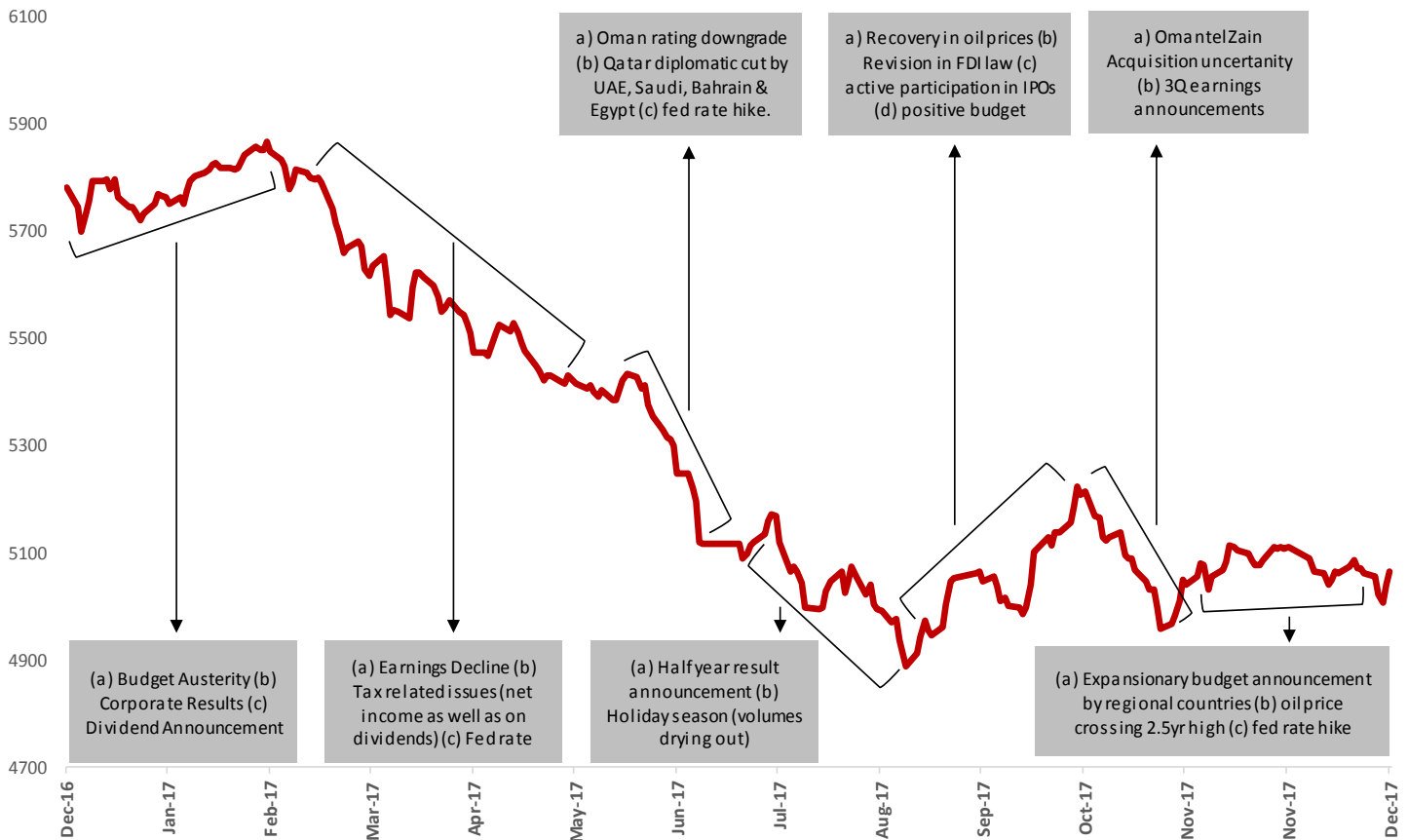


U-Capital Yearly MSM Report

Market 2017 Review & 2018 Outlook



Source: Media & U Capital

MSM ended the year on negative note and index declined by 11.82% to close at 5099.28 compared to 5,782.71 at the end of December 2016. MSM30 reached its highest level close during the year on the 22nd of Feb at 5867.46 while the lowest level close touched was 4889.28 on 17th August. Values closed up 3.5% to OMR 0.992bn while the volumes dropped by 7.7% at 4.27bn. The MSM Shariah Index ended down by 17.88% at 713.64. With respect to the number of trading days, there were 247 days in 2017 against 246 in 2016.

Sector wise all the indices closed down led by services index which closed down by 13.58% at 2643.43 followed by Industrial Index which closed down by 7.75% to close at 6833.39. Financial Index dropped the least at -2.58% at 7474.16. The market capitalization increased by 3.9% during 2017 (i.e. OMR 0.67bn) to OMR 17.95bn.

During the year amongst the brokerage houses in Oman, Ubhar Capital closed the year as the number one brokerage house amongst 17 companies with a market share of 21.55%.

Factors affecting MSM Performance - Quarterly

1Q17:	2Q17:
<ul style="list-style-type: none"> Royalty increase on telecom companies and rise of tax rate for all companies The general budget and targeted sectors Companies yearly results and dividends announcements International ratings and reports regarding countries and companies within region Fed decision to increase interest rate 	<ul style="list-style-type: none"> Strong local institution interest Geopolitical and developments in the region The continuity of the international reports and rating about the region Annual MSM30 revision Cautious sentiment Fed decision to increase interest rate
3Q17:	4Q17:
<ul style="list-style-type: none"> IPOs subscriptions and listing of Al Ahlia Insurance Company and Vision Insurance Company Profit booking activities Large special deals Government success in dealing with the deficit Oil prices about USD 60/b 	<ul style="list-style-type: none"> Acceleration of companies' activities (disclosures, acquisitions, mergers or board member's amendments) Listing of Oman Qatar Insurance Company and National Life & General Insurance Company Fed decision to increase interest rate Large special deals Strong oil prices continuity

2017 was not an easy year for the MSM30 which lost 11.82 on annual basis to close at 5099.28. This year can be dissected into two upwards periods, two downwards (including on sharp and long) and one relatively stable period.

