



MSM 30 Index Cos- Q4 2016 Earnings Preview

Contents

MSM 30 Index- FY 2016 Earnings Preview

MSM 30 Index- Q4 2016 Earnings Preview

Non- MSM 30 Index Companies- FY 2016 / Q4 2016 - Earnings Preview

Banking Sector- Q4 2016 Earnings Preview

Industry Sector- Q4 2016 Earnings Preview

Services Sector- Q4 2016 Earnings Preview

MSM Outlook- Q1 2017E

Foot Notes:

Based on the new MSM 30 Index constituents - effective July 2016

Earnings estimates of the Investment holding companies have been excluded in our estimates due to market correlation

For companies with different year ending (Mar, June), we have taken the earnings data for the calendar period

January 5, 2017



FY 2016E- Earnings Preview- Adjusting to the new environment

- For FY 2016, total revenue of the index companies (ex-investment holding) is estimated to grow by 2.7% YoY RO 3.829 billion. For 2016, the earnings of index companies (ex-Inv. holding) is estimated to increase by 22.9% YoY to RO 641.624 million. The estimated higher earnings growth on a YoY basis is mainly due to the prevailing low base.
- The total revenue of MSM30 Index cos for 2016 is estimated to increase 4.7% YoY to RO 4.064 billion and the earnings is estimated to grow by 23.7% to RO 673.579 million.
- We haven't assumed any impairment charges pertaining to Q4 2016E in our earnings models. While the management of Renaissance Services had mentioned about asset impairment charges similar to last year (reported RO 27 million in Q4 2015) during their Q3 2016 earnings conference call. Added, Galfar has also stated a contract delay penalty worth RO 3.1 million which would be booked during Q4.
- During Q3 2016 (about 50% of the companies reported below our estimates), we saw signs of earnings deterioration for most of the companies under our coverage with the slowdown in growth prospects (revenue decline) along with margin pressure (increase in operating costs). We see this impact to continue in the last quarter of 2016 also.

Banking sector earnings to remain flat, Industrial and services sector earnings to grow from low base...

- ✓ We estimate the 2016 Banking sector revenue growth to be c. 3% YoY amid continued stable credit growth, while the deposit growth to remain lower. The negative impact of higher funding costs to impact net interest margin (NIMs). Banking sector earnings for 2016 is anticipated to remain flat YoY at RO 343 million. **Within the banking sector, we see double digit earnings growth in HSBC Bank Oman.**
- ✓ Earnings of Investment holding companies for 2016 is estimated at RO 32 million, increasing by 41% YoY on low base. While for the financial sector, 2016 earnings is estimated to reveal marginal growth of 2% YoY to RO 380.4 million
- ✓ For the Industrial sector, the total revenue is estimated to decline by 8% YoY amid lower commodity prices, dismal performance of construction and building materials sectors. We saw lower project additions during 2016, which would have impact on visibility going forward. **2016 Industrial sector Earnings to grow by 63% YoY (on low base) to RO 51.8 million. We anticipate double digit earnings growth from Oman Cement**
- ✓ Services sector revenue for 2016 is estimated to increase 6.8% YoY led by growth across all the companies except Renaissance. The sector earnings is set to grow 70% YoY to RO 241 million. **We do expect double digit earnings growth from Ooredoo, Al Suwadi and Al Batinah Power.**

