



MSM 30 Index Cos- Q4 2019 Earnings Preview

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Foot Notes:

Based on the new MSM 30 Index constituents - effective July 2019

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, 2020



Q4 2019E Earnings Preview- Weak earnings estimated amid macro challenges and IFRS impact...

FY 2019 Earnings Preview

2019E Earnings of MSM30 Index companies (Inc. Inv. Holding companies) is estimated to decline 2.4% YoY.

Banking sector earnings to decline 1.6% YoY. Investment Holding sector earnings to decline 3.3% YoY. While, Financial Sector earnings during 2019 also declining by 2.7% YoY amid weak performance estimated by select banks and inv. holding companies.

Industrial sector 2019 earnings is estimated to decline sharply by 35% YoY amidst decline in revenues (-9.9% YoY) and increase in operating expenses. On the other hand, Earnings of Services sector is anticipated to increase by 4% YoY during the period.

Q4 2019 Earnings Preview

Q4 2019E Earnings of MSM30 Index companies to decline 15.7% YoY and -26.8% on a QoQ basis. Banking sector earnings to decline 10.5% YoY and decline 6.1% QoQ amid decline in credit growth and increase in estimated provisioning levels.

While Financial Sector earnings during Q4 to decrease 11.9% YoY due to decline in earnings by select Banks and Inv. Holding companies and decline 3.1% on a QoQ basis.

Industrial sector Q4 earnings to increase sharply on a YoY and sequential basis due to low base (select companies reported one-off losses during Q4 2018). Earnings of Services sector to decline by 37.5% YoY and -65.5% QoQ on higher base with few cos reporting one-off income during last year.

Stocks to watch out during the upcoming earnings season,

- **Financial Sector-** Earnings Positive on Select Banks- **Bank Muscat, HSBC Bank Oman, Bank Nizwa**; We would watch closely for credit growth and NPA trend during the quarter. Few Insurance companies may reveal improved performance.
- **Industrial Sector-** Earnings Positive on **Al Anwar Ceramics**. Select companies to report increase in profits from low base, while on the other hand, the prevailing weak macro outlook, increase in receivables and IFRS related impact to surprise negatively for the sector companies.
- **Services Sector-** Earnings Positive on **OIFC and Renaissance**; Utility companies may reveal lower earnings during the quarter due to winter season non-peak low tariff rates.

MSM30 Cos (In RO 000s)	Total Revenue			Net Profit		
	2019E	2018	YoY (%)	2019E	2018	YoY (%)
Financial Sector						
Ahli Bank	68,930	62,150	10.9	29,400	28,790	2.1
Bank Dhofar	131,800	134,124	-1.7	32,600	50,281	-35.2
Bank Muscat	469,730	446,736	5.1	186,000	179,633	3.5
Bank Sohar	98,718	94,438	4.5	32,000	29,366	9.0
National Bank of Oman	131,200	129,015	1.7	49,500	50,608	-2.2
HSBC Bank Oman	87,500	85,902	1.9	32,500	31,366	3.6
Bank Nizwa	33,058	27,098	22.0	9,500	7,512	26.5
Banking Sector - Aggregate	1,020,936	979,463	4.2	371,500	377,556	-1.6
Inv. Holding Sector - Aggregate	301,618	280,534	7.5	29,404	30,397	-3.3
Financial Sector - Aggregate	1,345,549	1,286,604	4.6	401,854	413,044	-2.7
Industry Sector						
Al Anwar Ceramics	20,082	19,139	4.9	2,100	748	180.7
Galfar Engineering	252,318	293,994	-14.2	1,900	2,226	-14.6
Oman Cement	48,889	50,809	-3.8	3,300	7,315	-54.9
Raysut Cement	82,626	90,980	-9.2	2,100	344	511.1
Oman Fisheries	14,800	19,870	-25.5	(3,200)	(643)	-397.7
Oman Flour Mills	94,494	89,489	5.6	6,200	9,707	-36.1
Oman Refreshment	63,708	76,118	-16.3	8,000	11,695	-31.6
Industry Sector - Aggregate	576,916	640,399	-9.9	20,400	31,392	-35.0
Services Sector						
Oman Investment & Finance	20,681	20,490	0.9	2,600	571	355.3
Omantel	2,531,360	2,186,014	15.8	70,000	64,798	8.0
Ooredoo	282,600	283,616	-0.4	36,000	41,975	-14.2
Sembcorp Salalah	73,834	68,560	7.7	14,000	12,840	9.0
Phoenix Power	134,818	134,593	0.2	14,000	12,920	8.4
Al Suwadi Power	77,321	76,623	0.9	9,800	9,009	8.8
Al Batinah Power	56,850	75,138	-24.3	9,600	9,072	5.8
Shell Oman Marketing	519,890	528,876	-1.7	10,900	12,055	-9.6
Renaissance Services	105,968	243,959	-56.6	11,300	6,806	66.0
Al Maha Petroleum	465,616	487,673	-4.5	4,000	5,149	-22.3
Services Sector - Aggregate	4,268,938	4,105,542	4.0	182,200	175,195	4.0
MSM 30 Index (Inc. Inv. Holding) - Aggregate	6,191,403	6,032,546	2.6	604,454	619,631	-2.4
MSM 30 Index (Ex. Inv. Holding) - Aggregate	5,881,740	5,741,352	2.4	575,300	585,050	-1.7