The benchmark started the year on positive note supported by the announcement of the general budget (although it was a conservative one), yearly companies' results and disclosures regarding the proposed dividends. This upward trend stopped as the general index started its longest steep during 2017 starting from last week of February to mid of August i.e. six months. The MSM30 lost 16.7% within this time.

Factors affecting the performance including, but not limited to, the rise of corporate tax rate and its adjustments which impacted companies' results in addition to the ambiguity about tax impact on dividends thus raising foreign investors' fears who started wave of selling activities. Further, the increase of Royalty fees in telecom industries hit their net earnings causing foreign investors to reduce their positions in the telecom players who had higher percentage of foreign ownership. Moreover, negative ratings and international report about the region aided in creating additional pressures.

MSM Summary	Current	Previous	Change	YoY
				%
U Capital Oman 20 Index	974.29	1,052.99	(78.70)	-8.30%
U Capital GCC 50 Index	1,141.10	1,178.26	(37.16)	-3.32%
U Capital MENA 200 Index	992.00	1,018.64	(26.64)	-2.80%
MSM Shariah Index	713.64	869.02	(155.38)	-17.88%
MSM 30	5,099.28	5,782.71	(683.43)	-11.82%
Volume (In 000)	4,275,593.47	4,633,357.00	(357,763.53)	-7.72%
Value traded (In OMR mn)	992,716.69	958,869.40	33,847.29	3.53%
No. of Trades	163,954		Volume of Bonds	11,600,347

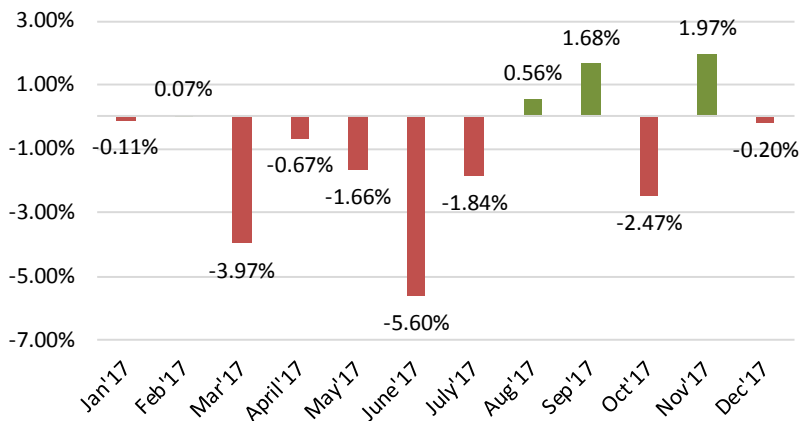
Factors were not only limited to local ones; many external factors came into force such as the geopolitical tensions including Qatar and Yemen crises which led to further pressures on foreign investors' sentiment. The period also saw summer holidays and Ramadan month. During August 2017, Omani market touched its low which was last seen in January 2016 when oil price touched their record low of USD 27 per barrel.

Later, the MSM30 recovered over one month and half. The period started with the listing of Al Ahlia Insurance companies followed by chain of IPOs. The recovery in oil prices and positive government disclosures about controlling deficit in the general budget along with commencing of key projects like BP Khazzan gas field with a daily production of 1 bcf of gas per day (bcf/d) and thus supporting the general budgeted earnings. After that, the benchmark registered a decline on Omantel Zain Acquisition uncertainty and investors monitoring of geopolitical updates and general cautious sentiment.

Last phase of the year, of which the MSM30 saw relatively stable performance, started from late of October and was filled in general with positive factors like the oil prices at record levels in two years and half in addition to expansionary budget announcement by regional countries which supported investors' confidence and trading activities.

The following chart, which is about the MSM30 monthly performance, reveals that June was the worst month mainly due to geopolitical factors. March was the second worst as the result of rise in tax and royalty fees impact on corporates results. The month of November was the best performer on better oil prices, positive macro figures and companies' disclosures.

MSM30 Monthly Performance - 2017



Source: MSM

U-Capital analysis shows that 18 companies have had share capital increases in 2017, through bonus shares (17 Companies), convertible bonds (2 companies). The total increases is equal to about OMR 86.2mn. Out of these companies, 12 belong to the financial sector (4 banks, 5 leasing companies, 1 insurance company and 2 Investment and holding companies), 4 Industrial companies and 2 Services companies.

On the other hand, 7 companies saw a share split including Muscat City Desalination Company, Muscat Electricity Distribution Company, Vision Insurance Company, Al Ahlia Insurance Company, Arabia Falcon Insurance Company, National Life & General Insurance Company and Oman Qatar Insurance Company. Moreover, four initial public offerings were recorded including Al Ahlia Insurance Co., Vision Insurance Co., Oman Qatar Insurance Co. and National Life & General Insurance Co.

