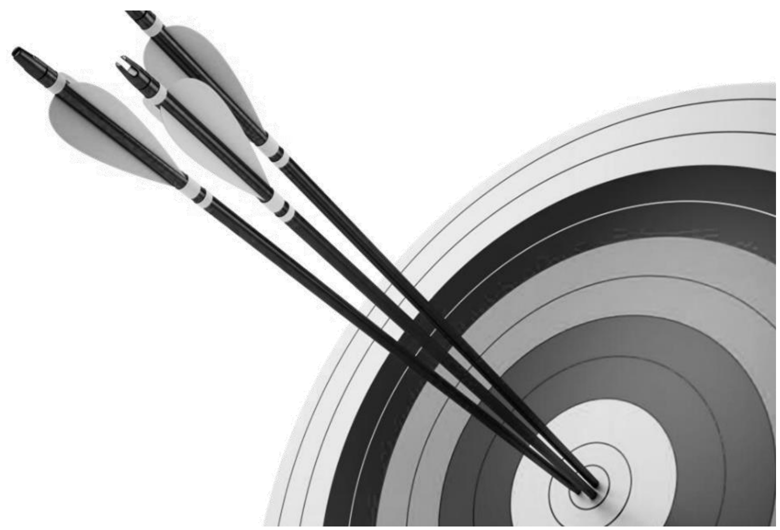
Omani Coverage Universe

Earnings Estimates - 4Q17



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Earning Estimates 4Q17e

Company Name	Current Market Price (OMR)	Market Cap (OMR mn)	Net Profit (OMR mn)	YoY %	QoQ %	Revenue (OMR mn)	YoY %	QoQ %	P/E (x)	P/Bv (x)	Div. Yld (%)
Banking											
Bank Muscat	0.398	1,078.3	43.26	9.1%	-5.9%	107.66	5.6%	0.6%	6.18	0.60	6.4%
National Bank of Oman	0.195	302.0	12.47	-8.7%	47.2%	34.56	2.1%	5.1%	6.41	0.58	8.2%
Bank Dhofar	0.222	501.2	12.02	11.8%	-0.7%	32.00	5.6%	0.3%	10.71	0.92	4.9%
Bank Sohar	0.152	271.3	7.96	25.2%	7.4%	20.09	15.2%	4.1%	10.14	0.69	3.3%
Ahli Bank	0.173	246.5	7.29	-14.4%	-0.6%	13.95	-1.3%	-1.8%	9.12	0.80	5.8%
HSBC Oman	0.128	256.0	4.10	19.2%	-24.6%	20.00	5.6%	2.4%	14.42	0.79	4.3%
Bank Nizwa	0.090	135.0	1.90	193.2%	89.2%	6.17	26.3%	6.5%	32.04	1.03	0.0%
Alizz Islamic Bank	0.066	66.0	(0.89)	-42.3%	-19.6%	3.32	45.3%	0.8%	nm	0.63	0.0%
Leasing											
Al Omaniya Fin Services	0.276	76.4	1.09	-3.4%	24.2%	3.40	19.2%	-2.9%	16.47	1.21	6.0%
Muscat Finance	0.110	31.4	1.00	-40.6%	14.5%	2.33	-8.3%	4.9%	7.69	0.78	9.3%
Taageer Finance	0.119	30.2	1.21	-11.1%	9.6%	2.55	-4.4%	1.0%	6.88	0.80	8.0%
United Finance	0.140	48.9	0.45	-63.9%	41.6%	2.20	-8.7%	8.2%	24.75	1.09	2.9%
Cement											
Oman Cement Ltd	0.410	135.7	2.71	-15.5%	3.1%	14.43	0.9%	3.6%	13.10	0.85	6.1%
Raysut Cement Ltd	0.780	156.0	1.82	-55.3%	-13.5%	18.31	-16.9%	5.8%	18.24	1.02	7.7%
Telecom											
Omantel	1.190	892.5	23.83	10.3%	-1.7%	141.22	9.7%	1.6%	10.04	1.49	7.6%
Ooredoo Oman	0.526	342.4	8.97	3.6%	-4.8%	68.04	-0.2%	-1.8%	10.68	1.42	7.6%
Others											
Voltamp Energy	0.564	39.9	0.64	-42.4%	37.6%	11.75	-1.8%	15.0%	14.72	1.81	3.2%
Oman Cables	1.135	101.8	1.72	-49.5%	34.9%	60.59	8.6%	12.2%	11.70	1.02	7.5%
Al Jazeera Steel	0.280	35.0	0.90	-24.2%	36.0%	24.09	38.5%	3.2%	9.75	0.83	3.2%

