield (%)	0.0	0.0	2.9	0.0	0.0	0.0	0.0



Valuation Summary (TTM)

Price (RO)	0.172
PER (x)	24.1
P/Book (x)	1.3
P/Sales (x)	2.5
EV/Sales (x)	1.1
Dividend Yield (%)	3.5
Free Float (%)	57%
Shares O/S (mn)	296
YTD Return (%)	27%
Beta	1.7

(mn)	OMR	USD
Market Cap	50	129
EV	41	107

Price performance (%)	1M	3M	12M
AACT	33%	61%	120%
MSM 30 Index	4%	2%	-3%
MSM Industrial Index	5%	3%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.08	0.11	0.10
Avg Daily Volume (,000)	698	813	816

52 week	High	Low	CTL*
Price (RO)	0.168	0.072	138.9

* CTL is % change in CMP to 52wk low

Major shareholders

Al Jazeera Services	37.0%
PASI	6.1%
Others	56.9%

Other details

Exchange	MSM
Sector	Diversified Services
Index weight (%)	2%

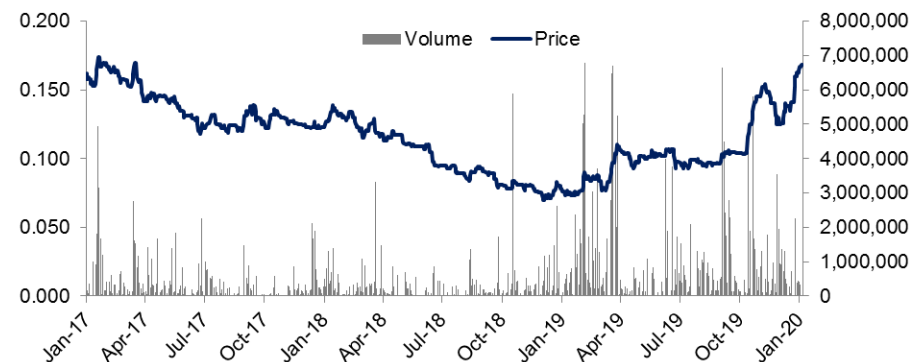
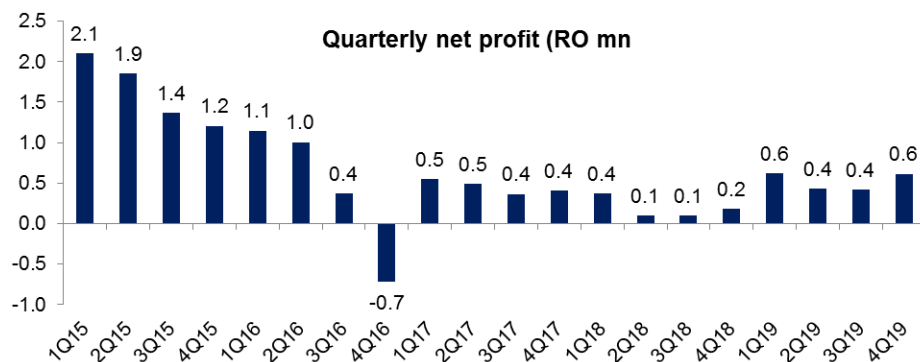
Key ratios	2016	2017	2018
EPS (RO)	0.006	0.006	0.003
BVPS (RO)	0.130	0.128	0.125
DPS (RO)	0.008	0.006	0.006
Payout ratio (%)	133%	100%	200%

Imposition of antidumping duty single major positive trigger for AACT: Timely capacity addition along with lucrative local and GCC market demand growth had helped AACT in registering 10 year revenue CAGR of 15% till 2015. However, the deteriorating macro-economic conditions in recent times along with cheaper imports have resulted in the company losing market share in its key markets such as Saudi Arabia, and report revenue decline during 2015-19. India has been exporting ca. \$600 million/annum of ceramic products to the GCC markets, and as a result of the antidumping duty, and strict implementation of quality standards in Saudi Arabia, the imports are likely to be just a fraction of historical levels. The duty imposition is expected to bring in significant positive changes in the operational and financial performance of regional ceramic tile manufacturers, especially those who are operating on the low price band segment. Unlike the deterioration of the macro sentiment witnessed in Saudi market, the management believes that the demand for ceramic has been in adequate in UAE and Oman due to better institutional and retail buyers in these markets.

Operating efficiencies at play: AACT has 40% of its production volume being sold in Saudi Arabia. We expect the company to regain its lost market share and improve on volume and price realization levels from 2Q20, and estimate 20% revenue growth and 52% profit growth in FY2020. As the company achieves peak capacity utilization in a couple of years due to increased demand from the regional markets, we estimate the company to achieve 3year revenue and net income CAGR of 14% and 31% respectively and report FY22 net profit of 4.4 million.

Net cash company; attractive valuations: AACT is a net cash company with cash balance at 22% of market cap. At CMP, the shares are trading at FY20E EV/EBITDA of 7.0x, P/E of 16.2x and offers dividend yield of 4.1%. Further, the valuations are expected to be more attractive as the company is estimated to report growth in earnings and cash flow. We have arrived at blended DCF-RV target price of RO 0.213/Share for the stock. We have used WACC of 11.6% to arrive at the DCF valuation. Our blended target price offers upside potential of 23% from current levels, and we recommend investors to buy the stock for reaping the benefits of a secular growth story. We have a STRONG BUY recommendation on the stock.

Financial Statements (RO mn)	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19	Ratio analysis	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
Revenue	20.8	19.1	20.5	5.4	4.4	4.7	5.9	DIO	124	139	133	131	150	152	105
Gross profit	7.0	5.3	5.7	1.8	1.4	1.4	1.2	DSO	130	152	156	158	224	197	151
EBITDA	3.9	2.6	3.9	1.1	0.9	0.9	0.9	DPO	32	32	51	50	94	88	58
EBIT	1.8	0.5	1.7	0.6	0.3	0.4	0.4	CCC	222	258	238	240	280	261	197
Interest expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	ROE (%)	5	2	6	7	6	5	6
Pre-tax income	2.2	0.9	2.5	0.7	0.5	0.5	0.7	ROA (%)	4	2	5	6	5	5	5
Net income	1.8	0.7	2.1	0.6	0.4	0.4	0.6	ROCE (%)	6	2	6	8	7	6	6
Cash & equivalents	1.4	0.8	1.1	0.7	1.2	1.1	1.1	Debt/Equity (x)	0	0	0	0	0	0	0
Inventories	5.2	5.4	5.4	5.0	5.6	5.4	5.4	Long term debt/Equity (x)	0	0	0	0	0	0	0
Accounts receivable	8.1	7.8	9.7	11.2	10.7	9.7	9.7	Net debt/EBITDA (x)	-2	-4	-2	-2	-5	-8	-10
Total current assets	21.2	23.6	24.7	23.0	24.5	24.7	24.7	Gross margin (%)	34	28	28	32	31	30	21
PPE	17.7	15.8	14.7	15.3	14.8	14.7	14.7	EBITDA margin (%)	19	14	19	20	20	20	16
Total non-current assets	21.2	17.6	16.8	17.2	16.8	16.8	16.8	Operating profit margin (%)	8	3	8	10	8	9	7
Total assets	42.4	41.1	41.5	40.2	41.4	41.5	41.5	Net profit margin (%)	9	4	10	11	10	9	10
Long term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Market cap (RO mn)	36	21	50	23	30	31	40
Non current liabilities	1.3	1.3	1.1	1.1	1.1	1.1	1.1	Enterprise value (RO mn)	30	11	40	16	22	21	30
Accounts payable	1.4	1.1	3.0	2.9	3.4	3.0	3.0	EV/EBITDA (x)	7.6	4.2	10.4	3.7	5.6	5.5	7.8
Short term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	16.8	22.2	23.3	7.2	12.4	12.2	17.5
Total current liabilities	3.1	2.7	3.3	3.0	3.6	3.3	3.3	EPS (RO)	0.006	0.003	0.007	0.008	0.007	0.007	0.007
Share capital	29.6	29.6	29.6	29.6	29.6	29.6	29.6	BVPS (RO)	0.128	0.125	0.125	0.122	0.124	0.125	0.125
Equity reserves	8.4	7.5	7.5	6.4	7.0	7.5	7.5	DPS (RO)	0.006	0.006	0.007				
Total common equity	38.0	37.1	37.1	36.0	36.6	37.1	37.1	CMP (RO)	0.123	0.071	0.168	0.077	0.102	0.104	0.134
Cash from operations	1.4	2.6	5.5	0.7	1.4	1.7	5.5	P/E (x)	20.2	28.1	23.9	9.1	14.4	15.7	19.1
Cash from investing activities	-1.6	-1.4	-3.6	1.0	-0.8	-1.9	-3.6	P/B (x)	1.0	0.6	1.3	0.6	0.8	0.8	1.1
Cash from financing activities	-2.4	-1.8	-1.8	-1.8	0.0	0.0	-1.8	Div Yield (%)	4.9	8.5	4.2	0.0	0.0	0.0	0.0
Free cash flow	0.7	2.4	4.8	0.7	1.4	1.4	4.8								



Long term Target Price RO 0.656

Valuation Summary (TTM)

Price (RO)	0.474
PER (x)	22.2
P/Book (x)	0.7
P/Sales (x)	1.1
EV/Sales (x)	1.4
EV/EBITDA (x)	12.7
Dividend Yield (%)	2.6
Free Float (%)	63%
Shares O/S (mn)	200
YTD Return (%)	13%
Beta	1.6

(mn)	OMR	USD
Market Cap	96	248
EV	147	381

Price performance (%)	1M	3M	12M
RCCI	10%	39%	22%
MSM 30 Index	4%	2%	-3%
MSM Industrial Index	5%	3%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.12	0.25	0.13
Avg Daily Volume (,000)	215	262	159

52 week	High	Low	CTL*
Price (RO)	0.510	0.300	58.0

* CTL is % change in CMP to 52wk low

Major shareholders

Abu Dhabi Development Fund	15.0%
Islamic Development Bank	11.7%
Dolphin International	10.3%
Others	63.0%