Government Development Bonds

During the year, there were four Government Development Bond listings, i.e. issue 52 to Issue 55 amounting to OMR 600mn. More details in the following table:

Oman GDB Issues

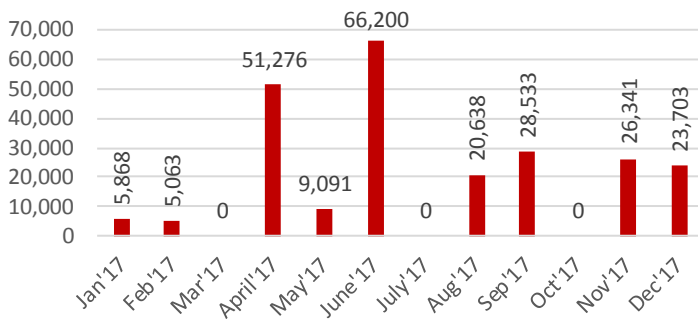
	Issue Date	Term (Years)	Coupon (%)	Avg. Yield (%)	Amount Applied (OMR mn)	Amount Allotted (OMR mn)	Subscribed (x)
GDB 52	15.02.17	7	5.00%	5.08%	259.67	150.0	1.73
GDB 53	15.05.17	6	5.25%	5.07%	325.54	150.0	2.17
GDB 54	20.09.17	10	5.75%	5.44%	260.90	150.0	1.74
GDB 55	20.11.17	7	5.25%	4.91%	287.98	150.0	1.92

Source: CBO / Reuters

Tenders

Based on U-Capital database, the total number of tenders awarded in the past year amounted to approximately OMR 236.7mn, down by 44.2% on yearly basis. Major contracts were for water distribution networks, health equipment, education sector, airports and logistic projects. The second quarter registered the highest value of awarded tenders amounting to OMR 126.56mn. On monthly basis, June'17 was the highest with total awarded tenders of OMR 66.2mn.

Awarded Tenders by Month, OMR (000)



Source: Media, U Capital

Special Deals

The total value of special deals carried out on the Muscat Securities Market in 2017 has exceeded OMR 206.5mn, i.e. a yearly increase of 184.4% mainly supported by deals on OMINVEST and Bank Sohar. Most of the deals were carried out within the Financial and Service sectors. Following table shows top five deals in terms of value:

Top Five Special Deals in terms of Value

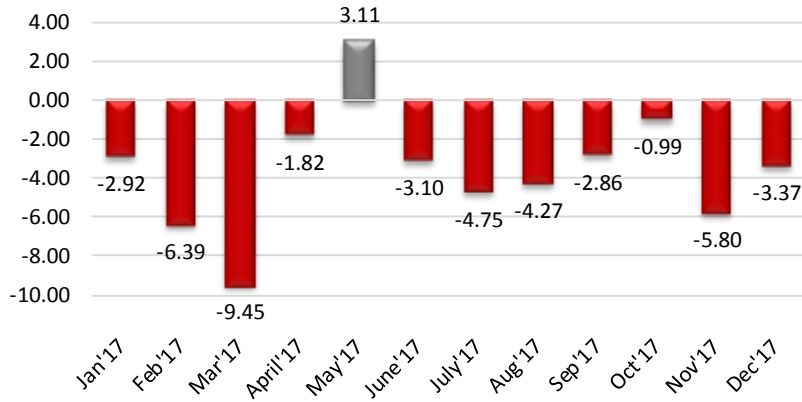
2016			2017		
Company	Date	OMR	Company	Date	OMR
PHOENIX POWER	27-Sep-16	17,825,455	OMINVEST	9-Nov-17	50,144,828
Omantel	30-Nov-16	7,039,742	BANK SOHAR	5-Oct-17	27,662,693
AL FAJAR AL ALAMIA	9-Nov-16	7,000,000	BANK SOHAR	20-Sep-17	20,740,000
SEMBCORP SALALAH	24-Feb-16	6,998,205	BANK SOHAR	27-Aug-17	12,948,216
Bank Sohar	30-Nov-16	4,631,871	BANK SOHAR	1-Mar-17	8,564,223

Source: U-Capital, MSM

Buy & Sell Activity by Groups

For the third year, foreign institutional investments exited the market as they registered a net sell of OMR 84.75mn in 2017. This pressures was absorbed by local institutional investments who registered a net buy of OMR 103.8mn. The following chart shows the net activities of the foreign institutional investments on monthly basis.

Foreign Institutions - Net Buy (Sell) , OMR mn



Source: MSM, U Capital

IPO During 2017

The year remained pretty active in terms of IPO. Five IPO materialized during the year while four of them got listed in 2017 and listing of one was pushed into 2018. Four IPOs which were listed during the year belonged to the insurance sector which as per regulation had to go public. Overall the size of the five IPO's was OMR 43.1mn and total amount raised was OMR 169.2mn. Amongst all the IPOs, Vision Insurance was the only one which witnessed undersubscription while all other IPOs were substantially oversubscribed.

Name of Company	Listing Date	Size (OMR mn)	Subscription (OMR mn)
Al Ahlia Insurance	17-Aug-17	7.5	18.2
Vision Insurance	23-Aug-17	4.1	2.0
Oman Qatar Insurance	19-Oct-17	4.0	5.6
National Life & General Insurance	6-Dec-17	21.2	21.4
Muscat City Desalination Company	2-Dec-18	6.3	122.0

Source: U Capital & Media

Key Disclosures by Companies

Listed companies' disclosures covered various topics like mergers /acquisitions, establishing new companies, selling assets and the impact of increase of power costs on operations.

