

MSM Recommendations



MSM- TOP 10 RECOMMENDATIONS- (May 2020)

2019

2020E

STOCKS	Closing**	Market Cap (RO 000s)	Rating	PE (x)	PBV (x)	Div. Yield (%)	PE (x)	PBV (x)	Div. Yield (%)
Financial Sector									
Bank Muscat	0.324	1,052,844	Buy- LT	5.7	0.53	10.8%	7.0	0.52	7.1%
Bank Nizwa	0.091	136,500	Buy- LT	13.4	0.92	0.0%	17.1	0.87	3.5%
Industry Sector									
Oman Flour Mills	0.656	103,320	Accumulate	16.4	1.35	7.6%	9.4	1.30	8.4%
Al Anwar Ceramic Tiles	0.144	42,655	Accumulate	21.3	1.13	4.2%	17.1	1.11	5.3%
Services Sector									
Oman Telecommunication	0.640	480,000	Accumulate	6.2	0.85	8.6%	6.7	0.81	7.0%
Ooredoo	0.418	272,093	Buy-LT	8.0	1.04	9.6%	10.9	1.04	7.4%
Sembcorp Salalah	0.125	119,321	Accumulate-LT	8.0	1.09	7.8%	8.0	3.82	7.8%
Musandam Power Co	0.290	20,413	Accumulate-LT	7.8	2.13	9.5%	8.1	2.01	9.5%

With prevailing uncertain market conditions, we have selected stocks with focus on capital preservation, sector leaders and maintained Cash Position at 20% levels

Source: GBCM Research Estimates, * LT- Long Term, ** Closing price as at end of 30 April 2020, ** We are in the process of revisiting our 2020 earnings and target price of all companies post clarity during coming weeks.

MSM- TOP 10 RECOMMENDATIONS- (May 2020)

STOCKS	Comments
Financial Sector	
Bank Muscat	Bank Muscat reported lower earnings during Q1 2020 amid precautionary provisions due to Covid-19 and low oil prices. We expect the earnings to remain under pressure in 2020 on back of expected lower revenue and higher provisions. The recent CBO relaxation and stimulus package to support the local banks. Bank Muscat with its strong capital adequacy and higher liquidity levels to remain resilient. We continued to remain invested on the bank post recent correction despite weak macro environment
Bank Nizwa	Q1 2020 results of the bank remain relatively resilient as compared to other banks. We still prefer this stock within Islamic Banks, the recent correction provides support to valuations. The economic slowdown may well impact its budgeted growth in revenue and earnings in 2020; The provisioning levels may increase during the year due to macro-economic weakness along with the bank disclosed exposure in NMC healthcare Group which may need to provided.
Industry Sector	
Oman Flour Mills	The company has reported strong Q1 results amid improvement in operating margins. Despite the recent rally, we remain positive on the stock which provide exposure to low beta food sector in Oman. The core business contribution to increase 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 extended lockdown in Q2 2020.
Al Anwar Ceramics	The implementation of final GCC anti-dumping duties by June 2020 and the current Saudi- SASO Quality Certification to remain positive. Despite the recent outperformance of the stock, we still remain positive on the long term fundamentals. Key strengths remain strong balance sheet, higher free cash flow generating ability along with implementation of several cost optimization measures. Caveat to remain on economic slowdown and lower level of capex from Government due to fiscal constraints in 2020.
Services Sector	
Oman Telecommunication	The presence of diversified markets to benefit the group company. We remain positive on the low beta telecom sector leader. The loan restructuring in 2019 provides cushion in cash flow for stable dividend yield. Despite macro challenges, we believe in the performance of to remain relatively resilient. On the other hand, the anticipated expat exit, lower ARPUs, free calls and incremental capex and higher leverage to impact the performance. Q1 results may be delayed due to Zain consolidation.
Ooredoo	Q1 results of the company came well below our estimates amid lower revenue and higher depreciation and amortization charges. While, we still remain positive on the underleveraged Balance Sheet and stable Dividend Yield offered. The company is well positioned to face competition. The current macro-crisis may delay the process of launch of Third Mobile operations which may benefit the company. Caveat to remain on overall weak macro environment and lower level of discretionary spending
Sembcorp Salalah	Q1 results remain strong on the back of higher other income due to insurance claim settlement. The stock acts as a safe bet among utility sector companies providing dividend yield of about 8%, No Cash Sweep during its financing term, Stable Cash flow during PPA (till 2027). The company is exploring providing DSRA LC instead of fully funded Debt Service Reserve Account (DSRA)
Musandam Power Co	MPC has a well-established contractual framework for a 15-year period, providing steady cash flow stream. We believe the equity risk reward in MPC is compensated post correction. The company 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 9.5% levels.

Performance Indicators	2-Apr-19**	31-Dec-19	Jan-20	Feb-20	Mar-20	April-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	24.4%	1.8%	-4.6%
MSM30 Index	3,939.5	3,981.2	4,079.3	4,130.9	3,448.3	3,539.5	-10.2%	2.6%	-11.1%
Portfolio Outperformance							34.6%	-0.8%	6.5%

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



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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.