



MSM 30 Index Cos- Q3 2019 Earnings Review

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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

October 17, 2019

MSM Cos- 9M 2019 Performance- Weak Earnings season amid margin pressure and higher provisions...

- Overall we see Q3 2019 as a weak results season with 14% of companies reporting numbers above our estimates and about 43% companies came in line with our estimates.
- The proportion of companies reported below our estimates during the quarter is about 43% during Q3 2019 predominantly among Industrial sector companies.

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

	Total Companies	% of Total
Above	7	14.3%
In Line	21	42.9%
Below	21	42.9%
Total	49	

- **The MSM companies reported relatively weak Q3 2019 earnings season.** As per the initial results, total revenue of MSM30 Index companies during 9M 2019 on a comparable basis (excluding Omantel) stood at RO 2.77 billion as against RO 2.87 billion in the same period last year, reporting a decline of 3.5% YoY. We saw the impact of macro-economic challenges reflecting in weak results.
- Total net profit of the MSM30 Index companies (excluding Omantel) during 9M 2019 is at about RO 430 million as compared to RO 432 million the previous year, revealing marginal decline of 0.4% YoY.
- Within MSM30 Index on a sectoral basis, the banking sector earnings increased by 1.4% YoY and Services sector earnings (excluding Omantel) increased 12.3% YoY during the period. **While the Industrial sector earnings revealed sharp decline of 49% YoY on the back of slowdown and the compression of operating margins.** Earnings of non- MSM Index companies are revealed negative trend during the quarter.

MSM Cos- Q3 2019 Performance- Weak Earnings season amid margin pressure and higher provisions...

Stocks to watch out post Q3 2019 results:

- **Financial Sector-** Earnings positive on Bank Muscat, Bank Nizwa, NBO, Ahli Bank, Select Insurance Companies revealed better performance
 - **Industrial Sector-** Earnings positive on Al Anwar Ceramic Tiles
 - **Services Sector-** Earnings positive on Ooredoo Oman, Sembcorp Salalah, Al Suwadi and Al Batinah Power, Shell Oman Marketing.
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- **Review of Banking sector results:** Total profits for the banking sector in Q3 2019 declined 5.8% YoY and -6.5% QoQ. We saw mixed set of numbers with Bank Nizwa, NBO and Ahli Bank revealing growth and stable asset quality. Bank Dhofar and Al Izz Islamic disappointed with increase in loan provisions for the second consecutive quarter.
 - Select Insurance sector companies (Oman United, Oman Qatar) revealed improved performance during the quarter. Investment holding companies (except Ominvest) revealed negative performance, while leasing cos earnings remained mixed amidst increase in provisioning levels.
 - **Review of Industrial sector results:** Net profit of MSM Industrial sector in Q3 2019 declined sharply by 78.5% YoY and -58.5% QoQ, this was well below our expectations. We see continued pressure on the sector earnings amid subdued demand and increase in operating costs impacting the margins. The seasonality impact (summer utility tariff being higher) and holidays season also impacted the performance.
 - Al Anwar Ceramics reported better profits for the quarter. Cement (lowest level of quarterly earnings) and Commodity (NAPCO, Al Jazeera Steel reported losses) companies disappointed. Oman Flour reported decline in earnings, while Salalah Mills reported losses during the quarter.
 - **Review of Services sector results:** Q3 2019 net profit for the services sector (excluding Omantel) grew by 4.4% YoY amidst growth coming from Utility sector companies, Shell Oman and OIFC.
 - Oman Oil and Al Maha Petroleum reported decline in profits during the quarter, while the same came in line with our estimates. Most of the Power companies reported better than estimated results. Renaissance reported stable profit from the continuing operations.