1Q'17

- Salalah Mills's board of directors approved the study of the merger proposal by Salalah Macaroni Company (SAOC).
- Al Anwar Holding company sold partially its stake in Falcon Insurance Company SAOC for total net sale of OMR 2.432mn

2Q'17

- Al Anwar Holding Co. reached an agreement to purchase 43.51% in Canadian Innovation Company for Education Services
- Al Anwar Holdings SAOG (Al Anwar) has entered into a Shareholder's Agreement with Hormozgan Cement Co. (HCC), Iran to establish "Hormuz Al Anwar Cement SAOC" (HAC) with an object to start a greenfield cement grinding unit in the Special Economic Zone, Al Duqm (SEZD).
- Al Madina Investment company disclosed that it sold its full stake in Al Madina Takaful S.A.O.G equal to 8.64% of the share capital of the company
- Oman Investment & Finance disclosed that its increased shareholding in Afaq Al Musana Trading LLC from 60% to 92%.
- Muscat Gases Company has signed a conditional agreement regarding its intention to transfer its industrial gases business to a new wholly owned subsidiary LLC and subsequently sell 70% of the share capital of the subsidiary LLC to Air Products Leasing B.V (AP)
- Oman Fisheries Company signed a memorandum of understanding with Japan's Company (Kyumura) to implement joint projects aimed at developing the fishing fleet of Oman Fisheries Company for the commercial fishing of tuna fish and other high value species in Japan and European countries

3Q'17

- United Finance Company decline the offer by Alizz Islamic Bank about the possible merger between them.
- Fajar Al Alamia announced has formed a new LLC company in the name of Geodynamics Mideast LLC in Fujairah, UAE
- Raysut Cement sold the stake in Oman Portuguese Cement Product Company
- Oman Chlorine Company: started that the commercial operations of Union Chlorine plant in the Abu Dhabi Industrial Zone with a designed capacity of 70 Metric Tons Per day.
- The board of Atyab Investment LLC, a 100% subsidiary of Oman Flour Mills, has approved a 40% shareholding in "soya crushing project" along with other investors.
- Omantel acquired 9.84% of Zain's capital for USD 846mn.

4Q'17

- Oman National Investment Corporation SAOC ("ONIC"); a subsidiary of Oman International Investment and Development Company SAOG ("OMINVEST"), signed a Sale Purchase Agreement ("SPA") with Oman Investment Fund ("OIF") for the purchase of 15% of shares in OMINVEST
- The Ministry of Transport and Communication will not renew the concession agreement (the management and operation of Port Sultan Qaboos) for another year with the Port Services Corporation
- Al Wusta Cement company LLC, which is a joint venture between Oman Cement and Raysut Cement, has been allotted 500,000 Sq.m of land for setting-up of a new cement plant in Duqm
- Omantel acquired 12.1% of Zain's capital for about USD 1.4bn.
- ("OMINVEST") signed a Portfolio Sale Purchase Agreement with Al Anwar Holding S.A.O.G for three investments
- Oman Orix Leasing Company and National Finance Company agreed to merge

Key News

- Oman Broadband Company is working on establishing company for telecom towers in coordination with local patterns and international experience houses .
- Oman’s tourism development and UAE DAMAC have announced a deal to renovate Mina Sultan Qaboos Waterfront and redevelop the historic port into a USD1bn major
- The Abu Dhabi based renewable energy company “Masdar” signed a contract to build a wind farm “the Dhofar Wind Power” with production capacity of 50 MW.
- Qatar Ports Management Company (Mwani Qatar) and Asyad (Oman Global Logistics Group which is 100% owned by the government), have signed a memorandum of understanding (MoU) for the development of logistics services, shipping and passenger ferry services.
- Start of production of tight gas from Khazzan gas field with 1 billion cubic feet of gas per day (bcf/d).
- The government of Oman decision to cancel the current bidding for third mobile license and exchanged it with set up of local firm through investment funds and a strategic global partner with technical expertise will guide the new company in the market.
- Orpic Logistics Company (OLC) has commissioned and started operations at its oil storage facility in Al Jifnain, near Muscat.
- Announcement by Karwa Motors, which is owned 70% by Qatar Transport and 30% by Oman Investment Fund, to invest about USD90mn in the first phase of the project to produce 1,000 buses per year and up to 3,000 buses at the peak capacity of the plant.
- Consortium include Acwa Power, Veolia and Dhofar International for Investment and Development Co SAO, was awarded a contract to design and build a water desalination plant in Salalah by the Oman Power and Water Procurement Company (OPWP). It is expected that the plant will generate 25 million gallons of water through reverse osmosis technology.
- Oman’s Council of Ministers has approved a proposal submitted by the Capital Market Authority (CMA) setting out a strategy for the introduction of Mandatory Healthcare Insurance for private sector, effective from 2018.
- Petroleum Development Oman (PDO) and GlassPoint Solar have announced the completion of the construction of the first block of the Miraah solar plant safely on schedule and on budget, and the successful delivery of steam to the Amal West oilfield. Upon completion, Miraah will be among the world’s largest solar plants delivering 1,021 MW of peak thermal energy to generate 6,000 tons of steam per day used for heavy oil production.

Key Regulations / Administration Decisions and Developments during 2017

Year 2017 has included plenty of initiatives and legislation aimed at developing the financial, banking and other sectors. Focus on investors' awareness and efforts to increase transparency were critical to develop the financial markets. Some significant ones include:

1Q'17

- Awareness publications include how to read and interpret of the financial statements and the terminology of financial markets.
- Awareness of the key role of the investment funds and investment advantages in these funds.
- The draft law on the mineral wealth in the Sultanate has been completed
- Raise tax rate on companies and Royalty on telecom companies
- Increase the central bank's capital from OMR 760mn to OMR 1bn
- Cost reflective tariffs (CRT) came into effect starting the year. Targeted consumers including government, commercial and industrial consumers consume around 30% of the supply of electricity and accounts for 20% of government subsidies for power generation every year. Big consumers who consume at least 150 megawatts per year.

2Q'17

- The work on the draft regulation of Real Estate Investment Trusts (REITs) is nearing completion.
- A decision with rules for investment of funds in the social insurance and pension funds was issued.