Source: Bloomberg & U Capital , Price as of 01-Jan-18

**nm = not meaningful*

Banking Sector Outlook

CBO's Oct'17 data indicates that conventional credit in Oman grew to OMR 20.33bn, +3.6%YoY and 0.7%MoM, with growth pace having picked up from +3.0%YoY and 0.3%MoM in Sept'17. Previously, we had changed our expected conventional credit growth rate for Oman to about 4-5% (Sept'17) down from 6-7% at the start of the year. We are maintaining our conventional credit growth estimate at the lower end of the range at ~4%.

Islamic credit, however, grew by 28.4%YoY and 1.5%MoM, to reach OMR 2.94bn. We believe that growing demand for Islamic finance products amongst the Omani population is helping Islamic banking to become significantly important in the Omani credit market with a share of 12.6%. Within the listed Omani banks, Bank Muscat, Bank Dhofar & Ahli Bank have rapidly built up Islamic windows, which are showing superior performance. Other conventional banks, however, lag in Islamic credit growth.

The total credit within the Omani Banking sector grew by 6.2%YoY as at the end of Oct'17 vs. 10.1%YoY as at the end of Dec'16. We are optimistic on credit growth as Government-led revenue diversification efforts begin to bear fruition over our forecast horizon. The IMF forecasts Oman's GDP growth at 3.8% for 2018, with an average growth of 2.4% over the period 2018-2022 which we believe will translate into a credit growth of ~5% in 2018 with an average growth of 6% over 2019-2022e.

The primary constraint for lending growth is our expectation of an inhibited liquidity situation driven by reduced revenues of an oil-dependent economy. Recent sovereign borrowings have somewhat assisted in easing liquidity levels, but the effect has been largely tidal as the Government continues to tread on its economic diversification path, requiring unyielding support from the domestic banking sector. Deposit growth for conventional banks hovered at +1.6%YoY and -1.0%MoM in Oct'17, with Loan-to-Deposit Ratio (LTD) stretching further to 109% from 107.3% in the previous month.

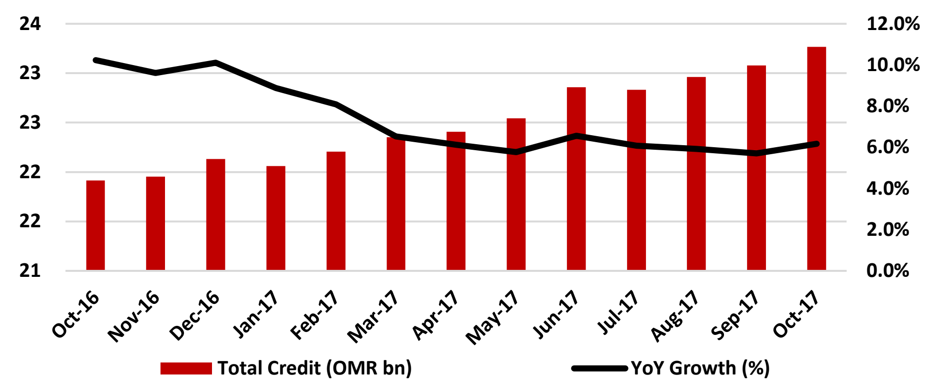
The banks have been able to grow their lending portfolio without much increase in NPLs, which augers well for the credit risk in the banking sector. The NPLs at the end of 9M'17 were 2.9% (2016: 2.7%) of the gross loans. The low NPL ratio suggests satisfactory asset quality and a well-contained credit risk. Moreover, the existing loan portfolio of banks is well covered against expected losses through adequate provisions with coverage ratio (provisions to NPLs) of 121% including general provisions, which compares favorably with regional peers.

As at 9M'17, non-performing loans (NPL) ratio of HSBC Oman (HBMO) was the highest at 4.1%, which is higher than the average of the rest of the Omani banks in our coverage universe which hovers around 3%. HBMO's provision cover at 64% falls short of the peer-group average at 140%. The provision cover for all other banks is above 100%, indicating adequate provisioning.