Non-MSM30 Cos (In RO 000s)	Total Revenue			Net Profit		
	2019E	2018	YoY (%)	2019E	2018	YoY (%)
Alizz Islamic Bank	19,336	18,999	1.8	(2,960)	2,007	-247.5
Al Jazeera Services	7,383	7,399	-0.2	1,539	(5,083)	130.3
Oman Cables	204,727	247,011	-17.1	5,944	9,214	-35.5
Al Jazeera Steel	102,036	116,146	-12.1	(40)	2,780	-101.4
Al Maha Ceramics	7,276	8,438	-13.8	1,001	1,203	-16.8
National Alum. Products	44,199	47,797	-7.5	(576)	814	-170.8
Oman Oil Marketing	591,908	625,387	-5.4	6,707	8,088	-17.1
Asaffa Foods	30,986	32,273	-4.0	2,147	2,796	-23.2
Dhofar Cattle Feed	40,350	40,225	0.3	807	(516)	256.4
Voltamp Energy	39,345	39,804	-1.2	353	31	1036.7
Salalah Mills	49,183	52,030	-5.5	1,029	2,925	-64.8
Al Ahlia Insurance	9,080	8,940	1.6	3,646	3,931	-7.3
Vision Insurance	3,694	4,142	-10.8	1,441	1,628	-11.5
Oman Qatar Ins.	3,218	2,979	8.0	1,543	1,143	35.0
National Life Ins.	20,572	19,132	7.5	9,358	9,012	3.8
Arabia Falcon Ins.	2,693	2,806	-4.0	878	1,041	-15.7

We estimate non-Index companies to report relatively weak earnings during 2019. **We expect earnings improvement in Al Jazeera Services, Dhofar Cattle Feed, and Oman Qatar Ins..** The negative impact of macro slowdown to be reflected in lower earnings among key companies.

MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
	Q4 2019E	Q4 2018	YoY (%)	Q3 2019	QoQ (%)	Q4 2019E	Q4 2018	YoY (%)	Q3 2019	QoQ (%)
Financial Sector										
Ahli Bank	17,300	17,230	0.4	17,390	-0.5	6,610	7,130	-7.3	7,870	-16.0
Bank Dhofar	33,200	35,161	-5.6	33,061	0.4	6,679	13,796	-51.6	6,208	7.6
Bank Muscat	118,000	117,321	0.6	117,660	0.3	44,570	44,889	-0.7	47,780	-6.7
Bank Sohar	24,700	24,788	-0.4	24,466	1.0	6,941	7,426	-6.5	6,475	7.2
National Bank of Oman	33,500	33,815	-0.9	33,352	0.4	11,200	12,556	-10.8	13,019	-14.0
HSBC Bank Oman	21,500	21,793	-1.3	21,139	1.7	6,700	6,375	5.1	6,567	2.0
Bank Nizwa	8,400	7,259	15.7	8,532	-1.5	2,460	2,952	-16.7	2,745	-10.4
Banking Sector - Aggregate	256,600	257,367	-0.3	255,600	0.4	85,160	95,124	-10.5	90,664	-6.1
Inv. Holding Sector - Aggregate	73,701	72,994	1.0	76,661	-3.9	8,319	9,190	-9.5	5,587	48.9
Financial Sector - Aggregate	335,601	336,991	-0.4	338,084	-0.7	93,384	106,040	-11.9	96,390	-3.1
Industry Sector										
Al Anwar Ceramics	5,000	4,502	11.1	4,814	3.9	632	178	254.8	416	52.1
Galfar Engineering	62,800	83,131	-24.5	62,577	0.4	(304)	(3,498)	91.3	(269)	13.0
Oman Cement	11,400	12,215	-6.7	11,160	2.2	542	1,077	-49.7	455	19.1
Raysut Cement	20,500	23,091	-11.2	20,401	0.5	1,091	(1,644)	166.4	497	119.5
Oman Fisheries	3,600	4,027	-10.6	3,763	-4.3	(467)	(137)	-240.6	(787)	-40.6
Oman Flour Mills	22,800	23,992	-5.0	22,657	0.6	1,727	2,138	-19.2	635	172.0
Oman Refreshment	14,800	18,669	-20.7	14,721	0.5	1,820	3,148	-42.2	1,890	-3.7
Industry Sector - Aggregate	140,900	169,628	-16.9	140,093	0.6	5,041	1,263	299.3	2,837	77.7
Services Sector										
Oman Investment & Finance	4,800	5,291	-9.3	4,589	4.6	252	(193)	230.6	396	-36.4
Omantel	638,000	639,309	-0.2	634,476	0.6	17,320	21,207	-18.3	19,515	-11.2
Ooredoo	71,500	71,716	-0.3	72,000	-0.7	9,000	15,175	-40.7	9,200	-2.2
Sembcorp Salah	18,000	17,747	1.4	18,662	-3.5	2,471	3,532	-30.0	3,459	-28.6
Phoenix Power	24,500	25,365	-3.4	48,122	-49.1	(5,612)	(5,853)	4.1	12,668	-144.3
Al Suwadi Power	13,200	13,565	-2.7	26,025	-49.3	(2,794)	(2,538)	-10.1	7,467	-137.4
Al Batinah Power	12,500	14,182	-11.9	16,570	-24.6	(2,598)	(2,310)	-12.5	7,425	-135.0
Shell Oman Marketing	130,000	131,132	-0.9	136,567	-4.8	2,541	2,990	-15.0	3,742	-32.1
Renaissance Services	27,600	69,501	-60.3	27,351	0.9	1,507	4,365	-65.5	1,962	-23.2
Al Maha Petroleum	115,000	123,543	-6.9	118,016	-2.6	971	505	92.3	985	-1.4
Services Sector - Aggregate	1,055,100	1,111,351	-5.1	1,102,378	-4.3	23,058	36,880	-37.5	66,819	-65.5
MSM 30 Index (Inc. Inv. Holding) – Agg.	1,531,601	1,617,970	-5.3	1,580,555	-3.1	121,484	144,182	-15.7	166,046	-26.8
MSM 30 Index (Ex. Inv. Holding) – Agg.	1,456,000	1,541,670	-5.6	1,501,904	-3.1	113,548	133,581	-15.0	160,663	-29.3