3Q'17

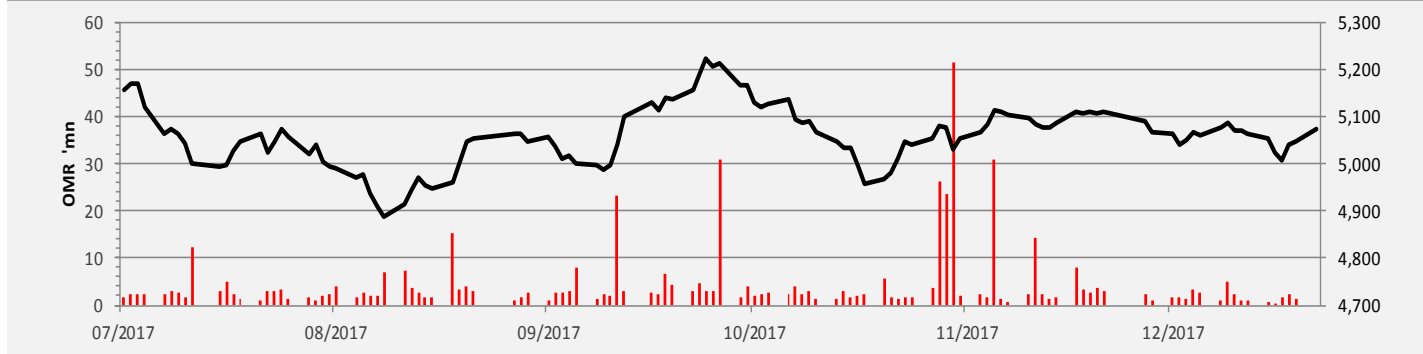
- The Omani FDI law is being revised comprehensively in order to attract long-term foreign investment flows

4Q'17

- As per H.M. guidance, the Council of Ministers said 25,000 jobs will be offered for Omanis in both public and private institutions during the first phase starting December.
- The Capital Market Authority board has given its approval to transform the Muscat Securities Market into a government-owned company as the bourse will be a company wholly owned by the State General Reserve Fund. Later it will be listed for a public offering.
- To alleviate the impact of risks in agricultural activities, an insurance policy was rolled out for Omani farmers
- Oman is nearing completion of major reforms in the waste management sector.
- The allocation of an item in the annual State Budget to support citizens affected by the removal of fuel subsidies.
- Majlis Al Shura's approved the vision of the Economic and Financial Committee on the Unified Excise Tax Agreement of the States of the Gulf Cooperation Council and the Unified Excise VAT Agreement of the States of the Gulf Cooperation Council.
- Issuance of Royal Decrees regarding endorses oil agreements between the Government and some companies
- Postponement of VAT to 2019 and imposing "selective" tax by mid-2018
- Amending the minimum shareholder's ownership disclosure by companies to be at 1% from current 5%.

MSM Snapshot

MSM 30 Index (RHS) vs. Turnover (LHS)



Sector Name	Bloomberg Code	Current	Previous	Points	YoY
				Yearly	%
Financial Sector	BKINV	7,474.16	7,671.92	(198)	-2.6%
Industry Sector	INDSI	6,833.39	7,407.29	(574)	-7.7%
Services Sector	SINSI	2,643.43	3,058.76	(415)	-13.6%

Source: MSM, Bloomberg

Main Indicators - Sectors	Beta	52-Week High	52-Week Low	Div. Yield %	P/B (x)
MSM 30		5,869.59	4,879.07	5.1%	1.04
Financial Sector	0.52	8,274.98	7,100.26	4.3%	0.84
Industry Sector	0.35	9,662.07	6,624.29	4.2%	1.37
Services Sector	0.49	3,064.76	2,410.70	5.5%	1.63

Source: Bloomberg

Oman Government Bonds

Gov't Development Bond Issue	Maturity Date	Issue Value OMR	Coupon	Listing Date
42	5/13/2020	80,000,000	4.25%	5/20/2013
44	11/25/2018	100,000,000	3.00%	12/11/2013
45	12/15/2019	200,000,000	3.00%	12/24/2014
46	2/23/2025	200,000,000	4.50%	3/4/2015
47	8/9/2020	300,000,000	3.00%	8/11/2015
48	2/22/2021	100,000,000	3.50%	2/24/2016
49	4/25/2023	100,000,000	1.00%	5/4/2016
50	10/3/2022	100,000,000	5.00%	10/13/2016
51	12/27/2026	150,000,000	5.50%	1/1/2017
52	2/20/2024	150,000,000	5.00%	2/26/2017
53	5/15/2023	150,000,000	5.25%	5/21/2017
54	9/20/2027	150,000,000	5.75%	9/25/2017
55	12/19/2024	150,000,000	5.25%	12/24/2017
SOVEREIGN SUKUK ISSUE 1	11/3/2020	250,000,000	3.50%	11/10/2015

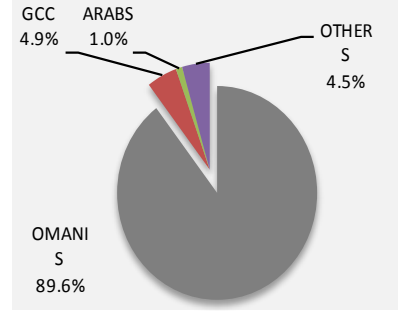
International Bonds	Issue Value USD
OMAN 3 ½ 07/14/22	500,000,000
OMAN 3 ¾ 06/15/21	1,500,000,000
OMAN 4 ¾ 06/15/26	2,500,000,000

Source: MSM, Bloomberg

Top Equity Gainers	Price	Chg	Chg
	OMR	OMR	%
OMAN FISHERIES CO	0.147	0.086	140.98%
OMAN TEXTILE HOLDING CO SAOG	0.570	0.260	83.87%
OMAN ORIX LEASING CO.	0.175	0.055	45.60%
AL MADINA TAKAFUL CO SAOC	0.099	0.028	39.44%
OMAN FLOUR MILLS	0.936	0.236	33.71%