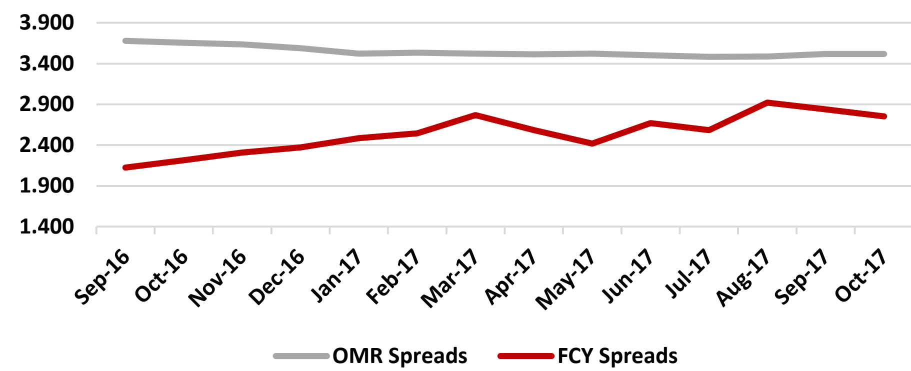
Furthermore, we expect yields on assets to improve in the medium to long term, as the US Fed's benchmark interest rate continues to rise. Even in Q3'17, we have seen some banks with improved annualized yields. However, spreads continue to be dampened by rising interest costs, due to liquidity crunch as well as deteriorating bank credit ratings.

It goes without saying that banks have prudently been trying either to curtail operating expenses at current levels, or even reduce them in some cases, given the restricted income growth outlook.

Omani Banking Sector: Total Credit



Spreads, %



Source: U Capital Research, Company Financials

On the back of the reasons outlined above, net profit for banks is expected to remain under pressure over the short to medium term.

Leasing Sector Outlook

The Omani leasing sector is currently faced with a challenging operating environment as finance asset growth has slowed down on the back of the Government's austerity measures amidst increasing competition from banks especially Islamic banks. The sector is beginning to see improvement in its net finance income as interest rates have been on the rise and assets are beginning to get due for re-pricing. Additionally, the sector's cost of credit is expected to peak by the end of FY17, and it looks like the worst is over for the sector in terms of rising cost of credit.

The total gross finance assets of the six listed leasing companies reached OMR 1.09bn (-1.2%QoQ; +0.2%YoY) as at the end of 9M'17. Their total net finance assets touched OMR 1.02bn (-1.9%QoQ; -0.3%YoY). Amongst the leasing companies, Oman Orix Leasing (ORXL) grew its gross finance asset at the strongest pace of 10.5%YoY in 9M'17, followed by Taageer Finance (TFCI) at 2.0%YoY. The remaining four leasing companies saw contraction of their gross finance asset at the end of 9M'17, with Al Omaniya Financial Services' (AOFS) asset declining by 8.4%YoY, United Finance's (UFCI) gross finance asset declining by 4.8%YoY, Muscat Finance's (MFCI) gross finance asset declining by 4.2%YoY, and National Finance's (NFCI) asset declining by 0.7%YoY.

National Finance and Oman Orix Leasing disclosed to investors that they have signed the merger agreement on December 27, 2017, in lieu of the ongoing merger talks between the two companies since H1'17.

The total operating income of the six companies declined by 3.2%YoY to reach OMR 50.22mn at the end of 9M'17. The largest decline in operating income was seen by United Finance at 14.6%YoY, followed by Muscat Finance at 9.8%YoY and National Finance at 4.3%YoY. Oman Orix Leasing's total operating income increased by 2.9%YoY, followed by Taageer Finance at 2.2%YoY and Al Omaniya at 2.0%YoY.

