



Ubhar Capital

اوبار كابيتال



UBHAR CAPITAL SAOC

SECTOR OUTLOOK, OMAN

2nd March 2023, Riyadh

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MSX – Current Sector Representation and Potential Changes

Sector	Market Capitalisation (OMR mn)	% of total	Status	Possible New Listing Candidates
MSX (excluding Bonds, Sukuks and closely held Companies)	8,573.1	100		
Financial (Banks, Leasing, Inv Holding & insurance)	5,587.2	65	Well represented and undergoing consolidation	
Industrial (Ceramics, Cables, Engineering, consumer staple)	976.8	11	fragmented	Sohar Aluminum
Telecom	976.4	11	Well represented	Vodafone Oman
Energy	219.5	3	Missing upstream & mid stream representation	Abraj (upstream listing in March 2023), OQ Gas Network (Possible listing in H2 2023), OQ Refineries & Petroleum, EDO
Utilities	289.8	3	fragmented	Nama Holdings, Majis (expected listing in 2024)
Tourism	68.5	1	Missing Major Player	OMRAN
Education	27.5		Missing Major Player	Sultan Qaboos University
Consumer Staple	330.5	4	Missing Major Player	Oman Food Investment Holding
Healthcare	0.0	0	absent	
Real Estate Sector	0.0	0	absent	Oman Shapoorji
Family offices	0.0	0	absent	Bahwan Group, Tawoos Group, Zubair Group , Khimji Ramdas

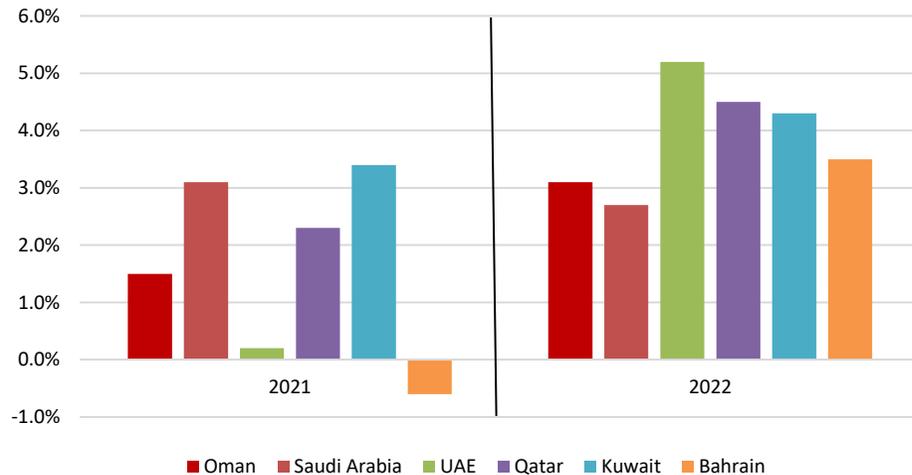
Oman's Real Economic Growth – Reversing Trend; Inflation Remains Largely Contained

Real GDP growth rate - Oman vs. GCC (3-year averages)

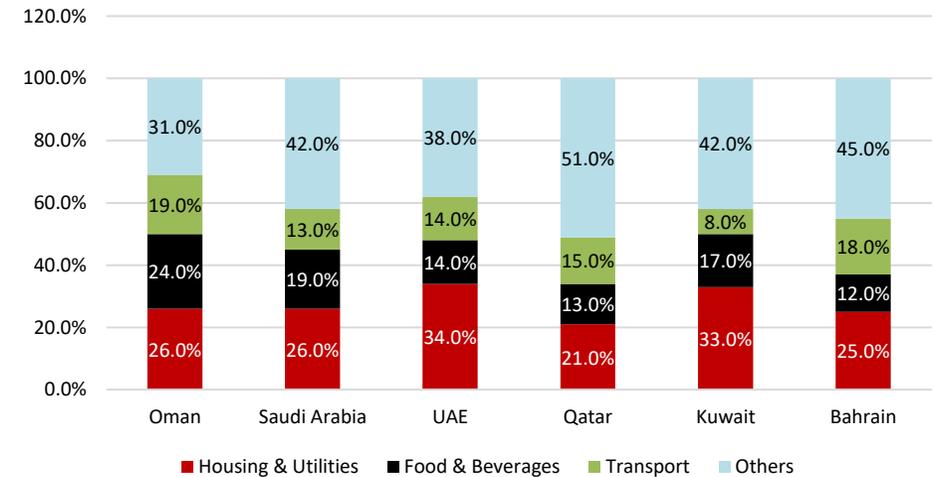
	2003-2005	2006-2008	2009-2011	2012-2014	2015-2017	2018-2020	2021-2023e
Oman's real GDP growth (average)	0.9%	6.2%	4.0%	5.1%	3.4%	-1.0%	3.8%
GCC's real GDP growth (average)	7.0%	5.7%	4.3%	4.2%	1.9%	-0.5%	4.4%

Source: IMF, U Capital Research

Inflation in GCC - 2021 vs. 2022



Weights of Sectors in Consumer Price Indices - GCC

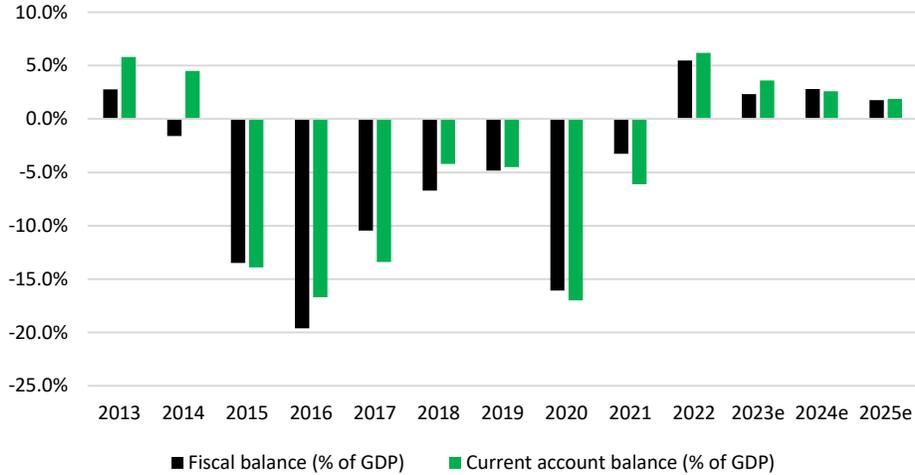


Source: IMF, U Capital Research

- Real GDP growth rate is reversing the trend in Oman towards the upside, led by higher hydrocarbon prices and its impact on oil GDP plus a sharp reversal in total household spending from a -0.5% YoY real growth in 2020 to ~2% in 2022 and is expected to reach 3% in 2023 and beyond.
- GCC inflation remained broadly contained in 2022; the increase in inflation was largely led by food and transport prices. This trend has been reversed in 2022, including in Oman. Towards the end of 2022 inflation spillover was seen in the tourism/hospitality sector as economies open up post pandemic.