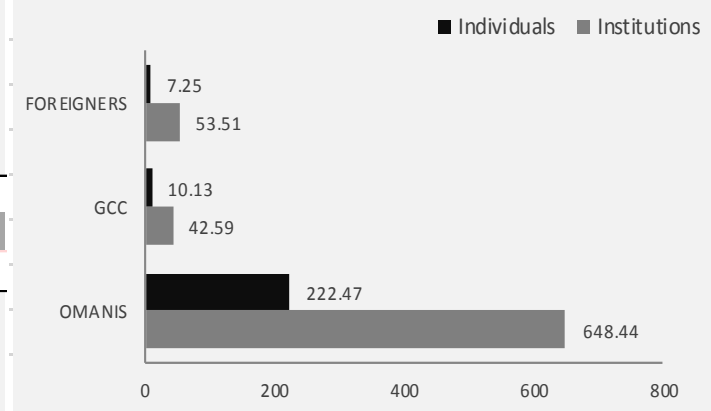
Nationality Trading - Buy

	Value mn
OMANIS	3,817.3
GCC	210.0
ARABS	44.0
OTHERS	189.9



Top Equity Losers	Price	Chg	Chg
	OMR	OMR	%
NATIONAL SECURITIES	0.040	-0.058	-59.18%
MUSCAT INSURANCE	0.856	-0.934	-52.18%
NATIONAL GAS CO	0.285	-0.286	-50.18%
RAYSUT CEMENT CO	0.780	-0.700	-47.30%
AL MAHA CERAMICS	0.292	-0.208	-41.60%

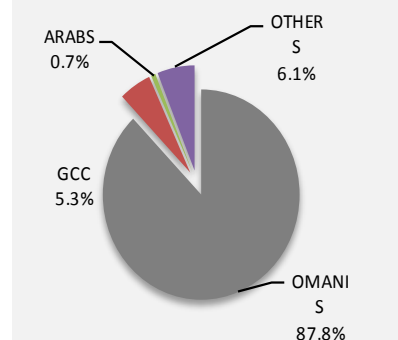
Buy Side (In OMR mn)



Top Co. -Value	Price	Value	Mkt Share
Companies	OMR	in OMR 000	
BANK SOHAR	0.152	105,247.4	10.6%
BANKMUSCAT SAOG	0.394	101,392.5	10.2%
OMINVEST	0.466	87,245.1	8.8%
OMAN TELECOMMUNICATIONS CO	1.205	78,359.9	7.9%
OOREDOO	0.526	59,213.7	6.0%

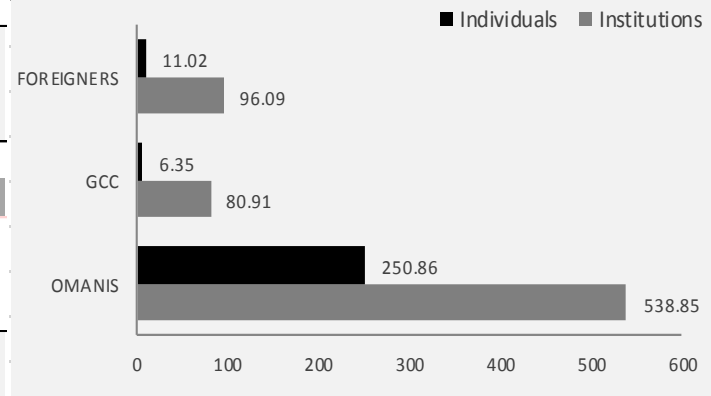
Nationality Trading - Sell

	Value (OMR 000)
OMANIS	870,910.4
GCC	52,713.3
ARABS	7,246.8
OTHERS	60,655.0



Top Co. -Volume	Price	Volume	Mkt Share
Companies	OMR	in 000	
BANK SOHAR	0.152	641,219.5	15.0%
AL MADINA TAKAFUL CO SAOC	0.099	400,567.2	9.4%
BANK NIZWA	0.090	300,319.9	7.0%
OMAN FISHERIES CO	0.147	289,000.5	6.8%
AL MADINA INVESTMENT CO	0.056	262,720.7	6.1%








Sell Side (In OMR mn)



Market Capitalization	
(In Billion)	
USD	OMR
12.35	4.79

No. of Companies		
Equal	Down	Up
22	75	22

GCC & International Market Snapshot

GCC Market Indices		Current Close	Previous Close	Change	YTD	P/E TTM	P/B
		Index	Index		%		
	Muscat Securities Market	5,099.28	5,782.71	-683.43	-11.82%	12.25	1.04
	Saudi Stock Exchange	7,226.32	7,210.43	15.89	0.22%	17.08	1.63
	Kuwait Stock Exchange	6,408.01	5,748.09	659.92	11.48%	15.65	1.03
	Qatar Exchange	8,523.38	10,436.76	-1913.38	-18.33%	13.78	1.26
	Bahrain Bourse	1,331.71	1,220.45	111.27	9.12%	7.87	0.80
	Dubai Financial Market	3,370.07	3,530.88	-160.81	-4.55%	21.29	1.23
	Abu Dhabi Sec. Exchange	4,398.44	4,546.37	-147.93	-3.25%	15.77	1.28

