



## **MSM 30 Index Cos- Q1 2019 Earnings Review**

### **Contents**

*MSM 30 Index Companies- Q1 2019 Earnings Review*

*Non- MSM 30 Index Companies- Q1 2019 Earnings Review*

*MSM Outlook- Q2 2019E*

#### **Foot Notes:**

*Based on the new MSM 30 Index constituents - effective July 2018*

*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*

April 17, 2019



## MSM Cos- Q1 2019 Performance- Mixed results, Banks- Stable, Negatives seen in select Industry and Services Cos...

Overall a mixed bag of results for the season with success rate of about 59% (Above and in line with our estimates), the proportion of companies reported below our estimates increased to 41% during Q1 2019

### Stocks to watch out post Q1 2019 results:

- **Financial Sector-** Earnings positive on Sohar International, Ahli Bank, HSBC Bank Oman, Select Inv. Holding Cos- Oman Emirates, Ominvest
- **Industrial Sector-** Earnings positive on Al Anwar Ceramics, Oman Flour Mills, Salalah Mills, Al Maha Ceramics
- **Services Sector-** Earnings positive on Renaissance Services, OIFC

Find below the table with the details of performance of companies as compared to our estimates:

	Total Companies	% of Total
Above	12	26.1%
In Line	15	32.6%
Below	19	41.3%
<b>Total</b>	<b>46</b>	

**Review of Banking sector results:** Total profits for the banking sector in Q1 2019 grew 2.8% YoY and 3.5% QoQ, in line with GBCM expectations. We have seen selective lending trend within the banking sector and increased cost of risk in certain banks. Overall we saw stable profit growth during Q1. Insurance sector companies revealed negative performance during the quarter amid weak investment income and lower underwriting results.

**Review of Industrial sector results:** Q1 net profit of MSM Industrial sector in Q1 2019 decreased by 43.8% YoY and grew by 164.3% QoQ (on low base), this was below GBCM expectations. The sector continues to face challenges due to lower demand reflecting in decline in revenues and margins continued to remain under pressure. The commodity related companies had a negative performance during the quarter due to lower revenues, volatile input costs and increase in operating expenses.

**Review of Services sector results:** Q1 profit for the services sector (excluding Omantel) in Q1 2019 grew by 50% YoY and remained flat QoQ, above GBCM expectations mainly due to higher net profit figures reported by Renaissance. Shell Oman witnessed decline in profits which is more similar to other Oil marketing companies amidst a consumption rationalization within the retail sector. Power companies reported more in line results, except for losses due to seasonality impact (lower tariff during Winter Period).

