



MSM 30 Index Cos- Q2 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

July 21, 2019



MSM Cos- Q2 2019 Performance- Financial and Services Cos Performance supported, Industrial Sector remain under pressure...

Overall a mixed results season with success rate of 61% (Above and in line with our estimates), the proportion of companies reported below our estimates is about 39% during Q2 2019

Stocks to watch out post Q2 2019 results:

- **Financial Sector-** Earnings positive on HSBC Bank Oman, Sohar International, Select Insurance Companies revealed better performance
- **Industrial Sector-** Earnings positive on Galfar
- **Services Sector-** Earnings positive on OIFC, Ooredoo Oman, Sembcorp Salalah, Al Suwadi and Al Batinah Power, Oil Marketing Sector revealed improved performance as compared to our estimates.

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

	Total Companies	% of Total
Above	15	32.6%
In Line	13	28.3%
Below	18	39.1%
Total	46	

Review of Banking sector results: Total profits for the banking sector in Q2 2019 grew 7.7% YoY and declined 1.7% QoQ. We saw mixed set of numbers with HSBC Bank Oman and Sohar International revealing strong growth and stable asset quality. Bank Dhofar and Al Izz Islamic Banks disappointed with increase in cost of risk revealing asset quality concerns. Select Insurance sector companies revealed improved performance during the quarter. On the other hand, Investment holding companies revealed negative performance on back of declined in local equities.

Review of Industrial sector results: Net profit of MSM Industrial sector in Q2 2019 declined sharply by 34.1% YoY and grew by 19.7% QoQ (on low base), this was below our expectations. We see continued pressure on the sector earnings due to lower demand and increase in operating expenses impacting the overall margins. Galfar reported better performance from local operations and also booked one off gains related to sale of Indian operations. Cement and Flour manufacturing companies disappointed with its numbers. Dhofar Cattle Feed revealed improved performance in Q2.

Review of Services sector results: Q2 2019 net profit for the services sector (excluding Omantel) grew by 7% YoY amidst OIFC coming back to profits and other key utility sector companies revealing strong performance. Shell Oman and Al Maha Petroleum reported decline in profits during the quarter. Power companies reported strong results amid peak season tariff rates. Renaissance reported lower profit from continuing operations.

MSM30 Cos (In RO 000s)	Total Revenue			Net Profit		
	H1 2019	H1 2018	YoY (%)	H1 2019	H1 2018	YoY (%)
Financial Sector						
Ahli Bank	34,240	30,030	14.0%	14,920	14,200	5.1%
Bank Dhofar	65,539	64,228	2.0%	19,713	24,949	-21.0%
Bank Muscat	234,070	216,925	7.9%	93,650	89,700	4.4%
Bank Sohar	49,552	42,503	16.6%	18,584	13,982	32.9%
National Bank of Oman	64,400	63,600	1.3%	25,300	25,400	-0.4%
HSBC Bank Oman	44,900	42,758	5.0%	19,200	15,369	24.9%
Bank Nizwa	16,126	12,657	27.4%	4,295	2,618	64.0%
Banking Sector - Aggregate	508,827	472,701	7.6%	195,662	186,218	5.1%
Inv. Holding Sector - Aggregate	151,257	139,646	8.3%	15,498	16,297	-4.9%
Al Madina Takaful	7,717	7,828	-1.4%	568	(142)	500.5%
Muscat Finance	4,155	5,028	-17.4%	338	1,802	-81.2%
Financial Sector - Aggregate	671,956	625,202	7.5%	212,066	204,175	3.9%
Industry Sector						
Al Anwar Ceramics	10,268	10,305	-0.4%	1,052	470	124.0%
Galfar Engineering	126,940	139,589	-9.1%	2,428	3,016	-19.5%
Oman Cement	26,329	25,410	3.6%	2,303	4,753	-51.6%
Raysut Cement	41,724	43,941	-5.0%	512	702	-27.1%
Oman Fisheries	7,512	8,878	-15.4%	(1,928)	(285)	-575.2%
Oman Flour Mills	49,037	44,489	10.2%	3,838	5,760	-33.4%
Oman Refreshment	34,186	36,083	-5.3%	4,290	4,785	-10.3%
Industry Sector - Aggregate	295,996	308,695	-4.1%	12,495	19,200	-34.9%
Services Sector						
Oman Investment & Finance	11,292	10,173	11.0%	1,952	714	173.4%
Ooredoo	139,100	139,000	0.1%	17,800	17,600	1.1%
Sembcorp Salalah	37,171	34,773	6.9%	8,070	7,215	11.9%
Phoenix Power	62,196	61,529	1.1%	6,944	6,410	8.3%
Al Suwadi Power	38,096	37,609	1.3%	5,127	4,042	26.8%
Al Batinah Power	27,780	35,012	-20.7%	4,773	4,210	13.4%
Shell Oman Marketing	253,323	256,213	-1.1%	4,617	5,925	-22.1%
Renaissance Services	121,355	111,139	9.2%	7,799	407	NM
Al Maha Petroleum	232,600	234,250	-0.7%	2,044	2,916	-29.9%

