

Oman Earnings Estimates - 3Q18

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Earning Estimates 3Q18e

Company Name	Current Market Price (OMR)	YTD Chg. (%)	Market Cap (OMR mn)	Net Profit (OMR mn)	YoY %	QoQ %	Revenue (OMR mn)	YoY %	QoQ %	P/E 2018e (x)	P/Bv 2018e (x)	Cash Div. Yld (%)
Banking												
Bank Muscat	0.422	12.5%	1,243.8	46.38	0.9%	3.3%	109.45	2.3%	-0.3%	6.97	0.69	7.4%
National Bank of Oman	0.184	-3.4%	299.2	13.00	53.5%	1.4%	32.45	-1.3%	3.2%	7.08	0.72	8.2%
Bank Dhofar	0.159	-22.6%	387.7	12.46	3.0%	9.7%	32.71	2.5%	1.3%	7.67	0.77	7.0%
Bank Sohar	0.127	-8.1%	251.8	7.27	-2.0%	43.1%	22.00	14.0%	6.3%	8.80	0.81	3.5%
Ahli Bank	0.158	-4.1%	236.4	7.38	0.7%	3.2%	15.54	9.4%	4.0%	8.15	0.88	6.0%
HSBC Oman	0.118	-7.8%	236.0	6.69	23.0%	-7.9%	21.33	9.2%	-2.7%	9.53	0.71	4.9%
Bank Nizwa	0.088	-2.2%	132.0	1.80	78.4%	14.0%	6.82	17.7%	3.0%	19.13	0.95	-
Alizz Islamic Bank	0.090	36.4%	90.0	0.79	n/m	25.1%	5.18	57.3%	5.8%	37.21	1.12	-
Leasing												
Al Omaniya Fin Services	0.276	0.0%	78.8	1.02	16.2%	1.5%	3.00	-14.3%	3.4%	15.16	1.20	6.5%
National Finance *	0.131	-4.1%	66.0	3.30	228.1%	1.8%	6.83	121.9%	-1.9%	4.93	0.93	-
Muscat Finance	0.089	-15.0%	26.7	1.21	11.5%	6.3%	2.53	13.6%	3.2%	7.96	0.65	11.4%
Taageer Finance	0.098	-17.6%	24.9	0.85	-23.3%	131.0%	2.46	-2.6%	-1.9%	10.71	0.66	10.2%
United Finance	0.092	-36.6%	32.1	0.12	-62.1%	n/m	1.88	-7.5%	-0.3%	23.19	0.73	-
Cement												
Oman Cement Ltd	0.340	-17.1%	112.5	1.61	-38.8%	6.4%	11.11	-20.3%	-4.4%	9.69	0.69	8.8%
Raysut Cement Ltd	0.410	-47.4%	82.0	1.08	-48.9%	328.1%	20.29	17.2%	-7.2%	11.82	0.54	7.1%
Insurance												
Al Ahlia Insurance	0.350	6.06%	35.0	0.98	199.3%	-10.0%	8.02	53.9%	2.0%	8.33	0.87	8.0%
Vision Insurance	0.144	-2.70%	14.4	0.38	12.3%	5.8%	6.37	10.3%	4.0%	6.26	0.96	9.7%
Oman Qatar Insurance	0.115	-22.30%	11.5	0.46	-22.6%	6.5%	10.50	71.2%	-4.0%	6.39	0.74	11.3%
National Life Insurance	0.338	9.0%	89.6	2.39	NA	1.4%	34.00	NA	3.3%	9.53	1.64	4.5%
Telecom												
Omantel	0.836	-30.6%	627.0	23.27	-4.0%	5.6%	660.22	374.9%	48.6%	7.47	1.08	6.0%
Ooredoo Oman	0.538	2.3%	350.2	8.39	-10.9%	-12.8%	67.34	-2.8%	-5.3%	10.61	1.43	7.8%
Others												
Muscat City Desalination	0.132	13.8%	20.5	0.35	NA	10.1%	4.10	NA	1.2%	17.18	1.14	7.1%
Voltamp Energy	0.287	-41.5%	23.4	0.26	-44.7%	66.6%	9.87	-3.4%	2.5%	19.95	1.01	3.5%
Oman Cables	1.025	-9.7%	91.9	1.88	47.9%	-2.7%	53.26	-1.4%	-13.4%	11.81	0.92	4.4%
Al Jazeera Steel	0.280	0.0%	35.0	1.27	92.0%	10.4%	29.57	26.7%	-8.2%	5.96	0.76	7.9%
National Aluminium Products	0.382	129%	12.82	0.30	n/m	-12%	11.262	37.3%	-8.7%	10.69	1.28	-