MSM30 Cos (In RO 000s)	Total Revenue					Net Profit					Comment
	Q1 2019	Q1 2018	YoY (%)	Q4 2018	QoQ (%)	Q1 2019	Q1 2018	YoY (%)	Q4 2018	QoQ (%)	
<b>Financial Sector</b>											
<b>Subsector - Banking</b>											
Ahli Bank	17,120	14,930	14.7%	17,230	-0.6%	7,410	7,100	4.4%	7,130	3.9%	Above
Bank Dhofar	34,315	33,062	3.8%	33,466	2.5%	12,607	13,592	-7.2%	13,796	-8.6%	In Line
Bank Muscat	116,320	107,195	8.5%	117,321	-0.9%	45,800	44,810	2.2%	44,889	2.0%	In Line
Sohar International Bank	25,447	21,808	16.7%	24,788	2.7%	10,152	8,904	14.0%	7,426	36.7%	Above
National Bank of Oman	32,300	32,100	0.6%	33,815	-4.5%	12,500	12,600	-0.8%	12,508	-0.1%	In Line
HSBC Bank Oman	22,200	20,827	6.6%	21,793	1.9%	8,100	8,105	-0.1%	6,375	27.1%	Above
Bank Nizwa	8,124	6,034	34.6%	7,259	11.9%	2,116	1,042	103.1%	2,952	-28.3%	Below
Alizz Islamic Bank	4,846	4,255	13.9%	4,900	-1.1%	453	309	46.6%	706	-35.8%	Below
<b>Banking Sector - Aggregate</b>	<b>260,672</b>	<b>240,211</b>	<b>8.5%</b>	<b>260,572</b>	<b>0.0%</b>	<b>99,138</b>	<b>96,462</b>	<b>2.8%</b>	<b>95,782</b>	<b>3.5%</b>	<b>In Line</b>
<b>Subsector - Investment Holding</b>											
Al Anwar Holding	946	369	NM	602	57.1%	566	93	508.6%	114	396.5%	Above
Ominvest	75,784	68,022	11.4%	73,948	2.5%	9,204	8,393	9.7%	10,705	-14.0%	In Line
Oman Emirates	2,444	2,547	-4.0%	448	445.5%	1,087	1,204	-9.7%	(1,486)	173.1%	Above
Al Sharqiah Inv	608	657	-7.5%	134	353.1%	399	434	-7.9%	19	NM	In Line
<b>Subsector - Insurance</b>											
Al Madina Takaful	3,858	4,345	-11.2%	3,192	20.9%	317	293	8.3%	312	1.6%	In Line
<b>Industry Sector</b>											
Al Anwar Ceramics	5,636	5,461	3.2%	4,502	25.2%	623	369	69.1%	178	249.8%	Above
Galfar Engineering	64,795	70,200	-7.7%	79,805	-18.8%	(198)	(449)	NM	(4)	NM	Below
Oman Cement	14,316	13,786	3.8%	13,457	6.4%	1,526	3,240	-52.9%	1,077	41.7%	In Line
Raysut Cement	23,008	20,962	9.8%	26,947	-14.6%	243	450	-46.0%	(1,644)	NM	Below
Oman Fisheries	5,400	5,361	0.7%	4,494	20.2%	(783)	73	NM	(138)	NM	Below
Oman Flour Mills	25,207	22,255	13.3%	23,191	8.7%	2,535	3,347	-24.3%	2,024	25.2%	Above
<b>Industry Sector - Aggregate</b>	<b>138,362</b>	<b>138,025</b>	<b>0.2%</b>	<b>152,396</b>	<b>-9.2%</b>	<b>3,947</b>	<b>7,029</b>	<b>-43.8%</b>	<b>1,494</b>	<b>164.3%</b>	<b>Below</b>
<b>Services Sector</b>											
Oman Investment & Finance	5,802	5,485	5.8%	5,358	8.3%	1,022	933	9.5%	(111)	NM	Above
Ooredoo	68,600	67,967	0.9%	71,716	-4.3%	8,500	7,980	6.5%	15,175	-44.0%	In Line
Sembcorp Salalah	16,325	16,307	0.1%	17,747	-8.0%	3,283	3,381	-2.9%	3,532	-7.0%	In Line
Phoenix Power	18,105	16,009	13.1%	25,365	-28.6%	(4,855)	(5,504)	-11.8%	(5,853)	17.1%	In Line
Al Jazeira Services	1,756	1,778	-1.2%	1,937	-9.3%	406	712	-43.0%	(3,902)	NM	In Line
Shell Oman Marketing	120,560	123,508	-2.4%	131,132	-8.1%	1,775	2,512	-29.3%	2,990	-40.6%	Below
Renaissance Services	70,301	51,601	36.2%	69,501	1.2%	6,138	206	2879.6%	4,365	40.6%	Above
National Gas	19,136	21,752	-12.0%	21,956	-12.8%	294	664	-55.8%	344	-14.5%	NM

Non-MSM30 Cos (In RO 000s)	Total Revenue					Net Profit					
	Q1 2019	Q1 2018	YoY (%)	Q4 2018	QoQ (%)	Q1 2019	Q1 2018	YoY (%)	Q4 2018	QoQ (%)	
Gulf International Chemicals	586	679	-13.7%	602	-2.7%	32	97	-67.2%	4	622.3%	Below
Oman Cables	50,228	64,408	-22.0%	61,716	-18.6%	1,718	2,090	-17.8%	3,749	-54.2%	Below
Al Jazeera Steel	27,747	30,987	-10.5%	24,306	14.2%	297	1,468	-79.8%	43	594.3%	Below
Oman United Insurance	6,000	6,083	-1.4%	11,281	-46.8%	(606)	1,705	NM	80	NM	Below
Al Suwadi Power	11,957	12,127	-1.4%	13,565	-11.9%	(2,486)	(2,621)	-5.2%	(2,538)	2.0%	In Line
Al Batinah Power	12,669	10,057	26.0%	14,182	-10.7%	(2,414)	(2,683)	-10.0%	(2,310)	-4.5%	In Line
Al Maha Petroleum	111,832	112,245	-0.4%	123,531	-9.5%	980	1,157	-15.3%	486	101.6%	Below
Al Maha Ceramics	2,090	1,983	5.4%	1,984	5.3%	321	303	5.9%	251	27.7%	Above
Al Batinah Dev. Inv. Holding	331	54	NM	89	272.4%	170	218	-22.0%	(231)	151.9%	Above
Global Fin. Inv. Co	3,668	4,839	-24.2%	3,774	-2.8%	58	668	NM	(726)	108.0%	Below
National Alum. Products	11,396	11,746	-3.0%	11,809	-3.5%	60	342	-82.5%	64	-5.8%	Below
Oman Refreshment	16,257	16,643	-2.3%	18,669	-12.9%	1,946	1,844	5.5%	3,148	-38.2%	In Line
Oman Oil Marketing	141,390	145,870	-3.1%	156,919	-9.9%	1,130	1,813	-37.7%	153	638.6%	Below
Voltamp Energy	10,052	9,532	5.4%	11,189	-10.2%	130	(151)	NM	24	430.5%	Below
Salalah Mills	14,762	13,459	9.7%	13,513	9.2%	996	953	4.4%	745	33.6%	Above
Salalah Port Services	16,679	15,429	8.1%	30,420	-45.2%	1,625	1,739	-6.6%	6,978	-76.7%	Below
Al Ahlia Insurance	3,200	3,122	2.5%	2,147	49.1%	1,705	1,668	2.2%	931	83.0%	In Line
Vision Insurance	1,295	1,392	-7.0%	888	45.8%	673	856	-21.4%	157	329.2%	Below
Oman Qatar Ins.	706	668	5.8%	961	-26.5%	240	373	-35.8%	(175)	237.1%	Below
National Life Ins.	5,714	5,688	0.5%	3,790	50.8%	2,704	3,006	-10.0%	1,544	75.2%	Below