Non-MSM30 Cos (In RO 000s)	Total Revenue				Net Profit		
	H1 2019	H1 2018	YoY (%)		H1 2019	H1 2018	YoY (%)
Alizz Islamic Bank	9,671	9,151	5.7%		471	944	-50.1%
Al Jazeera Services	3,546	3,554	-0.2%		884	(1,311)	167.4%
Gulf International Chemicals	1,170	1,306	-10.4%		60	133	-54.8%
Oman Cables	107,106	125,932	-14.9%		3,736	4,025	-7.2%
Al Jazeera Steel	54,450	63,180	-13.8%		609	2,622	-76.8%
Oman United Insurance	10,129	13,819	-26.7%		10	1,893	-99.5%
Al Maha Ceramics	3,885	4,273	-9.1%		548	625	-12.4%
Al Batinah Dev. Inv. Holding	129	543	-76.2%		(183)	383	-147.8%
Global Fin. Inv. Co	9,622	9,248	4.0%		(300)	1,187	-125.3%
National Alum. Products	22,230	24,130	-7.9%		25	684	-96.3%
Oman Oil Marketing	286,111	300,198	-4.7%		3,183	3,989	-20.2%
Voltamp Energy	18,925	19,157	-1.2%		151	3	NM
Salalah Mills	26,010	25,504	2.0%		867	1,579	-45.1%
Salalah Port Services	33,279	27,634	20.4%		2,169	767	182.8%
National Gas	39,776	42,107	-5.5%		741	1,159	-36.0%
Al Madina Inv. Co	1,644	1,349	21.9%		(5,347)	(1,051)	-408.7%
Oman Emirates	2,095	3,518	-40.4%		372	1,460	-74.5%
Al Ahlia Insurance	5,580	5,554	0.5%		2,821	2,755	2.4%
Vision Insurance	2,027	2,286	-11.3%		1,004	1,217	-17.5%
Oman Qatar Ins.	1,807	1,520	18.9%		741	805	-7.9%
National Life Ins.	10,843	10,358	4.7%		5,140	5,113	0.5%
Arabia Falcon Ins.	1,509	1,042	44.9%		555	312	77.7%