In RO 000's	Total Revenue			Net Profit		
Financial Sector	2016E	2015	YoY (%)	2016E	2015	YoY (%)
Ahli Bank	53,100	55,973	-5.1%	27,500	27,727	-0.8%
Bank Dhofar	127,051	115,226	10.3%	46,874	46,765	0.2%
Bank Muscat	421,200	407,736	3.3%	177,910	175,451	1.4%
Bank Sohar	66,478	70,910	-6.3%	17,644	27,746	-36.4%
National Bank of Oman	136,600	135,718	0.6%	55,600	60,106	-7.5%
HSBC Bank Oman	76,469	73,500	4.0%	17,657	12,930	36.6%
Bank Nizwa	17,489	11,913	46.8%	(40)	(5,260)	NM
Banking Sector - Aggregate	898,387	870,976	3.1%	343,145	345,465	-0.7%
Inv. Holding Sector - Aggregate	235,534	151,161	55.8%	31,955	22,724	40.6%
Financial Sector - Aggregate	1,162,797	1,049,896	10.8%	380,388	371,348	2.4%
Industry Sector						
Al Anwar Ceramics	21,334	27,551	-22.6%	2,972	6,537	-54.5%
Al Maha Ceramics	9,020	9,785	-7.8%	2,152	2,401	-10.4%
Galfar Engineering	337,516	345,234	-2.2%	(4,005)	(28,882)	NM
Oman Cables	230,326	283,470	-18.7%	15,556	18,507	-15.9%
Oman Cement	55,700	52,182	6.7%	12,982	11,703	10.9%
Raysut Cement	94,556	94,676	-0.1%	21,561	20,954	2.9%
Gulf International Chemicals	3,093	3,973	-22.1%	623	652	-4.5%
Industry Sector - Aggregate	751,545	816,872	-8.0%	51,842	31,872	62.7%
Services Sector						
Oman Investment & Finance	22,681	15,248	48.7%	4,789	6,105	-21.6%
Omantel	539,086	514,300	4.8%	121,265	48,493	150.1%
Ooredoo	271,355	252,080	7.6%	48,209	41,633	15.8%
Renaissance Services	206,626	237,011	-12.8%	(8,251)	(34,833)	NM
Shell Oman Marketing	390,080	336,015	16.1%	15,252	14,175	7.6%
Al Maha Petroleum	396,178	349,414	13.4%	9,704	9,200	5.5%
Sembcorp Salalah	76,515	73,621	3.9%	14,317	13,644	4.9%
Al Suwadi Power	69,081	66,714	3.5%	9,131	7,246	26.0%
Al Batinah Power	70,835	67,928	4.3%	8,898	7,084	25.6%
Phoenix Power	107,891	101,866	5.9%	18,035	28,772	-37.3%
Services Sector - Aggregate	2,150,328	2,014,197	6.8%	241,349	141,519	70.5%
MSM 30 Index (Inc. Inv. Holding) - Aggregate	4,064,670	3,880,966	4.7%	673,579	544,739	23.7%
MSM 30 Index (Ex. Inv. Holding) - Aggregate	3,829,136	3,729,805	2.7%	641,624	522,015	22.9%

Q4 2016 Earnings Preview- Higher YoY growth seen on low base, still to remain an overall weak quarter...

- **Revenue of MSM30 Index companies (ex-Investment Holding) for Q4 2016 is estimated to remain almost flat on a year over year (YoY) and to decline 4.2% quarter on quarter (QoQ) to RO 938.42 million.** The sequential decline in the revenue is mainly due to the seasonality weakness in the services sector companies especially the Utilities.
- Post weak Q3 earnings season, we do anticipate the prevailing economic slowdown to imply further pressure on the upcoming Q4 earnings. Select Banks would continued to face margin pressure and also expect higher provisioning to impact the earnings during the quarter.
- The Industrial sector earnings is estimated to report sequential decline of c. 10%. While the Services sector to report sharp decline in earnings on QoQ basis due to prevailing high base in the power sector companies (seasonality impact)
- Index earnings (ex-Investment Holding) for Q4 2016 is estimated at RO 130.9 million as compared to RO 32.7 million (extremely low due to non-recurring items) in the same period.
- **We estimate a steep increase in YoY earnings growth mainly due to several one-off provisions reported in the same period last year. Galfar (receivable impairment of RO 30 million), Renaissance (asset impairment of RO 27 million) and Omantel (WorldCall Telecom investment impairment of RO 72 million) reported significant losses during Q4 2015.** While on a QoQ basis, the earnings is estimated to decline by 23% due to overall weakness in the economic environment which would reflect in the corporate performance.
- Q4 Revenue of MSM Index companies (Inc. Inv. Holding) is estimated at RO 995.1 million, remaining flat YoY and declining 3.6% QoQ mainly owing to seasonality factor. **While the Index Earnings for the quarter is estimated to increase sharply YoY and decline -21% QoQ to RO 136.7 million.**