Source: Bloomberg & U Capital, Price as of 04-Oct-18

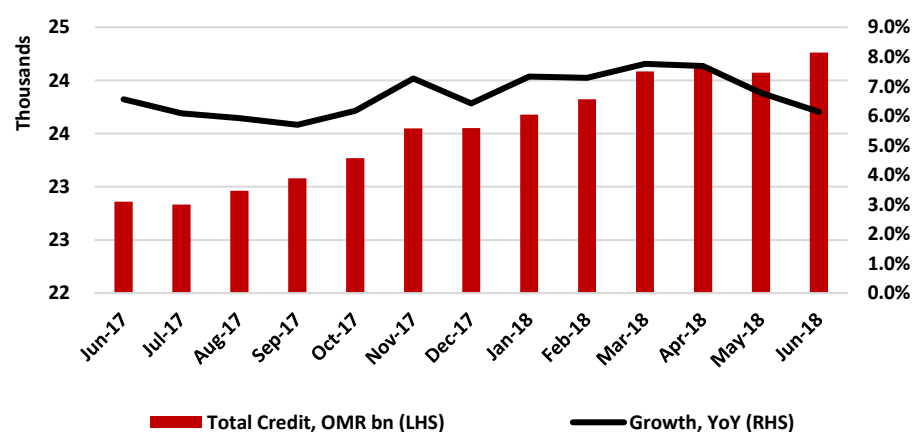
* For P/bv calculation, tangible book value has been used

n/m = not meaningful and NA = not available

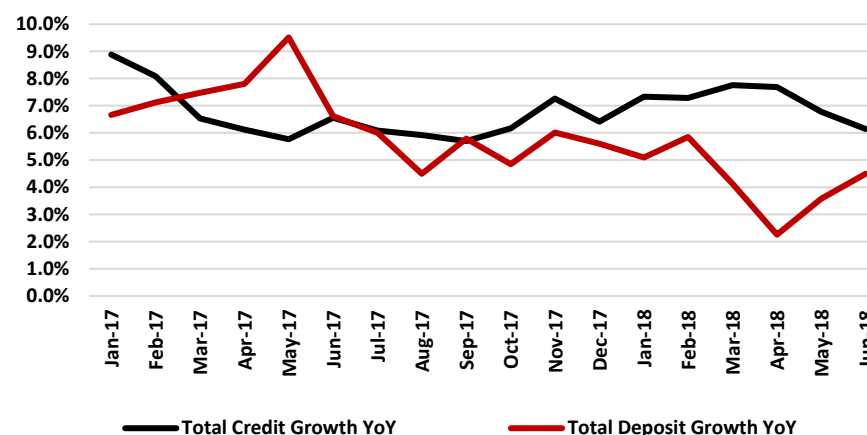
Oman Banking Sector Outlook

- Despite a subdued macroeconomic environment, the Omani banking sector remains resilient and financially sound. Central Bank of Oman (CBO), took several regulatory and supervisory initiatives in the recent period to bring about greater financial inclusion, strengthen risk-based supervision, ensure adequate liquidity and fine-tune regulatory norms to strengthen banks' ability to extend credit to the needy sectors. Credit and deposit growth rates of conventional banks have begun to show signs of recovery and are both higher in June 2018 than at the end of 2017.
- We expect credit growth levels to improve at the end of the forecast period on anticipation of improvements in macroeconomic situation as various Government-led diversification efforts like Tanfeedh program bear fruition in addition to improvement in hydrocarbon revenues (Khazzan Gas field capacity utilization), assuming oil prices remain at the current levels.
- World Bank forecasts for Oman's GDP growth indicate a 3.4% expansion for 2018, with an average growth of 2.4% over the period 2018-22 which we believe will translate into a credit growth of ~5% in 2018 with an average growth of 6% over 2019-2022e. We believe that if oil prices sustain at current levels, then Oman's finances will improve resulting in a favorable macroeconomic outlook.
- Our positioning stance remains unchanged, with preference given to banks that have sound capital management policies, have raised Tier 1 & 2 Capital over the last couple of years in order to lock in lower rates, better credit supervision and stronger liquidity profiles. Additionally, we believe that in spite of our very modest assumptions, some banks are showing a large upside potential on their current prices as they have de-rated significantly over the past few months.