Other details

Exchange	MSM
Sector	Construction Material
Index weight (%)	3%

Key ratios	2016	2017	2018
EPS (RO)	0.104	0.029	0.002
BVPS (RO)	0.794	0.758	0.730
DPS (RO)	0.065	0.029	0.013
Payout ratio (%)	63%	100%	625%

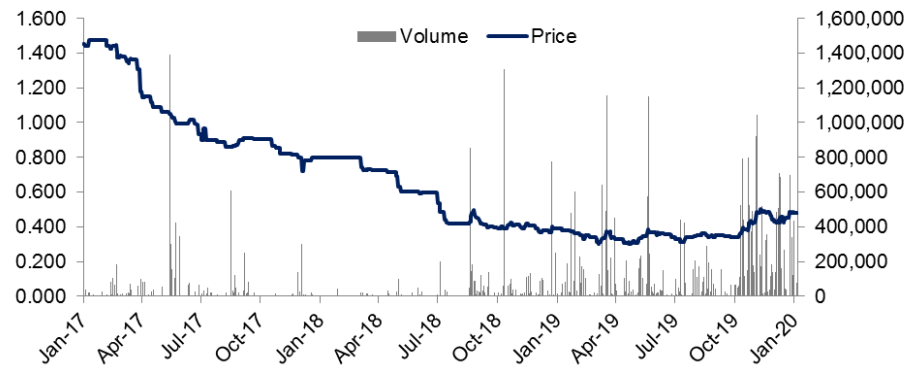
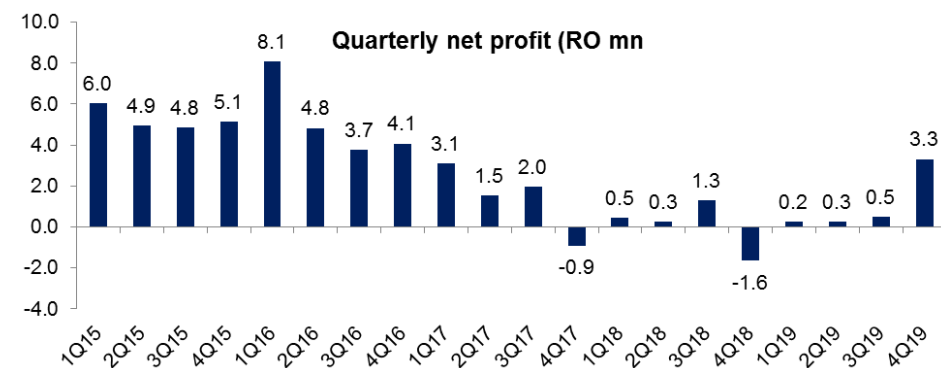
Ambitious geographical and capacity growth plans of Raysut Cement should help it to wither the headwinds from the oil price shock that the regional companies are currently experiencing. However, we feel that the market has yet to price-in the growth opportunities that are envisaged by Raysut Cement's management over the long term. Demand for cement and price realizations have come under pressure due to increase in cheaper imports from neighboring UAE producers. While the sales volume of Raysut Cement has been steady in 2019 driven by strong construction spending at Duqm, both revenue and profitability of the company has been coming under pressure due to lower realizations. We expect cement realizations to stabilize in the local market during current year, and that in Yemen to improve as a result of peace talks. RCCI is also looking to diversify its presence to other geographies such as Europe, Africa, and Indian subcontinent. The company's shares are currently quoting at 11x its 2020E EPS and at 10x EV/EBITDA. We feel that at this level, a company that is aiming at long term inorganic growth is undervalued. We arrived at a 2-Year blended fair value of RO 0.656, which is 38% higher than current levels. We have a **STRONG BUY** recommendation on the stock for investors with long term investment outlook.

Aggressive capacity expansion plans to drive long term growth: Raysut has announced plans to increase its capacity to 20 MTPA by 2022. In a bid to diversify its revenue from less oil dependent economies, the company lays down plans to acquire cement plants in different parts of the world where the commodity enjoys higher realization levels. Raysut has plans to start its plant in Georgia, Kenya, and India, in addition to improve existing relationships in geographies such as Yemen as the country slowly comes out of heightened tensions. Media reports that Raysut is planning to invest around USD 200 million in India, and \$100 million in Kenya during 2020. Further acquisitions and plant improvements are expected through 2022.

Cement prices under pressure due to increasing imports, though downside to cement realization in limited: Cement realizations of RCCI has fallen from RO 31 per ton in 2010 to the current levels of RO 19.0 per ton. Cement prices in Oman have come under pressure due to increase in low cost imports from neighboring markets. Apart from overall slowdown in the cement consumption in the region, political turmoil in Yemen has also resulted in cement volumes getting diverted to Oman. We expect this trend to continue, though the downside to cement prices from the current levels is limited. While cement prices have been under pressure, the company had been successfully maintaining its sales volumes. Going forward we expect this trend to improve as the company enters new markets in addition to improved political situation in its key market, Yemen. We estimate the company's revenue to reach RO 220 million by 2023E while profit to grow multi fold from 2019 levels of RO 4.3 million to RO 13 million, driven by capacity additions and improvement in realization as well as margin. We expect this to get reflected in the share price, making it a compelling **BUY** for a long term investor.

Long term fair value at RO 0.656/Share; upside potential of 38%: We have valued Raysut Cement via a blended DCF-Relative valuation approach and arrived at a fair value of RO 0.656/Share, which is 38% higher than the current prices. We expect the shares to evince investor interest from the second half of the year where we expect to witness the cost optimization initiatives start to yield fruitful results, and expect the stock to remain in the upward trajectory through 2021. Our DCF valuation resulted in fair value of RO 0.698/Share for the stock. We are encouraged by the management's attitude for growth and their plans to create long term value for the company's shareholders. We are likely to see a major structural shift with the company's geographical expansion into several continents. While we see these expansion strategies positively, we caution against the possible risks associated with effective management of a sizable company and management of forex exposures. We recommend long term investors to **BUY** the stock with opportunities for strong potential gain in the future.

Financial Statements (RO mn)	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19	Ratio analysis	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
Revenue	71.9	91.0	85.7	23.0	18.7	20.4	23.6	DIO	155	136	169	130	148	166	171
Gross profit	16.0	15.6	17.6	4.5	3.8	3.8	5.5	DSO	36	46	92	81	112	108	98
EBITDA	14.0	10.1	12.3	2.6	2.6	3.6	3.6	DPO	34	40	79	46	57	67	92
EBIT	6.7	2.7	4.2	0.7	0.6	1.4	1.4	CCC	157	143	181	150	158	175	177
Interest expense	0.8	1.1	0.4	0.0	0.0	0.0	0.4	ROE (%)	4	0	3	1	1	1	3
Pre-tax income	8.0	1.0	1.3	0.2	0.3	0.5	0.2	ROA (%)	3	0	2	0	0	1	2
Net income	5.8	0.3	4.3	0.2	0.3	0.5	3.3	ROCE (%)	5	1	1	1	1	1	1
Cash & equivalents	13.5	6.5	0.4	4.6	1.0	0.4	0.4	Debt/Equity (x)	15	19	0	0	0	0	0
Inventories	27.3	29.0	33.9	26.4	30.6	33.9	33.9	Long term debt/Equity (x)	11	14	0	14	26	25	0
Accounts receivable	5.5	17.6	25.4	23.4	22.8	25.4	25.4	Net debt/EBITDA (x)	0	2	4	2	10	11	15
Total current assets	55.1	64.5	71.4	66.4	68.1	71.4	71.4	Gross margin (%)	22	17	21	20	20	19	23
PPE	93.8	87.8	104.1	87.4	105.3	104.1	104.1	EBITDA margin (%)	20	11	14	11	14	18	15
Total non-current assets	140.1	135.2	157.6	135.2	159.6	157.6	157.6	Operating profit margin (%)	9	3	5	3	3	7	6
Total assets	195.2	199.8	229.0	201.6	227.7	229.0	229.0	Net profit margin (%)	8	0	5	1	1	2	14
Long term debt	16.6	20.4	36.1	20.0	37.5	36.1	36.1	Market cap (RO mn)	156	76	96	64	73	70	85
Non current liabilities	22.4	25.8	41.1	25.4	42.8	41.1	41.1	Enterprise value (RO mn)	138	66	92	56	69	67	82
Accounts payable	5.7	11.2	18.3	12.1	16.2	18.3	18.3	EV/EBITDA (x)	9.9	6.5	7.5	5.4	6.6	5.7	6.6
Short term debt	5.9	7.2	19.1	8.6	16.1	19.1	19.1	EV/EBIT (x)	20.6	24.5	22.1	19.1	25.9	18.2	19.6
Total current liabilities	21.2	27.9	43.2	32.3	40.7	43.2	43.2	EPS (RO)	0.029	0.002	0.022	0.005	0.005	0.007	0.022
Share capital	20.0	20.0	20.0	20.0	20.0	20.0	20.0	BVPS (RO)	0.758	0.730	0.723	0.719	0.720	0.723	0.723
Equity reserves	118.1	112.6	111.1	110.3	110.6	111.1	111.1	DPS (RO)	0.029	0.013	0.013				
Total common equity	151.6	146.0	144.5	143.8	144.0	144.5	144.5	CMP (RO)	0.780	0.380	0.478	0.318	0.364	0.350	0.426
Cash from operations	6.3	-3.8	-4.5	-1.6	0.6	-1.7	-4.5	P/E (x)	26.8	221.1	22.1	65.4	71.1	52.0	19.7
Cash from investing activities	9.3	5.8	-18.8	-1.1	-16.0	-0.8	-18.8	P/B (x)	1.0	0.5	0.7	0.4	0.5	0.5	0.6
Cash from financing activities	-18.9	-0.9	23.8	1.1	4.4	9.2	23.8	Div Yield (%)	3.7	3.3	2.7	0.0	0.0	0.0	0.0
Free cash flow	0.8	-7.0	-10.5	-2.8	-2.7	-2.5	-10.5								



12M Target Price RO 0.738

Valuation Summary (TTM)