Overall view before the upcoming earnings season,

- **Expect Q4 2016 Earnings Positive on Bank Nizwa (higher profits), Oman United Ins, Select Inv. Holding companies, Al Jazeera Steel, Voltamp Energy and Al Maha Petro**
- **Anticipate Q4 2016 Earnings negative from the banking sector players (higher provisioning estimated), Building materials and construction sector companies, Al Anwar Ceramics, Galfar and Renaissance Services**

MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
Financial Sector	Q4 2016E	Q4 2015	YoY (%)	Q3 2016	QoQ (%)	Q4 2016E	Q4 2015	YoY (%)	Q3 2016	QoQ (%)
Subsector - Banking										
Ahli Bank	13,700	12,973	5.6%	13,307	3.0%	6,500	5,927	9.7%	6,777	-4.1%
Bank Dhofar	30,000	30,589	-1.9%	29,759	0.8%	10,000	13,370	-25.2%	10,707	-6.6%
Bank Muscat	107,000	105,187	1.7%	103,440	3.4%	41,000	39,251	4.5%	46,440	-11.7%
Bank Sohar	17,400	18,469	-5.8%	16,785	3.7%	4,700	6,454	-27.2%	4,131	13.8%
National Bank of Oman	34,300	38,218	-10.3%	34,490	-0.6%	13,500	17,106	-21.1%	12,705	6.3%
HSBC Bank Oman	20,200	19,700	2.5%	18,836	7.2%	4,200	4,830	-13.0%	5,602	-25.0%
Bank Nizwa	5,000	3,633	37.6%	4,614	8.4%	500	(1,032)	148.4%	187	167.3%
Banking Sector - Aggregate	227,600	228,769	-0.5%	221,231	2.9%	80,400	85,906	-6.4%	86,549	-7.1%
Inv. Holding Sector - Aggregate	56,700	52,009	9.0%	53,034	6.9%	5,830	516	NM	2,503	132.9%
Financial Sector - Aggregate	291,300	287,577	1.3%	280,566	3.8%	87,230	86,421	0.9%	89,825	-2.9%
Industry Sector										
Al Anwar Ceramics	4,600	6,060	-24.1%	4,531	1.5%	450	1,207	-62.7%	368	22.2%
Al Maha Ceramics	2,100	2,283	-8.0%	1,998	5.1%	450	512	-12.2%	450	0.0%
Galfar Engineering	80,000	103,991	-23.1%	83,347	-4.0%	(4,200)	(25,576)	NM	(345)	1117.4%
Oman Cables	57,500	72,824	-21.0%	48,882	17.6%	3,700	5,456	-32.2%	2,461	50.3%
Oman Cement	13,400	14,474	-7.4%	12,166	10.1%	3,300	4,709	-29.9%	2,883	14.5%
Raysut Cement	24,000	25,297	-5.1%	20,629	16.3%	4,900	5,144	-4.7%	3,747	30.8%
Gulf International Chemicals	720	937	-23.2%	644	11.8%	90	(56)	NM	121	-25.3%
Industry Sector - Aggregate	182,320	225,867	-19.3%	172,196	5.9%	8,690	(8,603)	NM	9,685	-10.3%
Services Sector										
Oman Investment & Finance	6,100	4,120	48.1%	6,597	-7.5%	1,000	544	83.8%	924	8.2%
Omantel	139,300	131,021	6.3%	128,161	8.7%	26,200	(42,185)	NM	28,311	-7.5%
Ooredoo	69,500	65,233	6.5%	69,083	0.6%	10,600	9,296	14.0%	12,680	-16.4%
Renaissance Services	49,700	57,768	-14.0%	49,315	0.8%	(3,100)	(29,088)	NM	(3,667)	-15.5%
Shell Oman Marketing	103,500	83,249	24.3%	103,217	0.3%	3,200	3,354	-4.6%	3,242	-1.3%
Al Maha Petroleum	101,300	87,059	16.4%	108,350	-6.5%	2,000	1,249	60.1%	3,164	-36.8%
Sembcorp Salalah	18,000	18,588	-3.2%	19,219	-6.3%	3,000	3,029	-1.0%	3,404	-11.9%
Al Suwadi Power	11,000	11,125	-1.1%	25,239	-56.4%	(2,600)	(2,734)	-4.9%	7,291	-135.7%
Al Batinah Power	10,800	10,927	-1.2%	25,672	-57.9%	(2,100)	(2,911)	-27.9%	6,804	-130.9%
Phoenix Power	12,300	12,031	2.2%	44,819	-72.6%	2,600	14,864	-82.5%	10,944	-76.2%
Services Sector - Aggregate	521,500	481,121	8.4%	579,672	-10.0%	40,800	(44,582)	NM	73,097	-44.2%
MSM 30 Index (Inc. Inv. Holding) - Aggregate	995,120	994,564	0.1%	1,032,434	-3.6%	136,720	33,236	311.4%	172,607	-20.8%
MSM 30 Index (Ex. Inv. Holding) - Aggregate	938,420	942,555	-0.4%	979,400	-4.2%	130,890	32,720	300.0%	170,104	-23.1%

