



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

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#### **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 11, 2019**



| 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 (%)       |
| <b>Financial Sector</b>                             |                  |                  |              |                  |              |                |                |               |                |               |
| <b>Subsector - Banking</b>                          |                  |                  |              |                  |              |                |                |               |                |               |
| Ahli Bank   | 16,500           | 14,600           | 13.0%        | 17,230           | -4.2%        | 6,900          | 7,100          | -2.8%         | 7,130          | -3.2%         |
| Bank Dhofar   | 32,900           | 33,062           | -0.5%        | 33,466           | -1.7%        | 12,800         | 13,592         | -5.8%         | 13,796         | -7.2%         |
| Bank Muscat   | 114,000          | 107,195          | 6.3%         | 117,321          | -2.8%        | 46,000         | 44,810         | 2.7%          | 44,889         | 2.5%          |
| Bank Sohar  | 25,000           | 21,808           | 14.6%        | 24,788           | 0.9%         | 7,200          | 8,904          | -19.1%        | 7,426          | -3.0%         |
| National Bank of Oman                               | 32,600           | 32,100           | 1.6%         | 33,815           | -3.6%        | 12,500         | 12,600         | -0.8%         | 12,508         | -0.1%         |
| HSBC Bank Oman                                      | 21,500           | 20,827           | 3.2%         | 21,793           | -1.3%        | 6,500          | 8,105          | -19.8%        | 6,375          | 2.0%          |
| Bank Nizwa  | 7,300            | 6,034            | 21.0%        | 7,259            | 0.6%         | 2,500          | 1,042          | 139.9%        | 2,952          | -15.3%        |
| Alizz Islamic Bank                                  | 5,000            | 4,255            | 17.5%        | 4,900            | 2.0%         | 600            | 309            | 94.0%         | 706            | -15.0%        |
| <b>Banking Sector - Aggregate</b>                   | <b>254,800</b>   | <b>239,881</b>   | <b>6.2%</b>  | <b>260,572</b>   | <b>-2.2%</b> | <b>95,000</b>  | <b>96,462</b>  | <b>-1.5%</b>  | <b>95,782</b>  | <b>-0.8%</b>  |
| <b>Inv. Holding Sector - Aggregate</b>              | <b>72,700</b>    | <b>75,000</b>    | <b>-3.1%</b> | <b>73,999</b>    | <b>-1.8%</b> | <b>8,350</b>   | <b>10,611</b>  | <b>-21.3%</b> | <b>8,963</b>   | <b>-6.8%</b>  |
| <b>Financial Sector - Aggregate</b>                 | <b>331,700</b>   | <b>319,225</b>   | <b>3.9%</b>  | <b>337,763</b>   | <b>-1.8%</b> | <b>103,650</b> | <b>107,366</b> | <b>-3.5%</b>  | <b>105,056</b> | <b>-1.3%</b>  |
| <b>Industry Sector</b>                              |                  |                  |              |                  |              |                |                |               |                |               |
| Al Anwar Ceramics                                   | 5,400            | 5,461            | -1.1%        | 4,502            | 19.9%        | 400            | 369            | 8.5%          | 178            | 124.5%        |
| Galfar Engineering                                  | 72,000           | 71,317           | 1.0%         | 79,805           | -9.8%        | 800            | (451)          | NM            | (4)            | NM            |
| Oman Cement   | 13,400           | 13,786           | -2.8%        | 13,457           | -0.4%        | 1,600          | 3,240          | -50.6%        | 1,077          | 48.6%         |
| Raysut Cement                                       | 23,000           | 20,962           | 9.7%         | 26,947           | -14.6%       | 1,300          | 450            | 188.8%        | (1,644)        | NM            |
| Oman Fisheries                                      | 5,400            | 5,361            | 0.7%         | 4,494            | 20.2%        | 150            | 73             | 105.6%        | (138)          | NM            |
| Oman Flour Mills                                    | 22,500           | 21,673           | 3.8%         | 23,191           | -3.0%        | 2,200          | 3,347          | -34.3%        | 2,024          | 8.7%          |
| <b>Industry Sector - Aggregate</b>                  | <b>141,700</b>   | <b>138,560</b>   | <b>2.3%</b>  | <b>152,396</b>   | <b>-7.0%</b> | <b>6,450</b>   | <b>7,027</b>   | <b>-8.2%</b>  | <b>1,494</b>   | <b>331.9%</b> |
| <b>Services Sector</b>                              |                  |                  |              |                  |              |                |                |               |                |               |
| Oman Investment & Finance                           | 5,200            | 5,486            | -5.2%        | 5,358            | -2.9%        | 800            | 931            | -14.1%        | (111)          | NM            |
| Omantel   | 635,000          | 469,986          | 35.1%        | 639,309          | -0.7%        | 17,000         | 15,970         | 6.4%          | 6,205          | 174.0%        |
| Ooredoo   | 71,500           | 67,967           | 5.2%         | 71,716           | -0.3%        | 8,400          | 7,980          | 5.3%          | 15,175         | -44.6%        |
| Sembcorp Salalah                                    | 17,400           | 16,307           | 6.7%         | 17,747           | -2.0%        | 3,200          | 3,381          | -5.3%         | 3,532          | -9.4%         |
| Phoenix Power                                       | 17,500           | 16,009           | 9.3%         | 25,365           | -31.0%       | (5,300)        | (5,504)        | -3.7%         | (5,853)        | -9.4%         |
| Al Jazeera Services                                 | 1,850            | 1,778            | 4.1%         | 1,937            | -4.5%        | 400            | 712            | -43.8%        | (3,902)        | NM            |
| Shell Oman Marketing                                | 130,000          | 123,435          | 5.3%         | 131,132          | -0.9%        | 2,800          | 2,512          | 11.5%         | 2,990          | -6.4%         |
| Renaissance Services                                | 53,000           | 51,601           | 2.7%         | 69,501           | -23.7%       | 1,800          | 206            | 773.8%        | 4,365          | -58.8%        |
| National Gas  |                  |                  |              |                  |              |                |                |               |                |               |
|   | Not estimated    |                  |              |                  |              |                |                |               |                |               |
| <b>Services Sector - Aggregate</b>                  | <b>931,450</b>   | <b>774,197</b>   | <b>20.3%</b> | <b>984,022</b>   | <b>-5.3%</b> | <b>29,100</b>  | <b>26,852</b>  | <b>8.4%</b>   | <b>22,745</b>  | <b>27.9%</b>  |
| <b>MSM 30 Index (Inc. Inv. Holding) - Aggregate</b> | <b>1,404,850</b> | <b>1,231,982</b> | <b>14.0%</b> | <b>1,474,180</b> | <b>-4.7%</b> | <b>139,200</b> | <b>141,245</b> | <b>-1.4%</b>  | <b>129,295</b> | <b>7.7%</b>   |
| <b>MSM 30 Index (Ex. Inv. Holding) - Aggregate</b>  | <b>1,332,150</b> | <b>1,156,983</b> | <b>15.1%</b> | <b>1,400,181</b> | <b>-4.9%</b> | <b>130,850</b> | <b>130,634</b> | <b>0.2%</b>   | <b>120,332</b> | <b>8.7%</b>   |