Price (RO)	0.624
PER (x)	9.6
P/Book (x)	0.9
P/Sales (x)	0.2
EV/Sales (x)	1.9
EV/EBITDA (x)	4.4
Dividend Yield (%)	8.0
Free Float (%)	43%
Shares O/S (mn)	750
YTD Return (%)	5%
Beta	1.5

(mn)	OMR	USD
Market Cap	471	1,223
EV	4,856	12,613

Price performance (%)	1M	3M	12M
OTEL	6%	6%	-12%
MSM 30 Index	4%	2%	-3%
MSM Services Index	3%	1%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.11	0.09	0.07
Avg Daily Volume (,000)	144	146	123
52 week	High	Low	CTL*

Price (RO)	0.748	0.520	20.0
* CTL is % change in CMP to 52wk low			

Major shareholders

United International	51.0%
SGRF	6.1%
Others	42.9%

Other details

Exchange	MSM
Sector	Diversified Services
Index weight (%)	12%

Key ratios	2016	2017	2018
EPS (RO)	0.156	0.104	0.086
BVPS (RO)	0.776	0.762	0.730
DPS (RO)	0.110	0.050	0.050
Payout ratio (%)	71%	48%	58%

Domestic headwinds to be neutralized by profitability gain from Zain: Despite FBB segment contributing positively, the headwinds from mobile segments in the form of increased competition is expected to keep the company's domestic operations lukewarm. The arrival of the Vodafone brand in Oman as 3rd MNO will have a profound impact on the current market dynamics. As the current market is getting saturated and we are witnessing a slowdown in core mobile telecom market revenues due to the overall economic situation.

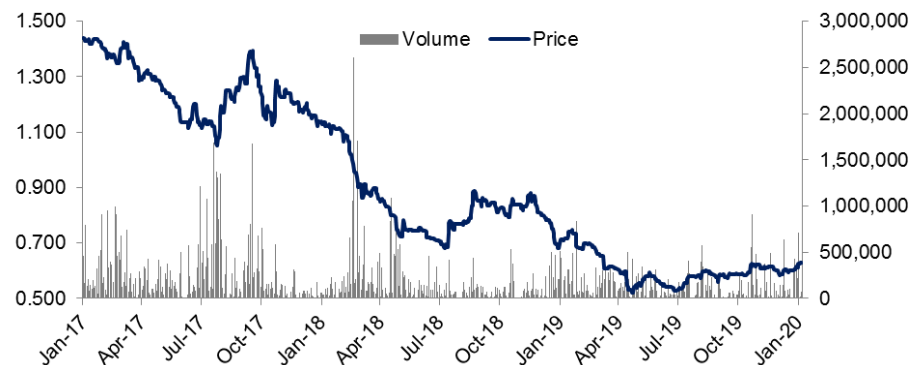
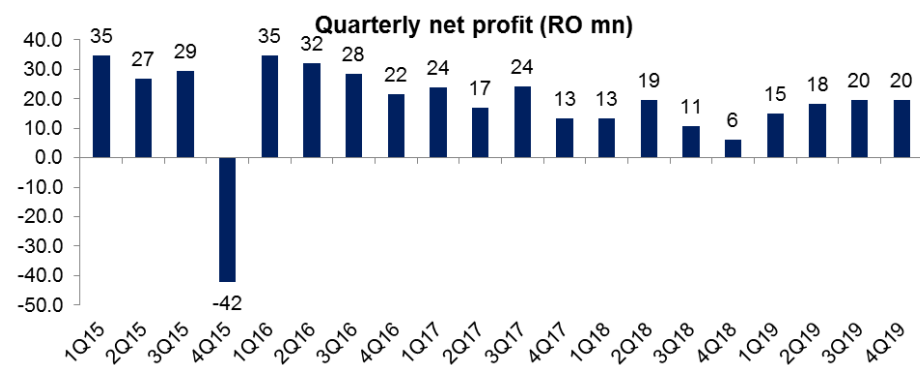
However, we expect continued performance improvements from Zain group to drive the income growth of Omantel. Following the 5G launch, Kuwait is expected to show double digit growth in fixed data revenue, and help improve ARPU levels. Albeit at single digits, data revenue from Oman also is expected to be on the growth trajectory. Zain Saudi is gaining traction, with stable performance numbers being reported from there. The capital restructuring plans are underway and we expect new developments in the tower sale plans by Zain Saudi. Zain Kuwait reported 9M19 net income growth of 10% while Iraq saw profit growing by 7%. Zain Sudan continuing to perform exceptionally well in all key financial indicators in local SDG currency terms. Further Zain KSA recorded net profit for the last five quarters with revenues growing quarter on quarter. Net income for Zain KSA for nine months ended 30 September 2019 reached RO 37.8 million compared to a loss of RO 6.9 million in nine months ended 30 September 2018.

We estimate Zain synergies to be visible from 2021 as the management of both the companies are working on a new strategy to monetize synergies. We expect the companies to work jointly on data aggregation and analytics segment for reaping the synergy benefits. Omantel had successfully restructured its bank loan portion of long term debt where it achieved term extension by 2 years to 2024 and moratorium on principal repayment for 2 years. We see this as dividend positive and expects the company to distribute 50 bz/Share in the next two years. This translates to dividend yield of 8% on the stock.

We estimate net profits of OTEL to report RO 79 million in net profit this year, leading to FY20E P/E of 6.0x and P/B of 0.8x. We arrived at fair value target of RO 0.738/Share for the stock, offering 18% upside potential. We recommend investors to buy the stock for quality earnings and dividend yield.

Financial Statements (RO mn)	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
Revenue	751.7	2,186.0	2,530.3	628.6	630.2	634.5	637.0
Gross profit	521.6	1,548.6	1,862.1	444.8	467.3	461.5	488.4
EBITDA	290.9	854.6	1,091.3	269.9	269.6	275.9	275.9
EBIT	132.6	411.9	477.8	115.8	116.9	122.5	122.5
Interest expense	20.1	143.6	188.8	48.6	49.1	47.7	48.4
Pre-tax income	109.1	249.2	295.3	69.1	75.5	81.5	69.1
Net income	78.3	64.8	72.2	14.9	18.3	19.5	19.5
Cash & equivalents	381.0	503.4	503.8	511.7	465.2	503.8	503.8
Inventories	52.4	68.5	62.2	63.5	63.5	62.2	62.2
Accounts receivable	305.3	313.1	820.3	823.4	879.9	820.3	820.3
Total current assets	1,160.8	1,530.7	1,524.3	1,536.0	1,545.8	1,524.3	1,524.3
PPE	1,468.2	2,020.0	2,282.8	2,238.5	2,239.6	2,282.8	2,282.8
Total non-current assets	4,385.1	5,783.7	6,047.7	6,090.1	6,064.6	6,047.7	6,047.7
Total assets	5,545.9	7,314.4	7,572.0	7,626.1	7,610.4	7,572.0	7,572.0
Long term debt	1,111.4	2,081.7	2,478.4	2,266.2	2,293.1	2,478.4	2,478.4
Non current liabilities	1,224.4	2,581.7	3,082.3	2,826.7	2,889.3	3,082.3	3,082.3
Accounts payable	768.4	1,393.4	1,361.7	1,511.4	1,378.1	1,361.7	1,361.7
Short term debt	854.9	555.9	407.7	644.9	668.2	407.7	407.7
Total current liabilities	1,709.7	2,119.2	1,914.1	2,338.7	2,198.6	1,914.1	1,914.1
Share capital	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Equity reserves	496.6	472.5	475.3	442.7	459.9	475.3	475.3
Total common equity	571.6	547.5	550.3	517.7	534.9	550.3	550.3
Cash from operations	257.0	736.4	886.5	140.5	208.2	268.9	886.5
Cash from investing activities	-670.6	-217.5	-513.3	-107.8	-133.4	-136.0	-513.3
Cash from financing activities	732.2	-358.3	-334.9	-24.5	-122.0	-94.2	-334.9
Free cash flow	68.5	412.5	523.2	80.5	80.9	180.9	523.2

Ratio analysis	FY2017	FY2018	FY2019	1Q19	2Q19	3Q19	4Q19
DIO	49	35	36	28	26	29	38
DSO	93	52	82	82	123	122	117
DPO	192	154	752	719	807	721	834
CCC	-50	-68	-635	-609	-658	-569	-679
ROE (%)	14	12	13	11	12	13	13
ROA (%)	2	1	1	1	1	1	1
ROCE (%)	6	8	8	8	8	8	8
Debt/Equity (x)	344	482	5	6	6	5	5
Long term debt/Equity (x)	194	380	1	438	429	450	1
Net debt/EBITDA (x)	5	2	2	2	5	6	9
Gross margin (%)	69	71	74	71	74	73	77
EBITDA margin (%)	39	39	43	43	43	43	43
Operating profit margin (%)	18	19	19	18	19	19	19
Net profit margin (%)	10	3	3	2	3	3	3
Market cap (RO mn)	904	591	471	459	410	440	450
Enterprise value (RO mn)	499	57	-53	-76	-76	-84	-74
EV/EBITDA (x)	1.7	0.1	0.0	-0.1	-0.1	-0.1	-0.1
EV/EBIT (x)	3.8	0.1	-0.1	-0.2	-0.2	-0.2	-0.2
EPS (RO)	0.104	0.086	0.096	0.079	0.088	0.094	0.096
BVPS (RO)	0.762	0.730	0.734	0.690	0.713	0.734	0.734
DPS (RO)	0.050	0.050	0.050				
CMP (RO)	1.205	0.788	0.628	0.612	0.546	0.586	0.600
P/E (x)	11.5	9.1	6.5	7.7	6.2	6.3	6.2
P/B (x)	1.6	1.1	0.9	0.9	0.8	0.8	0.8
Div Yield (%)	4.1	6.3	8.0	0.0	0.0	0.0	0.0



Valuation Summary (TTM)

Price (RO)	0.330
PER (x)	11.2
P/Book (x)	1.2
Dividend Yield (%)	9.1
Free Float (%)	54%
Shares O/S (mn)	100
YTD Return (%)	5%
Beta	0.5