Omani Banking Sector: Total Credit



Total Credit & Deposit Growth

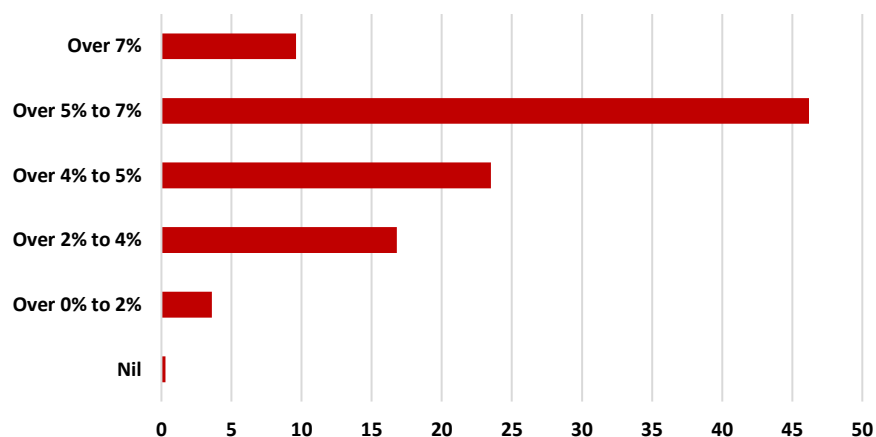


Source: CBO

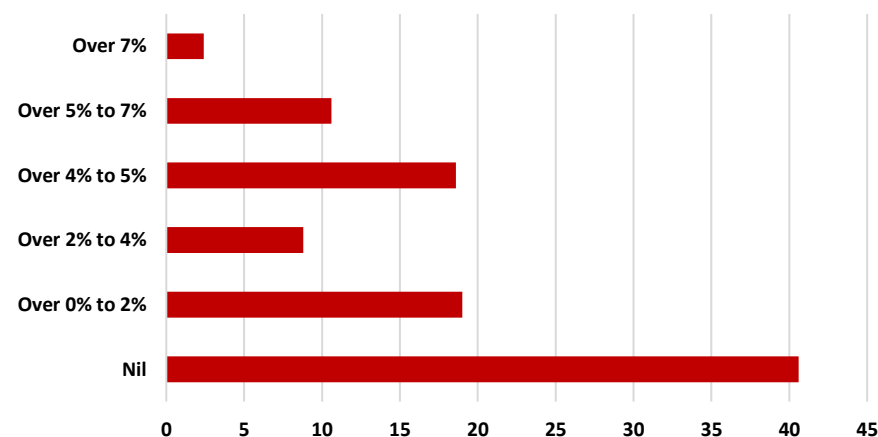
- We have assumed spreads to improve albeit slowly from 2018 onwards on the back of rising interest rates, which together with our assumption of improved cost controls, result in moderate improvement in the bottom line for most banks. However, further deterioration in the macroeconomic situation warrants downside risk to our valuation as it will have direct impact on credit growth.

- Furthermore, deposit growth constraints might put more pressure on cost of funding, dampening improvement in yields on assets expected to materialize in a rising interest rate environment.
- The Omani Banking sector is currently undergoing a consolidation phase with Oman Arab Bank (OAB) exploring a possibility of merger with Alizz Islamic Bank (BKIZ) and NBO undergoing merger talks with BKDB.
- The total credit of the Omani Banking sector (conventional loans and Islamic financing) stood at OMR 24.3bn as of H1'18, up by 6.1%YoY. Total deposits stood at OMR 22.34bn as at the end of H1'18, up by 4.5% YoY. Credit growth (on YoY basis) slowdown reversed at the end of 2017 but has once again begun to show signs of slowing down. Deposit growth, on the hand, has picked up markedly from a low of 2.3% in Apr'18, to 4.5%YoY in Jun'18.
- Conventional banks account for 86.3% of total system credit at OMR 20.94bn as at the end of Jun'18, rising by 4.1%YoY. Conventional deposits at OMR 19.2bn (+2.5% YoY) form 85.9% of the total banking deposits of Oman. We believe that credit and deposit growth will continue to improve on the back of sustained oil price at current levels. However, we expect total credit expansion to remain at mid-single digit level for FY18, before improving further in the coming years.
- Rising interest rates might put pressure on the borrowers as well as banks' bottom lines. Following the Federal Reserve's lead, the policy rates and interbank rates in Oman have been on the rise, also catapulted by reduced liquidity. The rising policy rates have also been partially passed through to the retail deposit and lending rates. The rising interest rates might put pressure on the bottom lines of the banks. Conversely, as banks continue to re-price their assets, their profitability can be supported, given cost of funding remains below Government stipulated ceiling on personal loans (at 6%) and corporate loans are not regulated by the CBO.

