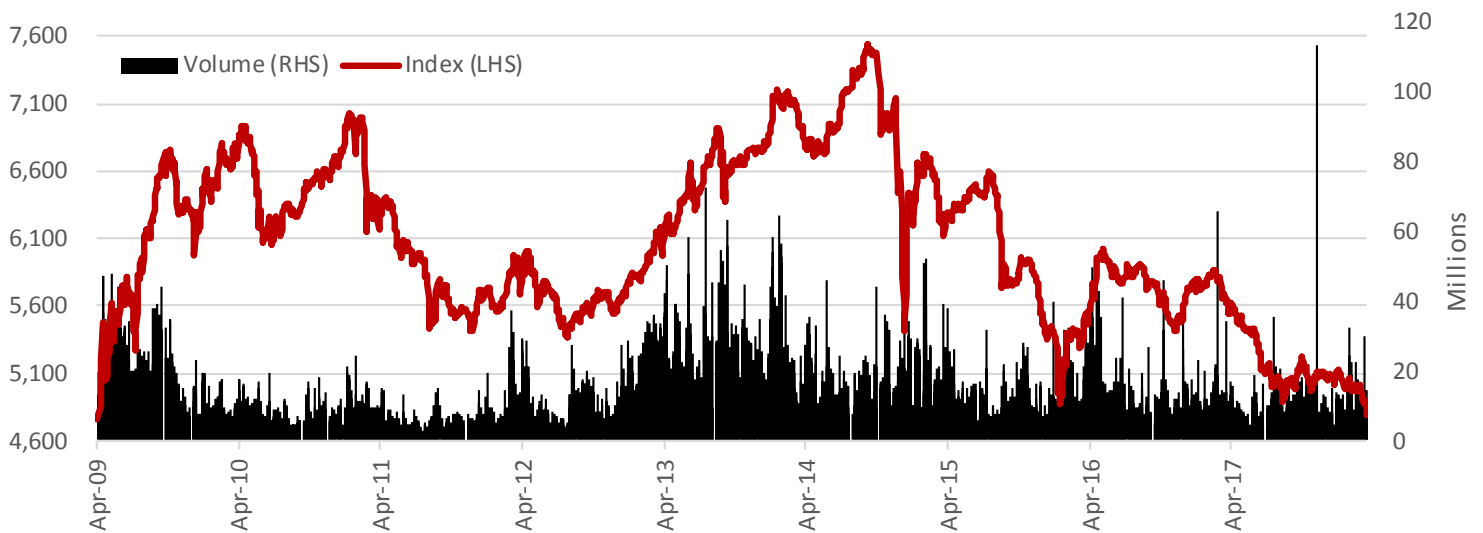


MSM at Nine Year Low

- **MSM is at its nine-year low; level last seen in April 2009**
- **Market capitalization has dropped by OMR 479mn / USD 1.25bn YTD**
- **Index currently trading at P/E and P/Bv of 11.7x and 0.99x, respectively; Offers dividend yield of 5.3%**

With the recent fall in the market, Oman market has declined 6.2% YTD and stands as the worst performer within the GCC after Dubai (-5.6% YTD). At current levels, Oman market now stand at its nine-year low of 4,781.9. Last time the index was seen at this level was in April 2009. The market came closer to that level in Jan 2016 as well when oil prices touched all-time low of USD 23.8/bbl. The decline in the market this year has wiped out a cumulative of OMR 479mn (OMR 459mn from regular market, OMR 19.6mn from parallel market and OMR 0.8mn from the under monitoring market) from the market.

The recent decline in the market, can be attributed to multitude of factor, including and not limited to: Moody's rating action on Oman and some of the companies, exit of investment from GCC and international investors towards other markets, companies going ex-dividend and portfolio restructuring of local investors towards GCC.



Source: Bloomberg

Average daily turnover went down by 39.8% to OMR 2.8mn during Jan 1, 2018 till Mar 20, 2018 compared with the same period last year. While, average daily volume went down by 27.4% to 14.2mn during Jan 1, 2018 till Mar 20, 2018 compared with the same period last year. Foreigners were net sellers of OMR 6.17mn during the current calendar year. Foreign institutions were net seller of OMR 8.4mn while foreign individuals were net buyers, amounting to OMR 2.2mn.