MSM30 Cos (In RO 000s)	Total Revenue			Net Profit			Comment
	9M 2019	9M 2018	YoY (%)	9M 2019	9M 2018	YoY (%)	
Financial Sector							
Subsector - Banking							
Ahli Bank	51,630	44,920	14.9%	22,790	21,660	5.2%	In Line
Bank Dhofar	98,600	98,963	-0.4%	25,921	36,485	-29.0%	Below
Bank Muscat	351,730	329,415	6.8%	141,430	134,744	5.0%	In Line
Bank Sohar	74,018	69,650	6.3%	25,059	21,940	14.2%	Below
National Bank of Oman	97,700	95,200	2.6%	38,300	38,052	0.7%	In Line
HSBC Bank Oman	66,000	64,109	2.9%	25,800	24,991	3.2%	In Line
Bank Nizwa	24,658	19,839	24.3%	7,040	4,560	54.4%	Above
Banking Sector - Aggregate	764,336	722,096	5.8%	286,340	282,432	1.4%	In Line
Inv. Holding Sector - Aggregate	227,918	207,540	9.8%	21,085	21,207	-0.6%	In Line
Subsector - Insurance/ Leasing							
Al Madina Takaful	11,550	12,624	-8.5%	911	592	53.9%	In Line
Muscat Finance	6,145	7,354	-16.4%	134	2,773	-95.2%	Below
Financial Sector - Aggregate	1,009,949	949,613	6.4%	308,470	307,004	0.5%	
Industry Sector							
Al Anwar Ceramics	15,082	14,637	3.0%	1,468	570	157.5%	In Line
Galfar Engineering	189,518	210,863	-10.1%	2,204	5,724	-61.5%	Below
Oman Cement	37,489	38,594	-2.9%	2,758	6,238	-55.8%	Below
Raysut Cement	62,126	67,889	-8.5%	1,009	1,987	-49.2%	In Line
Oman Fisheries	11,200	15,843	-29.3%	(2,733)	(506)	NM	Below
Oman Flour Mills	71,694	65,497	9.5%	4,473	7,569	-40.9%	Below
Oman Refreshment	48,908	57,449	-14.9%	6,180	8,547	-27.7%	Below
Industry Sector - Aggregate	436,016	470,771	-7.4%	15,359	30,129	-49.0%	Below
Services Sector							
Oman Investment & Finance	15,881	15,199	4.5%	2,348	764	207.3%	Below
Ooredoo	211,100	211,900	-0.4%	27,000	26,800	0.7%	In Line
Sembcorp Salalah	55,834	50,813	9.9%	11,529	9,308	23.9%	In Line
Phoenix Power	110,318	109,228	1.0%	19,612	18,773	4.5%	Above
Al Suwadi Power	64,121	63,058	1.7%	12,594	11,547	9.1%	In Line
Al Batinah Power	44,350	60,956	-27.2%	12,198	11,382	7.2%	Above
Shell Oman Marketing	389,890	397,744	-2.0%	8,359	9,065	-7.8%	Above
Renaissance Services	78,418	174,458	-55.1%	9,748	2,441	299.3%	In Line
Al Maha Petroleum	350,616	364,130	-3.7%	3,029	4,644	-34.8%	In Line
Services Sector - Aggregate (Excl. Omantel)	1,320,528	1,447,486	-8.8%	106,417	94,724	12.3%	
MSM 30 Index (Inc. Inv. Holding) – Agg. (Excl. Omantel)	2,766,492	2,867,870	-3.5%	430,245	431,858	-0.4%	

Non-MSM30 Cos (In RO 000s)	Total Revenue				Net Profit			Comment
	9M 2019	9M 2018	YoY (%)		9M 2019	9M 2018	YoY (%)	
Alizz Islamic Bank	14,536	14,099	3.1%		(1,460)	1,301	-212.2%	Below
National Gas	54,145	63,933	-15.3%		1,579	1,544	2.2%	NM
Al Jazeera Services	5,483	5,462	0.4%		1,239	(1,181)	204.8%	In Line
Al Madina Inv. Co	1,675	1,397	19.9%		(6,362)	(1,297)	NM	Below
Oman Emirates	2,551	4,655	-45.2%		(290)	1,505	-119.3%	Below
Gulf International Chemicals	1,691	1,836	-7.9%		74	117	-36.9%	Below
Oman Cables	155,727	185,295	-16.0%		4,744	5,465	-13.2%	Below
Al Jazeera Steel	78,036	91,840	-15.0%		60	2,738	-97.8%	Below
Oman United Insurance	15,830	20,273	-21.9%		1,662	3,055	-45.6%	Above
Al Maha Ceramics	5,576	6,436	-13.4%		751	952	-21.1%	In Line
Al Batinah Dev. Inv. Holding	180	547	-67.1%		(183)	527	-134.7%	Below
Global Fin. Inv. Co	9,797	12,276	-20.2%		(450)	1,128	-139.9%	Below
National Alum. Products	33,199	36,176	-8.2%		(376)	750	-150.1%	Below
DIDIHC	9,343	10,606	-11.9%		(7,543)	(34,630)	NM	Below
Al Hassan Engineering	29,818	18,688	59.6%		1,026	(3,572)	128.7%	NM
Oman Oil Marketing	437,908	466,877	-6.2%		5,207	7,935	-34.4%	In Line
Voltamp Energy	29,345	28,583	2.7%		253	7	NM	Above
Salalah Mills	37,583	38,535	-2.5%		629	2,161	-70.9%	Below
Salalah Port Services	48,158	40,877	17.8%		2,995	(1,922)	255.8%	In Line
Al Ahlia Insurance	7,639	6,793	12.4%		3,146	2,999	4.9%	In Line
Vision Insurance	2,894	3,253	-11.0%		1,241	1,471	-15.7%	In Line
Oman Qatar Ins.	2,518	2,300	9.5%		1,343	1,318	1.9%	Above
National Life Ins.	15,772	15,148	4.1%		7,358	7,275	1.1%	In Line

MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
	Q3 2019	Q3 2018	YoY (%)	Q2 2019	QoQ (%)	Q3 2019	Q3 2018	YoY (%)	Q2 2019	QoQ (%)
Financial Sector										
Subsector - Banking										
Ahli Bank	17,390	14,890	16.8%	17,120	1.6%	7,870	7,460	5.5%	7,510	4.8%
Bank Dhofar	33,061	34,735	-4.8%	31,224	5.9%	6,208	11,536	-46.2%	7,106	-12.6%
Bank Muscat	117,660	112,490	4.6%	117,749	-0.1%	47,780	45,044	6.1%	47,845	-0.1%
Bank Sohar	24,466	27,147	-9.9%	24,103	1.5%	6,475	7,958	-18.6%	8,432	-23.2%
National Bank of Oman	33,352	31,600	5.5%	32,011	4.2%	13,019	12,634	3.0%	12,824	1.5%
HSBC Bank Oman	21,139	21,351	-1.0%	22,688	-6.8%	6,567	9,622	-31.8%	11,105	-40.9%
Bank Nizwa	8,532	7,182	18.8%	8,002	6.6%	2,745	1,942	41.4%	2,179	25.9%
Banking Sector - Aggregate	255,600	249,395	2.5%	252,897	1.1%	90,664	96,196	-5.8%	97,001	-6.5%
Inv. Holding Sector - Aggregate	76,661	67,894	12.9%	75,222	1.9%	5,587	4,910	13.8%	7,027	-20.5%
Subsector - Insurance/ Leasing										
Al Madina Takaful	3,833	4,796	-20.1%	3,859	-0.7%	343	734	53.3%	252	36.2%
Muscat Finance	1,990	2,326	-14.4%	1,911	4.1%	(204)	971	-121.0%	(32)	NM
Financial Sector - Aggregate	338,084	324,411	4.2%	333,889	1.3%	96,390	102,811	-6.2%	104,248	-7.5%
Industry Sector										
Al Anwar Ceramics	4,814	4,332	11.1%	4,821	-0.1%	416	100	315.0%	429	-3.0%
Galfar Engineering	62,577	71,274	-12.2%	62,755	-0.3%	(269)	4,900	-105.5%	2,876	-109.4%
Oman Cement	11,160	13,185	-15.4%	12,013	-7.1%	455	1,485	-69.3%	776	-41.3%
Raysut Cement	20,401	25,075	-18.6%	18,716	9.0%	497	1,286	-61.3%	269	84.8%
Oman Fisheries	3,763	6,884	-45.3%	3,430	9.7%	(787)	(150)	NM	(1,163)	32.3%
Oman Flour Mills	22,657	21,008	7.8%	23,830	-4.9%	635	1,809	-64.9%	1,303	-51.3%
Oman Refreshment	14,721	21,365	-31.1%	17,929	-17.9%	1,890	3,762	-49.8%	2,344	-19.4%
Industry Sector - Aggregate	140,093	163,124	-14.1%	143,494	-2.4%	2,837	13,192	-78.5%	6,834	-58.5%
Services Sector										
Oman Investment & Finance	4,589	5,026	-8.7%	5,490	-16.4%	396	50	692.0%	930	-57.4%
Ooredoo	72,000	72,900	-1.2%	70,500	2.1%	9,200	9,200	0.0%	9,300	-1.1%
Sembcorp Salalah	18,662	16,039	16.4%	20,846	-10.5%	3,459	2,093	65.2%	4,787	-27.7%
Phoenix Power	48,122	47,699	0.9%	44,091	9.1%	12,668	12,363	2.5%	11,799	7.4%
Al Suwadi Power	26,025	25,449	2.3%	26,139	-0.4%	7,467	7,505	-0.5%	7,613	1.9%
Al Batinah Power	16,570	25,944	-36.1%	15,111	9.7%	7,425	7,172	3.5%	7,187	-3.3%
Shell Oman Marketing	136,567	141,531	-3.5%	132,763	2.9%	3,742	3,140	19.2%	2,842	31.7%
Renaissance Services	27,401	63,319	-56.7%	25,517	7.4%	1,917	2,034	-5.8%	1,693	13.2%
Al Maha Petroleum	118,016	129,880	-9.1%	120,490	-2.1%	985	1,728	-43.0%	1,064	-7.4%
Services Sector - Aggregate (Ex. Omantel)	467,952	527,787	-11.3%	460,947	1.5%	47,259	45,285	4.4%	47,215	0.1%