% of Conventional Bank OMR Lending, Jun'18



% of Conventional Bank OMR Deposits, Jun'18



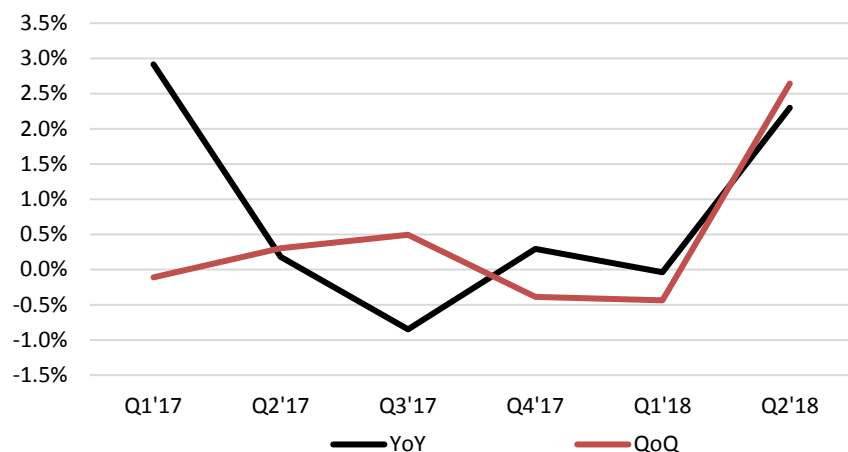
Source: CBO

For further details, please see our latest report on the sector [here](#).

Oman Leasing Sector

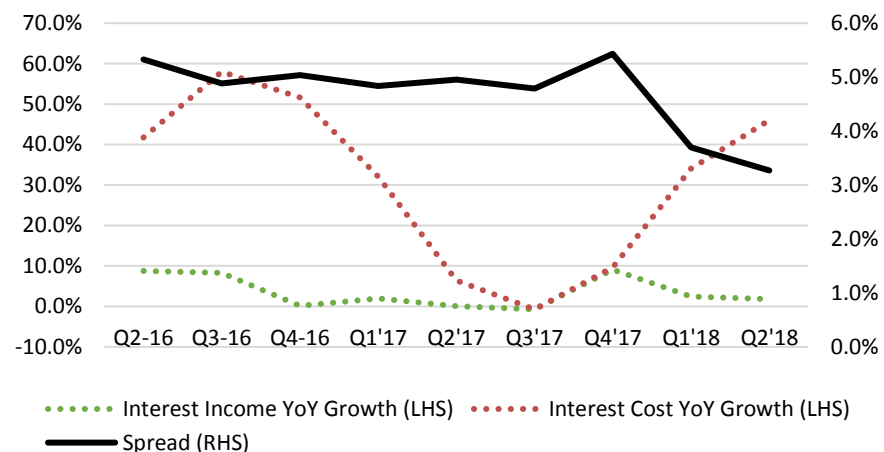
Oman's leasing companies are currently braving a sector-wide slowdown in primary asset growth, which together with declining margins and increasing non-performing loans (NPLs) may put further pressure on profitability in the near term. Gross finance asset growth picked up a little in Q2'18 from its all-time lows, with total gross finance assets reaching OMR 1.20bn (+2.3% YoY; +2.6% QoQ).

