

# MSM Recommendations



## MSM- TOP 10 RECOMMENDATIONS- (Mar 2020)

STOCKS	Closing**	Market Cap (RO 000s)	Rating	12M Target (RO)	Upside (%)	2019			2020E		
						PE (x)	PBV (x)	Div. Yield (%)	PE (x)	PBV (x)	Div. Yield (%)
<b>Financial Sector</b>											
Bank Muscat	0.450	1,392,651	Accumulate	0.496	10.2%	7.5	0.74	7.8%	7.2	0.71	7.8%
Bank Nizwa	0.102	153,000	Accumulate	0.112	9.8%	15.0	1.04	0.0%	11.8	0.95	4.9%
National Bank of Oman	0.200	325,190	Accumulate	0.228	14.0%	6.3	0.73	8.4%	6.3	0.69	8.4%
Al Omaniya Financial	0.113	32,988	Accumulate	0.128	13.3%	9.7	0.49	9.3%	9.2	0.49	9.3%
<b>Industry Sector</b>											
Oman Cables	0.582	52,205	Accumulate-LT	0.702	20.6%	7.5	0.52	6.0%	6.1	0.49	7.7%
Oman Flour Mills	0.580	91,350	Accumulate-LT	0.700	20.7%	13.5	1.19	8.6%	11.4	1.19	8.6%
Raysut Cement	0.522	104,400	Accumulate-LT	0.574	10.0%	46.2	0.72	2.4%	13.1	0.69	4.8%
<b>Services Sector</b>											
Omantel	0.672	504,000	Accumulate	0.743	10.6%	6.5	0.89	8.2%	6.7	0.84	8.2%
Oman Inv. & Finance	0.120	24,000	Accumulate	0.140	16.7%	6.6	0.78	6.7%	6.7	0.73	8.3%
Sembcorp Salalah	0.130	124,094	Accumulate-LT	0.146	12.3%	8.3	1.13	7.5%	8.6	1.09	7.7%

Source: GBCM Research Estimates, \* LT- Long Term, \*\* Closing price as at end of 29 Feb 2020

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STOCKS	Comments
<b>Financial Sector</b>	
Bank Muscat	Bank Muscat remain as proxy to local economy. The bank has estimated to reveal stable performance. <b>Strong capital adequacy and higher liquidity levels to support challenging macros.</b> Despite asset quality concerns, we remain positive on the bank amid conservative growth and better liquidity/ funding profile. <b>Higher dividends to support</b>
Bank Nizwa	Stable revenue and higher earnings growth estimated in 2020; Lower operating expenses and cost of risk to improve profitability; <b>Preferred stock among Omani Islamic Banks.</b> The bank is expected to offer its maiden dividend from its 2020 earnings
National Bank of Oman	The bank is estimated to reveal stable performance during 2020 amid conservative strategy. <b>The bank trades at above 30% discount to book value and offers highest dividend yield among local banks.</b> Concern to remain on macro challenges, tight liquidity and relatively weak asset quality.
Al Omaniya Financial	<b>We see value in the stock which trades at PBV of 0.5X and offers dividend yield of above 9% levels.</b> The company to follow cautious lending approach and maintain higher liquidity, thereby ensuring asset quality. Key concern remain on prevailing economic weakness and its impact on leasing sector.
<b>Industry Sector</b>	
Oman Cables	The stock trades at 50% discount to its current book value and offers value to the shareholders. Post reasonable Q4 results, we do see long term attractiveness in the stock. <b>Positives seen from the strategic shareholder (Prysmian), cost optimization measures and balance sheet strength (cash rich and under leveraged).</b> Caveat to remain on weak macro environment.
Oman Flour Mills	Provide exposure to low beta food sector in Oman, core business contribution and emphasis on operational efficiency to improve earnings in 2020. Expansion benefits of Flour and Bakery units to be seen. <b>Dividend yield remain attractive post price correction.</b>
Raysut Cement	Strategic Plan towards expansion to benefit in 2020, revived plan in export market growth through investments across the supply chain. <b>Valuations- trading well below Net Replacement Value,</b> the earnings to improve in 2020 amid cost control measures (alternate fuels). Concern remain on subdued market volumes and weak realization in Oman
<b>Services Sector</b>	
Omantel	Reported reasonable earnings in 2019 amidst contribution from Zain Group, <b>we maintain our accumulate rating on the stock.</b> The recent loan restructuring provides cushion in cash flow for stable dividend yield of circa 8%. We believe the earnings to reveal steady growth in 2020. We expect the prevailing higher dividends and attractive valuations to remain supportive.
Oman Inv and Finance	Operational turnaround may continue in 2020, Increase in contribution from Sohar International Bank and lower operating costs to remain positive; Positive on recent contract with Omantel. <b>We see value in the stock around current levels amid earnings revival from its subsidiaries and associates.</b> Caveat remain on higher level of borrowings.
Sembcorp Salalah	<b>The stock acts as a safe bet among utility sector companies providing dividend yield of 7.7%,</b> No Cash Sweep in financing term, Stable Cash flow during PPA (till 2027). As per MDA, the company is exploring providing DSRA LC instead of fully funded Debt Service Reserve Account (DSRA).

Performance Indicators	2-Apr-2019**	31-Dec-19	Jan-20	Feb-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	43.0%	0.5%	9.7%
MSM30 Index	3,939.5	3,981.2	4,079.3	4,130.9	4.9%	1.3%	3.8%
Portfolio Outperformance					38.1%	-0.7%	5.9%

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



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