Non-MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
	Q4 2019E	Q4 2018	YoY (%)	Q3 2019	QoQ (%)	Q4 2019E	Q4 2018	YoY (%)	Q3 2019	QoQ (%)
Alizz Islamic Bank	4,800	4,900	-2.0	4,865	-1.3	(1,500)	706	-312.5	(1,932)	-22.3
Al Jazeera Services	1,900	1,937	-1.9	1,937	-1.9	300	(3,902)	107.7	355	-15.4
Oman Cables	49,000	61,716	-20.6	48,621	0.8	1,200	3,749	-68.0	1,008	19.0
Al Jazeera Steel	24,000	24,306	-1.3	23,586	1.8	(100)	43	-333.8	(549)	-81.8
Al Maha Ceramics	1,700	2,002	-15.1	1,691	0.5	250	251	-0.5	204	22.7
National Alum. Products	11,000	11,621	-5.3	10,969	0.3	(200)	64	-413.9	(401)	-50.1
Oman Oil Marketing	154,000	158,510	-2.8	151,797	1.5	1,500	153	880.4	2,024	-25.9
Asaffa Foods	7,600	6,797	11.8	7,499	1.4	500	(536)	193.3	457	9.5
Dhofar Cattle Feed	9,400	9,396	0.0	9,291	1.2	(150)	(287)	47.7	(42)	257.1
Voltamp Energy	10,000	11,221	-10.9	10,419	-4.0	100	24	323.9	102	-2.4
Salalah Mills	11,600	13,495	-14.0	11,573	0.2	400	764	-47.7	(237)	268.5
Al Ahlia Insurance	1,800	2,147	-16.2	1,542	16.8	500	931	-46.3	325	54.0
Vision Insurance	800	888	-9.9	867	-7.8	200	157	27.6	237	-15.7
Oman Qatar Ins.	700	679	3.1	710	-1.5	200	(175)	214.4	602	-66.8
National Life Ins.	4,800	3,984	20.5	4,929	-2.6	2,000	1,737	15.1	2,218	-9.8
Arabia Falcon Ins.	600	922	-34.9	583	2.9	200	507	-60.5	123	62.3

Source: Company Reports, GBCM Research Estimates

Non-MSM30 Index companies to reveal weak Q4 2019 earnings led by demand slowdown, lower revenue growth and increased margin pressure. **We expect earnings improvement in select companies during the quarter amidst measures taken towards cost rationalization.**

Banking Sector

Company	Closing (RO)	Current Rating	12 M Fair Value	Net Profit (In RO 000s)				
				Q4 2019E	Q4 2018	YoY (%)	Q3 2019	QoQ (%)
Ahli Bank	0.130	Accumulate	0.144	6,610	7,130	-7.3	7,870	-16.0
Bank Dhofar	0.123	Neutral	0.135	6,679	13,796	-51.6	6,208	7.6
Bank Muscat	0.430	Accumulate	0.494	44,570	44,889	-0.7	47,780	-6.7
Sohar International	0.110	Accumulate	0.126	6,941	7,426	-6.5	6,475	7.2
National Bank of Oman	0.184	Accumulate	0.213	11,200	12,556	-10.8	13,019	-14.0
HSBC Bank Oman	0.121	Accumulate	0.136	6,700	6,375	5.1	6,567	2.0
Bank Nizwa	0.095	Accumulate	0.106	2,460	2,952	-16.7	2,745	-10.4
Banking Sector - Aggregate				85,160	95,124	-10.5	90,664	-6.1

Source: Company Reports, GBCM Research Estimates, closing on 2nd Jan 2020

Preview on Banking Sector...