In RO 000's	Total Revenue			Net Profit		
	2016	2015	YoY (%)	2016	2015	YoY (%)
National Alum. Products	19,576	24,780	-21.0%	(339)	779	NM
DIDIHC	16,060	22,735	-29.4%	9,779	12,367	-20.9%
Al Hassan Engineering	84,713	102,444	-17.3%	(7,784)	(7,857)	-0.9%
Al Jazeera Services	9,142	11,109	-17.7%	2,128	3,829	-44.4%
Al Jazeera Steel	68,263	68,862	-0.9%	3,417	1,715	99.3%
Oman Refreshment	78,762	77,064	2.2%	10,012	9,600	4.3%
Oman Fisheries	28,360	25,886	9.6%	(348)	(732)	-52.4%
Oman Oil Marketing	413,018	368,148	12.2%	10,364	12,214	-15.1%
Asaffa Foods	31,441	31,953	-1.6%	5,464	5,979	-8.6%
Dhofar Cattle Feed	45,723	43,871	4.2%	375	1,330	-71.8%
Voltamp Energy	38,665	35,833	7.9%	3,462	3,305	4.7%

Non-MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
	Q4 2016E	Q4 2015	YoY (%)	Q3 2016	QoQ (%)	Q4 2016E	Q4 2015	YoY (%)	Q3 2016	QoQ (%)
National Alum. Products	5,450	6,245	-12.7%	5,010	8.8%	(150)	197	NM	(192)	-21.9%
DIDIHC	4,100	9,444	-56.6%	448	815.6%	2,500	3,114	-19.7%	204	1127.7%
Al Hassan Engineering	15,000	23,220	-35.4%	15,781	-4.9%	(1,000)	(6,662)	NM	(6,883)	-85.5%
Al Jazeera Services	2,200	2,757	-20.2%	2,148	2.4%	550	918	-40.1%	472	16.6%
Al Jazeera Steel	17,784	12,599	41.1%	15,520	14.6%	350	150	133.0%	359	-2.6%
Oman Refreshment	19,690	18,782	4.8%	23,027	-14.5%	2,200	2,547	-13.6%	3,712	-40.7%
Oman Fisheries	8,000	8,416	-4.9%	7,106	12.6%	50	243	NM	(4)	-1264.7%
Oman Oil Marketing	101,000	90,179	12.0%	112,552	-10.3%	2,800	3,338	-16.1%	2,713	3.2%
Asaffa Foods	8,300	7,732	7.3%	7,277	14.1%	1,450	1,166	24.4%	1,227	18.2%
Dhofar Cattle Feed	11,900	11,161	6.6%	10,814	10.0%	100	(168)	NM	(785)	-112.7%
Voltamp Energy	9,500	10,764	-11.7%	9,736	-2.4%	950	953	-0.3%	839	13.3%