Oman's Fiscal and External Position – Twin surpluses for Oman in 2022 and projected till 2025

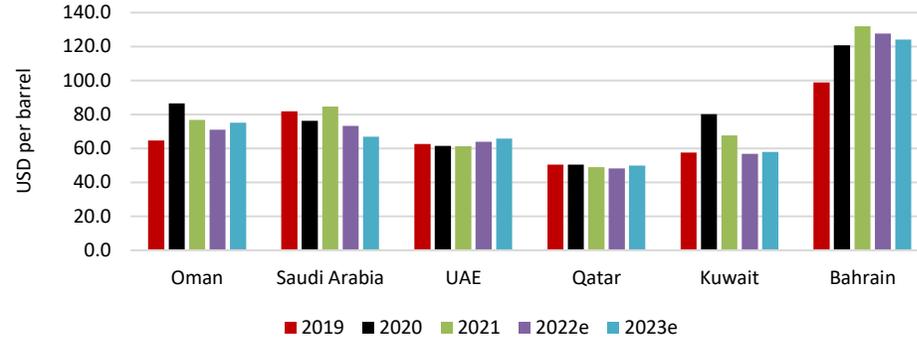
Fiscal and External Balances (% of GDP)



Source: IMF, U Capital Research; *For 2023, IMF is projecting a surplus while the official 2023 budget projects a deficit of OMR 1.3bn – c.3% of 2023 nominal GDP as per IMF's estimate

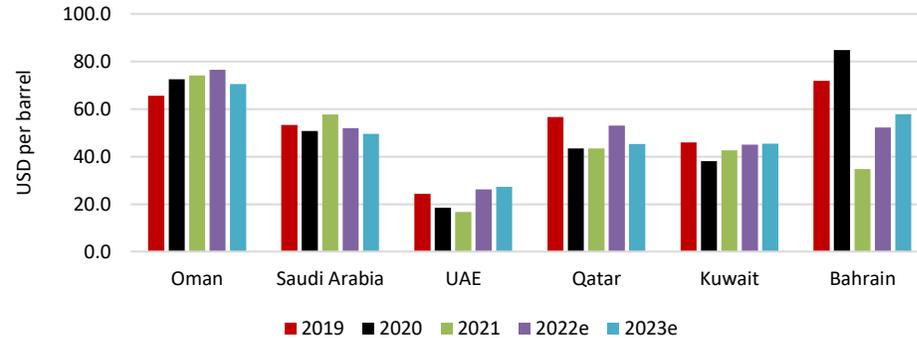
- Fiscal and external balances have improved considerably in 2022 but expected to moderate over the medium-term.
- The twin surpluses are likely to be driven by elevated hydrocarbon prices and implementation of measures under the Medium-Term Fiscal Plan which targets the durable elimination of fiscal deficits.

Fiscal Breakeven Crude Oil Price



Source: IMF, U Capital Research

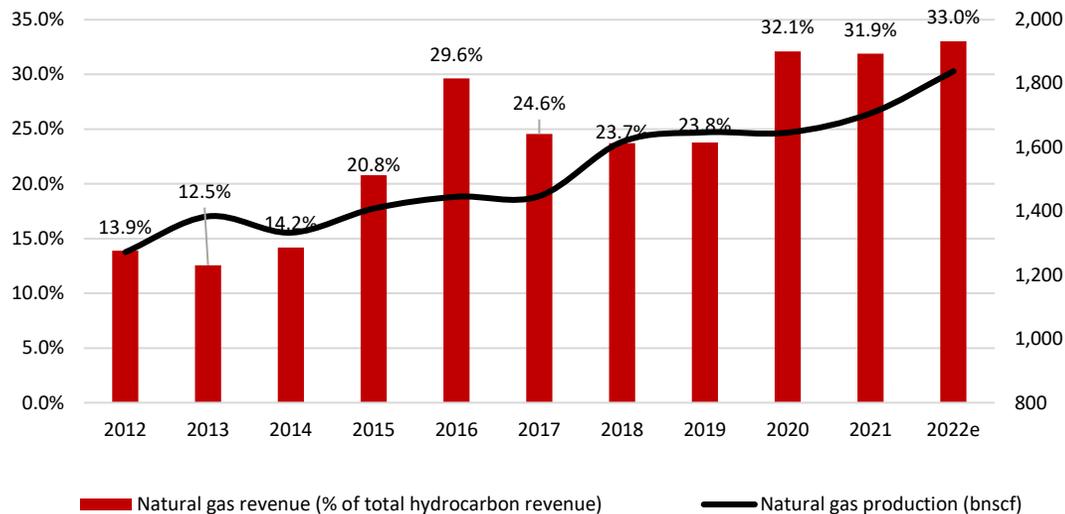
External Breakeven Crude Oil Price



Source: IMF, U Capital Research

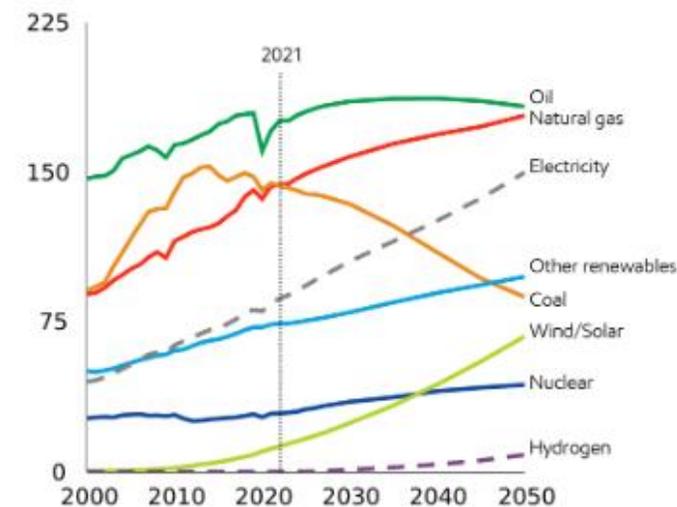
Structural Change #1 – Oman shifting from oil & gas revenue to natural gas

Shift in Oman's Hydrocarbon Revenues Profile - From Oil to Natural Gas



Source: NCSI, U Capital Research

Primary energy – Quadrillion Btu



Source: Exxon Mobil, U Capital Research

- Oil demand is expected to plateau in this decade. Natural gas demand over this period is expected to be the preferred transitional fuel, away from carbon-intensive oil and coal.
- Over the next 30 years, natural gas' demand is expected to grow to 30% of all demand.
- Renewables and nuclear see strong growth, contributing around 65% of incremental energy supplies to meet demand growth.
- Demand for natural gas will exceed energy demand from coal during this decade.
- **Oman stands favorably positioned for this structural shift as its hydrocarbon revenue profile has already seen a 2.5x shift (from 13% to 33%) over the last 10 years.** It is expected that while Oman's oil production will likely increase by 8% by 2025, the gas production will likely rise by 10% over the same period, thereby increasing the gas-to-oil revenue balance even more.