In terms of breakup, GCC investors formed 82% of the net sellers followed by foreigners at 17% and a percent by Arab investors.

Moody's Rating Action

Moody's Investors Service in the past week lowered the long-term issuer and senior unsecured bond ratings of the government of Oman to Baa3 from Baa2, with a negative Outlook. The key driver of the downgrade is Moody's expectation that Oman's fiscal and external metrics will continue to weaken, in part reflecting institutional and policy constraints. Moreover, subdued growth over the next few years will weaken economic resiliency. The negative outlook reflects Moody's view that, despite a number of credit strengths, the balance of risks to the Baa3 rating is skewed to the downside. 'In the absence of significant measures to narrow the fiscal and current account deficits beyond the current plans, Oman's capacity to absorb potential shocks would erode further.

In a related action, Moody's recently downgraded the long-term local and foreign currency deposit ratings of five Omani banks: Bank Muscat SAOG (Bank Muscat) (to Baa3 from Baa2), HSBC Bank Oman SAOG (HBON) (to Baa3 from Baa2), Oman Arab Bank (SAOC) (OAB) (to Ba1 from Baa3), Bank Sohar SAOG (Bank Sohar) (to Ba1 from Baa3) and Bank Nizwa SAOG (Bank Nizwa) (to Ba2 from Ba1). At the same time, Moody's has affirmed the long-term local and foreign currency deposit ratings of Bank Dhofar SAOG (Bank Dhofar) (at Baa3) and National Bank of Oman Limited (SAOG) (NBO) (at Baa3). Moody's has maintained a negative outlook on the long-term ratings of the seven banks.

Outlook

We believe, the market has reached its bottom. Lately, we have witnessed various positive news flows on the economic level in terms of new oil and gas discoveries and opening of new economic zones while oil price is also comfortably placed as well and is higher on average by 20.5% compared to average oil prices of 2017. We are also of the view that rating action do cause short term hiccups, but other rating agencies earlier were positive on GCC including Oman. Earlier in 2018, S&P said that, after two years of significant pressure, S&P believes that barring unforeseen events, 2018 will mark the stabilization of the financial profiles and performance of the GCC banks.

With market at 4,781.9, the index price to earnings and price to book multiple now stands at 11.7x and 0.99x respectively. Dividend yield of the market has perched to 5.3%. In terms of price to book, the market is attractively placed at second place after Bahrain and almost at third place after Bahrain and Dubai in terms of price to earnings.

With dividend season coming to an end, we estimate that market would bounce back soon on the back of quarterly results, better flow of contracts/awards this year because of comparatively high oil prices and expectation of fed rate hike and its benefits to the financial sector.

TOP 10 Stocks – Sorted as per Negative YTD Prices

Name	CMP (OMR)	Chg YTD (%)	M.Cap (OMR mn)	P/E (x)	P/Bv (x)	D.Yld (%)
OMAN TELECOMMUNICATIONS CO	0.900	-25.31	675.0	8.43	1.19	10.0%
OMAN FLOUR MILLS	0.700	-25.21	110.3	7.97	1.44	7.1%
SOHAR POWER CO	0.114	-24.00	25.2	12.54	1.01	NA
AL-HASSAN ENGINEERING CO	0.033	-17.50	2.5	NA	NA	NA
GLOBAL FIN INVESTMENT	0.130	-17.20	26.0	NA	0.94	3.9%
HSBC BANK OMAN	0.107	-16.41	214.0	11.00	0.66	4.7%
OMAN FISHERIES CO	0.124	-15.65	15.5	18.90	1.06	NA
OMINVEST	0.394	-15.45	275.6	13.15	1.68	3.5%
OOREDOO	0.450	-14.45	292.9	9.54	1.22	9.3%
VOLTAMP ENERGY SAOG	0.484	-14.18	34.3	8.86	1.48	3.2%

Source: Bloomberg

Disclaimer: This report has been prepared by research department in Ubhar Capital SAOC (U Capital), and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such, and the company accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. All opinions and estimates included in this document constitute U Capital's Research department judgment as of the date of production of this report, and are subject to change without notice. This report may not be reproduced, distributed or published by any recipient for any purpose.