Among the non Index companies, we expect Al Jazeera Steel, Voltamp and Oman Refreshment to report resilient 2016 earnings

Banking Sector

Company	Closing (RO)	Current Rating	12 M Fair Value	Net Profit (In RO 000s)			Q3 2016	QoQ(%)
				Q4 2016E	Q4 2015	YoY (%)		
Ahli Bank	0.190	Neutral	0.186	6,500	5,927	9.7%	6,777	-4.1%
Bank Dhofar	0.230	Neutral	0.234	10,000	13,370	-25.2%	10,707	-6.6%
Bank Muscat	0.486	Accumulate	0.534	41,000	39,251	4.5%	46,440	-11.7%
Bank Sohar	0.164	Neutral	0.166	4,700	6,454	-27.2%	4,131	13.8%
National Bank of Oman	0.242	Accumulate	0.274	13,500	17,106	-21.1%	12,705	6.3%
HSBC Bank Oman	0.130	Neutral	0.133	4,200	4,830	-13.0%	5,602	-25.0%
Bank Nizwa	0.089	Not Rated	Under Review	500	(1,032)	148.4%	187	NM
Banking Sector - Aggregate				80,400	85,906	-6.4%	86,549	-7.1%

Source: Company Reports, GBCM Research Estimates, closing as on 5th Jan 2017

Preview on Banking Sector...

For Jan-Oct 2016, Oman Banking sector credit (conventional and Islamic combined) grew by RO 1.8 billion in absolute terms, an increase of 10.2% YoY and 9% YTD lead by increase in private sector and retail credit demand. **For Q4 2016E, we anticipate banking sector credit addition (combined book) to be at c. RO 300 million, an increase of 1.4% on a QoQ basis. For 2016E, we estimated the sector credit growth to be c. 10% levels. While 2017E credit growth rate to lower to c. 6-8% levels.**

As per the CBO data, overall credit growth in the banking system remains stable, while lower growth seen in the customer deposits (Jan-Oct 2016 addition at RO 1 billion, +5% YoY and +5.6% YTD). **Overall credit to deposit ratio for the conventional banks is at 107% levels (End Oct 2016)**

Amid growth in credit demand, the banks are looking to diversify funding base. On back of tight liquidity we estimate the impact in higher funding costs to lower NIMs. Added, we do see the non-interest income to be under pressure during the quarter. The sector earnings for Q4 2016 is estimated to decline by 6.4% YoY and -7.1% QoQ to RO 80.4 million. We are anticipating higher provisioning charges during Q4 for most of the banks under our coverage. We would be keenly watching out for the increase in cost of risk for the local banks.