During H2 2019, we saw relative slowdown in Oman Banking sector credit growth (conventional and Islamic combined) amid completion of major projects, lower retail consumption along with conservative lending policy among banks. We expect selective drawdown from quasi Government projects to support credit off-take in the New Year. **For 2020E, we estimate banking sector credit growth to be about 4-5% driven by Govt. projects and Private sector demand.**

The sector earnings for Q4 2019 is estimated to decline by 10.5% YoY basis and decline 6.1% on QoQ basis at RO 85.2 million.

We anticipate weak performance by select banks during the period amid increase in provisioning. On the other hand, few banks increased contribution from fee and commission income to mitigate the impact. We estimate lower level of credit off-take and higher provisioning to impact the earnings for the quarter.

Q4 Earnings positive on Bank Muscat, HSBC Bank Oman and Bank Nizwa

Industry Sector

Company	Closing (RO)	Current Rating	12 M Fair Value	Net Profit (In RO 000s)			Q3 2019	QoQ (%)
				Q4 2019E	Q4 2018	YoY (%)		
Al Anwar Ceramics	0.138	Accumulate	0.149	632	178	254.8	416	52.1
Galfar Engineering	0.071	Accumulate	0.086	-304	-3,498	91.3	-269	13.0
Oman Cement	0.245	Neutral	0.276	542	1,077	-49.7	455	19.1
Raysut Cement	0.458	Neutral	0.442	1,091	-1,644	166.4	497	119.5
Oman Fisheries	0.080	Not Rated	Under Review	-467	-137	-240.6	-787	-40.6
Oman Flour Mills	0.600	Accumulate	0.664	1,727	2,138	-19.2	635	172.0
Oman Refreshments	1.200	Neutral	Under Review	1,820	3,148	-42.2	1,890	-3.7
Industry - Aggregate				5,041	1,263	299.3	2,837	77.7

Source: Company Reports, GBCM Research Estimates; closing as on 2nd Jan 2020

Preview on Industry Sector...

Q4 2019 earnings of MSM Industrial sector companies to increase strongly amidst low base. We estimate the overall earnings to remain under pressure amid demand slowdown, increase in operating expenses and the impact of IFRS related adjustments. Select sector majors has taken efforts towards achieving operational excellence majorly through cost reduction.

We estimate revenue of the sector companies to decline about 17% YoY and grow 0.6% QoQ during Q4 amid continued macro weakness in the region and lower levels of consumer spending and construction activities. We expect select companies to report increase in earnings from a low base.

Al Anwar Ceramics to report improvement in profits amid increase in overall utilization and efforts taken towards cost optimization. Galfar to report losses during the quarter amid lower margins and delay in payments. Oman Flour Mills to report improvement in Q4 earnings. Oman Fisheries may see losses during the quarter. **Caveat to remain on delay in payment cycle and stretched receivables for most of the Industrial sector companies.**

Services Sector

Company	Closing (RO)	Current Rating	12 M Fair Value	Net Profit (In RO 000s)				
				Q4 2019E	Q4 2018	YoY (%)	Q3 2019	QoQ (%)
OIFC	0.112	Accumulate	0.128	252	-193	230.6	396	-36.4
Omantel	0.604	Buy	0.743	17,320	21,207	-18.3	19,515	-11.2
Ooredoo	0.524	Accumulate	0.622	9,000	15,175	-40.7	9,200	-2.2
Sembcorp Salalah	0.135	Neutral	0.136	2,471	3,532	-30.0	3,459	-28.6
Phoenix Power	0.069	Accumulate	Under Review	-5,612	-5,853	4.1	12,668	-144.3
Al Suwadi Power	0.061	Neutral	Under Review	-2,794	-2,538	-10.1	7,467	-137.4
Al Batinah Power	0.061	Neutral	Under Review	-2,598	-2,310	-12.5	7,425	-135.0
Shell Oman Marketing	1.185	Neutral	1.125	2,541	2,990	-15.0	3,742	-32.1
Renaissance Services	0.324	Neutral	Under Review	1,507	4,365	-65.5	1,962	-23.2
Al Maha Petroleum	0.720	Neutral	0.760	971	505	92.3	985	-1.4
Services Aggregate				23,058	36,880	-37.5	66,819	-65.5

Source: Company Reports, GBCM Research Estimates, closing on 2nd Jan 2020

Preview on Services Sector...