Source: Bloomberg, U-Capital

World Markets	Country	Value	YTD
Europe			
UK	FTSE 100	7,687.77	7.6%
Germany	DAX	12,917.64	12.5%
France	CAC 40	5,312.56	9.3%
US			
USA	DJIA	24,719.22	25.1%
USA	S&P 500	2,673.61	19.4%
USA	NASDAQ	6,903.39	28.2%
Asia Pacific			
Japan	NIKKEI 225	22,764.94	19.1%
Hongkong	HANG SENG	29,919.15	36.0%
Arab			
Tunis	Tunis Se Index	6,281.83	14.4%
EGYPT	The Egyptian Exchange	15,048.08	21.9%
Jordan	Amman Stock Exchange	2,126.78	-2.0%
Palestine	Palestine Sec. Exchange	572.28	7.9%
Lebanon	Blom Stock Index	1,148.57	-5.2%
MSCI			
	Bahrain	76.44	4.5%
	Kuwait	506.76	12.8%
MSCI	Oman	559.03	-16.1%
	Qatar	708.25	-14.4%
	UAE	383.11	-1.3%
	GCC Countries	444.87	-3.7%

Source: Bloomberg at 3.00 P.M Muscat time (note: Sat and Sun global markets are closed)

Commodity Prices	YTD
	%
USD	
Brent Crude (per bbl)	66.87
WTI Crude (per bbl)	60.42
Oman Crude Oil	64.43
Gold 100 OZ (per oz)	1,303.05
Silver (per oz)	16.94
Platinum (per oz)	930.50
Copper, MT	7,247.00
Aluminium, MT	2,268.00
Lead, MT	2,487.50
Zinc, MT	3,319.00
Nickel, MT	12,760.00

Source: Bloomberg (Sat and Sun market is closed)

Cross Rates of Major World Currencies			
Currency	Code	USD/1 Unit	Units/1 USD
EURO	EUR	1.201	0.833
British Pound	GBP	1.351	0.740
Japanese Yen	JPY	0.009	112.690
Chinese Renminbi	CNH	0.154	6.514
Indian Rupee	INR	0.016	63.871
Russian Ruble	RUB	0.017	57.626
Canadian Dollar	CAD	0.796	1.257
Australian Dollar	AUD	0.781	1.281

Source: Bloomberg

2018 Muscat Securities Market Technical Forecast

Muscat Securities Market Index during 2017 witnessed several fluctuations, in addition to several events during the last few months, including economic and geopolitical events affected by the fluctuations in oil prices that affected the region, either positive or negative. 2016 We will review the movement of the general index of the Muscat Securities Market in detail during each quarter:

During first Quarter: As shown in the chart, the market index has been consolidating at the beginning of the first quarter (reaching its highest point in 2017 at 5,869.59 points), but it continued to decline at the end of the quarter to reach 5,550 points and during the period the market maintained its volatility.

During Q2: MSM30 index during the period, trying to rise, even slightly to the level of 5,630 points (the highest level in the second quarter) fluctuating in the movement above the level of 50% Fibonacci.

During Q3: With the beginning of the third quarter to the end of 2017, the Muscat Securities Market Index stabilized within a horizontal volatility forming an inverted head and shoulders. (in this quarter the lowest point reached in 2017 at 4,879.07 points).

Finally, the region's markets rebounded, supported by higher oil prices (after the extension of the OPEC cut-off agreement), which began to rise significantly in the quarter. Its performance will be reflected in the beginning of the first quarter of 2018. The index is expected to rise by 270 points in the first half of 2018, exceeding the 5,300 points mark.

Technically exposing the market in 2017 for corrective periods (the index crossed the 100-day moving average index with MSM index seven times during the year).

In 2018, especially in the first half, we expect the Fibonacci level at 38.2% to remain at 5,300 (1st resistance). Once the index passes this level it will face the second resistance level at 5,600 points.

In terms of other technical indicators, we start with the Bollinger Band Index which is resisting the Mid-line at 5,090 points, and it is technically expected that the MSM index will cross up the top line of the Bollinger.

The MFI and the RSI are technically positive; the first stands at 49 degrees and it is technically excellent (above 50 degrees the risk is higher in this indicator) and the second stands at 45 degrees (above 70 degrees the risk will be increased).

In the performance of the moving averages index, during the year, especially in the last quarter, the index crossed both the 50-day and 100-day moving averages. We see that the index has an initial support at 4,880 points (second support at 4,465 points) and a resistance at 5,750.

Factors that might affect the sectors' performance in 2018

Global Catalysts & Risks

- Cryptocurrencies will remain in focus and central banks worldwide will begin to regulate it.
- Fed has signalled three more rate hikes in 2018; valuation will become expensive and financing costs especially in emerging and developing countries are expected to rise. So, we could be seeing interest rates of 2% or more by 2019, which would likely increase demand for dollars.
- Dollar would further strengthen which will pressurize other currencies. We might witness devaluation by some to counter the effects.
- U.S. tax cuts could boost near-term growth would give rise to capital flight towards US.
- According to the Bank for International Settlements, China's debt to GDP ratio reached 257% in 2017, higher than the United States' 152%, and more than most emerging economies. The IMF anticipates that by 2020 China's domestic credit to GDP ratio will rise to 300%. In May, for the first time since 1998, Moody's Investors Service downgraded China's sovereign credit rating and we might witness same if situation aggravates in 2018.
- China will further reinforce capital outflow laws after it announced at the end of 2017 that all outbound investments by Chinese firms and their overseas subsidiaries to be registered
- With recent rhetoric from the OPEC and Russia suggest that they will maintain production cuts into late 2018 at the very least, US shale oil production will effectively pick up, giving rise to volatility in oil prices.
- Gold could be volatile next year, with its price often linked to the US dollar. Should the dollar rise, gold prices may fall, as investors often move their money out of commodities and into greenback when the dollar is rising.
- Heading into 2018, Britain's future relationship with the EU continue to influence the markets. Brexit negotiations are not due to conclude until October 2018 but, if the recent impasse is anything to go by, that date could easily be pushed back.
- Accelerating geopolitical tensions are wildcards to the global outlook. Any improvement/worsen move, will affect positively/negatively local markets and demand.