Company Name	Banking Sector- Q4 2016 Earnings Preview Comment
Ahli Bank	The bank to continue its conservative policy towards credit growth. The increase in funding costs to put pressure on the net interest margins. Lower fee income to impact. Q4 PAT to increase 9.7% YoY and -4.1% QoQ.
Bank Dhofar	Credit growth to lower, while the impact on higher funding costs to lower the margins. Incremental cost of risk to impact the earnings. We estimate Q4 PAT to decline 25% YoY and -6.6% QoQ.
Bank Muscat	Projects credit demand to drive growth. The bank has relatively a good capital position and also a diversified funding mix. Despite higher funding costs, margins to remain stable on increase in asset yield. We anticipate higher provisioning levels during the quarter. Q4 PAT to increase 4.5% YoY and decline -11.7% QoQ.
Bank Sohar	Post weak 9M results, we see the credit growth to see moderation. While the increase in funding costs to impact margins. We do see normal level of provisioning during the quarter. Q4 net profit seen at RO 4.7 million, a decline of 27% YoY and gaining 13.8% QoQ.
National Bank of Oman	Credit growth to remain at normal levels amid emphasis on quality. The cost of funding to impact the margins. Post weak Q3 results, we anticipate Q4 PAT to decline 21% YoY and increase 6.3% QoQ. We would closely watch out for cost of risk trend in this quarter.
HSBC Bank Oman	HSBC Oman remain as the most liquid and a well capitalized bank in Oman. We do see better operating performance on improvement in asset yield with the deployment into productive assets. On a conservative basis, we estimate higher provisioning levels for the quarter. Q4 PAT is estimated to decline by 13% YoY and -25% QoQ.
Bank Nizwa	The first dedicated Islamic bank in Oman is expected to report net profit for the second consecutive quarter. We estimate the bank to report profit of RO 500K for the quarter. While for the FY 2016E, the bank is estimated to report breakeven number.

Industry Sector

Company	Closing (RO)	Current Rating	12 M Fair Value	Net Profit (In RO 000s)			Q3 2016	QoQ(%)
				Q4 2016E	Q4 2015	YoY (%)		
Al Anwar Ceramics	0.182	Neutral	0.192	450	1,207	-62.7%	368	22.2%
Al Maha Ceramics	0.500	Neutral	0.490	450	512	-12.2%	450	0.0%
Galfar Engineering	0.095	Neutral	Under Review	(4,200)	(25,576)	NM	(345)	NM
Oman Cables	1.575	Accumulate	1.740	3,700	5,456	-32.2%	2,461	50.3%
Oman Cement	0.486	Neutral	0.480	3,300	4,709	-29.9%	2,883	14.5%
Raysut Cement	1.450	Neutral	1.470	4,900	5,144	-4.7%	3,747	30.8%
Gulf Int. Chemicals	0.290	Not Rated	Under Review	90	(56)	NM	121	-25.3%
Industry - Aggregate				8,690	(8,603)	NM	9,685	-10.3%

Source: Company Reports, GBCM Research Estimates; closing as on 5th Jan 2017

Preview on Industry Sector...

Post weak Q3 earnings season, we do anticipate the Industry sector to reveal further underperformance during Q4 2016 amid demand slowdown seen across the GCC region with reduced order visibility. We do estimate lower Q4 performance from the commodity and also construction/ building materials sector companies.

As per Industry sources, local cement demand remained stable, while the visibility for 2017 would depend upon the new project allocations. Till Q3 2016, both the cement companies revealed comparatively stable performance.

The spending cuts by the GCC governments on the back low oil price environment would impact the construction and building material sector companies. Earnings of Al Anwar Ceramics to remain under pressure. Galfar has also stated a delay penalty worth RO 3.1 million which would be booked during Q4.

Industry sector earnings for Q4 2016 is estimated to increase strongly YoY (on low base) and decline 10% on a sequential basis. During Q4 2015, Galfar has booked impairment on receivables worth RO 30 million, this in turn lead to overall lower numbers for the sector.