Gross Finance Asset Growth (%)



Source: Company Financials, U Capital Research

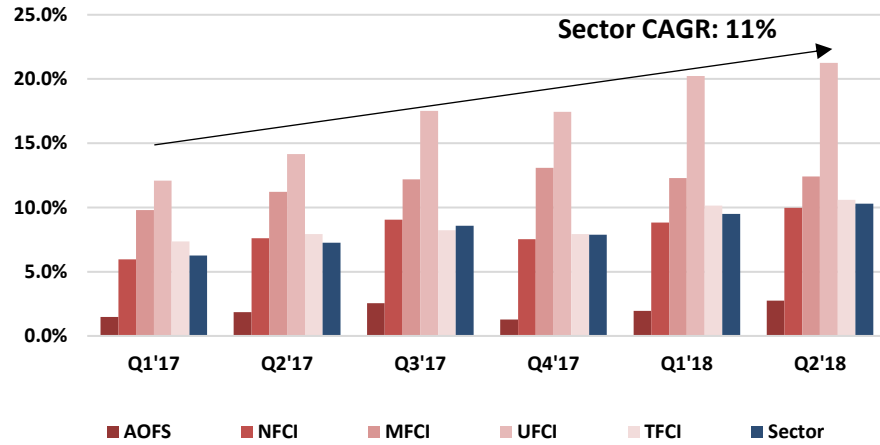
Growth Trends for Interest Income & Cost



We believe that the increasing funding cost (as outlined in Omani Banking sector section) and lower yields on re-priced assets due to competition from Islamic banks and each other, is likely to result in further decline in margins. As can be seen from the chart above, interest cost growth has been outpacing interest income growth by a huge margin.

The situation is further worsened by rising sector-wide non-performing loans (NPLs) that is putting pressure on profitability of the leasing companies. The NPLs of leasing companies rose by roughly 45%YoY and 11%QoQ in Q2'18, reaching OMR 115mn or 10.3% of gross finance assets. We believe that this trend will continue until macroeconomic situation eases a little.

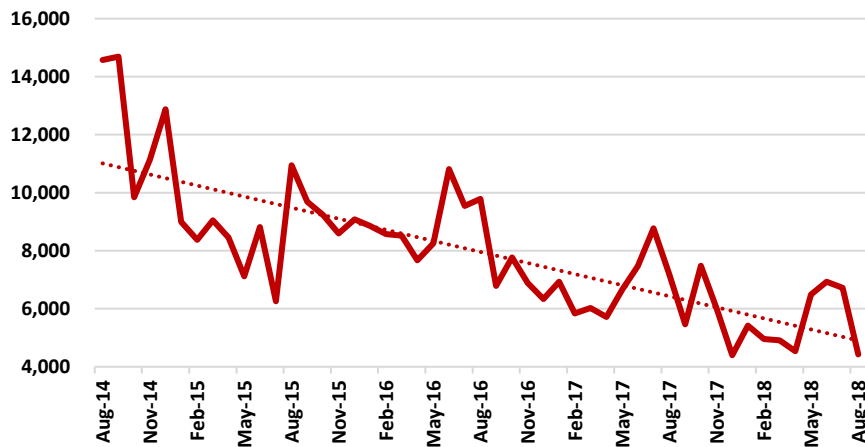
NPLs as % of Gross Finance Assets



Source: Company Financials, U Capital Research

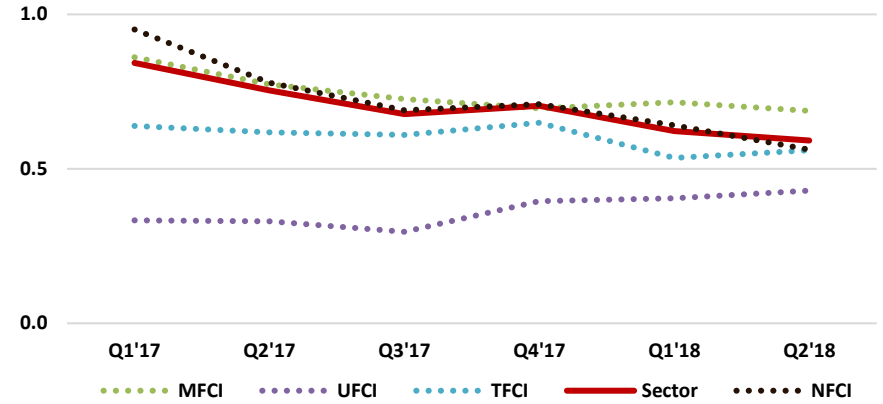
The sector, where roughly 40% of finance assets are comprised of retail car financing, is expected to continue to witness constrained growth in this segment as new vehicle registrations have constantly been dropping as compared to the previous years. However, with the recent increase in oil prices, we are confident that as the government eases its austerity measures and new infrastructure development opportunities arise, the leasing companies will be able to perform better.