MSM30 Cos (In RO 000s)	Total Revenue					Net Profit				
	Q2 2019	Q2 2018	YoY (%)	Q1 2019	QoQ (%)	Q2 2019	Q2 2018	YoY (%)	Q1 2019	QoQ (%)
Financial Sector										
Subsector - Banking										
Ahli Bank	17,120	15,100	13.4%	17,120	0.0%	7,510	7,100	5.8%	7,410	1.3%
Bank Dhofar	31,224	31,166	0.2%	34,315	-9.0%	7,106	11,357	-37.4%	12,607	-43.6%
Bank Muscat	117,749	109,730	7.3%	116,321	1.2%	47,845	44,890	6.6%	45,805	4.5%
Bank Sohar	24,103	20,695	16.5%	25,449	-5.3%	8,432	5,078	66.0%	10,152	-16.9%
National Bank of Oman	32,063	31,500	1.8%	32,337	-0.8%	12,843	12,800	0.3%	12,457	3.1%
HSBC Bank Oman	22,727	21,931	3.6%	22,173	2.5%	11,072	7,264	52.4%	8,128	36.2%
Bank Nizwa	8,002	6,623	20.8%	8,124	-1.5%	2,179	1,576	38.3%	2,116	3.0%
Banking Sector - Aggregate	252,988	236,745	6.9%	255,839	-1.1%	96,987	90,065	7.7%	98,675	-1.7%
Inv. Holding Sector - Aggregate	75,222	69,274	8.6%	76,035	-1.1%	7,027	6,493	8.2%	8,470	-17.0%
Subsector - Insurance/ Leasing										
Al Madina Takaful	3,859	3,483	10.8%	3,858	0.0%	252	(435)	157.9%	317	-20.6%
Muscat Finance	1,911	2,472	-22.7%	2,244	-14.8%	(32)	875	-103.7%	370	-108.6%
Financial Sector - Aggregate	333,980	311,974	7.1%	337,976	-1.2%	104,234	96,999	7.5%	107,832	-3.3%
Industry Sector										
Al Anwar Ceramics	4,821	4,862	-0.8%	5,447	-11.5%	429	101	323.7%	623	-31.2%
Galfar Engineering	62,754	69,389	-9.6%	64,186	-2.2%	2,831	3,465	-18.3%	-403	802.5%
Oman Cement	12,013	11,624	3.3%	14,316	-16.1%	776	1,513	-48.7%	1,526	-49.1%
Raysut Cement	18,716	22,979	-18.6%	23,008	-18.7%	269	252	6.9%	243	10.7%
Oman Fisheries	3,504	3,419	2.5%	4,007	-12.6%	(1,145)	(351)	-226.5%	-783	-46.3%
Oman Flour Mills	23,830	22,234	7.2%	25,207	-5.5%	1,303	2,413	-46.0%	2,535	-48.6%
Oman Refreshment	17,929	19,441	-7.8%	16,257	10.3%	2,344	2,941	-20.3%	1,946	20.5%
Industry Sector - Aggregate	143,567	153,947	-6.7%	152,429	-5.80%	6,807	10,334	-34.1%	5,688	19.7%
Services Sector										
Oman Investment & Finance	5,490	4,688	17.1%	5,802	-5.4%	930	(219)	524.7%	1,022	-9.0%
Ooredoo	70,500	71,033	-0.8%	68,600	2.8%	9,300	9,620	-3.3%	8,500	9.4%
Sembcorp Salalah	20,846	18,466	12.9%	16,325	27.7%	4,787	3,834	24.8%	3,283	45.8%
Phoenix Power	44,091	45,520	-3.1%	18,105	143.5%	11,799	11,914	-1.0%	-4,855	143.0%
Al Suwadi Power	26,139	25,482	2.6%	11,957	118.6%	7,613	6,663	14.3%	-2,486	406.2%
Al Batinah Power	15,111	24,955	-39.4%	12,669	19.3%	7,187	6,893	4.3%	-2,414	397.7%
Shell Oman Marketing	132,763	132,705	0.0%	120,560	10.1%	2,842	3,413	-16.7%	1,775	60.1%
Renaissance Services	51,054	59,538	-14.2%	70,301	-27.4%	1,661	201	NM	6,138	-72.9%
Al Maha Petroleum	120,490	122,013	-1.2%	112,110	7.5%	1,064	1,759	-39.5%	980	8.6%