Company Name	Industry Sector- Q4 2016 Earnings Preview Comment
Al Anwar Ceramics	We see the demand slowdown in the GCC region to impact sales volume. While the recent liquidity injection in Saudi Arabia to lead to improvement in receivables cycle, which we see as a positive trend for the company. Q4 PAT is estimated to decline 62.7% on YoY basis and increase 22% QoQ on low base
Al Maha Ceramics	To expect weakness in the sales growth amid prevailing macro economic environment. Export market demand slowdown to continue and impact the performance. Q4 PAT estimated to decline 12% YoY and remain flat sequentially
Galfar Engineering	Galfar has stated that it would provide RO 3.1 million towards the Arbitration proceedings with Muscat City Desalination, which would weigh Q4 earnings (estimated loss of RO 4 million). We estimate the higher consultancy charges (strategic and financial restructuring) to impact. Added, the delay in the Government payments to impact the working capital cycle.
Oman Cables	The cable demand to stay subdued during the quarter, the surge in the copper prices would help to improve the margins due to which the parent earnings will remain stable. While OAPIL (subsidiary) would continue to witness pressure in its performance. Q4 earnings to decline by 32.2% YoY and to improve sharply by 50.3% QoQ
Oman Cement	Production as well as demand is likely to improve which in turn will boost sales during Q4. Margins to remain stable Earnings to decline by 29.9% YoY and to increase by 14.5% QoQ.
Raysut Cement	Both the Parent and the subsidiary to report steady sales volumes during Q4 2016 in their respective domestic and export markets. Earnings to drop modestly by 4.7% YoY and to increase by 30.8% QoQ

Services Sector

Company	Closing (RO)	Current Rating	12 M Fair Value	Net Profit (In RO 000s)			Q3 2016	QoQ(%)
				Q4 2016E	Q4 2015	YoY (%)		
OIFC	0.209	Accumulate	0.230	1,000	544	83.8%	924	8.2%
Omantel	1.450	Neutral	1.520	26,200	(42,185)	NM	28,311	-7.5%
Ooredoo	0.632	Neutral	0.670	10,600	9,296	14.0%	12,680	-16.4%
Renaissance Services	0.235	Neutral	0.240	(3,100)	(29,088)	NM	(3,667)	-15.5%
Shell Oman Marketing	2.000	Neutral	2.050	3,200	3,354	-4.6%	3,242	-1.3%
Al Maha Petroleum	1.595	Neutral	1.600	2,000	1,249	60.1%	3,164	-36.8%
Sembcorp Salalah	0.233	Neutral	0.250	3,000	3,029	-1.0%	3,404	-11.9%
Al Suwadi Power	0.184	Neutral	Under Review	(2,600)	(2,734)	-4.9%	7,291	-135.7%
Al Batinah Power	0.180	Neutral	Under Review	(2,100)	(2,911)	-27.9%	6,804	-130.9%
Phoenix Power	0.150	Neutral	Under Review	2,600	14,864	-82.5%	10,944	-76.2%
Services Aggregate				40,800	(44,582)	NM	73,097	-44.2%

Source: Company Reports, GBCM Research Estimates, closing as of 5th Jan 2017

Preview on Services Sector...

The services sector earnings for Q4 2016 is estimated to increase strongly YoY (on low base) and decline -44% YoY amid weakness in utility sector earnings on the back of seasonality.

We estimate Omantel and Ooredoo to report lower earnings on a sequential basis during the quarter. The impact on the royalty charges increase to reflect in 2017 numbers. The prevailing higher dividend yield to protect the downside for the telecom stocks.

The lower level of economic activity to impact the earnings of Oil marketing companies during the quarter. Shell Oman earnings to report earnings decline of 4.6% YoY, while Al Maha Petro to report stronger growth of 60% YoY on a low base.

Renaissance earnings is estimated to remain under pressure for the quarter. We estimate losses of RO 3.1 million for Q4. The management of Renaissance had mentioned about asset impairment charges similar to last year during their Q3 2016 earnings con. call. This is not included in our estimates.