| 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 | 600           | 679     | -11.7%  | 602     | -0.4%   | 50         | 97      | -48.2%  | 4       | NM      |
| Oman Cables                  | 63,000        | 64,408  | -2.2%   | 61,716  | 2.1%    | 2,000      | 2,090   | -4.3%   | 3,749   | -46.7%  |
| Al Jazeera Steel             | 25,500        | 30,987  | -17.7%  | 24,306  | 4.9%    | 800        | 1,468   | -45.5%  | 43      | NM      |
| Al Suwadi Power              | 12,200        | 12,127  | 0.6%    | 13,565  | -10.1%  | (2,500)    | (2,621) | -4.6%   | (2,538) | 1.5%    |
| Al Batinah Power             | 11,000        | 10,057  | 9.4%    | 14,182  | -22.4%  | (2,300)    | (2,683) | -14.3%  | (2,310) | 0.4%    |
| Al Maha Petroleum            | 125,000       | 112,039 | 11.6%   | 123,531 | 1.2%    | 1,200      | 1,157   | 3.7%    | 486     | 146.9%  |
| Al Maha Ceramics             | 2,100         | 1,983   | 5.9%    | 1,984   | 5.9%    | 300        | 303     | -1.0%   | 251     | 19.4%   |
| Al Batinah Dev. Inv. Holding | 200           | 284     | -29.6%  | 89      | 124.8%  | 120        | 220     | -45.4%  | (231)   | NM      |
| Global Fin. Inv. Co          | 3,500         | 4,747   | -26.3%  | 3,774   | -7.3%   | (100)      | 668     | NM      | (726)   | NM      |
| National Alum. Products      | 11,500        | 11,746  | -2.1%   | 11,809  | -2.6%   | 150        | 342     | -56.1%  | 64      | 135.4%  |
| Oman Refreshment             | 17,000        | 16,643  | 2.1%    | 18,669  | -8.9%   | 2,000      | 1,844   | 8.5%    | 3,148   | -36.5%  |
| Oman Oil Marketing           | 160,000       | 145,870 | 9.7%    | 156,919 | 2.0%    | 1,900      | 1,813   | 4.8%    | 153     | NM      |
| Voltamp Energy               | 9,200         | 9,532   | -3.5%   | 11,189  | -17.8%  | 200        | (151)   | NM      | 24      | NM      |
| Salalah Mills                | 13,100        | 13,459  | -2.7%   | 13,513  | -3.1%   | 800        | 982     | -18.6%  | 745     | 7.3%    |
| Salalah Port Services        | 14,500        | 15,429  | -6.0%   | 30,420  | -52.3%  | 2,000      | 1,739   | 15.0%   | 6,978   | -71.3%  |

Source: Company Reports, GBCM Research Estimates

Q1 2019 earnings to remain relatively weak among non-MSM30 Index companies under our coverage. **We expect earnings improvement from Select Industrial and Services sector companies.** The impact of slowdown to be reflected in lower earnings contribution among sector majors.