(mn)	OMR	USD
Market Cap	33	86
Total Assets	106	276

Price performance (%)	1M	3M	12M
OUIS	7%	18%	9%
MSM30 Index	4%	2%	-3%
MSM Financial Index	6%	0%	-3%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.08	0.08	0.07
Avg Daily Volume (,000)	201	261	269

52 week	High	Low	CTL*
Price (RO)	0.340	0.160	106.3

* CTL is % change in CMP to 52wk low

Major shareholders

Salem Nasser Al Busaidi	33.5%
Oman Growth Fund	7.5%
Middle East Investments	5.5%
Others	53.5%

Other details

Exchange	MSM
Sector	Insurance
Index weight (%)	NA

OUIC's conservative approach to risk selection and selective policy underwriting strategy has paid off well in the past couple of years. With challenging macro conditions and selective risk selection, we expect the decline in GWP to continue into 2020E. However, with the retention of good quality risk and better management of claims, the underwriting margins are estimated to expand, resulting in stable operational profit going forward. OUIS significantly increased its exposure to fixed income securities, which stands at RO 52 million as at September 2019. The equity exposure has been cut to 12% of the total investment portfolio. This move, combined with the 5.2% yield from the fixed income investments should provide the company with stable income stream going forward. The effective cost control measures adopted by the company should help it reporting strong bottom line and ROE growth for 2019-21E. Supported by growth in core operations and investment income, we estimate OUIC's ROE to grow from 10% in FY19 to 12.2% in FY21E, forming a strong case for attractive investment. We have arrived at a Relative Valuation fair value of RO 0.417/share for the stock, which is 26% higher than the current market price of RO 0.330, and hence we give "STRONG BUY" rating for the stock.

Lower claims to lead further improvement in combined ratio: As a result of careful risk selection, OUIC's combined ratio experienced reduction to 85% in FY19 from 89% in FY18. The company has experienced a decline in its gross claims, and we expect it to remain at these levels going forward. Through selective policy underwriting and by reducing the exposure to non profitable policies, OUIC has been successfully reducing the loss ratio. We build our argument based on this gradual yet steady reduction in loss ratio. Due to high volume nature of motor business, a drop in claims ratio from that segment would contribute significantly to the underwriting margins. Our models suggest the loss ratio remaining stable at 62% through FY21E. In our view, this should result in stable underwriting profits despite a decline in overall business.

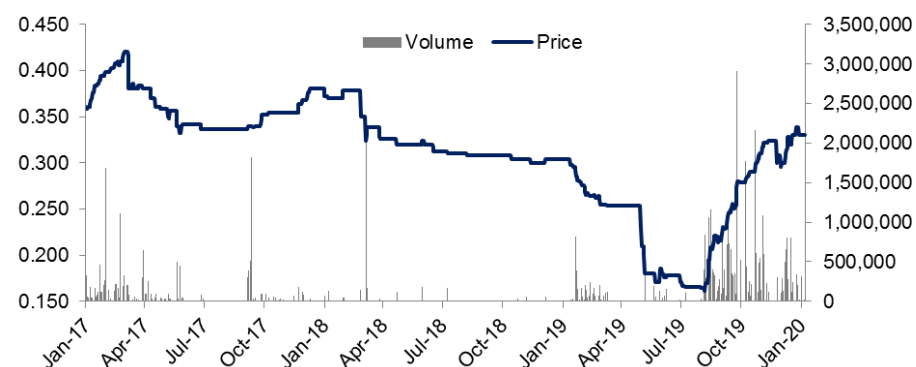
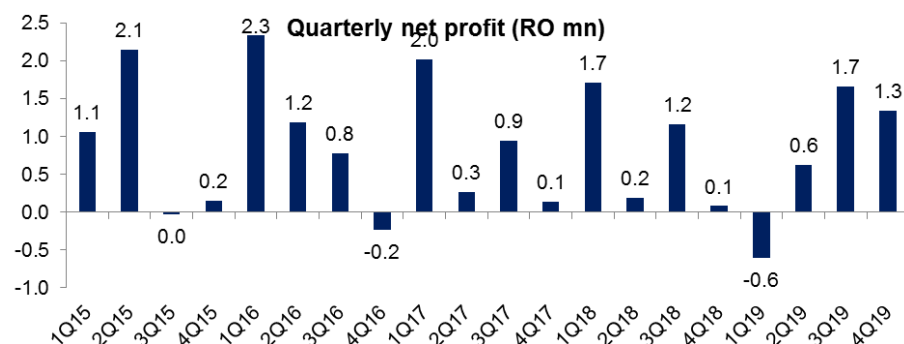
Higher underwriting profits and stable investment income to lead to sharp profitability growth next year: As a result of the conservative approach to writing risk, cleanup of motor policies, reduced combined ratio, and stable investment income, OUIC's operating profit is expected to grow at an annual rate of 5.4% during the next 2 years and reach RO 6.7 million by FY21E. The net profit is expected to grow at 3.9% during 2018-21, supported by absence of impairment expenses in the equity investment portfolio and moderate increase in admin expenses. We forecast OUIC's EPS reaching 46 bz in 21E from 30 bz in 2019.

Attractive valuations: We feel that the market has yet to price fully the true potential of the company's earnings growth. The quality of earnings offered by OUIC is unparalleled among listed national insurance companies. We expect OUIC to effectively utilize the current market situation to its advantage by gaining quality customers. At current valuations, the shares are being traded at 11x and 7.9x its FY19e and FY20e earnings respectively. Additionally, the current p/b value of 1.1x FY20e is at a steep discount for a company that reports ROE of 12%. We estimate the company to maintain its high payout ratio and distribute cash dividend of 30 bz in 2019 and 42 bz in 2020. With the restructuring of its investment portfolio and continued positive performance at operating level, we expect the company to maintain its high profitability path as early as 3Q19. This should trigger a re-rating on the stock performance to much higher levels from the current price.

10 for 20: Oman United Insurance Company

	2017	2018	2019	1Q19	2Q19	3Q19	4Q19
Gross premium	38.4	36.7	31.1	10.9	7.2	7.4	5.7
Net premium earned	21.8	21.8	18.5	5.3	5.0	4.4	3.8
Net claims incurred	15.2	14.6	11.1	3.2	3.1	2.7	2.1
Commission income	0.4	0.1	0.1	0.0	0.0	0.1	0.0
Gross underwriting results	7.0	7.3	7.5	2.0	1.9	1.8	1.7
Management expenses	4.5	4.6	4.7	1.1	1.0	1.3	1.3
Net underwriting results	2.5	2.6	2.8	0.9	0.9	0.5	0.4
Investment income	1.8	1.5	1.3	-1.3	-0.1	1.3	1.3
Profit before tax	4.3	4.1	4.1	-0.3	0.9	1.8	1.7
Provision for taxation	0.8	0.9	1.1	0.3	0.2	0.2	0.4
Profit after tax	3.5	3.1	3.0	-0.6	0.6	1.7	1.3
Property & equipment	1.5	1.3	1.7	1.5	1.5	1.7	1.7
Investment in property	2.4	2.3	2.2	2.3	2.3	2.2	2.2
Reinsurance assets	32.7	33.0	35.4	36.4	35.2	35.4	35.4
Receivables	10.3	8.5	9.9	10.5	11.3	9.9	9.9
Investments	57.0	60.1	59.1	55.9	55.0	57.8	59.1
Cash and equivalents	4.4	0.9	0.6	2.7	0.0	0.6	0.6
Total assets	108.3	106.1	108.9	109.3	105.3	107.5	108.9
Insurance liabilities	61.5	62.0	63.0	65.5	63.4	63.0	63.0
Payables	16.1	14.0	15.5	17.6	14.2	15.5	15.5
Other liabilities	1.6	1.8	1.7	1.2	2.0	1.7	1.7
Total liabilities	79.2	77.8	80.2	84.3	79.6	80.2	80.2
Share capital	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Equity reserves	19.1	18.3	17.3	15.0	15.7	17.3	17.3
Total equity	29.1	28.3	28.7	25.0	25.7	27.3	28.7

	2017	2018	2019	1Q19	2Q19	3Q19	4Q19
Retention ratio	57%	56%	53%	51%	52%	51%	60%
Claim ratio	70%	67%	60%	61%	62%	61%	55%
Expense ratio	19%	21%	25%	21%	20%	26%	35%
Combined ratio	89%	88%	85%	82%	82%	87%	90%
Yield on investments	3.1%	2.5%	2.2%	-2.2%	-0.1%	2.3%	2.3%
Growth (%)							
GWP	0%	-5%	-15%				
Gross underwriting results	22%	4%	3%				
Net underwriting results	58%	6%	6%				
Investment income	-34%	-19%	-11%				
Net income	-10%	-10%	-4%				
Return Ratios (%)							
ROE	11.9%	11.1%	10.5%	-9.7%	0.1%	8.1%	10.5%
ROA	3.2%	3.0%	2.8%	-2.2%	0.0%	2.1%	2.8%
Payout ratio	86%	96%	100%				
Per share ratios (RO)							
EPS	0.035	0.031	0.030	-0.006	0.006	0.017	0.013
BVPS	0.291	0.283	0.287	0.250	0.257	0.273	0.287
DPS	0.030	0.030	0.030				
Valuation Ratios							
Price (RO)	0.38	0.304	0.33	0.254	0.176	0.229	0.314
Market Cap (RO mn)	38	30.4	33	25.4	17.6	22.9	31.4
P/E (x)	10.94	9.70	11.00	NM	NM	10.33	10.46
P/B (x)	1.31	1.07	1.15	1.01	0.68	0.84	1.10
Dividend Yield (%)	7.9%	9.9%	9.1%				



12M Target Price RO 0.488

Valuation Summary (TTM)

Price (RO)	0.400
PER (x)	9.7
P/Book (x)	1.0
Dividend Yield (%)	2.5
Free Float (%)	14%
Shares O/S (mn)	100
YTD Return (%)	0%
Beta	0.5

(mn)	OMR	USD
Market Cap	40	104
Total Assets	82	214

Price performance (%)	1M	3M	12M
AINS	8%	11%	11%
MSM 30 Index	4%	2%	-3%
MSM Financial Index	6%	0%	-3%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.00	0.00	0.00
Avg Daily Volume (,000)	1	2	10