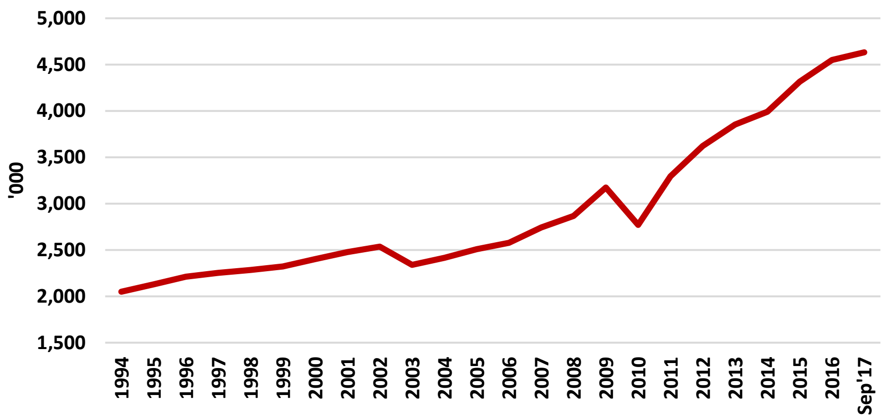
The sector has managed to keep operating costs stable as compared to last year, with 9M'17 operating expenses at OMR 18.93mn (+0.7%YoY). However, due to decline in operating income, operating cost-to-income ratio has shot up from 36.2% to 37.7% in 9M'17 for the sector as a whole.

As expected, sector-wide non-performing assets (NPAs) have been on a rise, with NPA for some leasing companies having grown alarmingly high as % of gross finance assets. The sector NPA ratio stands at 8.6%, with TFCI and AOFS below this benchmark. UFCI's NPA ratio has reached an alarming 17.5% followed by MFCI at 12.2% of their respective gross finance assets.

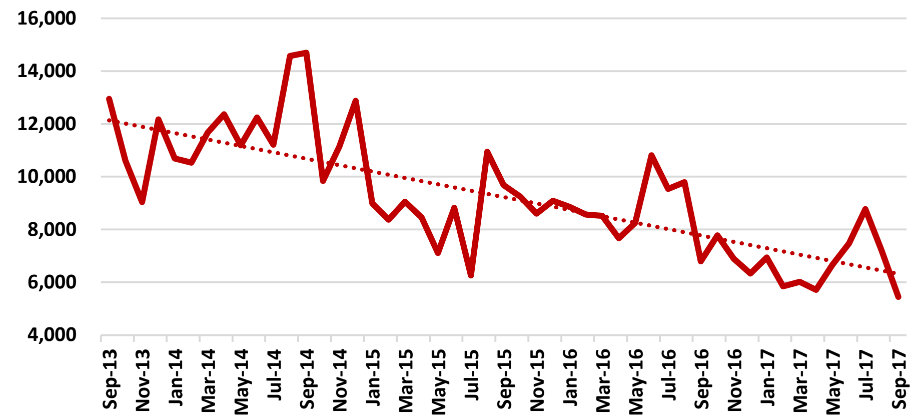
Low oil prices for a primarily oil-dependent economy along with Government's austerity measures continue to weigh down on Oman's economic growth outlook. However, growth is expected to pick up over the medium term following a boost in oil and gas, as OPEC plus production cuts taper off in 2018, and from expected gains in the non-oil sector resulting from the government's economic diversification plan, mainly through Tanfeedh, VAT, and increased in other fees (e.g. Visa fee) and electricity tariffs.

The World Bank expects economic growth to modestly recover over the medium term with 2018 real GDP growth reaching 3.4%. In 2018, a boost in the hydrocarbon sector will drive the recovery as the Khazzan gas project expands production capacity. As the gradual recovery of oil prices improves confidence and encourages private sector investment, overall GDP growth is projected to rebound to 2.9% by 2019. The government's policy reform agenda remains focused on economic diversification and fiscal consolidation. Moreover, the adoption of a 5% VAT expected in 2019 and higher corporate income tax are expected to narrow the fiscal deficit to 11.4% by 2019.

Oman's Population



Number of new vehicles registered in Oman



Source: NCSI Oman

The leasing 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. Additionally, corporate financing environment is also not entirely conducive as outline above. However, we believe that cost of credit will peak at the end of FY17, with the sector getting some respite from provision expense burden on its net income FY18 onwards.

We believe that over the next 12M horizon, net finance income of the leasing companies will begin to see improvement on the back of rising interest rates as further assets become due for re-pricing as well as new assets are booked, resulting in higher yield. We believe that improvement in yield on interest earning assets will outpace the increase in cost of interest-bearing liabilities, resulting in improving net finance margins for the leasing companies. However, we remain cautious on asset quality and credit costs, in addition to our expectation of a tepid growth in net finance assets on the back of the currently subdued macroeconomic outlook.