**Banking Sector**

| Company                           | Closing (RO) | Current Rating | 12 M Fair Value | Net Profit (In RO 000s) |               |              |               |              |
|-----------------------------------|--------------|----------------|-----------------|-------------------------|---------------|--------------|---------------|--------------|
|                                   |              |                |                 | Q1 2019E                | Q1 2018       | YoY (%)      | Q4 2018       | QoQ (%)      |
| Ahli Bank                         | 0.125        | Accumulate     | 0.148           | 6,900                   | 7,100         | -2.8%        | 7,130         | -3.2%        |
| Bank Dhofar                       | 0.139        | Accumulate     | 0.154           | 12,800                  | 13,592        | -5.8%        | 13,796        | -7.2%        |
| Bank Muscat                       | 0.400        | Accumulate     | 0.466           | 46,000                  | 44,810        | 2.7%         | 44,889        | 2.5%         |
| Sohar International               | 0.109        | Accumulate     | 0.130           | 7,200                   | 8,904         | -19.1%       | 7,426         | -3.0%        |
| National Bank of Oman             | 0.174        | Accumulate     | 0.202           | 12,500                  | 12,600        | -0.8%        | 12,508        | -0.1%        |
| HSBC Bank Oman                    | 0.118        | Accumulate     | 0.135           | 6,500                   | 8,105         | -19.8%       | 6,375         | 2.0%         |
| Bank Nizwa                        | 0.091        | Accumulate     | 0.106           | 2,500                   | 1,042         | 139.9%       | 2,952         | -15.3%       |
| Alizz Islamic Bank                | 0.085        | Not Rated      | Under Review    | 600                     | 309           | 94.0%        | 706           | -15.0%       |
| <b>Banking Sector - Aggregate</b> |              |                |                 | <b>95,000</b>           | <b>96,462</b> | <b>-1.5%</b> | <b>95,782</b> | <b>-0.8%</b> |

Source: Company Reports, GBCM Research Estimates, closing on 10<sup>th</sup> April 2019

**Preview on Banking Sector...**

During Q1 2019, we estimate Oman Banking sector credit (conventional and Islamic combined) growth to lower amid demand slowdown and increased risk aversion/ reduced lending to sensitive sectors. On the other hand, we estimate drawdown from select quasi Government projects to increase credit off-take. **For 2019E, we estimate banking sector credit growth to be about 5% on the back of select Govt. projects and private sector demand.**

**The sector earnings for Q1 2019 is estimated to decline by 1.5% YoY basis and decline 0.8% on QoQ basis at RO 95 million.**

We estimate mixed performance by the local banks during the quarter. The yield of larger banks with higher composition of low cost deposits to benefit. We expect relatively lower credit off-take and the banks continue to focus on quality book towards lending amid macro challenges. We estimate volatility in cost of risk during Q1 to impact the profitability.

**Q1 Earnings positive on Bank Nizwa and Bank Muscat. Caveat to remain on increase in IFRS 9 related provisioning.**

**Industry Sector**

| Company                     | Closing (RO) | Current Rating | 12 M Fair Value | Net Profit (In RO 000s) |              |              |              |               |
|-----------------------------|--------------|----------------|-----------------|-------------------------|--------------|--------------|--------------|---------------|
|                             |              |                |                 | Q1 2019E                | Q1 2018      | YoY (%)      | Q4 2018      | QoQ (%)       |
| Al Anwar Ceramics           | 0.097        | Buy            | 0.104           | 400                     | 369          | 8.5%         | 178          | 124.5%        |
| Galfar Engineering          | 0.096        | Accumulate     | 0.106           | 800                     | (451)        | NM           | (4)          | NM            |
| Oman Cement                 | 0.271        | Neutral        | 0.330           | 1,600                   | 3,240        | -50.6%       | 1,077        | 48.6%         |
| Raysut Cement               | 0.370        | Buy            | 0.442           | 1,300                   | 450          | 188.8%       | (1,644)      | NM            |
| Oman Fisheries              | 0.070        | Not Rated      | Under Review    | 150                     | 73           | 105.6%       | (138)        | NM            |
| Oman Flour Mills            | 0.522        | Buy            | 0.630           | 2,200                   | 3,347        | -34.3%       | 2,024        | 8.7%          |
| <b>Industry - Aggregate</b> |              |                |                 | <b>6,450</b>            | <b>7,027</b> | <b>-8.2%</b> | <b>1,494</b> | <b>331.9%</b> |

Source: Company Reports, GBCM Research Estimates; closing as on 10<sup>th</sup> April 2019

**Preview on Industry Sector...**

The earnings of MSM Industrial sector companies to improve on a overall basis from low base along with reduction in operating costs and also by achieving operating excellence by select companies. On the other hand, the topline growth would be under pressure during the quarter amid demand slowdown and change in consumer spending pattern on prevailing weak macros.