Structural Change #2 – Oman’s debt profile is exhibiting a considerable downward shift in a glided manner

General government gross debt (as a % of GDP)

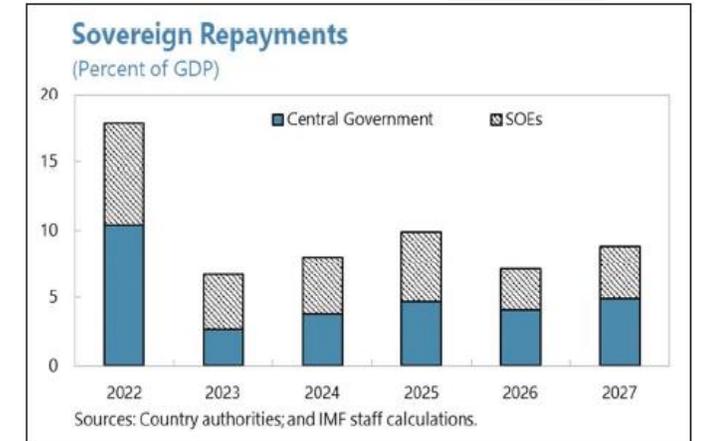
	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Oman	13.9%	29.3%	40.1%	44.7%	52.5%	69.7%	62.9%	45.4%	41.1%	38.1%	35.8%
<i>-of which external government debt</i>	-	-	-	-	39.3%	51.7%	47.2%	31.3%	30.3%	29.7%	28.6%
Saudi Arabia	5.8%	13.1%	17.2%	18.3%	22.5%	32.4%	30.0%	24.8%	25.1%	24.6%	24.0%
UAE	16.7%	19.4%	21.6%	20.9%	27.1%	39.7%	34.7%	30.7%	29.5%	29.0%	28.3%
Qatar	35.5%	46.7%	51.6%	52.2%	62.1%	72.6%	58.4%	46.9%	43.4%	42.4%	41.2%
Kuwait	4.7%	10.0%	20.5%	15.1%	11.6%	11.7%	8.7%	7.1%	6.9%	6.5%	6.3%
Bahrain	66.2%	81.3%	88.1%	94.6%	101.6%	129.7%	128.5%	119.5%	121.7%	124.3%	127.1%

Source: IMF, U Capital Research

Oman Ratings Migration - Long-term foreign currency rating

	2015	2016	2017	2018	2019	2020	2021	2022
Moody's rating	A1	BAA1	BAA2	BAA3	BA1	BA3	BA3	BA3
<i>Outlook</i>	<i>Negative</i>	<i>Stable</i>	<i>Negative</i>	<i>Negative</i>	<i>Negative</i>	<i>Negative</i>	<i>Stable</i>	<i>Positive</i>
S&P rating	BBB+	BBB-	BB	BB	BB	B+	B+	BB
<i>Outlook</i>	<i>Negative</i>	<i>Negative</i>	<i>Stable</i>	<i>Stable</i>	<i>Negative</i>	<i>Stable</i>	<i>Positive</i>	<i>Stable</i>
Fitch rating	-	-	BBB-	BB+	BB+	BB-	BB-	BB
<i>Outlook</i>	-	-	<i>Negative</i>	<i>Negative</i>	-	<i>Negative</i>	<i>Negative</i>	<i>Stable</i>

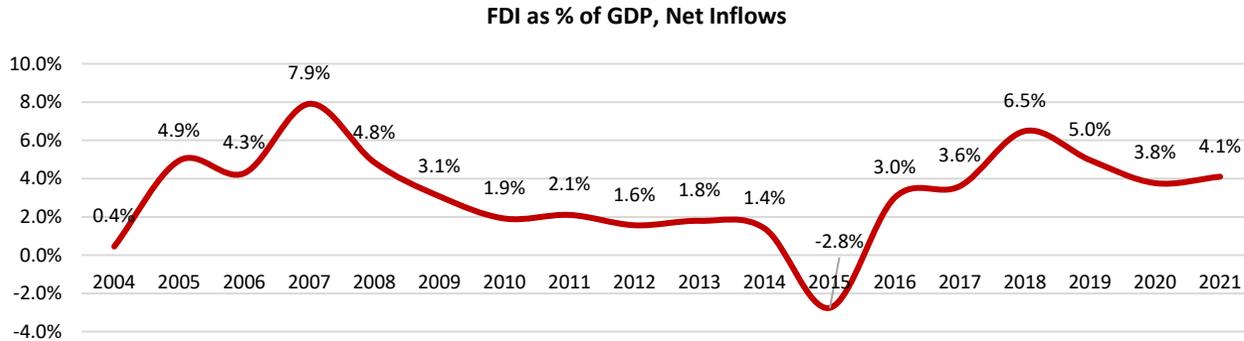
Source: Rating agencies, U Capital Research



Source: IMF, U Capital Research

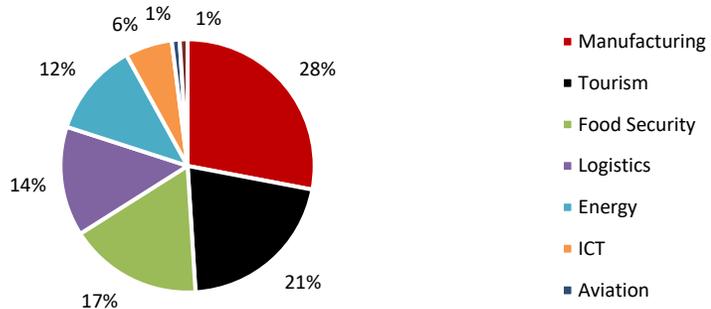
- The government has recommended that a large portion of **surpluses will be directed towards reduction of general government debt**, to be in line with the telegraphed glided path which is a **structural shift in policy**.
- In line with the above framework, the government has been repaying and prepaying both the bonds as well as the loans.
- This compares favorably with Qatar which is also seeing a reduction in debt via buying back of bonds in a measured manner decline.
- Decrease in public debt-to-GDP ratio and reduction in external debt, along with improvement in fiscal and external balance profile has implied a **favorable ratings migration**. Sovereign debt repayments schedule is much more comfortable than in 2022

Structural Change #3 - FDI to increase considerably over the next three years, courtesy new investment opportunities



Source: IMF, World Bank, U Capital Research

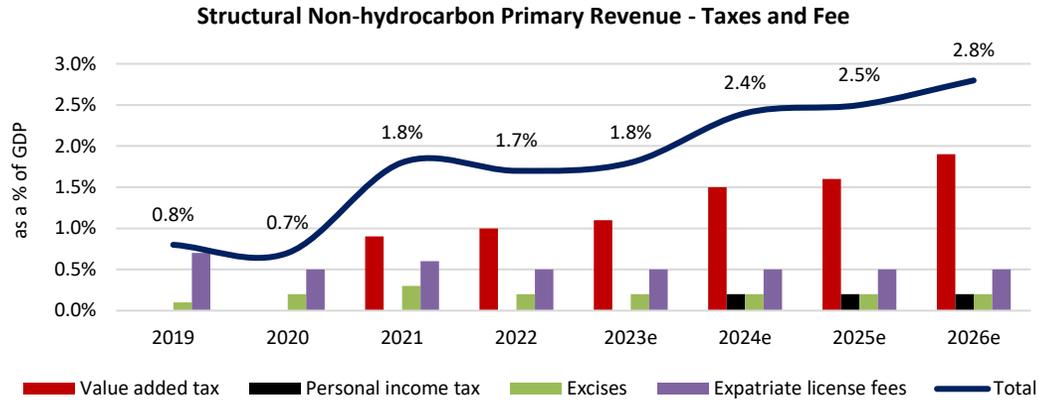
Allocation of the planned OMR 11bn investment to different sectors



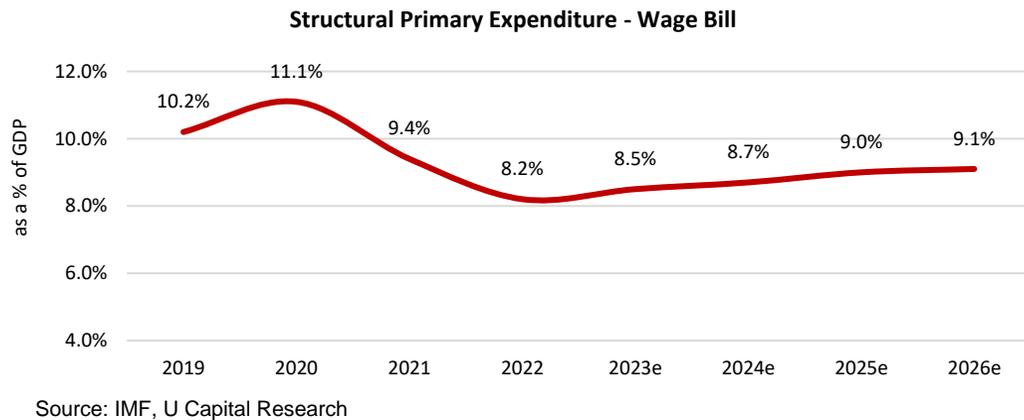
Source: Media Reports, U Capital Research