Telecom Sector

Overview: The strategic move by Omantel of acquiring 21.9% stake in Mobile Telecommunication Company (Zain Group) will reshape the competition and the dynamic of the telecom sector within Oman. We do not expect the entry of the 3rd operator to be soon. We expect ARPUs to be pressurized and thus both local players will focus on digitization with more attention on smart services, expanding coverage and data promotions. The increasing threat by over-the-top (OTT) providers and demand for their services that is fueled by high number of expats and the development of telecom regulations, are some factor that are currently shaping the telecom industry in Oman. We estimate more stability in Ooredoo Oman 2018 dividends compared with Omantel due to the increase in the financial burden carried by the latter.

Ooredoo Oman: We expect slight pressures on ARPUs during 4Q'17 mainly on competition, thus we expect total revenues to be down by 0.2% on yearly basis (-1.8% QoQ) to OMR 68mn. However, we expect EBIT margin to be better on both quarterly and yearly basis at 28.4% on more efficient cost control. Net earnings are estimated at around 9mn for 4Q'17, up by 3.6% despite higher royalty fees on better cost control and lower depreciation. Ooredoo Oman is a low debt company with good cash position. Bearing this in mind and the estimated stability in CAPEX over the medium term, we foresee stability in dividends.

Omantel (not consolidated): We expect better top earnings in 4Q'17 despite pressures on ARPUs. This is due to higher number of subscribers especially pre-paid and broadband subscribers on promotions in addition to stable wholesale revenue (22% of total revenue). Thus, total revenue is estimated at OMR 141mn, up 9.7% on yearly basis. Operating expenses to total revenue ratio is forecasted at 82.3% compared with 9M'17 average of 82.5% resulting in 4Q'17 EBIT of OMR 25mn and EBIT margin of 17.7%.

We assume three critical factors to impact the figures after EBIT. Those assumptions are: 1) better share of results of investment in associates and subsidiaries companies (including Zain Kuwait) in 4Q'17 (at about OMR 8.7mn) taking into account Bloomberg consensus estimates for Zain net earnings for 4Q'17 and the date of the second acquisition during the quarter and also assuming the same treatment in terms of accounting as it was done in 3Q17, 2) financing cost of both bridge loans is assumed same as the bridge loan cost for second loan was not announced and 3) absence of loss from discontinuing operations in 4Q'17 as WTL accounts are not consolidated anymore due to share transfer completion. Accordingly, we expect Omantel net earnings (not at consolidated figures) to be OMR 23.8mn.

Cement Sector

Overview: Companies' planned expansions and efforts to explore new markets with focus on reducing costs will result in better performance in the medium to long term. Despite local intensive competition, both players managed to witness moderate drop in realizations (about 7% and 3.4% for Oman Cement and Raysut Cement respectively) over the past couple of years. However, we expect pressures on realizations to continue taking away some benefits at volumes front. The coordination between both the companies to establish new cement company at the promising Duqm Free Zone is a needed step. We continue to see continuing demand for cement in Oman supported by government and private sector focus on non-oil sector. Currently, Oman Cement and Raysut Cement post higher dividends yields and lower P/E at an average of 7.6% and 9.7x compared to regional mean of 6.3% and 18.8x respectively.

Oman Cement: Sales to pick up in 4Q'17 on absence of seasonality and attractive discount sales (the company offers 10% of discount). Cement volume sales are estimated at 0.63mn tons. We continue to see pressures on realizations due to competition resulting in OMR 23/ton compared to 9M'17 average of OMR 23.3/ton. Cost of sales to revenue ratio will remain high due to power costs and depreciation (which saw rise due to the installment of the new cement mill in 2016). We expect EBITDA margin at 33% in 4Q'17 versus 33.7% in 9M'17. Net earnings are seen at OMR 2.7mn, down by 15.5% on yearly basis, up by 3% on quarterly basis. Accordingly, 2017 total net profit is seen at OMR 10.4mn ~19.6% lower on yearly basis. Our view on the company remains positive taking into account that 1) 2017 performance was a victim of higher power costs and tax rise, 2) demand for cement will sustain on continuing government spending, and 3) the company plans for expansions in Duqm either through Al Wusta Cement company LLC, a joint venture with Raysut Cement, or direct cement factory (the company is looking to seek Brazilian investors for new plant) to open new avenues for income.