52 week	High	Low	CTL*
Price (RO)	0.400	0.295	35.6

* CTL is % change in CMP to 52wk low

Major shareholders

RSA Middle East	52.5%
OMINVEST	24.3%
PASI	9.0%
Others	14.2%

Other details

Exchange	MSM
Sector	Insurance
Index weight (%)	NA

Key ratios	2016	2017	2018
EPS (RO)	N/A N/A	0.037	0.039
BVPS (RO)	#N/A N/A	0.386	0.393
DPS (RO)	#N/A N/A	0.032	0.039
Payout ratio (%)	#####	86%	100%

Al Ahlia Insurance Company (AINS) is one of Oman's leading General Insurance Company with 15% market share in Comprehensive motor insurance. Leveraging on technical strength from the parent company RSA, AINS has a strategy to maintain high levels of premium retention and profit from the risk acceptance. As a result, the company is the second largest general insurer in terms of NWP. AINS's strategy of careful risk selection has results in lower claim ratios, which helps the company in achieving superior underwriting results. AINS's stable and favourable combined ratio of 87% leads to stable profitability of its insurance operations. The company adopts a conservative investment strategy of keeping surplus funds as term deposits with banks. Such a strategy brings in stability and long term visibility to AINS's investment income. Owing to the strong pedigree from RSA, market leadership position in NWP and Underwriting margins, and stable investment income, the company will be able to maintain strong visibility in dividend distributions. It has a policy of 100% dividend payout ratio, which results in high dividend yield of 12% through 2019-21, and hence we have a BUY rating on the stock with target price of RO 0.488/Share.

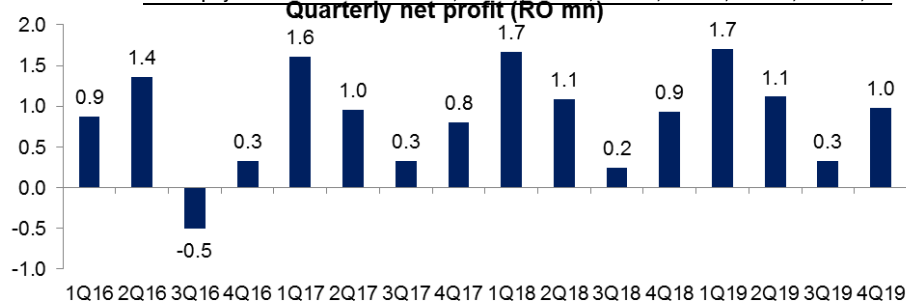
Continued momentum in operational performance growth is sustainable over the medium term: AAIC reported GWP of 23.9 mn, net underwriting results of RO 3.2 million, and net income of RO 4.1 million during FY19. Although we're a tad disappointed about the y/y decline of 8% decline in GWP, higher premium retention and better claims management helped the company to report 3% growth in underwriting results. We are positive about this operating result and expect the company to report continued growth in profitability through 2021e.

Superior earnings profile eclipsed by goodwill and capital reserve: AINS carries a goodwill amount of RO 15.4 million that was created as a result of the company's acquisition of formerly Al Ahlia Insurance Company SAOC in 2010. Subsequent to the amalgamation, the company restructured its capital, which was converted to retained earnings in 2018. This led to the company reporting high net worth, which will reach RO 38 million in 2019. Its current ROE of 10% is on the higher equity base is very much comparable with that of its peers in the local market.

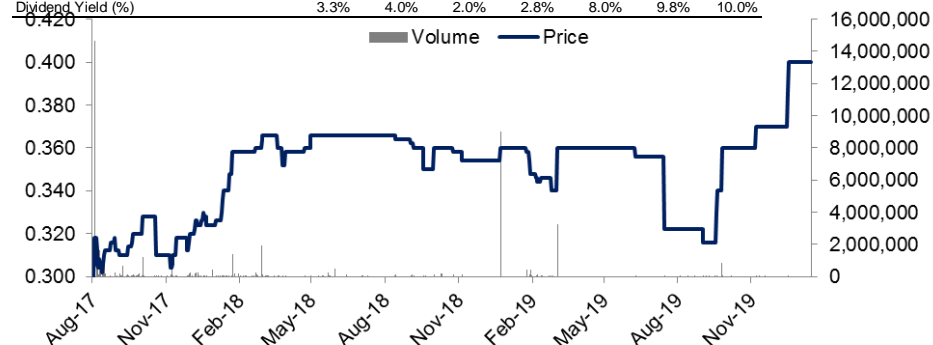
Attractive valuations: We have valued AAIC using comparable ratios of peers. We looked at justified P/B valuation of 1.2x its FY20E book value. The valuation thus arrived indicates fair value of RO 0.488 for the stock, which is 15% higher than the current price. At the target price, the shares would be trading at 1.2x its book value, 11.3x P/E and offer dividend yield of 8.2%. At current price, the stock is trading at 9.2x P/E, 0.83x P/B and 12.7% FY19e dividend yield. Owing to the high quality earnings and attractive relative valuation parameters, we recommend investors to BUY Al Ahlia Insurance's shares for capital appreciation and steady dividend income.

INCOME STATEMENT	2013	2014	2015	2016	2017	2018	2019E
Gross written premium	33,925	33,883	30,920	26,393	25,919	25,804	23,944
Premium ceded	7,565	6,455	4,993	4,222	3,443	3,401	940
Net premium earned	26,361	27,428	27,054	24,209	22,476	22,403	23,015
Commission income	1,416	1,189	856	735	545	288	0
Total insurance revenue	27,776	28,617	27,910	24,944	23,022	22,691	23,015
Gross claims	22,744	19,835	19,417	15,569	12,806	19,445	15,467
Net claims incurred	17,606	17,226	17,692	15,122	12,115	11,393	11,169
Net commission expenses (income)	1,157	1,687	1,867	1,657	2,138	2,358	2,541
Total insurance cost	18,763	18,912	19,559	16,779	14,253	13,751	13,710
Underwriting results	7,598	8,516	7,495	7,430	8,768	8,940	9,305
General & admin expenses	5,587	6,084	5,959	6,045	6,121	6,037	6,146
Investment income	971	910	864	1,217	1,573	1,729	1,727
Other income	20	23	3	16	22	0	0
Profit before tax	3,001	3,365	2,402	2,618	4,242	4,631	4,886
Taxation	496	456	325	550	550	700	765
Profit after tax	2,506	2,909	2,077	2,068	3,692	3,931	4,121

BALANCE SHEET	2013	2014	2015	2016	2017	2018	2019E
PPE	421	385	424	401	404	757	920
AFS investments	818	747	103	107	2,165	2,520	200
Deposits	32,365	37,138	36,793	41,391	40,267	39,658	46,690
Goodwill	15,449	15,449	15,449	15,449	15,449	15,449	15,449
Reinsurance assets	8,023	7,439	2,156	1,910	3,028	9,084	2,660
Insurance and other receivables	14,290	13,532	13,847	11,071	11,621	12,263	15,120
Cash and bank balance	103	807	1,513	1,281	2,251	2,460	430
Deferred tax assets	90	52	56	70	98	101	70
Total assets	71,558	75,549	70,341	71,680	75,281	82,291	81,539
Employees end of service benefits	0	0	0	0	0	0	0
Insurance liabilities	34,456	35,996	30,720	29,568	30,400	35,558	36,610
Trade and other liabilities	4,494	5,335	4,927	6,150	6,327	7,447	6,870
Total liabilities	38,950	41,332	35,647	35,718	36,727	43,005	43,480
Share capital	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Capital reserve	11,785	11,785	11,785	11,785	11,785	0	0
Fair value reserve	119	118	117	117	116	115	120
Legal reserve	3,909	3,909	3,909	3,909	3,909	3,909	3,909
Contingency reserve	5,461	6,717	8,059	9,528	10,000	10,000	10,000
Retained earnings	1,334	1,688	824	623	2,744	15,261	15,482
Total equity	32,608	34,217	34,694	35,962	38,554	39,286	39,511
Total equity and liabilities	71,558	75,549	70,341	71,680	75,281	82,291	82,991



RATIOS	2013	2014	2015	2016	2017	2018	2019E
Insurance ratios							
Retention ratio (%)	77.7%	81.0%	83.9%	84.0%	86.7%	86.8%	96.1%
Loss ratio (%)	66.8%	62.8%	65.4%	62.5%	53.9%	50.9%	48.5%
Expense ratio (%)	25.6%	28.3%	28.9%	31.8%	36.7%	37.5%	37.7%
Combined ratio (%)	92.4%	91.1%	94.3%	94.3%	90.6%	88.3%	86.3%
Investment ratios							
Yield on equity investments (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest yield on deposits (%)	1.6%	1.8%	1.8%	1.8%	3.2%	4.4%	4.4%
Investment yield (%)	5.8%	2.6%	2.3%	3.1%	3.7%	4.1%	3.9%
Investment income/net revenue (%)	1.9%	2.2%	2.4%	2.9%	5.7%	7.7%	8.3%
Investments/Assets	46.4%	50.1%	52.5%	57.9%	56.4%	51.3%	57.5%
AFS investment/Total Assets	1.1%	1.0%	0.1%	0.1%	2.9%	3.1%	0.2%
AFS investments/Total investments	2.5%	2.0%	0.3%	0.3%	5.1%	6.0%	0.4%
Investments/Total Equity	102%	111%	106%	115%	110%	107%	119%
Growth							
GWP (yoy)	NA	-0.1%	-8.7%	-14.6%	-1.8%	-0.4%	-7.2%
NEP (yoy)	NA	4.0%	-1.4%	-10.5%	-7.2%	-0.3%	2.7%
Net claims (yoy)	NA	-2.2%	2.7%	-14.5%	-19.9%	-6.0%	-2.0%
Net commission income (yoy)	NA	45.7%	10.7%	-11.3%	29.0%	10.3%	7.8%
Underwriting profit (yoy)	NA	12.1%	-12.0%	-0.9%	18.0%	2.0%	4.1%
Investment income	NA	-6.2%	-5.1%	40.9%	29.3%	9.9%	-0.1%
Net income	NA	16.1%	-28.6%	-0.5%	78.6%	6.5%	4.8%
Total investments	NA	14%	-3%	12%	2%	-1%	11%
Solvency							
Policy reserves/GWP	102%	106%	99%	112%	117%	138%	153%
Policy reserves/NEP	131%	131%	114%	122%	135%	159%	159%
Policy reserves/Total equity	106%	105%	89%	82%	79%	91%	93%
Per share							
EPS (RO)	0.025	0.029	0.021	0.021	0.037	0.039	0.041
BVPS (RO)	0.326	0.342	0.347	0.360	0.386	0.393	0.395
DPS (RO)	0.013	0.016	0.008	0.011	0.032	0.039	0.040
Payout ratio	52%	55%	39%	53%	87%	99%	97%
ROE (%)	8%	9%	6%	6%	10%	10%	10%
Valuation							
Price (RO)	0.400	0.400	0.400	0.400	0.400	0.400	0.400
P/E (x)	16.0	13.8	19.3	19.3	10.8	10.2	9.7
P/B (x)	1.2	1.2	1.2	1.1	1.0	1.0	1.0
Price/GWP (x)	1.2	1.2	1.3	1.5	1.5	1.6	1.7
Dividend Yield (%)	3.3%	4.0%	2.0%	2.8%	8.0%	9.8%	10.0%