- As per National Investment & Export Development Programme (Nazdaher), OMR 11bn worth of investment projects are being offered till 2025. Of this, a target of OMR 4.3bn has already been achieved.
- **Owing to the above opportunities, FDI as % of GDP could potentially double to its historical high of 8% of GDP by 2025.**
- Saudi PIF has already allocated USD 5bn for investment in Oman.
- OIA and Abu-Dhabi based ADQ have signed a MoU to assess about OMR 3bn investments in Oman in areas such as green hydrogen, renewable energy, etc.
- MSX in conjunction with OIA is taking initiatives to fuel Oman's capital market growth. Under this, OIA is undertaking privatization of several state-owned enterprises, with **Abraj Energy** being the first IPO. OIA also intends to divest a sizeable stake in **OQ Gas Network** IPO – both of them to be finalized in 2023.
- By 2025, OIA intends to divest over OMR 1.9bn worth of privatization, with half the proceeds coming in from oil & gas sector

Structural Change #4 – Increase in non-hydrocarbon revenues (taxes) and reduction in wage bill

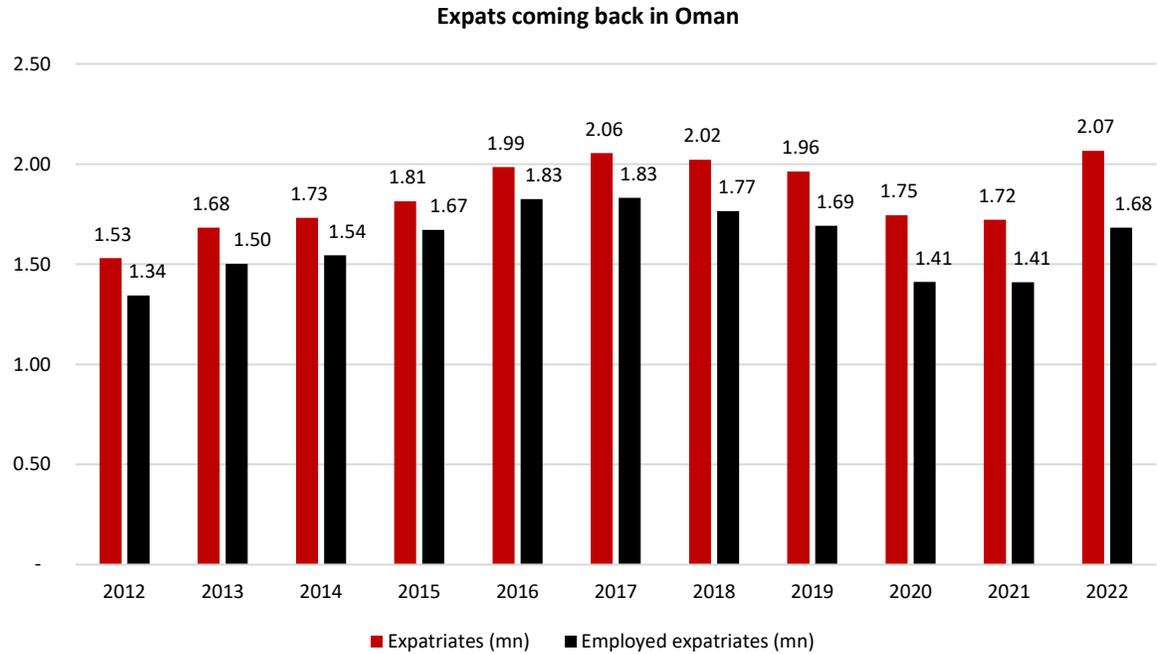


➤ Despite introduction of VAT in 2021, the tax revenue base has been low. However, this is being addressed through strengthening of tax administration and introduction of personal income taxation on high income earners (the first of its kind in the region). The net result is expected to yield an incremental 1.1% of GDP in revenues by 2026. This will help to reduce reliance on hydrocarbon revenues.



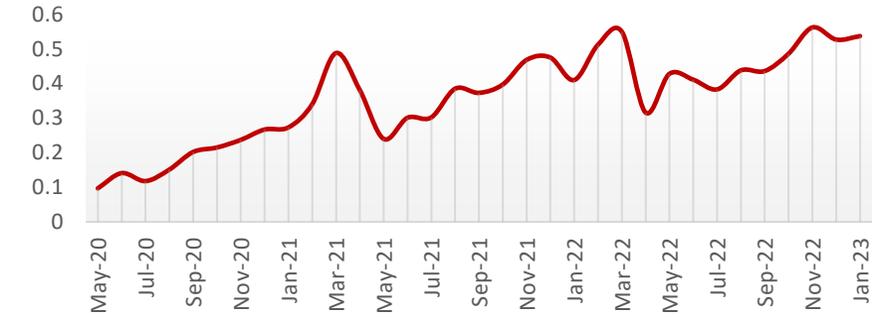
➤ Savings from merging several ministries and mandatory retirement scheme with revised salary scales for new hirings would result in 1.2% of GDP equivalent of savings in structural terms.

Increase in expatriate workforce in Oman – Declining trend arrested; Tourist arrivals exhibit a sharp increase post COVID-19

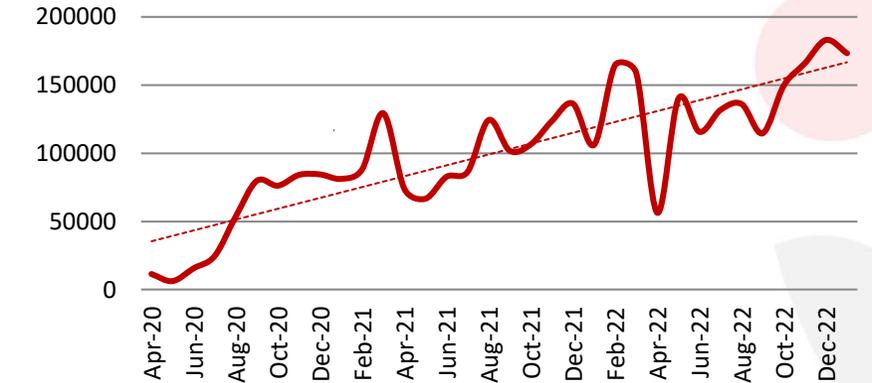


Source: NCSI, U Capital Research

Occupancy Rate %



Total No. of Guests

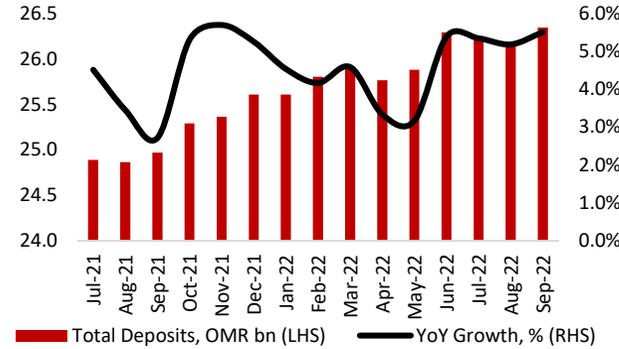


- The total number of expatriates have exceeded the peak achieved in 2017. The number of employed expatriates are at the pre-COVID levels. However, this data masks the decomposition between blue-collared and the white-collared workers. Still, it should be positive for household spending in Oman
- Tourist arrivals have been strong in Oman with over 60% increase on a YoY basis, resulting in hotel revenues being up 50% in 2022.