The revenue of Services Sector companies is estimated to decline by 5.1% YoY and -4.3% QoQ mainly due to reclassification of Renaissance numbers post sale of Topaz. While, the sector earnings is estimated to decline 37.5% YoY and -65.5% QoQ on prevailing high base (Ooredoo reported one-off income during Q4 2018)

We estimate revenue and earnings of Omantel to reveal stable trend post improvement in Zain Group performance. Ooredoo to report earnings decline on a YoY basis amid higher base (Q4 2018- one-off royalty fees reversal). Select Oil marketing companies may see marginal recovery led by lowering of operating costs.

Renaissance is estimated to report profit of RO 1.5 million (excluding Topaz operations post sale) during Q4 amid increasing contribution from Duqm PAC.

Utility Sector companies to report losses in Q4 due to non-peak lower winter season tariff rates. OIFC to report profits during Q4 amid turnaround in subsidiaries and increase in contribution from associates.

2020E Outlook- Economy may see recovery, Economic stimulus measures to support...

- ✓ We estimate Oman Economic growth to increase to above 2% in 2020E (in real terms)
 - Budget 2020 focus remain on Priority Projects. Focus on Economic Diversification and Easy of Business Investments remain paramount.
 - BP Khazzan project contribution to remain critical for local economy. Incremental gas availability to support new industrial projects.
 - Duqm Refinery Project on stream; Expect additional foreign investments in allied industries in Duqm and other Free Zones
 - Rationalization of subsidies and other austerity measures to impact the economic growth over the short term
- ✓ **Stability in Oil price volatility and above budgeted level of oil prices to lower fiscal deficit and debt levels, overall liquidity may improve**
 - Liquidity of select banks remain tight. The reduction in consumer spending to led to decline in credit off-take and asset quality concerns.
- ✓ 2020 Fiscal deficit estimated at RO 2.5 million, which would be funded majorly by borrowings. The Government payments to contractors/ other private sector companies to remain critical and improvement of this would kick-start next cycle of economic growth.
 - Government Privatization Program to remain critical; Nama Holding has finalized sale of Oman Electricity and Transmission Co (OETC) to State Grid Corporation of China worth USD 1 billion. Muscat Electricity Distribution Co (MEDC) sale may completed in Q2 2020.
- ✓ **We do anticipate the ongoing positive structural developments in Oman post introduction of Foreign Inv. Promotion, Private-Public-Partnership, Bankruptcy and Privatization laws to remain conducive to attract foreign investments in select sectors.** In addition, the recent formation of Public Authority for Privatization and Partnership (PAPP) to fast track privatization, PPP and create more localization benefits.
- ✓ 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.
- ✓ We expect corporate earnings to increase mid single digits in 2020 amidst recovery seen in select sectors. We expect select Banks, Industrial and Services sector companies to benefit. Key stocks in MSM are trading at bottomed-out valuations looking at medium term perspective.
- ✓ **We recommend to adopt bottom up approach in local equities. Overall Investor sentiments and Investment climate to improve during coming quarters amid measures taken towards creating Economic stimulus. Key concern remain on increased geo-political risks in the region**
- ✓ **MSM trades at PE of 8X on 2020E Earnings; Trading below historical trading PE Band of 8X and 12X.**
 - *Recommend Market-weight rating on Oman Banking Sector- Bank Muscat, Bank Nizwa, NBO and HSBC remain as favorite stock pick.*
 - *Select opportunities seen in revival stories within Industrial sector. Top picks- Oman Cables, Raysut and Al Anwar Ceramics*
 - *Recommend Market-weight on Services Sector. Top picks- OIFC, Ooredoo and Omantel*

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