Company Name	Service Sector- Q4 2016 Earnings Preview Comment
OIFC	Core business growth to remain stable. The lower contribution from the associates and the losses from the subsidiaries to impact. Q4 PAT is estimated to increase by 84% YoY basis and +8.2% QoQ.
Omantel	The diversified revenue stream to benefit. Data continue to remain as key driver; The early signs of economic slowdown may reveal negative impact. Q4 PAT to see sequential decline of 7.5%. WorldCall Telecom, Pakistan sale process is still going on, the company is not consolidating this subsidiary starting Q2 2016. The impact of royalty charge increase to be seen from Q1 2017.
Ooredoo	Ooredoo Oman continued to reveal steady growth driven by growth in data segment. We estimate the impact on Ooredoo group brand license fee payable to the parent (starting Q4 2016) to impact. Q4 PAT to increase 14% YoY and decline 16% QoQ.
Renaissance Services	We do see the company continue to report losses during the quarter amid challenging market environment in both OSV and CSG divisions. We do anticipate the margin pressure to prevail. Higher depreciation and financial charges to impact. The management of Renaissance had mentioned about asset impairment charges similar to last year during their Q3 2016 earnings con. call. We haven't assumed this to our earnings.
Al Maha Petroleum	To witness stable growth in revenue during Q4 2016. However the provision of additional admin expenses (seasonal/ yearend factor) to weigh on the earnings during Q4. Earnings estimated to surge by 60% YoY on low base and decline by 36.8% QoQ.
Shell Oman Marketing	The stable retail segment growth along with the higher margins in lubricants division and estimated higher other income to benefit. On the other hand, the increasing competition in aviation and commercial segments to weigh on margins. Q4 earnings to decline by 4.6% YoY and 1.3% QoQ.

2017E Outlook- Gain in oil price to improve sentiments, Diversification efforts to remain critical...

- ✓ We estimate Oman Economy to grow 2% in 2017E (in real terms), while 2017 nominal GDP to increase 6%, Inflation estimated at 2%
 - Priority Projects are expected to continue amid strong focus on diversification (Outcomes from Tanfeedh Labs).
 - Rationalization of subsidies and other austerity measures to impact the economic growth for the short to medium term
 - Concern continued to remain on higher fiscal deficit (2016 provisional Oman budget deficit at RO 5.3 billion)
- ✓ **Government Foreign borrowing program has improved liquidity in the local market to an extent**
 - Oman Government has completed USD 4 billion foreign borrowings during 2016 and further USD 2 billion estimated in 2017
 - PDO has raised USD 4 billion borrowing (on behalf of Government) internationally
 - Banks to face pressure on margins amid higher funding costs. We do expect the yield improvement (on US Fed rate increase) with a lag.
 - We estimate deterioration of asset quality to impact especially in Retail, SME, Contracting, Real Estate etc., during Q4 2016 and H1 2017
- ✓ While the recent production cut agreement by OPEC and non-OPEC members would support the oil price with an upward bias (USD 60 barrel). We do see the improvement in oil prices and the Govt. external borrowing program to assist in better liquidity during the coming quarters.
- ✓ We anticipate the 2017 earnings season to reflect the economic slowdown to an extent. **We would continue to recommend bottom up approach and look for select stock specific opportunities in Oman.** We do expect the volumes and investor to improve during H1 2017E with the triggers to come from the stability in oil prices, the upcoming dividend season and pipeline of IPOs.
- ✓ We remain neutral on the Omani equities on upcoming weak earnings amid fiscal consolidation and subsidy rationalization efforts. Overall investor focus to shift from low beta to distressed stocks coupled with higher dividends.
- ✓ Select Financials, Industrial, Consumer Staples and Food companies to outperform during Q1 2017 ahead of dividends. Select Banks to outperform on attractive valuations and the expected improvement in operating environment.
- ✓ **MSM trades at PE of 10X of 2017E Earnings; Historical trading PE Band of MSM is between 8X and 12X.**
 - *Recommend Marketweight rating on Oman Banking Sector; Bank Muscat, HSBC Oman and NBO remain our picks*
 - *Advise Underweight rating on the Industrial sector especially construction, building materials and commodity plays*
 - *Positive Outlook on Oman Food Sector players; Oman Flour Mills remain our pick*
 - *Recommend Marketweight rating on Services Sector; Utility sector companies provide stable dividends; Sembcorp remain our pick*
 - *Telecom sector remain attractive post recent correction; Ooredoo Oman remain our pick*

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