BANKING SECTOR

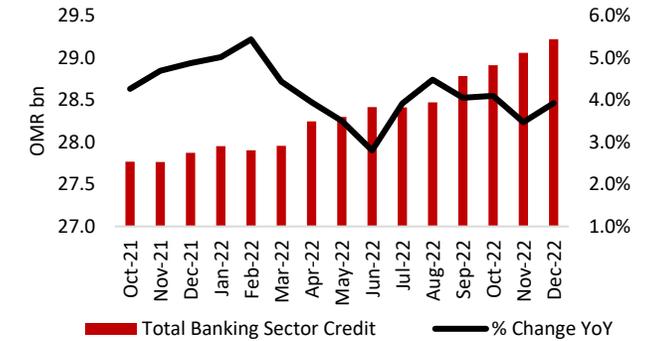
- Oman’s banking system has exhibited resilience during the shocks of 2015-2016 and 2021.
- Financial soundness indicators appear healthy, owing to strong buffers before entering the crisis.
- Banks’ capital and liquidity ratios are well above regulatory requirements. The CBO requires the registered banks in Oman to maintain minimum capital adequacy ratio (CAR) of 12%. Additionally, the CAR threshold requires a capital conservation buffer (CCB) of 2.5% annually in addition to a 1% of prompt corrective action. CAR in Oman as of end Sep 2022 was around 18.5%.
- As of end-June 2022, the NPL ratio was around 4.0 percent, with provisioning exceeding 113 percent, while profitability has improved meaningfully, with ROA increasing to 1.3% in 2022 from its bottom of 0.9% in 2020; ROE increased from 5.7% to 8.2% during the same period.
- However, private sector credit growth has remained subdued @ 2.3% as risk management framework has stayed dominant. Conventional Banks which accounted for 82% of the system credit (and formed similar level of deposits), grew at the same lending pace.
- Omani banking sector have had low reliance on wholesale markets. Government and Public sector enterprises have been an important source of funding ~ 33% of the total deposit base.
- Omani banks had a healthy CASA ratio of 55% - low-cost deposit base reliance – which has helped in times of rising interest rate regime
- Personal/consumer and housing loans to corporate and commercial loans have a 65:35 split

Omani Banking Sector - Total Deposits



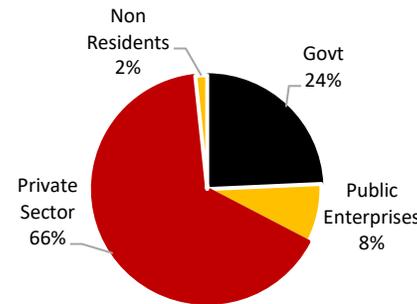
Source: CBO, U Capital Research

Omani Banking Sector - Total Credit



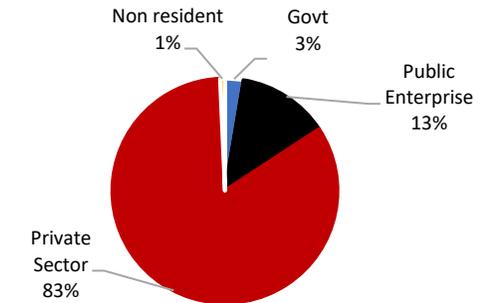
Source: CBO, U Capital Research

Total Deposit Concentration - Sept'22



Source: CBO, U Capital Research

Total Credit Concentration - Sept'22



Source: CBO, U Capital Research

- Oman's banking sector's direct and indirect real estate exposure equates to one-third of their lending portfolio. Within this real estate exposure, residential mortgages formed around 17.5% of lending in 2021. In addition, commercial real estate exposure formed around 3.4% of the total lending portfolio.
- Long maturity profiles, the prevalence of fixed-rate mortgages, and stabilization of property prices, supported by improvement in economic and demographic indicators relieve any immediate concerns regarding residential mortgages in the backdrop of rising interest rates.
- CBO's June 2022 Credit Conditions Survey showed that demand for loans from businesses and households was strong during 2021 as the economy started to recover.
- The outlook for 2022 remained positive with survey respondents anticipating a solid increase in credit demand and a more willingness to lend.
- Looking forward, the demand for business and household lending along with an overall improvement in credit conditions appeared to remain supportive of economic growth. Additionally, Vision 2040 related projects along with new projects linked to KSA and UAE should be supportive of lending growth in 2023 and 2024.

Oman : Financial Soundness Indicators of the Banking Sector , 2016-22

	2016	2017	2018	2019	2020	2021	Jun-22
Growth							
Lending	10.1	6.4	6.4	3.1	3.3	4.4	3.3
Deposit	5.2	5.6	7.8	1.7	2.9	5.3	2.1
Profitability							
Return on Assets	1.4	1.5	1.6	1.4	0.9	1.1	1.3
Return on Equity	10.5	9.3	10.6	9.4	5.7	6.8	8.2
Liquidity							
Net Stable Funding Ratio	110.6	116.2	114.6	116.3	116.7	118.6	117.2
Liquidity Coverage Ratio	259.4	215.9	253.6	220.1	196.3	212.1	189.6
Capital Adequacy							
Capital Adequacy Ratio	16.7	17.4	17.9	18.5	18.8	19.4	18.6
Tier I Ratio	14.9	15.8	16.6	17.4	17.8	18.5	17.8
Loan Quality							
NPLs	2.1	2.4	2.7	3.5	4.2	4.2	4.3