12M Target Price RO 0.560

Valuation Summary (TTM)

Price (RO)	0.440
PER (x)	7.3
P/Book (x)	0.7
Dividend Yield (%)	7.6
Free Float (%)	57%
Shares O/S (mn)	3,095
YTD Return (%)	2%
Beta	1.1

(mn)	OMR	USD
Market Cap	1,362	3,537
Total Assets	12,288	31,917

Price performance (%)	1M	3M	12M
BKMB	2%	-1%	13%
MSM 30 Index	4%	2%	-3%
MSM Financial Index	6%	0%	-3%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.52	0.45	0.36
Avg Daily Volume (,000)	1,353	937	773

52 week	High	Low	CTL*
Price (RO)	0.470	0.385	14.4

* CTL is % change in CMP to 52wk low

Major shareholders	
Royal Court Affairs	23.6%
Dubai Financial Group	11.8%
Civil Services PF	7.8%
Others	56.8%

Other details	
Exchange	MSM
Sector	Banking
Index weight (%)	12%

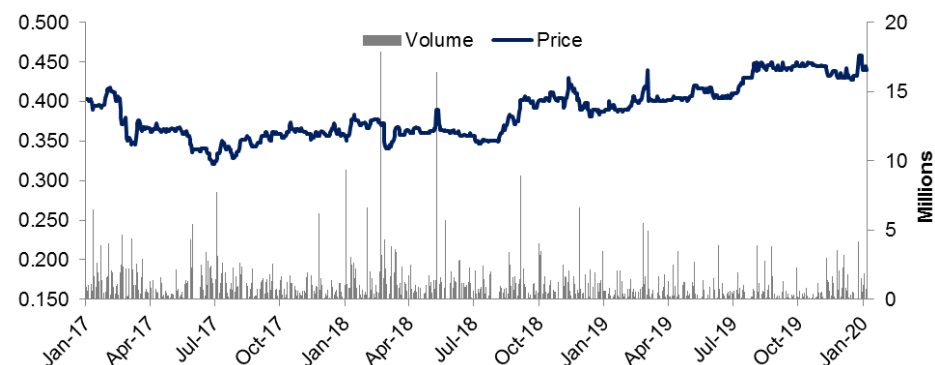
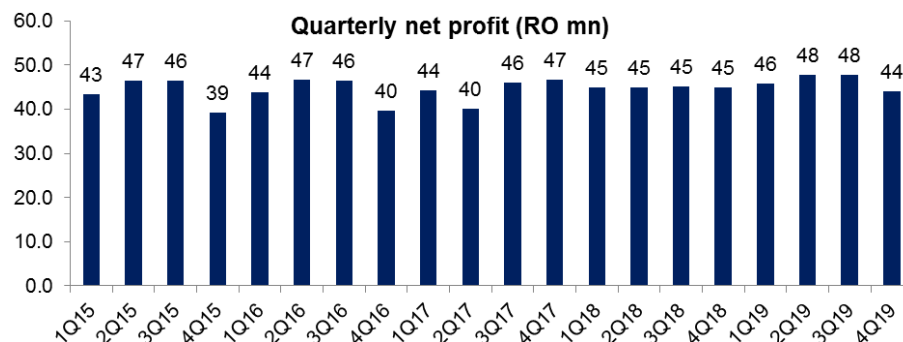
Key ratios	2016	2017	2018
EPS (RO)	0.058	0.058	0.058
BVPS (RO)	0.535	0.565	0.581
DPS (RO)	0.022	0.023	0.029
Payout ratio (%)	37%	39%	49%

Bank Muscat is the largest bank in Oman, and a direct proxy to Omani economy. The bank controls around 43% of the total credit in Oman's banking system, 41% of assets, and 42% of deposits. While other banks in the country witnessed earnings volatility during the last three years, Bank Muscat reported steady and positive earnings and growth. Its loan book grew at a CAGR of 6.7% during the last three years. This is higher than the market growth of 5.5% witnessed during 2015-18 period. The bank has witnessed its asset yield increasing by 40 bps to 4.34% in the last two years and were successful in restricting cost of fund expansion to 1.97%. This, coupled with stable loan book helped the bank to achieve annual net interest income growth of 6% to RO 317 million in 2019 as compared to RO 281 million in 2017. Operating profit of the bank grew from RO 252 mn in 2017 to RO 276 million by 2019. Higher credit cost and corporate tax has resulted in the bank reporting relatively stable net income during the past couple of years. Net income in 2019 was RO 186 million, which witnessed marginal growth from RO 176.8 million in 2017.

The bank is adequately capitalized, and possesses one of the highest capital adequacy ratios among listed banks in the Sultanate. This provides the bank with flexibility in loan growth without tapping additional funding sources in the near future. The bank has total equity of RO 1.9 billion, which translates to book value of RO 0.612/Share, and generates ROE of 10% consistently. The bank has consistently maintained payout ratios in excess of 50% over the last three year. The bank has announced cash dividend of RO 0.035 per share and bonus shares of 5% to shareholders from the profit of 2019. This results in dividend yield of 8%, second only to NBO, which has dividend yield of 8.4%.

At current price of RO 0.440, the shares are trading at P/E of 7.3x, P/B of 0.72x, and offers dividend yield of 8.0%. We feel that, at current levels, the stock is undervalued relative to its local and regional peers. We note that the size of the bank was never been a constraint for growth, and it has always been at the forefront of almost all big ticket lending opportunities in the Sultanate. We recommend investors to buy the stock with a price target of RO 0.560, leading to an upside potential of 27% from current levels, in addition to the attractive dividend yield.

Financial Statements	2017	2018	2019	1Q2019	2Q19	3Q19	4Q19	Ratio Analysis	2017	2018	2019	1Q19	2Q19	3Q19	4Q19
Interest income	424	479	519	127	130	131	131	Nil/Total income (%)	65	68	67	68	68	67	66
Interest expense	143	174	202	49	50	52	52	Non-int. income/ Total income (%)	35	32	33	32	32	33	34
Net interest income	281	304	317	79	80	79	79	Cost to income (%)	42.2	42.6	41.5	41.8	41.2	40.3	42.7
Non interest income	155	142	155	38	37	39	41	Loan to deposit ratio (%)	112	106	110	114	114	110	110
Total operating income	436	447	472	116	118	118	120	Net interest margin (%)	2.62	2.66	2.65	2.66	2.75	2.67	2.64
Operating expenses	184	190	196	49	49	47	51	Cost of funds (%)	1.54	1.78	1.97	1.90	1.99	2.04	2.02
Operating profit	252	256	276	68	69	70	69	Interest yield (%)	3.95	4.19	4.34	4.30	4.47	4.42	4.37
Impairment allowance	43	43	56	13	12	13	18	Interest spread (%)	2.41	2.41	2.37	2.40	2.47	2.38	2.35
Profit before tax	211	213	220	54	58	57	51	NPL ratio (%)	2.94	3.09	3.40	3.10	3.09	3.33	3.40
Taxation	34	34	35	8	10	9	7	Provision coverage ratio (%)	126	115	121	116	122	119	121
Reported PAT	177	180	186	46	48	48	44	Provision/average loans (%)	0.53	0.50	0.63	0.59	0.55	0.56	0.62
Cash & balance with CBO	935	1,307	783	719	681	783	783	Impairment/operating revenue (%)	9.9	9.7	11.9	11.6	9.8	11.2	14.9
Due from banks	592	476	794	546	633	794	794	Capital adequacy ratio	18.6	19.4	19.0	18.5	18.9	19.0	19.0
Loan book	8,329	8,939	8,879	9,159	9,078	8,965	8,879	Return ratios							
Investments	1,027	1,270	1,488	1,264	1,291	1,445	1,488	Adjusted ROE (%)	10.5	9.9	9.7	8.8	9.3	9.0	7.9
Other assets	267	297	317	291	322	317	317	Adjusted ROA (%)	1.5	1.5	1.5	1.3	1.4	1.3	1.2
Total assets	11,149	12,288	12,262	11,979	12,005	12,304	12,262	Payout ratio (%)	46	57	50				
Due to banks	910	952	1,157	1,143	1,085	1,157	1,157	Per share ratios (RO)							
Customer deposits	7,419	8,463	8,044	8,042	7,978	8,164	8,044	EPS	0.065	0.061	0.060	0.059	0.062	0.062	0.057
Interest bearing liabilities	959	902	991	907	1,000	982	991	BVPS	0.623	0.610	0.612	0.561	0.575	0.591	0.612
Other liabilities	43	44	47	21	31	40	47	DPS	0.030	0.035	0.030				
Share capital	271	295	309	309	309	309	309	Valuation ratios							
Reserves	997	1,018	1,046	1,013	1,013	1,016	1,046	Price (RO)	0.357	0.390	0.440	0.402	0.408	0.440	0.434
Retained earnings	421	485	537	413	457	505	537	Market Cap (RO mn)	1,105	1,207	1,362	1,244	1,263	1,362	1,343
Total shareholder equity	1,688	1,798	1,892	1,736	1,780	1,830	1,892	P/E (x)	6.2	6.7	7.3	6.8	6.7	7.2	7.2
Perpetual notes	130	130	130	130	130	130	130	P/B (x)	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total liabilities & equity	11,149	12,288	12,262	11,979	12,005	12,304	12,262	Div yield (%)	7.4%	8.5%	6.8%				