Non-MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
	Q3 2019	Q3 2018	YoY (%)	Q2 2019	QoQ (%)	Q3 2019	Q3 2018	YoY (%)	Q2 2019	QoQ (%)
Alizz Islamic Bank	4,865	4,948	-1.7%	4,824	0.8%	(1,932)	357	-640.8%	18	-10985.5%
Al Jazeera Services	1,937	1,908	1.5%	1,790	8.3%	355	129	174.4%	478	-25.8%
Gulf International Chemicals	521	530	-1.6%	584	-10.7%	14	(16)	-186.3%	28	-51.5%
Oman Cables	48,621	59,363	-18.1%	56,878	-14.5%	1,008	1,440	-30.0%	2,018	-50.0%
Al Jazeera Steel	23,586	28,660	-17.7%	26,703	-11.7%	(549)	115	-576.5%	312	-275.9%
Oman United Insurance	5,500	6,454	-14.8%	5,652	-2.7%	1,652	1,163	42.1%	616	-168.1%
Al Maha Ceramics	1,691	2,163	-21.8%	1,795	-5.8%	204	327	-37.6%	227	-10.2%
Global Fin. Inv. Co	176	3,028	-94.2%	5,943	-97.0%	(150)	(59)	NM	(325)	NM
National Alum. Products	10,969	12,046	-8.9%	10,834	1.2%	(401)	66	-705.0%	(35)	NM
Oman Oil Marketing	151,797	166,679	-8.9%	144,721	4.9%	2,024	3,946	-48.7%	2,053	-1.4%
Voltamp Energy	10,419	9,426	10.5%	8,874	17.4%	102	5	NM	21	394.1%
Salalah Mills	11,573	13,031	-11.2%	11,248	2.9%	(237)	582	-140.8%	(137)	73.0%
Salalah Port Services	14,879	13,243	12.4%	16,600	-10.4%	826	(2,689)	130.7%	544	51.8%
Al Ahlia Insurance	1,900	1,239	53.3%	2,559	-25.7%	325	244	33.0%	1,116	-70.9%
Vision Insurance	867	967	-10.3%	732	18.4%	237	254	-6.6%	331	-28.4%
Oman Qatar Ins.	710	779	-8.9%	1,101	-35.5%	602	513	17.3%	502	20.0%
National Life Ins.	4,929	4,790	2.9%	5,129	-3.9%	2,218	2,162	2.6%	2,436	-8.9%
Al Madina Inv. Co	31	49	NM	43	-26.5%	(1,015)	(246)	NM	(204)	-397.6%
Oman Emirates	456	1,137	-59.9%	(393)	-216.0%	(662)	45	NM	(718)	-7.8%

Overall we saw a weak set of results from non-MSM Index companies amid challenging macro and the seasonality impact across various sectors.

Omani Banks- Q3 2019 Performance- GBCM Views- Heat Map

(Source: GBCM Research, MSM)

Find below the table with the key details of Omani Banks Performance during Q3 2019 for your reference.