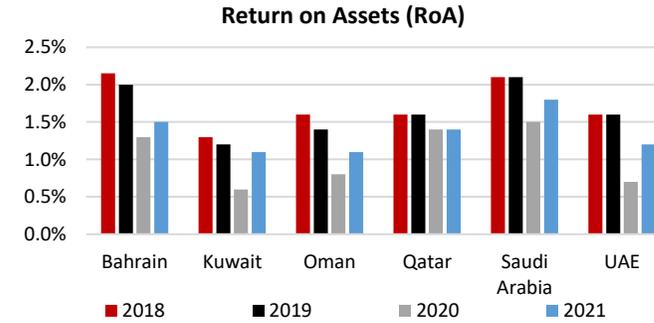
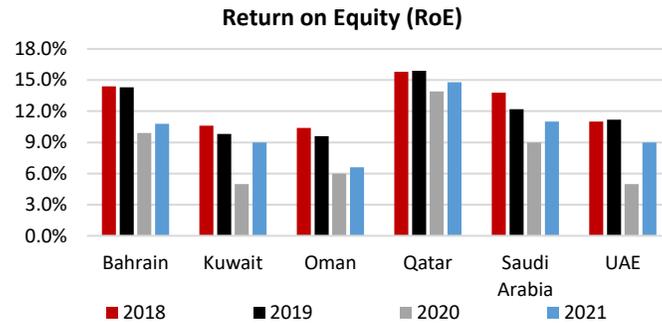
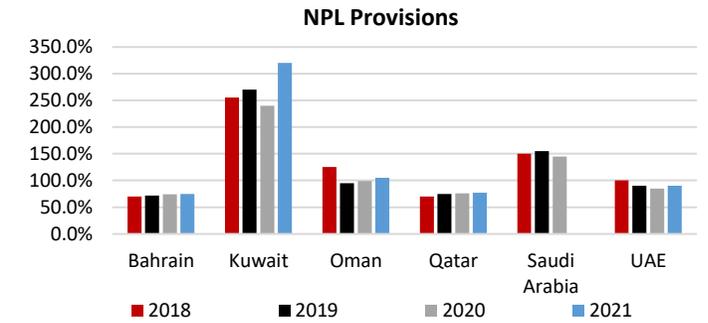
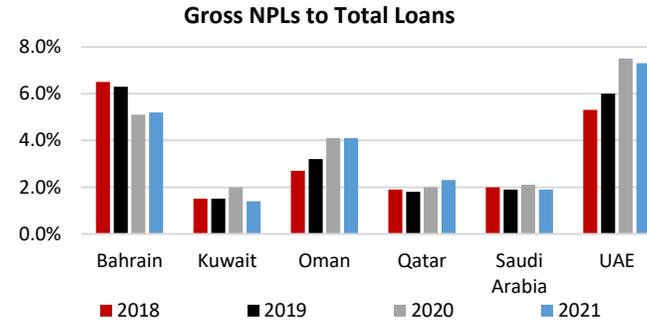
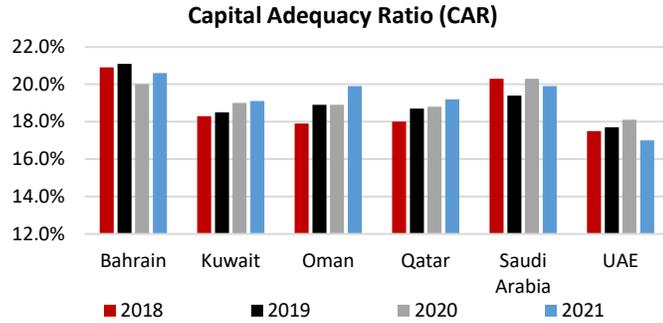
Source: CBO, IMF, U Capital Research

Banking Sector Plays & Valuations

Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
Bank Muscat	2139.3	13.1	1.2	5.3	10.3
Nat Bank of Oman	429.2	11.5	0.9	2.8	8.5
Bank Dhofar	452.4	17.4	0.8	3.1	2.5
Ahli Bank	329.5	9.9	1.1	5.3	10.4
Sohar Int Bank	449.8	11.5	0.9	4.6	6.0
HSBC Oman	320.1	11.3	0.9	5.0	8.0
Oman Arab Bank	197.0	37.2	0.6	N/A	1.5
Bank Nizwa	219.2	16.5	0.9	5.1	5.9

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023

Oman Banks vs. GCC Banks – A Comparison



Source: IMF, U Capital Research

Omani Insurance Sector and Forecasts

HEADLINE INSURANCE FORECASTS (OMAN 2019-2026)

Indicators	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Gross life premiums written, OMRmn	60.7	53.8	57.3	58.4	60.8	63.9	66.8	69.9
Gross life premiums written, OMR, % y-o-y	1.8	-11.4	6.6	1.9	4.2	5	4.6	4.7
Gross life premiums written, USDmn	157.9	139.8	149.1	151.9	158.2	166.1	173.8	181.9
Gross life premiums written, USD, % y-o-y	1.8	-11.4	6.6	1.9	4.2	5	4.6	4.7
Gross non-life premiums written, OMRmn	425.9	412.1	505.5	520	558.6	595	634.1	677.5
Gross non-life premiums written, OMR, % y-o-y	5.4	-3.2	22.6	2.9	7.4	6.5	6.6	6.8
Gross non-life premiums written, USDmn	1,107.6	1,071.9	1,314.7	1,352.5	1,452.8	1,547.4	1,649.2	1,762.1
Gross non-life premiums written, USD, % y-o-y	5.4	-3.2	22.6	2.9	7.4	6.5	6.6	6.8

Source: Fitch, Oman CMA, U Capital Research

- The insurance market is fragmented, and consolidation continues to be the theme. National Life & General Insurance (the leader in health insurance), Oman completed the acquisition of RSA Middle East in 2022, making it a wholly-owned subsidiary. Similarly, OQIC completed the acquisition of Vision Insurance.
- Non-life insurance accounts for the majority of underwriting active in the Omani market. In 2022, the overall growth in the non-life market is expected 2.9% in 2022 but expect to grow to pre-covid levels of 2019.
- Strongest growth is expected in the leading health insurance segment (almost 40% of non-life) which has benefited from the expansion in mandatory covers. The second-most promising sector remains the motor vehicle insurance sector (almost 1/4th of non-life) which is expected to grow at a lesser rate at ~5.5% till 2026. Demand in the motor segment has been hindered by the weak auto sales market due to reduction in expats. However, the numbers is rebounding, and we expect growth to exceed pre-COVID levels.
- Property insurance, which forms around 18% of non-life premiums, is expected to grow ~4% till 2026 as private consumption rises and gross capital formation expands

Insurance Sector Plays & Valuations

Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
National Life	90.1	24.6	1.23	N/A	4.6
Oman United Insurance	30.4	11	1.06	11.5	10
Oman Reinsurance	28.1	16.9	0.97	N/A	N/A
Dhofar insurance	22.7	5.8	0.82	6.6	9.6
Madina Takaful	15.8	15.1	0.71	7.8	-2.4
Oman Qatar Insurance	14.8	5.6	0.65	2.7	15.4

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023

UTILITY SECTOR – THE STRUCTURE

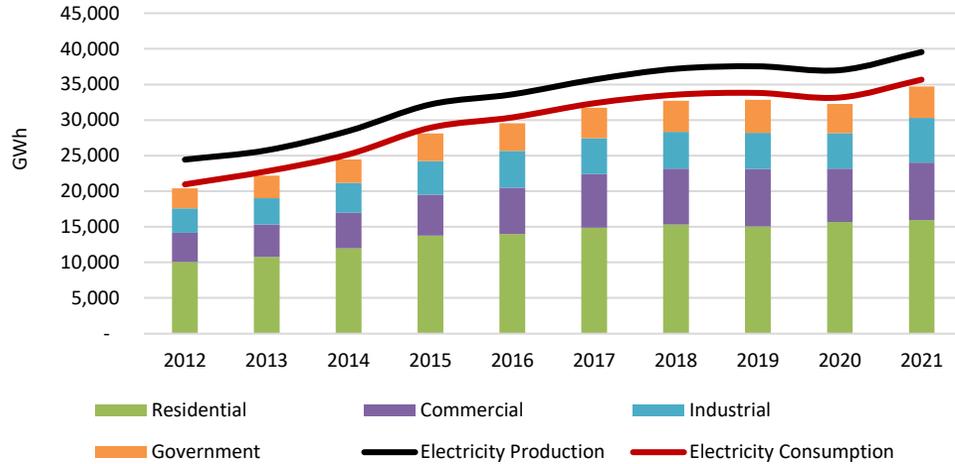


Source: ASPR Annual Report, U Capital Research

Oman’s power network is divided into four geographical regions — the Main Interconnected System (MIS), the Duqm Power System, the Dhofar Power System (DPS), and the Musandam Power System, while desalinated water supply networks are segregated into Main Interconnected System, the Sharqiyah Water Network, and the Dhofar Water Network.