Number of new vehicles registered in Oman

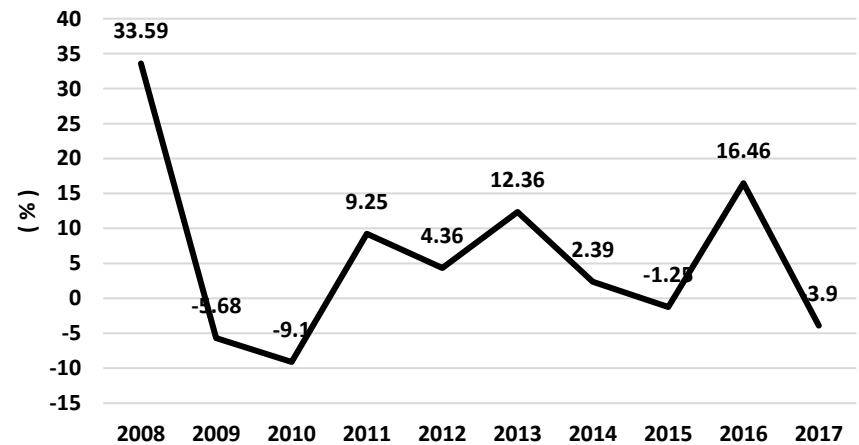


Source: NCSI Oman, Bloomberg

Provision Cover (x)



GDP by Expenditure: Gross Capital Formation Growth Rate (YoY)



Oman Telecom Sector

Local telecom industry continues to face challenges in terms of lower ARPUs, regulatory changes, increasing costs and change in overall consumer spending behavior. However, supportive factors such as stronger macroeconomic situation, increasing demand for data, new avenues of income and lower CAPEX requirements will provide better opportunity for higher dividend distribution in the medium to long run. This should be taken with the fact that at current levels, telecom stocks are trading at attractive multiples.

Omantel Group: The stock remains a good pick. Despite the lack of immediate triggers, we believe that the stock will recover in the medium to long-term level considering the above-mentioned drivers and current attractive multiples. In our view the stock is not a dividend story any more as it is a growth one. Key assumptions for 3Q'18 performance at the parent level include 1) lower wholesales, 2) pressures on ARPUs, 3) absence of the bond issuance expenses, 4) lesser impact of implementing IFRS 9 and IFRS 15 and 5) Royalty level at 7% of mobile revenue.

Thus, we expect revenue of the parent company to stand at OMR 136.7mn. We expect an operating profit of OMR 33.4mn. For Zain Kuwait, our main assumptions for 3Q'18 include 1) consolidating of Zain KSA financials, 2) lesser impact of currency issues in Sudan due to stronger Sudanese pound against dollar, 3) lower net monetary gain (usually created due to South Sudan inflationary situation) as the company sees better economic situation thus lesser impact of inflation, 4) IFRS 15 and IFRS 9 implementation impact and 5) sale of towers to be in 4Q'18. We estimate Zain Kuwait to report OMR 524mn (including Zain KSA) of revenue for 3Q'18. Accordingly, Omantel Group top level is expected at OMR 660mn for 3Q18. The group operating profit is estimated at OMR 125mn while net profit attributed to the owners of the parent company is seen at OMR 23.2mn (including 21.9% of Zain Kuwait net profit for the quarter). However, we need to point out that there will be no change to net income of Zain Group due to this consolidation since Zain Group's ownership in Zain KSA will not change.

Ooredoo Oman (ORDS): We are positive on ORDS and believe that factors such as promising growth of home broadband and good cash position will support the company in maintaining the dividends in the coming years. We expect higher number of subscribers in 3Q'18 on lack of the standardization of welcome pack which negatively impacted the pre-paid mobile segment. We expect total subscribers at 2.99mn. However, revenues are seen lower on quarterly basis due to continuing pressures on ARPUs and our assumptions of lack of one-time charges. Thus, total revenue is seen at OMR 67.3mn for 3Q'18. EBIT is estimated at OMR 18.2mn, down by 7% YoY on lower EBITDA and higher depreciation as we conservatively see that 2Q'18 low depreciation was exceptional. Further, we expect net profit attributable to the parent company for 3Q'18 to be OMR 8.4mn, down by 10.9% YoY.

