



الخليجية بادر للأسواق المال ش.م.ع.م  
Gulf Baader Capital Markets S.A.O.C.



# H1 FY2010 Earnings Preview

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Omani Equities



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**H1 FY2010 Earnings Preview – Marginal decline in Earnings on YoY basis...**

- ✓ As per GBCM Research estimates, MSM 30 Index Earnings (Excluding Inv. Holding Cos, including extra-ordinary income) is estimated to report a decline of 3% on a YoY basis.
- ✓ However, the Q2FY10 earnings of the same is expected to grow by about 8.3% on a YoY basis

**Sectoral Earnings growth...**

- ✓ Expects the H1FY10 earnings of Banking sector to show a marginal growth of about 3.3% on a YoY basis
- ✓ Industry sector is estimated to report a marginal decline of about 1.4% YoY in H1 Earnings
- ✓ The performance of Services sector is expected to decline by about 10.4% on a YoY basis

**Recent market corrections lead to attractive valuations...**

- ✓ Positive outlook on Banking Sector and expects the H1FY10 earnings to bring in long term investors
- ✓ Commodity counters to show improved growth owing to improved input prices, while the volume pressure is seen in Cement Sector
- ✓ Oil marketing sector could come up with earnings surprise, while the telecom major might feel the pressure of competition

**Foot Notes:**

For companies with different year ending (Mar, June), we have taken the earnings data for the Jan to Jun 2010 period.  
We have taken the MSM 30 Index constituents as of 30-June-10, Not included the recent additions.  
Earnings projections of the Investment holding companies have been excluded.

| MSM 30 Index - H1FY2010 Earnings Estimates (In RO '000s)    | H1FY10 E       | H1FY09         | YoY (%)       |
|---|----------------|----------------|---------------|
| <b>Banking &amp; Leasing Sector</b>                         |                |                |               |
| National Bank of Oman                                       | 14,111         | 13,451         | 4.9%          |
| Oman International Bank                                     | 11,181         | 11,831         | -5.5%         |
| Bank Muscat **  | 52,275         | 60,438         | -13.5%        |
| Ahli Bank   | 6,381          | 3,419          | 86.6%         |
| Bank Sohar  | 5,872          | 1,671          | 251.4%        |
| Bank Dhofar   | 17,901         | 14,214         | 25.9%         |
| United Finance  | 822            | 64             | 1184.9%       |
| <b>Banking &amp; Leasing – Aggregate</b>                    | <b>108,543</b> | <b>105,088</b> | <b>3.3%</b>   |
| <b>Industry Sector</b>                                      |                |                |               |
| Al Anwar Ceramic  | 2,779          | 2,601          | 6.8%          |
| Al Jazeera Steel  | 1,132          | (2,084)        | 154.3%        |
| Const Materials   | (123)          | 338            | -136.5%       |
| Galfar Engineering  | (691)          | 8,448          | -108.2%       |
| Al Hassan Engineering                                       | 1,250          | 935            | 33.7%         |
| Oman Cable  | 3,268          | 1,006          | 224.8%        |
| Oman Cement ~~  | 19,266         | 12,585         | 53.1%         |
| Oman Flour Mills ^^   | 4,613          | 4,575          | 0.8%          |
| Raysut Cement ##  | 13,183         | 17,301         | -23.8%        |
| Voltamp transformers  | 1,446          | 1,072          | 34.9%         |
| <b>Industry Aggregate</b>                                   | <b>46,122</b>  | <b>46,777</b>  | <b>-1.4%</b>  |
| <b>Services Sector</b>                                      |                |                |               |
| Al Maha Petro   | 3,651          | 3,040          | 20.1%         |
| Oman Fisheries  | (119)          | 293            | -140.5%       |
| Oman Investment & Finance                                   | 1,175          | 1,675          | -29.8%        |
| Omantel***  | 64,131         | 73,038         | -12.2%        |
| Port Services Corp  | 2,993          | 2,997          | -0.1%         |
| Renaissance Services  | 9,772          | 9,936          | -1.7%         |
| Shell Oman Mrkt   | 7,240          | 6,456          | 12.1%         |
| Al Jazeera Services   | 615            | 2,379          | -74.1%        |
| <b>Services Aggregate</b>                                   | <b>89,459</b>  | <b>99,814</b>  | <b>-10.4%</b> |
| <b>MSM 30 Index - Aggregate Earnings (Ex. Inv. Holding)</b> | <b>244,124</b> | <b>251,679</b> | <b>-3.0%</b>  |

Source: Company Reports, GBCM Research Estimates

\*\* Bank Muscat H1 2009 figures includes extraordinary gain (HDFC) of RO 53.2 Million and had made provision for credit losses amounting to RO 40.2 million during Q2FY09