UTILITY SECTOR – ELECTRICITY

Oman's Electricity Generation and Consumption Trend



Source: NCSI Statistical Yearbook, U Capital Research

MENA Power Risk-Reward Index

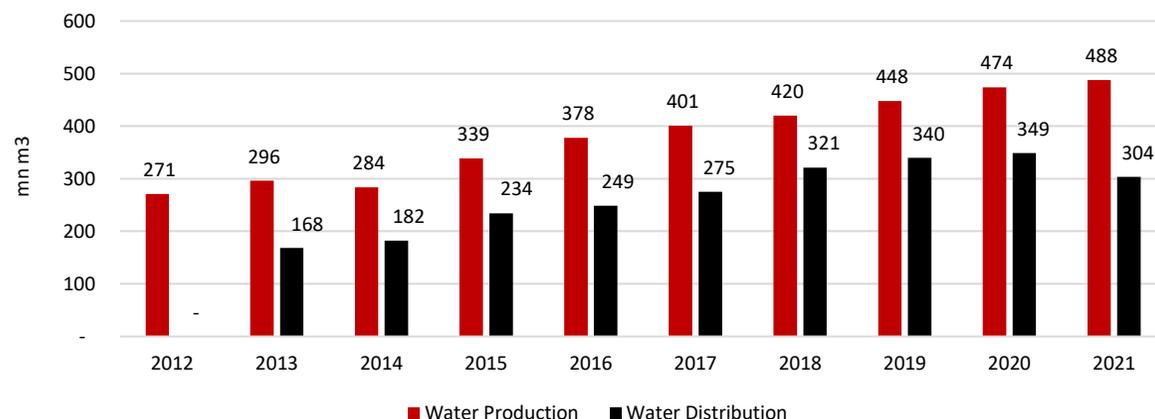
	Reward	Risks	RRI	Regional Rank
UAE	75.5	81.4	77.8	1
Qatar	66.8	68.0	67.3	2
Saudi Arabia	65.9	59.1	63.2	3
Oman	54.2	60.8	56.9	4
Egypt	66.4	38.3	55.2	5
Bahrain	51.6	58.7	54.5	6
Morocco	54.6	51.5	53.3	7
Kuwait	50.4	56.3	52.8	8

Source: Fitch Solutions Power Risk/Reward Index, U Capital Research; *Scores are out of 100; Higher scores = more attractive market

- The total annual electricity demand in Oman is estimated to grow by ~3% over the next 5 years, except in Duqm which is forecasted to grow by over 10% per annum till 2027 driven by development of industrial projects. 97% of all Oman's power generation is dominated by natural gas-fired thermal power while oil makes up a further 2.7%. Under the new plan, RE projects will account for 13% of total electric energy generated in the country by 2025, higher than the government's target of 10%, and reach 20% by 2027. The system/T&D losses account for around 11%. **As per the MENA Power Risk-Reward Index, Oman is the 4th most attractive power sector in the MENA region.**
- Around 45% of the entire demand is driven by residential consumption. With the expected increase in white-collared workers over the next 4 years, this demand might rise at a faster pace than anticipated now. The surplus capacity in MIS has likely declined in 2022 as fixed capacity contracts from 4 companies go offline, given government's renewable energy push and the current oversupply in the Spot Market.
- **A tariff reform policy has been initiated in 2021 aiming to remove the subsidies in residential and small commercial tariffs completely by 2025. Authorities are working on a Direct Sales Framework Reform where the uncontracted producers would be able to sell the generated electricity directly to customers without competing in the Spot Market.**

UTILITY SECTOR – WATER

Oman's Water Production and Distribution Trend



Source: NCSI Statistical Yearbook, U Capital Research

- Average water demand is expected to increase in the 3% to 8% range, according to OPWP's estimates. However, a downward revision in these forecasts by OPWP over the last two years implies economic activities are likely to remain well below what was expected before COVID.

Utility Sector Plays & Valuations

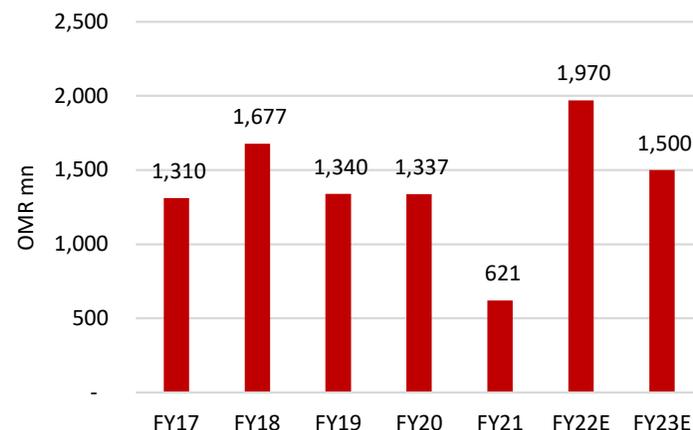
Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)	Cash Sweep
Sembcorp Salalah	75.4	3.8	0.51	7.7	14.1	No cash sweep
Musandam Power	22.1	8.4	1.89	8.8	23.2	No cash sweep
Phoenix Power	86.3	4.1	0.36	6.8	8.9	No cash sweep
Dhofar Generating	12.7	6.8	0.24	N/A	4.1	Started on 28 Oct 2021
Al Suwaidi Power	22.9	1.8	0.19	31.3	11.2	Applicable from Apr'23
Al Batinah Power	22.3	1.8	0.19	30.3	11.3	Applicable from Apr'23
Mct City Desalination	15.1	6.4	0.66	N/A	10.8	No cash sweep
Sharqiya Desalination	13.5	11.5	0.78	10.9	5.5	No cash sweep
Barka Desalination	10.6	8.3	0.92	4.3	19.0	No cash sweep

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023

OIL & GAS SECTOR – UPSTREAM, MIDSTREAM AND DOWNSTREAM

- In Oman, oil & gas sector upstream and midstream remain unrepresented for the moment at the MSX. However, the recent IPO of onshore oil & gas filed services provider – Abraj Energy (29% market share) – will result in a strong representation from this sub-sector.
- Also, OQ Gas Network – a gas pipeline play – is expected to be IPOed in the 2nd half of 2023 which will provide representation from the midstream sector.
- With regards to the onshore segment, most of the oil drilling in Oman remains onshore. The MENA market represents 15% of the global onshore market (approx. USD 4.5bn) with Saudi Arabia, Kuwait, and Oman accounting for 40%, 20%, and 18%, respectively.
- The onshore drilling contracting market is expected to grow at a CAGR of 5% from 2022-2027.
- The downstream market in MSX is currently represented by three oil marketing companies which retail fuel through their petrol stations, have business in lubricants, and supply fuel to aviation-marine sector.
- The outlook for the fuel retailing sector has stabilized post 2021. These represent value plays and are attractive for income investors.

Oman's increasing capex in oil & gas sector



Source: MoF Oman, U Capital Research

Oil Market Outlook

- Owing to ESG constraints, the global upstream oil & gas capex has fallen by 65% from its peak in 2014.
- Oil demand is expected to grow at a steady rate of 2.5% p.a. till 2024 and with OPEC spare capacity plugged at 3mn bpd, the demand-supply gap is expected to be maintained.
- A faster China reopening and a restocking of the US Strategic Petroleum Reserve – which fell by 250mn barrels in 2022 – implies a base case of USD 85-95 per barrel over the next two years with an upside risk of additional USD 15-20 per barrel over the said period – supportive of E&P sector.