Oman Cement Sector

Omani Cement Sector faces multiple challenges including but not limited to increasing competition, slow growth in demand and higher costs. Both Oman Cement and Raysut Cement are implementing new pricing strategy aiming to boost volumes. Raysut Cement in our view has more flexible business model in addition to its ability to sell clinker. We expect better outlook towards the end of the current year and onwards considering the ongoing exploring of new markets and cost control initiatives. We still believe that Raysut Cement will benefit from Cyclone Mekunu related damage in the Dhofar region.

Raysut Cement Co.: We expect better local sales by the parent company on account of Cyclone Mekunu impact. We believe that ravaging roads, public facilities, properties and businesses will all require cement and that will be an additional unbudgeted revenue. However, we see lower sales by the subsidiary on stiff competition. We also expect continuing pressures on realizations. Other key assumptions for 3Q'18 include 1) lack of clinker sales, 2) lack of one off gains on sale of fixed asset and

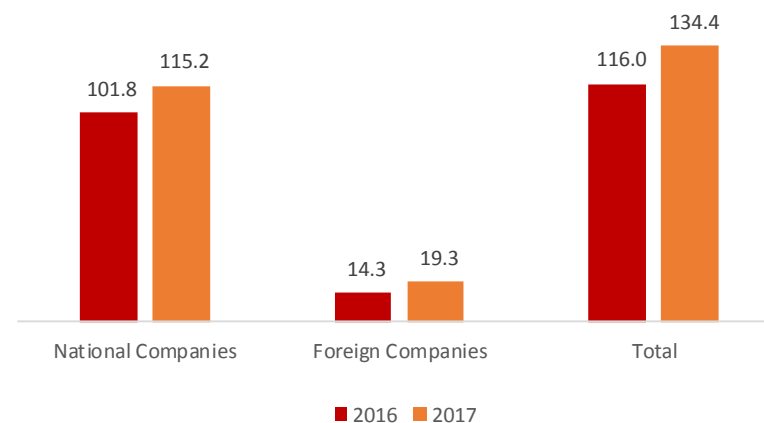
3) lower loss on investments. Accordingly, we expect group revenue to be OMR 20.2mn, up by 17% YoY. Operating margin is estimated at 6.3% for 3Q'18 versus 1H'18 5.2% on better cost control. Thus, net profit is expected at OMR 1.1mn, down by 48.8% YoY with net profit margin of 5.3%. The company stated that it is expected to receive OMR 4.13mn against insurance for loss of ship and various Mekunu Cyclone related claims, which shall support the future performance. Generally, we are optimistic on the new pricing strategy, which led to better volumes in addition to the company's ability to sell clinker.

Oman Cement: Moderate performance which was seen in 2Q'18 to continue over 3Q'18 as we do not see any change in competition status and demand for cement. The imported cement as well as summer season have pressurized the realizations as well as volumes. We expect revenue of OMR 11.11m for 3Q'18, down by 20.3% YoY. We have assumed a selling price of OMR 22.5/ton. Cost control on the other hand remains a concern considering 2Q'18 hike of many items costs. Yet, we believe that the company initiatives towards upgrading the power plant will support (in the medium term) the operating margins especially in soften fuel and gas expenses. We see operating margin at 14.8% in 3Q'18 versus 1H'18 of 17.7%. Net profit is forecasted at OMR 1.6mn down by 38.6% YoY. The company attempts to strengthen its export segment and implement cost saving initiatives are critical for the business stability.

Oman Insurance Sector

During 1H18, insurance companies' performance was commendable. Overall, the sector profit grew by 9.1% to OMR 15.7mn in 1H18 compared to OMR 14.45mn in 1H17. In the coming period the sector is expected to get boost from the mandatory health insurance. Capital Market Authority (CMA) announced that the national health insurance program will be implemented in five stages and will include one million employees working in Oman's private sector. As per CMA, they have worked on a clear plan that starts from three points: the progressive implementation of the health insurance system, reducing the cost of insurance coverage, and the creation of a unified health insurance document. As per NCSI as of June 2018, 183,947 Omanis and 1,466,473 expatriates are working in the private sector of Oman. Some proportion of this population is already under the net of insurance, however majority is not, which makes us believe that there is significant potential in this segment. As per CMA report published in June 2018, gross direct premiums of health segment rose by 13% of national companies to OMR 115.2mn and by 35% (OMR 19.3mn) of foreign insurance companies in Oman in 2017. Overall gross direct premiums of health insurance in Oman in 2017 rose by 16% to OMR 134.5mn compared to OMR 116mn in 2016.