We anticipate the cement, building material and contacting sector companies to report increase in earnings during Q1 from a low base. **Industry sector earnings for Q1 2019 is estimated to decline 8.2% YoY and increase 331.9% on a sequential basis mainly due to prevailing low base.**

Raysut Cement to report increase in earnings on a YoY basis due to low base. Al Anwar Ceramics to report increase in profits on efforts taken towards cost rationalization. Galfar may report profitable quarter amidst achieving operating excellence and change in order mix. Caveat to remain on pending receivables remain. Oman Flour Mills to report decline in Q1 earnings amid competitive environment and margin pressure. Oman Fisheries may report marginal profits during Q1 due to contribution from core fishing activities.

**Services Sector**

| Company                   | Closing (RO) | Current Rating | 12 M Fair Value | Net Profit (In RO 000s) |               |             | Q4 2018       | QoQ (%)      |
|---------------------------|--------------|----------------|-----------------|-------------------------|---------------|-------------|---------------|--------------|
|                           |              |                |                 | Q1 2019E                | Q1 2018       | YoY (%)     |               |              |
| OIFC                      | 0.085        | Accumulate     | 0.103           | 800                     | 931           | -14.1%      | (111)         | -820.7%      |
| Omantel                   | 0.616        | Buy            | 0.760           | 17,000                  | 15,970        | 6.4%        | 6,205         | 174.0%       |
| Ooredoo                   | 0.498        | Accumulate     | 0.580           | 8,400                   | 7,980         | 5.3%        | 15,175        | -44.6%       |
| Sembcorp Salalah          | 0.117        | Neutral        | Under Review    | 3,200                   | 3,381         | -5.3%       | 3,532         | -9.4%        |
| Phoenix Power             | 0.089        | Buy            | 0.108           | (5,300)                 | (5,504)       | -3.7%       | (5,853)       | -9.4%        |
| Al Jazeera Services       | 0.123        | Not rated      | Under Review    | 400                     | 712           | -43.8%      | (3,902)       | NM           |
| Shell Oman Marketing      | 1.075        | Accumulate     | 1.250           | 2,800                   | 2,512         | 11.5%       | 2,990         | -6.4%        |
| Renaissance Services      | 0.374        | Accumulate     | 0.405           | 1,800                   | 206           | 773.8%      | 4,365         | -58.8%       |
| National Gas              | 0.217        | Not Rated      | Under Review    | Not Estimated           |               |             |               |              |
| <b>Services Aggregate</b> |              |                |                 | <b>29,100</b>           | <b>26,852</b> | <b>8.4%</b> | <b>22,745</b> | <b>27.9%</b> |

Source: Company Reports, GBCM Research Estimates, closing on 10<sup>th</sup> April 2019

**Preview on Services Sector...**

Services Sector is estimated to report Q1 2019 revenue growth of 20.3% YoY and decline 5.3% amid improvement in performance from key sector majors. On a low base, the sector earnings is estimated to increase 8.4% YoY, while the same may increase sharply by 28% QoQ (on low base).

Renaissance is estimated to report profit of RO 1.8 million during Q1 amid increase contribution from Tengiz project and Duqm PAC. Due to the Winter season in Caspian, the company would report seasonally lower earnings for the period.

Post consolidation of operations of Zain Group (Kuwait) and Zain KSA, we estimate revenue and earnings growth of Omantel to improve from a low base. Ooredoo to report mid single digit profit growth. Shell Oman to report earnings growth on achieving operational efficiency.

Phoenix Power to report losses during the quarter due to seasonality impact. OIFC to report marginal profits during the quarter amid decline in core business contribution. With regards to National Gas, we haven't updated our earnings model and Q1 estimates (index addition since July 2018).

**Q2 2019E Outlook- Focus remain on Fiscal Discipline, Decision on Cost rationalization remain paramount...**

- ✓ 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
- ✓ **Volatile oil prices to increase fiscal deficit and debt levels, Banking sector remain stable on liquidity front**
  - 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, Raysut and Galfar*
  - *Recommend Marketweight on Services Sector. Top picks- Ooredoo, Phoenix Power, Renaissance*

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