Raysut Cement: We expect Raysut Group revenue to stand at OMR 18.3mn in 4Q'17, an increase of 5.8% on quarterly basis but down by 16.9% on yearly basis. The reason for the quarterly increase is linked to better sales of cement volumes in absence of seasonality. In addition to company efforts of exploring new markets. The performance could be better, but Yemen situation restricts the growth. The decline on yearly basis is directly linked to tougher competition and pressures on realizations. EBIT margin is expected at 12% in 4Q'17 versus 9M'17 average of 14.6% largely due to power costs increase. Although, we generally see better performance in the last quarter, but the lack of the investment gains of OMR 1.1mn in 3Q'17 because of selling the company share in Oman Portuguese Cement Products, will result in lower net earnings on quarterly basis by 13.5% at OMR 1.8mn (-55% on yearly basis). We believe company efforts and diversification of investments will result in better results in the coming future.

Other Commodities companies

Oman Cables Industry: We estimate better earnings for 4Q'17 due to better sales in terms of volumes. This view is built on lack of seasonality and higher sales by OAPIL as Sohar Aluminum (the main source for its raw materials) has gradually restarted production on 15th, allowing OAPIL to produce more. Group revenue is expected at OMR 60.5mn in 4Q'17, up by 8.6% on yearly basis. Better performance is also seen in cost of sales to revenue ratio (reached its peak in 3Q'17) on lower need for OAPIL to provide the difference between agreed Purchase price and current price (mainly for an earlier orders) which was happened in the earlier quarter as a result of Sohar Aluminum production disruption supply. EBIT margin continue to be low in 4Q'17 at 2.8% but better on quarterly basis. Profit attributable to non-controlling interests is forecasted at 1.36mn resulting in net margin of 2.3%. The company holds impressive low debt to equity at 0.14x giving it the ability to maintain its strong track of dividends.

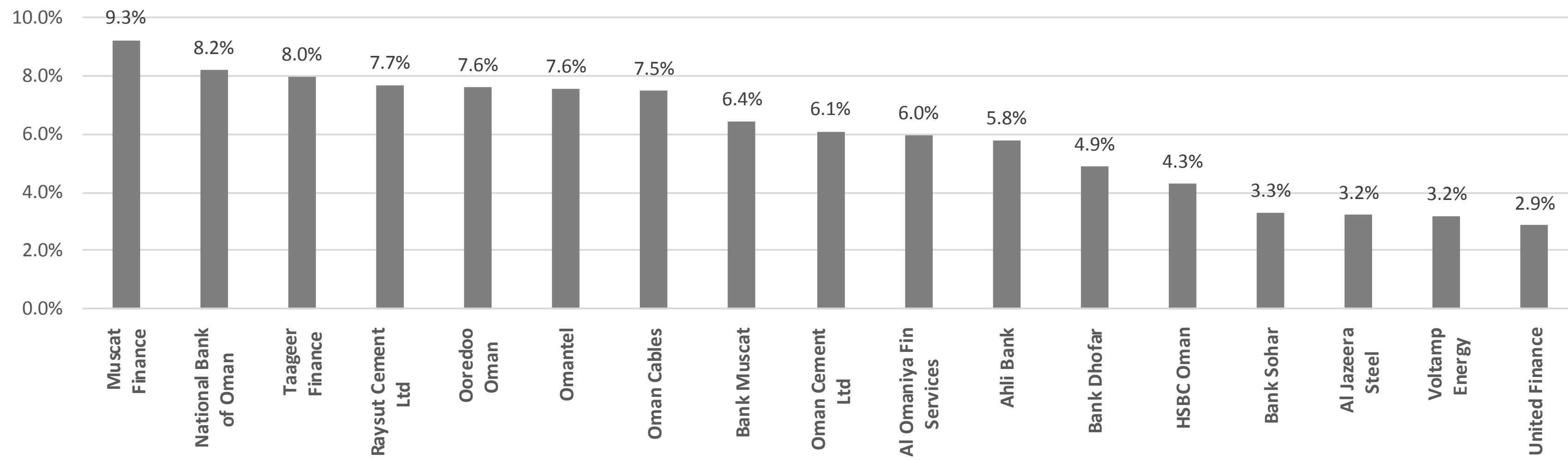
Al Jazeera Steel Products Co.: Revenues to rise by 3.2% on quarterly basis in 4Q'17 at OMR 24.1mn mainly due to higher sales volumes as we see competition to restrict enhancements in realizations. Reasons behind better sales assumption include lack of seasonality, goods transit progress and sound export destinations such as Saudi and Qatar later on. We see pressures on realizations, thus assuming limited increase. Cost of sales to revenue ratio to remain high, yet margins will be slightly better on quarterly basis but below 9M'17 average. We forecast net profit of OMR 0.9mn in 4Q'17, up by 36% QoQ. The company attempt to enter Saudi market through the acquisition of its joint venture partner's stake which will result in higher earnings. Higher debt is source of concern especially about maintaining dividend level.