Gross Direct Premiums of Health Insurance (OMR mn)



Source: CMA

Other Companies

Voltamp Energy

Better performance is expected in 3Q'18 on account of lower cost of sales to revenue ratio as a result of lower raw material prices and better realizations. We expect a total revenue of OMR 9.86mn and an operating profit margin of 4.4% compared with 6.3% for the same period last year. We forecast net profit at OMR 0.25mn for 3Q'18 resulting in net profit margin of 2.6%. We believe export segment to mitigate the tough domestic environment and revenue to grow at a CAGR of 5.6% during 2018-22. This view is supported by our assumption that the current scenario will witness improvements in the coming period as export business (mainly from Qatar) and other GCC countries is expected to provide better terms of pricing and diversify the income sources. We also estimate better cost control and initiative of marketing high yield products along with obtaining key regulatory approvals in new export markets. However, Voltamp faces number of challenges included but no limited to:

- Increasing local competition
- Drop in demand of company's high yielding products
- Slowness in getting regulatory approvals from GCC government bodies to some of the company new products
- Volatility in commodities prices creates ambiguity when it comes to long term contracts
- Many of the company contracts are fixed on the long-term one.
- Bidding at almost no profit basis takes away many tenders from the company

Al Jazeera Steel Products Company

We expect lower sales in 3Q'18 compared to 2Q'18 mainly on the international front due to the tariffs implemented by the USA in March this year and the ambiguity surrounding global trade. We expect utilizations rates at 73% resulting in total sales of 109.5k MT and see realization of OMR 270/ton considering the competition and drop in steel prices. Accordingly, the company revenue for the quarter is set at OMR 29.5mn, up by 26.68% on yearly basis. Despite high level of operating expenses to revenue (93% in 1H'18), we forecast a softening in expenses as result of lower cost of sales expenses in one hand and better cost control in the other hand. Operating margin is expected at 5.7% versus 2017 average of 6.3%. Net profit is seen at OMR 1.27mn for 3Q'18, up by 92% YoY with net profit margin of 4.3%. We believe the recovery in the Saudi unit business (distribution operations) and strong ties with the government bodies to assist the group performance in terms of more synergies and diversification of income.

Oman Cables Industry Company

We see weaker performance at top level in 3Q'18 due to pressures on prices, volumes and lower raw material prices i.e. copper which forms generally 80% of the parent top level. OAPIL recovery to continue, yet we expect some pressures on sales in 3Q'18. As a result, the group's revenue is likely to touch OMR 53.3mn in 3Q'18, down by 1.4% YoY. On the other hand, cost of sales to revenue to soften on better cost control measures and we expect it at 92.5% versus 1H'18 average of 92.7%. EBIT margin to stand at 4% and net profit of OMR 1.88mn (+48% YoY, -2.7% QoQ) resulting in net profit margin of 3.5% for 3Q'18 compared with 3.2% for 1H'18. Despite the expected pressures, we continue to believe that Oman Cables Co. is one of the best picks considering its long-term contracts and low debt levels thus ability to maintain dividends.

National Aluminium Products Company

Overall performance to remain healthy considering the successful strategies implemented by the company especially regarding increasing market share in the GCC markets which kept utilization rates at high of 93%. Segmental analysis show that GCC countries were the source of 74% of total revenue in 2Q'18 versus a historical average of 66%. We expect this trend to continue. Further, better cost control to keep margins within the 2Q'18 levels. However, tougher competition and lower raw material costs to add pressures on the top level for 3Q'18 resulting in our estimates of OMR 11.26mn for revenue, which is lower by 8.7% QoQ but remains significantly higher on yearly basis. EBIT margin to stand at 4.6% compared to negative operating margins of 2017 on higher sales and better cost control. We expect a net profit of OMR 0.3mn for 3Q'18 resulting in net margin of 2.7%.

Recommendation Scale

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%