12M Target Price RO 0.258

Valuation Summary (TTM)

Price (RO)	0.199
PER (x)	3.8
P/Book (x)	0.8
Dividend Yield (%)	8.4
Free Float (%)	40%
Shares O/S (mn)	1,626
YTD Return (%)	8%
Beta	1.0

(mn)	OMR	USD
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Market Cap	311	807
Total Assets	3,573	9,280

Price performance (%)	1M	3M	12M
NBOB	12%	6%	9%
MSM 30 Index	4%	2%	-3%
MSM Financial Index	6%	0%	-3%

Trading liquidity (,000)	1M	3M	6M
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Avg daily turnover (RO ,000)	0.08	0.06	0.07
Avg Daily Volume (,000)	334	308	384

52 week	High	Low	CTL*
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Price (RO)	0.202	0.155	28.4
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* CTL is % change in CMP to 52wk low

Major shareholders

CBQ	34.9%
Suhail Bahwan Holding	14.7%
Civil Services PF	10.8%
Others	39.6%

Other details

Exchange	MSM
Sector	Banking
Index weight (%)	7%

Key ratios	2016	2017	2018
EPS (RO)	0.029	0.020	0.024
BVPS (RO)	0.260	0.265	0.259
DPS (RO)	0.015	0.014	0.016
Payout ratio (%)	50%	71%	67%

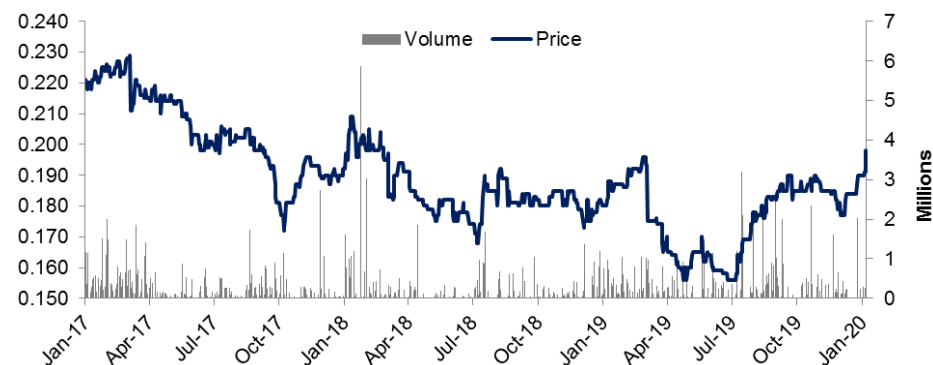
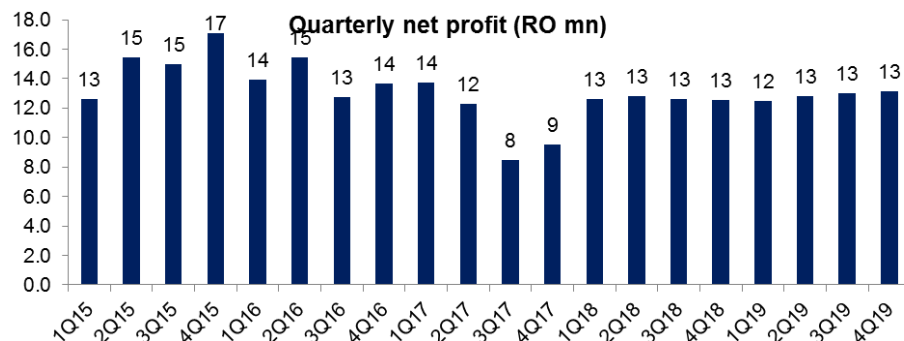
While the operating environment of Omani banks continued to remain challenging, despite lower level of fiscal deficit and perceived improvement in other macro-economic parameters, NBO reported stable profits as compared to last year. The domestic banking system still faces various challenges such as lack of good quality credit due to lower economic growth, continued tightening of liquidity and asset quality parameters. The bank's net interest income witnessed marginal growth aided by good growth in interest income. With the bank's focus to onboard good quality asset and avoid exposure to certain sensitive sectors, the bank maintained its loan portfolio and actively repriced its existing loan book to partially negate the impact of rising cost of funds. This has helped in growing the Net Interest Income by 1.75%.

The bank has been successful in its efforts to diversify the revenue lines and has consistently grown the non-funded income during the first three quarters of the year. The non-funded income is witnessing good contribution from both retail and corporate customers. Additionally, the bank has identified certain new fee income streams which it believes will diversify the revenue base further and offset the challenges in growing the non-interest income in future.

Lower recoveries and stress on certain corporate accounts have resulted in higher impairment charges during this year. Given the asset quality pressures that are faced by the banks in general, we expect NBO to be more vigilant in monitoring its portfolio and avoid exposure to sensitive sectors such as commercial real estate. NBO is maintaining satisfactory levels of capital adequacy, and in a bid to diversify its funding base and augment its capital position, NBO had recently obtained shareholder approval for USD 300 mn AT1 instrument and USD 50 million of Tier 2 capital.

At current prices, the stock is trading at 5.9x FY20E EPS and 0.7x book value. It is the cheapest bank available in the market and offers the highest banking sector dividend yield of 8.4%. NBO by far is one of the highest ROE banks in the country, and it is more likely to report ROE growth in the future as well. The bank's strategy of maximizing shareholder distributions are likely to result in higher payout in 2021 as well. We have arrived at fair value of RO 0.258/Share for NBOB's shares using residual income valuation method. We employed hurdle rate of 11.3% for deriving the valuation. The target price thus arrived offers upside potential of 30% from current levels, and we have a STRONG BUY rating on the name.

Financial Statements (RO mn)	2017	2018	2019	1Q2019	2Q19	3Q19	4Q19	Ratio Analysis	2017	2018	2019	1Q2019	2Q19	3Q19	4Q19
Interest income	150	159	170	42	43	44	42	Nil/Total income (%)	70	72	73	71	73	77	72
Interest expense	57	67	76	19	19	18	20	Non-int. income/ Total income (%)	30	28	27	29	27	23	28
Net interest income	93	92	94	23	23	26	22	Cost to income (%)	48.8	47.9	49.6	48.4	45.6	48.7	56.0
Non interest income	39	37	34	9	9	8	9	Loan to deposit ratio (%)	108	115	111	110	113	110	111
Total operating income	132	129	128	32	32	33	31	Net interest margin (%)	2.74	2.71	2.69	2.67	2.69	2.95	2.51
Operating expenses	65	62	64	16	15	16	17	Cost of funds (%)	2.00	2.30	2.57	2.57	2.62	2.47	2.65
Operating profit	68	67	65	17	17	17	13	Interest yield (%)	4.43	4.67	4.87	4.86	4.93	5.05	4.75
Impairment allowance	16	7	8	2	2	2	2	Interest spread (%)	2.43	2.36	2.30	2.29	2.31	2.58	2.11
Profit before tax	51	60	57	15	15	15	12	NPL ratio (%)	4.10	4.78	5.83	4.86	5.16	5.54	5.83
Taxation	7	9	6	2	2	2	-1	Provision coverage ratio (%)	89	93	88	93	91	89	88
Reported PAT	44	51	51	12	13	13	13	Provision/average loans (%)	0.61	0.27	0.27	0.29	0.30	0.29	0.28
Cash & balance with CBO	383	315	227	322	235	220	227	Impairment/operating revenue (%)	12.4	5.7	6.0	6.2	7.0	5.4	5.4
Due from banks	139	98	203	99	153	196	203	Capital adequacy ratio	17.3	16.3	16.1	16.1	16.2	16.1	16.1
Loan book	2,654	2,810	2,802	2,779	2,815	2,775	2,802	Return ratios							
Investments	183	231	300	243	269	300	300	Adjusted ROE (%)	8.2	9.8	9.9	12.1	12.5	12.3	12.1
Other assets	112	119	112	124	113	112	112	Adjusted ROA (%)	1.0	1.2	1.2	1.4	1.4	1.4	1.4
Total assets	3,470	3,573	3,645	3,567	3,584	3,604	3,645	Payout ratio (%)	53	51	53				
Due to banks	126	156	156	107	155	137	156	Per share ratios (RO)							
Customer deposits	2,461	2,452	2,532	2,532	2,489	2,519	2,532	EPS	0.028	0.031	0.032	0.031	0.032	0.032	0.032
Other Int bearing liabilities	256	324	308	308	308	308	308	BVPS	0.278	0.259	0.269	0.250	0.254	0.264	0.269
Other liabilities	81	104	96	99	104	94	96	DPS	0.015	0.016	0.017				
Share capital	155	163	163	163	163	163	163	Valuation ratios							
Reserves	110	105	87	87	86	87	87	Price (RO)	0.190	0.182	0.199	0.175	0.159	0.187	0.184
Retained earnings	166	153	189	157	165	180	189	Market Cap (RO mn)	309	296	324	285	259	304	299
Total shareholder equity	431	421	438	406	413	430	438	P/E (x)	7.0	5.8	6.3	5.7	5.1	6.0	5.8
Perpetual notes	116	116	116	116	116	116	116	P/B (x)	0.7	0.7	0.7	0.7	0.6	0.7	0.7
Total liabilities & equity	3,470	3,573	3,645	3,567	3,584	3,604	3,645	Div yield (%)	7.5%	8.8%	8.4%				



12M Target Price RO 0.163

Valuation Summary (TTM)

Price (RO)	0.140
PER (x)	12.5
P/Book (x)	0.8
Dividend Yield (%)	7.1
Free Float (%)	46%
Shares O/S (mn)	1,571
YTD Return (%)	8%
Beta	0.9