We saw mixed results among non-MSM 30 Companies with more neutral to negative numbers reported during the quarter.

**Q2 2019E Outlook- Focus remain on Fiscal Sustainability, Cost rationalization remain critical...**

- ✓ We estimate Oman Economy to reveal growth of 2% in 2019E (in real terms)
  - Focus on Priority Projects and implementation remain key for the upcoming Investments and new project cycle revival.
  - Commencement of BP Khazzan project remain beneficial to the local economy. Incremental gas availability to support industrial projects.
  - Duqm Refinery Project finalized with the award of contract; Expect more foreign investments in allied industries in Duqm
  - Rationalization of subsidies and other austerity measures to impact the economic growth over the short term
- ✓ **Improvement in oil prices to lower fiscal deficit levels, Banking sector liquidity remain stable**
  - Banking system liquidity remained stable. Large banks expect to see yield improvement post US Fed rate increase.
  - With the decline in consumer spending, we estimate overall decline in credit growth and asset quality issues to be emerge in certain sectors. Estimate higher level of cost of risk for certain local banks during coming quarters.
- ✓ We expect the corporate earnings to see further impact of economic slowdown during H1 2019. We estimate overall growth to improve during later part of the year.
- ✓ We recommend to adopt bottom up approach in local equities. **Investor buying interest expected to increase amid dividends adjustments and attractive valuations;**
  - ✓ IPO of mandatory Utility sector companies estimated during 2019; Select Government Privatization program to commence.
- ✓ Key triggers to come from revival of Government Infrastructure Project spending (Duqm, Tanfeedh initiatives), efforts taken towards increase in foreign direct investments (PPP and Foreign Investment Promotion law) and emergence of consolidation stories in Banking and other sectors. **Overall Investor sentiments and Investment climate to improve during coming quarters amid increase in oil prices.**
- ✓ Fiscal deficit would be funded by asset sale and external borrowings. The Government payments to contractors/ other private sector players to improve– this would start next cycle of economic growth. **We estimate incremental foreign project investments in Oman during 2019.**
- ✓ We expect select Banks, Industrial and Services sector companies to benefit. Most of the frontline stocks are trading at attractive valuations looking at medium term perspective.
- ✓ **MSM trades at PE of 8X on 2019E Earnings; Historical trading PE Band of MSM is between 8X and 12X.**
  - *Recommend Marketweight rating on Oman Banking Sector- Bank Nizwa, Bank Muscat and HSBC Oman remain as favorite stock pick.*
  - *Select opportunities seen in the Industrial sector post correction. Top picks- Al Anwar Ceramics. Turnaround themes- Galfar and Raysut.*
  - *Recommend Marketweight on Services Sector. Top picks- Ooredoo, Dhofar Generating Co, Renaissance*

| **Institutional Sales** - Hunaina Banatwala, (+968) 2235 0717 | **Institutional Brokerage** – Talal Al Balushi, (+968) 2235 0725 |

| **Equity Research** - Kanaga Sundar, (+968) 2235 0727 | Kumail Al Humaid, (+968) 2235 0728 |

---

*Disclaimer: This document has been prepared and issued by Gulf Baader Capital Markets SAOC ("the Company") on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all care has been taken to ensure that the facts stated are accurate and the opinions given are reasonable, neither Gulf Baader Capital Markets SAOC nor any employee shall be in anyway responsible for the contents of this report. The Company may have a position and may perform buying/selling for itself or its clients in any security mentioned in this report. This is not an offer to buy or sell the investments referred therein.*