Note: We have not compared the performance on yearly basis as the company restated their financials

Voltamp Energy Co. We are optimistic about the company considering the export opportunities (epically Qatar market) and local privileges such as Petroleum Development Oman (PDO) commitment of giving priority in purchase of Voltamp Power LLC products for a period of five years. Despite pressures on net margins due to highest cost of sales and lower selling prices because of competition, Voltmap has the ability to sustain margins and dividends payout ratio. Demand for electricity in both Oman and Qatar is very high which creates sustainable need for transformers. Moreover, investments in gas projects in Qatar and Oman will support the demand for power transformers. The proximity to Sohar Industrial Port will play greater role in the company future growth abroad. For 4Q'17, we estimate revenues at OMR 11.7mn up by 15% on quarterly basis on the absence of seasonality. Cost of sales to revenue ratio is seen at 82.5% versus an average of 80.3% for 9M'17. We forecast net earnings at OMR 0.644mn resulting in net profit margin of 5.5% for 4Q'17.

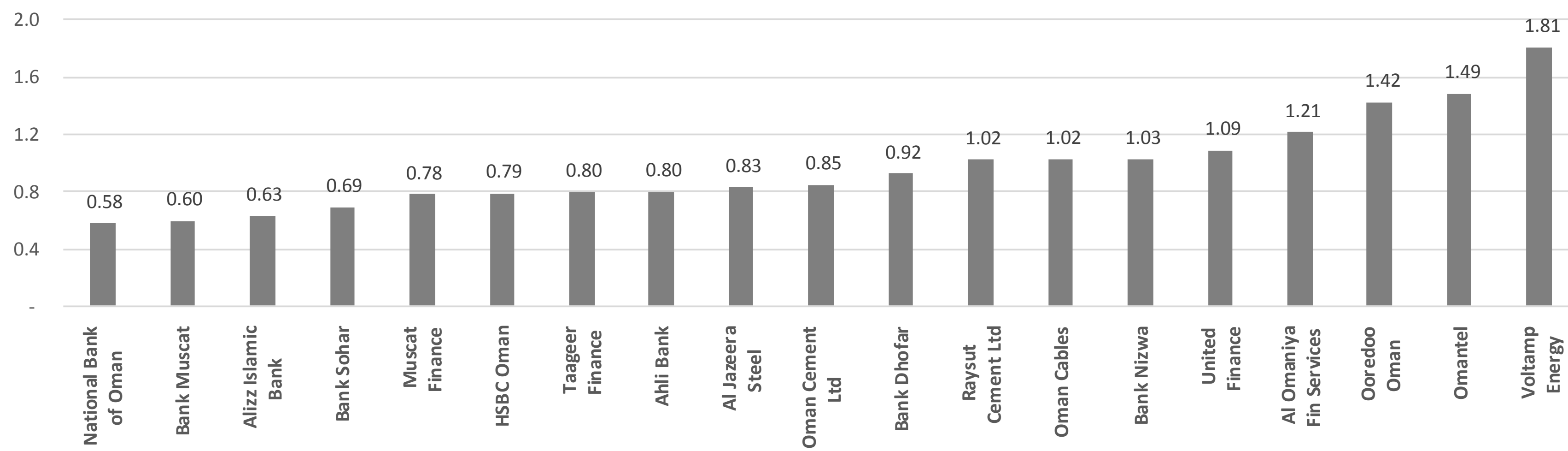
Note: 3Q'17 calculations were based on the difference between 9M'17 and 1H'17 results. This do not match the published 3Q'17 results by the company.