(mn)	OMR	USD
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Market Cap	220	571
Total Assets	2,290	5,949

Price performance (%)	1M	3M	12M
ABOB	12%	14%	0%
MSM 30 Index	4%	2%	-3%
MSM Financial Index	6%	0%	-3%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.01	0.01	0.01
Avg Daily Volume (,000)	81	54	102

52 week	High	Low	CTL*
Price (RO)	0.145	0.110	27.3

* CTL is % change in CMP to 52wk low

Major shareholders

Ahli United Bank	35.0%
Southern Orbit	9.9%
OIF Holding	9.5%
Others	45.7%

Other details

Exchange	MSM
Sector	Banking
Index weight (%)	7%

Key ratios	2016	2017	2018
EPS (RO)	0.019	0.017	0.018
BVPS (RO)	0.155	0.162	0.162
DPS (RO)	0.009	0.009	0.010
Payout ratio (%)	48%	53%	53%

Ahli Bank Oman's impressive operating performance is supported by good a corporate franchise, and strong profitability is aided by high operating efficiency and better than average asset quality. Despite its lower than average asset yield, ABOB has consistently earned above average profitability compared to its peers supported by a relatively lower levels of provisions and high operating efficiency. Until the recent past, capital adequacy levels of the bank lagged behind its local peers due to higher than average dividend payout and lower reliance on AT1 instruments. However, the bank had issued a series of AT1 instruments over the last couple of years, boosting its capital ratios. In line with its peers, funding profile of ABOB is concentrated heavily towards wholesale funding sources. ABOB has ca. 85% of total deposits coming from corporate and government related entities and just 15% from low cost retail deposits. Our investment call on the stock is based on consistently strong operating performance and dwindling valuation. The stock is priced at 0.84x its FY19E book value and offers 7.1% dividend yield. We have a BUY rating on the stock and assign target price of RO 0.163/Share.

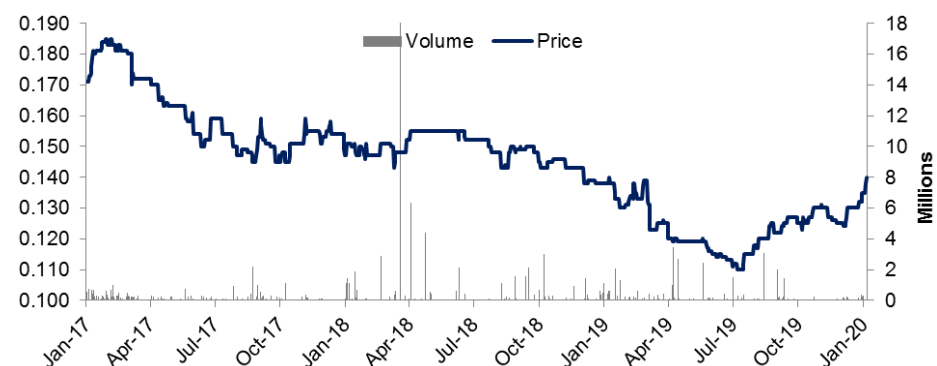
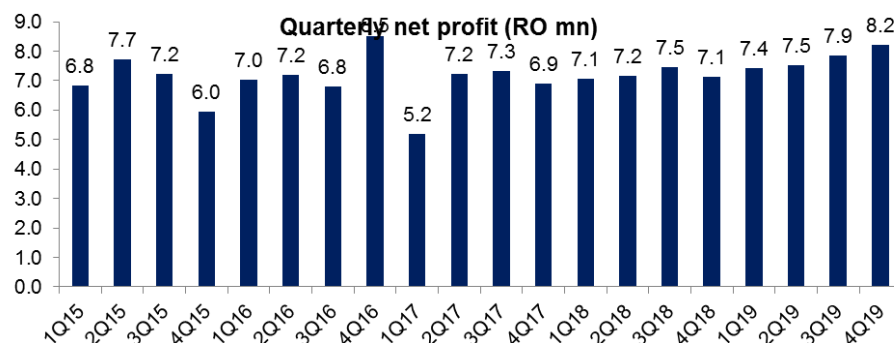
Consistently strong profitability: In the past five years, ABOB reported ROA that has averaged 1.6%, which was higher than the industry average of 1.3% for the same period. Lower levels of provisions vis-à-vis its peers and high operating efficiency has aided the bank to maintain consistently strong profitability. Going forward, we expect the bank to continue to maintain profitability growth aided by improvement in Islamic operations and non-interest income.

Asset quality better than industry average: With an NPL to gross loans of 1.75% and NPL coverage of 113%, asset quality of ABOB was strong and was better than the peer average of 2.9% and 119% for the same period. Going forward, we expect this trend to continue, as we expect the bank to continue to maintain asset quality that is better than the industry average.

Attractive valuations for a small and stable bank with strong parent support: We estimate ABOB to report earnings growth of 6.5% in 2020E. Its shares are trading at FY20E P/E of 6.7x, 0.8x book value, and offer 2020 dividend yield of 7.1%. We see these valuation parameters as attractive for a bank like ABOB, and recommend long term investors to BUY the stock for 16% potential returns over the next 12 months. At the target price, the stock would be trading at 7.75x P/E, and 0.9x book value.

Financial Statements (RO mn)	2017	2018	2019	1Q2019	2Q19	3Q19	4Q19
Interest income	90	108	125	29	31	32	33
Interest expense	46	56	69	16	17	18	18
Net interest income	45	52	57	14	14	14	15
Non interest income	10	10	13	3	3	3	3
Total operating income	55	62	70	17	17	17	18
Operating expenses	19	23	28	7	7	7	7
Operating profit	36	39	42	11	10	11	11
Impairment allowance	4	5	6	2	2	1	1
Profit before tax	31	34	36	9	9	9	10
Taxation	5	5	5	1	1	1	2
Reported PAT	27	29	31	7	8	8	8
Cash & balance with CBO	117	153	67	86	89	61	67
Due from banks	17	24	36	67	29	36	36
Loan book	1,634	1,871	2,055	1,964	1,988	2,061	2,055
Investments	217	214	313	232	238	313	313
Other assets	30	28	47	38	39	47	47
Total assets	2,015	2,290	2,518	2,386	2,383	2,518	2,518
Due to banks	134	147	221	209	212	315	221
Customer deposits	1,451	1,662	1,712	1,693	1,612	1,623	1,712
Other Int bearing liabilities	83	77	120	58	125	120	120
Other liabilities	43	46	77	75	59	77	77
Share capital	143	150	157	157	157	157	157
Reserves	46	50	47	51	54	49	47
Retained earnings	66	55	61	39	41	53	61
Total shareholder equity	255	255	265	247	251	259	265
Perpetual notes	50	104	124	104	124	124	124
Total liabilities & equity	2,015	2,290	2,518	2,386	2,383	2,518	2,518

Ratio Analysis	2017	2018	2019	1Q2019	2Q19	3Q19	4Q19
NII/Total income (%)	81	84	81	80	81	83	82
Non-int. income/ Total income (%)	19	16	19	20	19	17	18
Cost to income (%)	35.3	37.4	39.6	38.5	40.2	39.3	40.5
Loan to deposit ratio (%)	113	113	120	116	123	127	120
Net interest margin (%)	2.31	2.45	2.40	2.36	2.37	2.40	2.40
Cost of funds (%)	2.77	3.15	3.48	3.27	3.43	3.50	3.59
Interest yield (%)	4.68	5.08	5.29	5.09	5.23	5.31	5.39
Interest spread (%)	1.91	1.94	1.81	1.82	1.79	1.81	1.80
NPL ratio (%)	1.16	1.72	1.74	1.76	1.76	1.72	1.74
Provision coverage ratio (%)	125	105	113	102	105	110	113
Provision/average loans (%)	0.26	0.29	0.29	0.38	0.34	0.31	0.28
Impairment/operating revenue (%)	7.5	8.2	8.1	10.6	9.3	7.2	5.4
Capital adequacy ratio	16.7	17.5	17.0	16.7	17.8	17.0	17.0
Return ratios							
Adjusted ROE (%)	9.2	8.1	8.2	11.8	12.1	12.3	12.5
Adjusted ROA (%)	1.2	1.0	0.9	1.3	1.3	1.3	1.3
Payout ratio (%)	53	52	51				
Per share ratios (RO)							
EPS	0.019	0.019	0.020	0.019	0.019	0.020	0.021
BVPS	0.179	0.170	0.169	0.157	0.160	0.165	0.169
DPS	0.010	0.010	0.010				
Valuation ratios							
Price (RO)	0.157	0.139	0.142	0.123	0.114	0.124	0.130
Market Cap (RO mn)	247	218	223	193	179	195	204
P/E (x)	9.2	7.6	7.2	6.5	6.0	6.4	6.6
P/B (x)	1.0	0.9	0.8	0.8	0.7	0.8	0.8
Div yield (%)	5.8%	6.9%	7.0%				



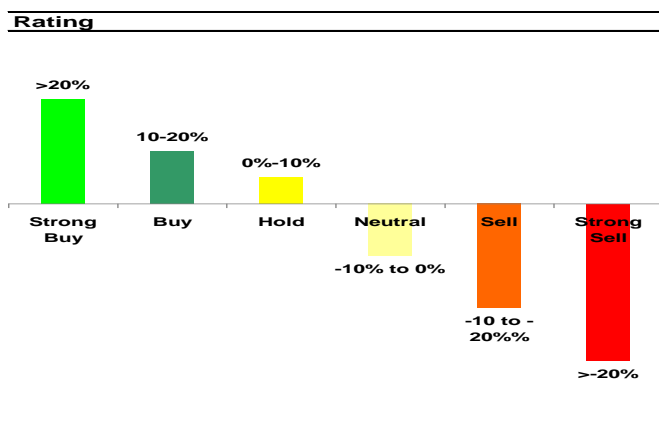
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Rating Criteria and Definitions



Rating Definitions	
Strong Buy	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%
Buy	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%
Hold	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%
Neutral	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%
Sell	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%
Strong Sell	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%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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