~~ Oman Cement Q2FY10 includes One off Income of RO 6.45 million (Post-tax) from Govt. Compensation

## Pre tax figures are given for Raysut cement, ^^ Oman Flour Mills (Jan-June period data)

\*\*\* Omantel Q1 2009 includes Insurance Claim settlement of RO 3.641 million; OIFC, Oman Fisheries (Jan-June period data)

## Banking &amp; Leasing Sector

| Company                                  | CMP (RO) | Current Rating | Net Profit (In RO 000s) |                |             | Comment  |
|--|----------|----------------|-------------------------|----------------|-------------|--|
|  |          |                | H1FY10 E                | H1FY09         | YoY (%)     |  |
| National Bank of Oman                    | 0.324    | BUY            | 14,111                  | 13,451         | 4.9%        | Could be a Earnings Surprise for the period, possibilities of provision write-back |
| Oman International Bank                  | 0.277    | Neutral        | 11,181                  | 11,831         | -5.5%       | Continue to report decline in PAT  |
| Bank Muscat **                           | 0.782    | BUY            | 52,275                  | 60,438         | -13.5%      | Core Performance remains robust, H1FY09 had huge one-off Provisions                |
| Ahli Bank                                | 0.262    | Accumulate     | 6,381                   | 3,419          | 86.6%       | Strong credit addition to continue   |
| Bank Sohar                               | 0.211    | Accumulate     | 5,872                   | 1,671          | 251.4%      | Marginal growth seen on a QoQ basis  |
| Bank Dhofar                              | 0.610    | Neutral        | 17,901                  | 14,214         | 25.9%       | Continue to show strong performance  |
| United Finance                           | 0.104    | Not Rated      | 822                     | 64             | NM          | Maintain similar performance on a QoQ basis  |
| <b>Banking &amp; Leasing - Aggregate</b> |          |                | <b>108,543</b>          | <b>105,088</b> | <b>3.3%</b> |  |

Source: Company Reports, GBCM Research

\*\* Bank Muscat H1 2009 figures includes extraordinary gain (HDFC) of RO 53.2 Million and had made provision for credit losses amounting to RO 40.2 million during Q2FY09

## Preview on Banking &amp; Leasing Sector...

Banking sector added about RO 164.2 million in Credit for Q1, we expect a similar credit addition for Q2. While, we saw a steep increase of about RO 698.1 million in Q1FY10 deposits.

On back of increase in deposits during Q1 along with increased cost of funds, we expects the net interest margin to show moderation on a QoQ basis.

We expect the non-operating income to show improved growth for the quarter and also expects the provisioning level to come to the normal levels. This in turn would provide improvement in Bottomline for the banks.

## Industry Sector

| Company                        | CMP (RO) | Current Rating | Net Profit (In RO 000s) |               |              | Comment  |
|--------------------------------|----------|----------------|-------------------------|---------------|--------------|--|
|                                |          |                | H1FY10 E                | H1FY09        | YoY (%)      |  |
| Al Anwar Ceramic               | 0.301    | BUY            | 2,779                   | 2,601         | 6.8%         | Continue to operate in Peak capacity utilization   |
| Al Jazeera Steel               | 0.300    | Neutral        | 1,132                   | (2,084)       | 154.3%       | Marginal growth expected to be seen on QoQ basis   |
| Const Materials                | 0.069    | Not Rated      | (123)                   | 338           | -136.5%      | Still continue to see numbers in red   |
| Galfar Engineering             | 0.420    | Neutral        | (691)                   | 8,448         | -108.2%      | Marginal profit could be seen in Q2 with 85% completion of Muscat expressway                             |
| Al Hassan Engineering          | 0.476    | Accumulate     | 1,250                   | 935           | 33.7%        | Continue to report stable growth in PAT  |
| Oman Cable                     | 1.058    | Not Rated      | 3,268                   | 1,006         | 224.8%       | Copper prices continue to remain strong, however the presence of lower capacity utilization is a concern |
| Oman Cement <sup>~</sup>       | 0.686    | BUY            | 19,266                  | 12,585        | 53.1%        | One off income to boost Q2 Earnings  |
| Oman Flour Mills <sup>^^</sup> | 0.680    | Not Rated      | 4,613                   | 4,575         | 0.8%         | Stable growth seen, market portfolio could see impact  |
| Raysut Cement <sup>##</sup>    | 1.401    | Neutral        | 13,183                  | 17,301        | -23.8%       | Volume pressure to show impact on the sales  |
| Voltamp transformers           | 0.430    | Neutral        | 1,446                   | 1,072         | 34.9%        | Expects improved performance on a QoQ basis  |
| <b>Industry Aggregate</b>      |          |                | <b>46,122</b>           | <b>46,777</b> | <b>-1.4%</b> |  |

Source: Company Reports, GBCM Research

<sup>~</sup> Oman Cement Q2FY10 includes One off Income of RO 6.45 million (Post-tax) from Govt. Compensation  
<sup>##</sup> Pre tax figures are given for Raysut cement, <sup>^^</sup> Oman Flour Mills (Jan-June period data)

## Preview on Industry Sector...

Owing to presence of higher commodity prices, we expect the commodity majors to show improved growth on a YoY basis. However the demand for end products has not improved, which in turn lead to lower capacity utilization.