Dividend Yield (%)



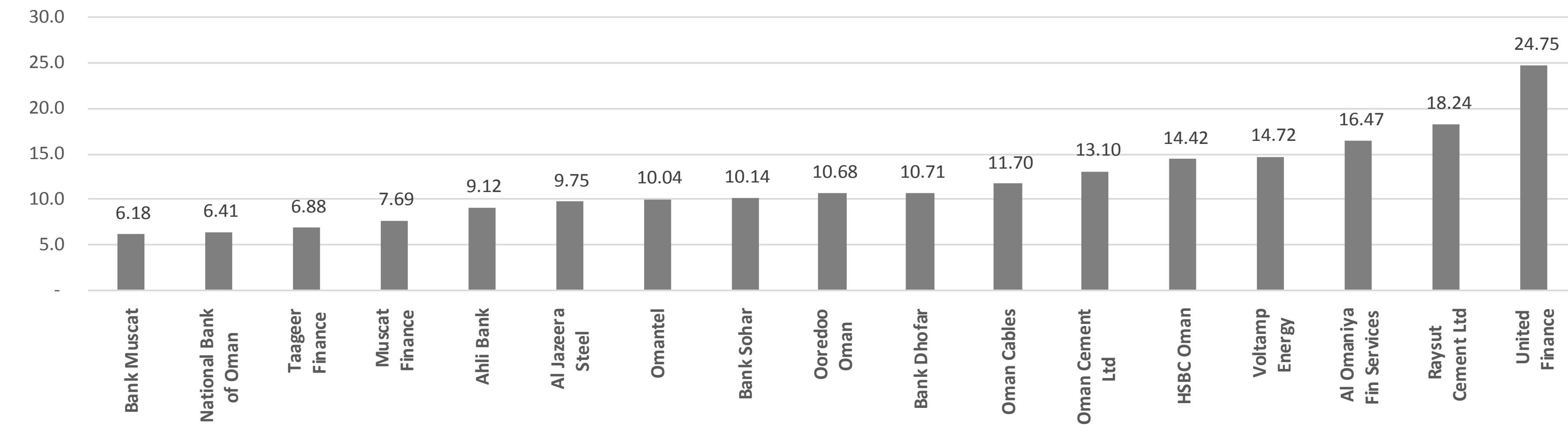
Source: U Capital & Bloomberg

P/Bv (x)



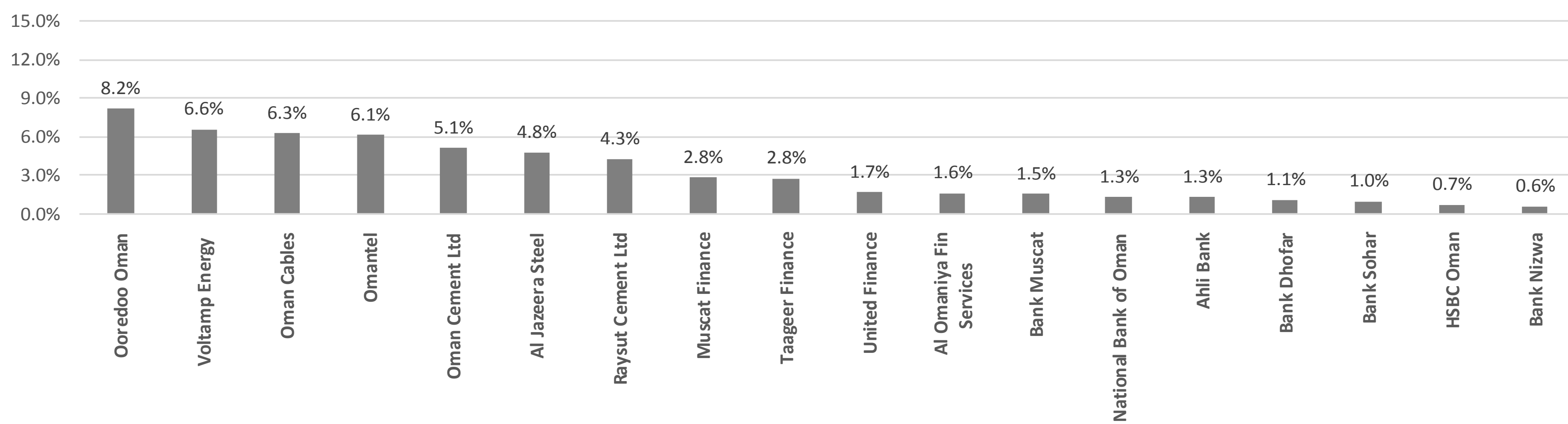
Source: U Capital & Bloomberg

P/E (x)



Source: U Capital & Bloomberg

ROA (%)



Source: U Capital & Bloomberg

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