Regional Catalysts & Risks

- Most of GCC countries announced expansionary budget for the year 2018 to boost growth and ease liquidity further. We expect such announcement was need of the hour and would go a long way in boosting the sentiments of local as well as international investors.
- We still see no risk to the GCC pegs in the short and medium terms, despite the emergence of an offshore discount for QAR.
- Increasing fuel/energy costs in GCC countries which will increase production costs on companies, especially those in the industrial sector, consequently impacting margins negatively.
- Index revisions by MSCI, S&P and FTSE and their additions to emerging market indexes would witness's positive foreign inflows especially in the case of countries which are on the radar i.e. Saudi Arabia and Kuwait.
- In Saudi Arabia, VAT inclusion, hike in electricity tariff, increase in selective fuel prices and revised foreign worker's/dependents fees. All these would weaken the consumer's purchasing power and increase the cost of operations for the corporates.

- Saudi Aramco IPO would remain in the news throughout the year in 2018 after confirmation from Saudi Crown Prince and Aramco CEO. If materialized and listed in Saudi Arabia it would change the whole market structure.
- Qatar being the worst performer within GCC, opens up room for investment, but a lasting recovery in this market is unlikely until the political dust settles. World Cup related contracts will pick up in Qatar which will give push to the related sectors.
- Dubai Expo related contracts will also gain heat during the year.
- Expected US Federal Reserve moves regarding increasing interest rates, will result in more pressures on financing costs for corporates, oil and commodity prices but would be beneficial for the banking sector.
- Gulf government's intention to raise international sovereign bonds or other debt tools would continue to raise the debt to GDP of the GCC countries.

Oman Catalysts & Risks

- We expect government to come up with expansionary budgets when compared with last year as oil prices have recovered and are expected to average higher than 2016-17.
- Oman Government will continue to fund its budget deficit by local as well as international borrowing which will help the government in setting benchmarks for different years of maturity levels.
- We believe government which was contemplating on changes on FDI law will announce its details soon, which will encourage more foreign investment. At the same time more free zones will be inaugurated as well to assist in the same cause.
- Inflation will increase because of higher fuel, electricity and oil products and enforcement of sin tax.
- We expect with OPEC and non-OPEC production cuts, oil price and economic condition in GCC and in particular, in Oman to improve, however our only concern is the revival of production from shale oil producers in response to expected increase in oil prices.
- We expect, government to continue to emphasize on importance of SME and would issue policies for the betterment of the sector.
- We might witness more IPOs in insurance and power sector and some government companies in oil and gas sector might also go public.
- We expect full impact of increased cost of funding in 2018 after US Fed raised the interest rates three times in 2017 and also signalled three more hikes in 2018.
- We will see announcement of more and more public private partnership (PPP) programs so as to lessen the burden on the government.

Banking Sector

- Credit growth to pick up to an average of 6% over 2018-2021e
- We expect credit growth levels to revive 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.

- Net interest margins are already showing signs of improvement on improving yields on re-priced assets; rising cost of funding continues to dampen yield improvement
- Limited growth in other operating income on highly competitive environment
- Cost-to-Income Ratio expected to improve on controlled costs and rising operating income across the sector
- Recovery in oil prices will positively impact revenues of the Sultanate which might lead to a reduction in the fiscal deficit of the country, leading to growth opportunities for banks as Government increases expenditure.
- The investment banking divisions of banks should witness additional support as the announced privatization of government entities, may yield stake sales or private placements requiring their expertise.
- We expect more convertible, perpetual and subordinated bond issues by local banks as at least local currency bonds of three banks are maturing in 2018.

Leasing Sector

- 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 entire sector has been facing upward pressure on cost of risk, with provision expenses shooting up for most of the companies.
- 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%
- 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.
- 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.

Cement Sector

- Realizations to remain under pressures on cheap landed cement and increasing competition due to entry of new players.
- Better control on operating costs is expected as both major local players i.e. Oman Cement and Raysut Cement are working on enhancing the utilization of Kilns and power sources.

- We continue to see continuing demand for cement in Oman supported by government and private sector focus on non-oil sector.
- Attempts to explore new markets will result in sustainable top earnings performance. Oman Cement is looking for Brazilian investors for new plant in Duqm besides the joint investment with Raysut Cement regarding Al Wusta Cement company LLC in Duqm
- Raysut Cement wide export model shall help the company in mitigating the negative business impact in Yemen.
- We expect more CAPEX in 2018 due to investments in new cement companies and enhancing the current production utilization levels.
- Both companies enjoy strong cash position and ability to maintain almost similar level of dividends.
- The more engaged of the government specialized funds in running companies within the sector instead of direct government ownership will result in higher efficient business run.

Telecom Sector

- We are positive on Omani Telecom sector despite of challenges within it as we see potential growth in many segments particularly broadband services and wholesale business.
- We believe the entry of third operator will take sufficient time to be implemented due to procedures and regulations attached to such move.
- The move by Omantel about acquiring 21.9% stake in Mobile Telecommunication Company (Zain Group) will result in tougher competition in the local market and create new game rules.
- We estimate more stability in Ooredoo Oman 2018 dividends compared with Omantel due to the increase of the financial burden carried by the latter.
- 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.
- We believe both player to incur additional CAPEX in the future due to coverage expansions and implementing of new technologies and security.
- The continuity of shifting towards smart applications by the government entities and the increasing activities in Oman Exhibition Centre will create demand for local telecom players
- Both companies (Omantel and Ooredoo Oman) enjoy strong cash flows and high dividends compared to their regional peer players. The average dividend yield is about 7.5%.
- Expect continuing pressures on revenues from national and international calls in addition to SMS on smart applications provided by Over the Top (OTT) services.