Cement Sector continue to witness volume pressure during Q2FY10, however the companies have still maintained their higher realizations in the local market. Oman Cement could have one off income (Govt. Compensation) reflecting in its H1 Earnings, while Raysut had no impact on the same.

Al Anwar Ceramics continue to report strong numbers on back of peak capacity utilization along with the maintenance of higher realizations. Engineering major, Galfar numbers could be under pressure due to the cost escalation in Muscat Expressway. While Al Hassan Engineering could maintain its strong performance.

## Services Sector

| Company                   | CMP (RO) | Current Rating | Net Profit (In RO 000s) |               |               | Comment  |
|---------------------------|----------|----------------|-------------------------|---------------|---------------|--|
|                           |          |                | H1FY10 E                | H1FY09        | YoY (%)       |  |
| Al Maha Petro             | 8.053    | Accumulate     | 3,651                   | 3,040         | 20.1%         | Improved demand to show positive impact to PAT           |
| Oman Fisheries            | 0.117    | Not Rated      | (119)                   | 293           | -140.5%       | The numbers could still be in red                        |
| Oman Investment & Finance | 0.259    | Not Rated      | 1,175                   | 1,675         | -29.8%        | Marginal decline in PAT, market portfolio to have impact |
| Omantel ##                | 1.163    | Accumulate     | 64,131                  | 73,038        | -12.2%        | Competition pressure to have impact on PAT               |
| Port Services Corp        | 0.466    | Accumulate     | 2,993                   | 2,997         | -0.1%         | Market portfolio to drag, while Core growth to maintain  |
| Renaissance Services      | 0.733    | BUY            | 9,772                   | 9,936         | -1.7%         | Marginal growth on a QoQ basis, Expects improved H2      |
| Shell Oman Marketing      | 1.880    | Accumulate     | 7,240                   | 6,456         | 12.1%         | Earnings surprise on back of improved demand, margins    |
| Al Jazeera Services       | 0.204    | Not Rated      | 615                     | 2,379         | -74.1%        | Market portfolio to show impact on PAT                   |
| <b>Services Aggregate</b> |          |                | <b>89,459</b>           | <b>99,814</b> | <b>-10.4%</b> |  |

Source: Company Reports, GBCM Research

## Omantel Q1 2009 includes Insurance Claim settlement of RO 3.641 million OIFC, Oman Fisheries (Jan-June period data)

## Preview on Services Sector...

Oil Marketing Sector could see Earnings surprise for H1FY10 mainly on back of improved demand from Retail sector. We also expect the margins to improve mainly on back of cost control initiatives taken by the companies during last fiscal year.

Renaissance Services expects to report marginal growth on a QoQ basis, while the H1FY10 earnings could see marginal fall on YoY basis. The company had reported lower tax rate during Q2 of last fiscal year.

Omantel is expected to report a decline of 12% YoY on its H1FY10 numbers mainly on back of intense competition which in turn lead to tariff war along with the consolidation impact of Pakistani Subsidiary, Worldcall Telecom.

The port major, Port Services could report a marginal fall in bottom-line, while the results of OIFC and Al Jazeera Services could have a impact due to subdued equity markets performance in Q2.

**Outlook - H1FY10 Earnings could lead to entry of long term investors, Valuations attractive...****Top Picks in MSM...**

✓ **Banking Sector** continues to be our favorable Sectoral pick. Valuations continue to remain Attractive.

- ✓ Positive on Bigger Banks - Bank Muscat, NBOB
- ✓ Positive on Smaller-Sized Banks - Bank Sohar, Ahli Bank

✓ **Oil Marketing sector** could be a favorable sector for long term investors on back of improved earnings.

✓ Picks in **Industry sector** continue to remain as Al Anwar Ceramics, Oman Cement.

- ✓ Capacity expansion stories in Industry Sector could provide long term benefits like Al Anwar Ceramics
- ✓ Valuations attractive in Oman Cement, the one-off Government compensation income could be a boost to the dividends

✓ Services sector sees no major trigger in the near term. While investor could pick up Renaissance Services for the long term, valuations remains attractive.

✓ GBCM Research expects the MSM performance in short to medium term to watch out for **triggers in the form of H1FY10 earnings**.

✓ We feel the market correction over the last two months has made the **valuations attractive for key counters**. Though we need to watch out for global triggers, which could drag the markets in the near term.

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