Non-MSM30 Cos (In RO 000s)	Q2 2019	Q2 2018	YoY (%)	Q1 2019	QoQ (%)	Q2 2019	Q2 2018	YoY (%)	Q1 2019	QoQ (%)
Alizz Islamic Bank	4,824	4,897	-1.5%	4,846	-0.5%	18	635	-97.2%	453	-96.1%
Al Jazeera Services	1,790	1,776	0.8%	1,756	1.9%	478	(2,023)	123.6%	406	17.8%
Gulf International Chemicals	584	627	-6.9%	586	-0.5%	28	36	-21.9%	32	-10.8%
Oman Cables	56,878	61,524	-7.6%	50,228	13.2%	2,018	1,935	4.3%	1,718	17.5%
Al Jazeera Steel	26,703	32,193	-17.1%	27,747	-3.8%	312	1,155	-73.0%	297	5.1%
Oman United Insurance	6,000	6,941	-13.6%	4,129	45.3%	616	188	227.4%	(606)	201.7%
Al Maha Ceramics	1,795	2,290	-21.6%	2,090	-14.1%	227	322	-29.6%	321	-29.2%
Al Batinah Dev. Inv. Holding	(202)	488	-141.4%	331	-161.0%	(353)	165	-313.3%	170	-307.9%
Global Fin. Inv. Co	5,943	4,409	34.8%	3,679	61.5%	(325)	519	-162.6%	25	-1402.7%
National Alum. Products	10,834	12,384	-12.5%	11,396	-4.9%	(35)	342	-110.2%	60	-158.3%
Oman Oil Marketing	144,721	154,328	-6.2%	141,390	2.4%	2,053	2,176	-5.7%	1,130	81.7%
Voltamp Energy	8,874	9,625	-7.8%	10,052	-11.7%	21	153	-86.5%	130	-84.0%
Salalah Mills	11,248	12,045	-6.6%	14,762	-23.8%	(137)	626	-121.9%	1,004	-113.7%
Salalah Port Services	16,600	12,205	36.0%	16,679	-0.5%	544	(972)	156.0%	1,625	-66.5%
Al Ahlia Insurance	2,400	2,432	-1.3%	3,180	-24.5%	1,116	1,087	2.7%	1,705	-34.5%
Vision Insurance	732	895	-18.2%	1,295	-43.4%	331	362	-8.5%	673	-50.8%
Oman Qatar Ins.	1,101	852	29.2%	706	55.8%	502	431	16.3%	240	109.1%
National Life Ins.	5,129	4,670	9.8%	5,714	-10.2%	2,436	2,107	15.6%	2,704	-9.9%
Al Madina Inv. Co	43	51	-16.5%	1,601	-97.3%	(204)	(251)	18.8%	(5,143)	96.0%
Oman Emirates	(393)	971	-140.5%	2,488	-115.8%	(718)	256	-380.5%	1,090	-165.9%

Overall a mixed set of results from non-MSM Index companies. We saw relatively improved performance from Insurance companies on YoY basis.

Q3 2019E Outlook- Earnings to reveal decline, Economic stimulus measures to support...

- ✓ We estimate Oman Economy to reveal growth to lower to about 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 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 lower level of oil prices to increase fiscal deficit and debt levels, Overall liquidity remain tight**
 - Banking system liquidity remained relatively tight. The upcoming external Government borrowing program to remain critical
 - With the reduction in consumer spending, we anticipate decline in credit off-take and asset quality concerns to emerge during H2 2019. We estimate higher level of cost of risk for certain local banks during this period, this is already reflected in Q2 results
- ✓ Fiscal deficit would be funded by asset sale and external borrowings. The Government payments to contractors/ other private sector players to remain critical and improvement of this would kick-start next cycle of economic growth.
- ✓ **We recommend to adopt bottom up approach in local equities.** We do anticipate the ongoing positive structural developments in Oman post the introduction of Foreign Inv. Promotion, Private-Public-Partnership, Bankruptcy and Privatization laws to remain conducive to attract foreign 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 expect corporate earnings to decline due to impact of economic slowdown during 2019. We expect select Banks, Industrial and Services sector companies to benefit. Most of the frontline stocks are trading at attractive / bottomed valuations looking at medium term perspective.
- ✓ **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 7.8X on 2019E Earnings; Trading below historical trading PE Band of 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 revival stories within Industrial sector. Top picks- Salalah Mills, Raysut and Galfar*
 - *Recommend Marketweight on Services Sector. Top picks- OIFC, Ooredoo, Sembcorp Salalah, Dhofar Generating Co*

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