Omani Banks- Q3 2019	Overall View	Credit Growth	Deposit Growth	Operating Income	Net Profit	Provisioning/ Cost of Risk
Conventional Banks						
Bank Muscat	Revenue- In Line, PAT- Above	1.3% YoY, -1.2% QoQ	5.6% YoY, 2.3% QoQ	4.6% YoY, -0.1% QoQ	6.1% YoY, -0.1% QoQ	Increased
Bank Dhofar	Revenue- In Line, PAT- Below	-4.4% YoY, -0.8% QoQ	-10.4% YoY, -5.7% QoQ	-4.8% YoY, 5.9% QoQ	-46.1% YoY, -12.6% QoQ	Increased
National Bank of Oman	Revenue and PAT- In Line	5.3% YoY, -1.4% QoQ	0.7% YoY, 1.2% QoQ	5.5% YoY, 4.2% QoQ	3.1% YoY, 1.5% QoQ	Normal Levels
Sohar International Bank	Revenue- In Line, PAT- Below	11.5% YoY, 2.7% QoQ	16.2% YoY, 2.5% QoQ	-9.9% YoY, +1.5% QoQ	-18.6% YoY, -23.2% QoQ	Increased
Ahli Bank	Revenue- In Line, PAT- Above	10.2% YoY, 3.7% QoQ	3.6% YoY, 0.6% QoQ	16.8% YoY, 1.6% QoQ	5.5% YoY, 4.8% QoQ	Normal Levels
HSBC Bank Oman	Revenue- In Line, PAT- Below	2.6% YoY, 5.6% QoQ	2.4% YoY, -1.9% QoQ	-1% YoY, -6.8% QoQ	-31.8% YoY, -41% QoQ	Increased
Islamic Banks						
Bank Nizwa	Revenue and PAT- Above	19% YoY and 3% QoQ	15% YoY and 4% QoQ	18.8% YoY, 6.6% QoQ	41.3% YoY, 25.9% QoQ	Normal Levels
Alizz Islamic Bank	Revenue- In Line, PAT- Below	4.2% YoY and 0% QoQ	10.9% YoY and -1.5% QoQ	-1.7% YoY and 0.8% QoQ	Losses during Q3	Increased

Find below GBCM Recommendations among Omani Banks post Q3 2019 results

- **Top Picks among Omani Banks-** Bank Muscat, Bank Nizwa. We have Accumulate Rating on both the Banks.
- **Valuation and Dividend Themes-** National Bank of Oman, Ahli Bank. We have Accumulate Rating on both the Banks.
- **Growth stories-** Sohar International (Long Term story). We have Accumulate rating on the bank
- **Safe Bet-** HSBC Bank Oman (Most Liquid and highly capitalized Bank). We remain Neutral on the bank post recent rally
- **Stocks to Avoid-** Alizz Islamic Bank and Bank Dhofar. We remain Neutral on both the banks

Q4 2019E Outlook- Corporate earnings to remain under pressure, Market trading closer to bottomed-out valuations...

- ✓ We estimate Oman Economy to reveal growth to lower to below 1% in 2019E (in real terms)
 - Key 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 is 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
- ✓ **Oil price volatility and recent decline in oil prices to increase fiscal deficit and debt levels, Overall liquidity remain tight**
 - The recent external Government borrowing program gives cushion to systemic liquidity
 - With the decline in consumer spending, we expect lower credit demand and asset quality concerns to emerge during Q4 2019. We estimate higher level of cost of risk for certain local banks during this period
- ✓ Overall fiscal deficit could be funded by asset sale and external borrowings. The Government payments to contractors/ other private sector players to remain critical and aid in economic growth during the coming quarter.
- ✓ **We recommend to follow bottom up approach in local equities. We do expect ongoing structural developments in Oman post introduction of Foreign Inv. Promotion, Private-Public-Partnership, Bankruptcy and Privatization laws to remain favourable to attract long term investments in select sectors.**
- ✓ 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 anticipate corporate earnings to remain under pressure due to impact of macro slowdown. We expect select Banks, Industrial and Services sector companies to benefit. We remain positive on select frontline stocks which are trading at bottomed out valuations looking at medium term perspective.
- ✓ **Overall Investor sentiments and Investment climate may improve during coming months amidst measures taken towards creating favorable environment and relevant economic stimulus. Caveat to remain on increased geo-political risks in the region.**
- ✓ **MSM trades at PE of 8X on 2019E Earnings; Trading at lower end of historical trading PE Band between 8X and 12X.**
 - *Recommend Market-weight rating on Oman Banking Sector- Bank Muscat and Bank Nizwa remain as favorite stock pick.*
 - *Select opportunities seen in revival stories within Industrial sector. Top picks- Al Anwar Ceramic Tiles*
 - *Recommend Market-weight on Services Sector. Top picks- Ooredoo, Dhofar Generating Co*

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