

MSM Recommendations



MSM- TOP 10 RECOMMENDATIONS- (June 2020)

STOCKS	Closing**	Market Cap (RO 000s)	Rating	2019			2020E		
				PE (x)	PBV (x)	Div. Yield (%)	PE (x)	PBV (x)	Div. Yield (%)
Financial Sector									
Bank Muscat	0.350	1,137,332	Buy- LT	6.1	0.58	10.0%	7.6	0.57	6.6%
Bank Nizwa	0.095	142,500	Accumulate-LT	14.0	0.96	0.0%	15.8	0.90	3.8%
Industry Sector									
Oman Flour Mills	0.800	126,000	Accumulate-LT	20.0	1.65	6.3%	10.5	1.56	6.9%
Al Anwar Ceramic Tiles	0.137	40,581	Accumulate-LT	20.3	1.08	4.4%	16.2	1.06	5.5%
Salalah Mills	0.548	27,380	Buy-LT	17.1	0.86	3.6%	10.5	0.82	6.4%
Services Sector									
Oman Telecommunication	0.640	480,000	Accumulate-LT	6.2	0.85	8.6%	7.0	0.81	7.8%
Ooredoo	0.408	265,584	Accumulate- LT	7.8	1.01	9.8%	10.6	1.02	8.0%
Sembcorp Salalah	0.109	104,048	Accumulate-LT	6.9	0.95	8.7%	6.9	0.90	8.7%
Musandam Power Co	0.280	19,709	Accumulate-LT	7.6	2.06	9.9%	7.8	1.94	9.9%
Under prevailing market conditions, we have selected stocks with focus on capital preservation, sector leaders and maintained cash position at 10% levels									

Source: GBCM Research Estimates, * LT- Long Term, ** Closing price as at end of 31 May 2020, ** Based on our revised 2020 earnings

MSM- TOP 10 RECOMMENDATIONS- (June 2020)

STOCKS	Comments
Financial Sector	
Bank Muscat	Bank Muscat with its strong capital adequacy and higher liquidity levels to remain resilient in current times. Post weak Q1 numbers, we anticipate higher level of provisions due to Covid-19 and low oil prices during the coming quarters. The recent CBO relaxation and stimulus package to support local banks. We continued to remain invested on the bank post recent correction. Key triggers to come from improvement in oil prices over the near term.
Bank Nizwa	Q1 results of the bank remain resilient, while the earnings to remain under pressure during coming quarters. The economic slowdown may well impact its budgeted growth in revenue and earnings in 2020; We like the bank due to its relative conservative growth strategy along with better asset quality till date. We prefer this stock within Islamic Banks and continue to maintain in our model portfolio.
Industry Sector	
Oman Flour Mills	Recent strong Q1 results amid improvement in operating margins led to increased investor interest. Despite the recent rally, we retain the stock in our portfolio due to its defensive and low beta food sector exposure in Oman. The core business contribution to remain stable and the emphasis on operational efficiency to improve earnings in 2020. Dividend yield remain strong. Caveat to remain on expat exodus and decline in consumption among hospitality industry due to lockdown
Al Anwar Ceramics	The implementation of GCC anti-dumping duty by June 2020 and Saudi- SASO Quality Certification to remain positive. We maintain our medium-term positive view on the stock due to favorable fundamentals. The company remain unleveraged along with higher free cash flow yield. Caveat to remain on economic slowdown and lower level of capex from Government projects due to fiscal constraints in 2020.
Salalah Mills	Post reasonable Q1 results, we have included this defensive stock in our portfolio. During the previous quarter, the company has reported growth in all its key businesses. Local flour sales increased, Macaroni sales gained 4% and the poly propylene bags segment grew 64% YoY post expansion. The company has planned to expand its feed production which is expected to commence during Q4 2020. We prefer to remain defensive in our portfolio and hence added this stock.
Services Sector	
Oman Telecommunication	The presence of diversified markets to benefit the group company. We remain overweight on the low beta telecom sector company. The loan restructuring in 2019 provides cushion in cash flow for stable dividend yield. Amid macro challenges, we may see performance of telecom players to remain under pressure. We expect the anticipated expat exodus, lower ARPUs, free calls and incremental capex and higher leverage to impact the performance. Q1 results of Omantel has been delayed due to Zain Group consolidation.
Ooredoo	Q1 results came below our estimates amid lower revenue and higher depreciation and amortization charges. The company is well positioned to face impending competition. The current macro-crisis may delay the process of launch of Third Mobile operations which could benefit the company. Caveat to remain on overall weak macro environment. We like the underleveraged Balance Sheet and stable Dividend Yield offered by the stock post correction
Sembcorp Salalah	Q1 results remain strong on the back of higher other income due to insurance claim settlement. The news on OPWP payment delays and the reversal of the same led to volatility in the stock during last month. We still like the stock among other utility sector companies which provides dividend yield of about 8.7%, No Cash Sweep in financing term, Stable Cash flow during PPA (till 2027).
Musandam Power Co	MPC has a well-established contractual framework for a 15-year period, providing steady cash flow stream. MPC offers an opportunity to invest in a Strategic Power asset with Government entity being one of the promoter shareholders. The annual dividend yield works out to be 9.9% levels. OPWP commitment to continue payment of capacity charges to provide comfort to shareholders

Performance Indicators	2-Apr-19**	31-Dec-19	Jan-20	Feb-20	Mar-20	April-20	May-20	% Change (from Inception)	Month to Date (MTD %)	Year to Date-2020 (% Chg)
GBCM- MSM Top 10 Stocks	100.0	130.4	142.2	143.0	122.2	124.4	125.8	25.8%	1.1%	-3.5%
MSM30 Index	3,939.5	3,981.2	4,079.3	4,130.9	3,448.3	3,539.5	3,544.6	-10.0%	0.1%	-11.0%
Portfolio Outperformance								35.8%	0.9%	7.5%

Source: GBCM Research Estimates, ** Model Portfolio Inception Date



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

| **Equity Research** - (+968) 2235 0727 / 0728 |

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Additional Disclaimer- Due to the prevailing uncertainties pertaining to Covid-19 and its impact to local and regional economies, the earnings may reveal higher level of volatility during the coming quarters. We do also estimate the elevated level of market volatility during this period in MSM. The clients are advised to consider these increased volatilities before taking their investment decisions.