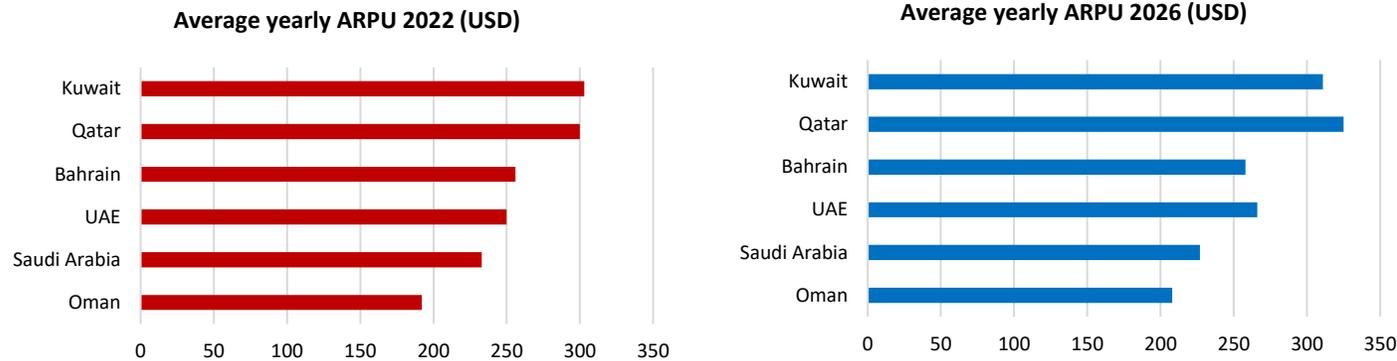
Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
Abraj Energy*	191.8	10.5	1.4	8.0	13.4
OQ Gas Network	approx. OMR 300mn - 400mn Offering	Potential IPO			

Downstream Oil & Gas Sector Plays & Valuations

Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
Shell Oman	88.5	15.5	1.6	6.5	9.6
Oman Oil	58.4	9.0	0.7	6.0	8.9
Al Maha Petroleum	73.5	12.0	1.6	8.0	12.7

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023; *Abraj to be listed on 14th March 2023

TELECOM SECTOR



Source: GlobalData and Nokia MEA Broadband Index Report, U Capital Research; *ARPU by service type is calculated based on voice/data/messaging revenue divided by total subscribers

Internet & Mobile Phones – Enablers of Digital Economy – Key Trends in GCC

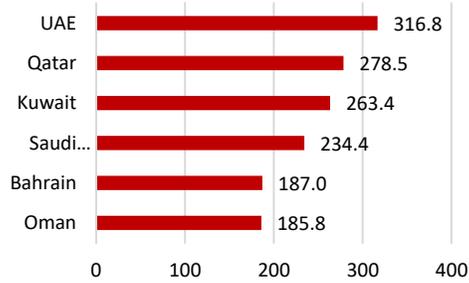
	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Total Population (in mn)	1.7	4.3	5.2	2.9	35.1	9.9
Internet users (% of population)	99.0	99.0	95.2	99.0	95.7	99.0
Mobile Connections (% of population)	128.9	161.4	110.7	160.6	112.7	171.6
Mobile Connection - Prepaid (% of all mobile connections)	75.4	60.6	84.8	71.3	61.7	79.7
Mobile Connection - Postpaid (% of all mobile connections)	24.6	39.4	15.2	28.7	38.3	20.3
Mobile Connection - Broadband (% of all mobile connections)	91.1	98.1	82.2	87.0	93.9	91.0

Source: Datareportal.com, U Capital Research; all figures as of Jan 2021

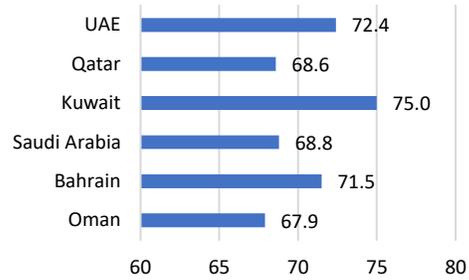
- The telecom sector in Oman currently has two established players – Omantel and Ooredoo. The third entrant - Vodafone is likely to take the share from the existing pie.
- Currently the ARPUs are the lowest in the region with respect to voice/messaging service. The mobile connection – broadband penetration in Oman is the lowest in GCC, with a room to play a catchup with the regional averages on the back of favorable demographics – a rising young population.
- 5G fixed wireless access (FWA) providing fixed broadband services continues to rapidly expand in Oman, alongside the growing 5G network.
- Fiber-to-the-home (FTTH) expansion continues to be underpenetrated, thereby increasing the competition in this segment.
- The overall mobile sector in Oman has become more saturated with the rise in mobile virtual network operators. The entrance of Vodafone may lead to price competition in the prepaid segment.
- The postpaid mobile segment offers opportunities for the existing as well as new entrant operators who offer bundled opportunities at affordable prices as the penetration rate continues to be low.

TELECOM SECTOR

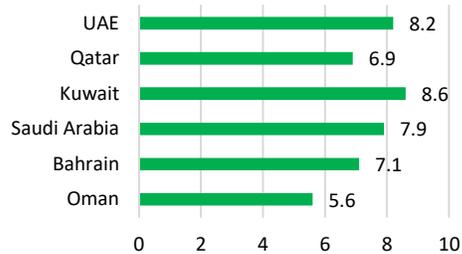
5G Download Speed (Mbps)



5G Video Experience

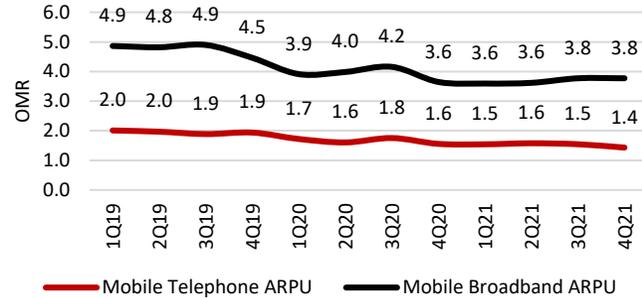


5G vs. 4G Download Speed Improvement (Ratio)

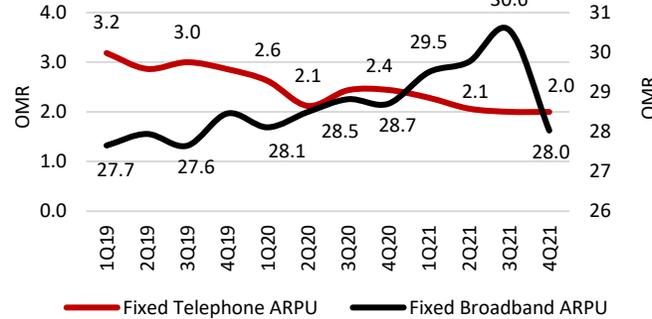


Source: www.opensignal.com (August 2022), U Capital Research

Mobile ARPU by services



Fixed-line ARPU by services



Source: TRA Oman, U Capital Research

- There is a considerable scope of improvement in terms of download speed, and video experience, relative to the GCC (refer to left hand panel).
- Telecom operators who have resources to spend on infrastructure stand to benefit from this gap in a bid to play catchup with the regional trend.
- Declining trends in the ARPUs for the Oman operators on a blended basis can partly be made up by improving the experience, as mentioned above.
- The above declining trend in ARPUs can be observed by lower net income margins.
- The Omani operators are now looking to become asset light – a trend which is in line with the GCC peers by selling-off of towers, just like, tower sales has occurred in Zain Group in Kuwait, Jordan, and Saudi Arabia, Omantel just concluded its tower sale in 2022. Ooredoo Oman might look to pursue the same in 2023.

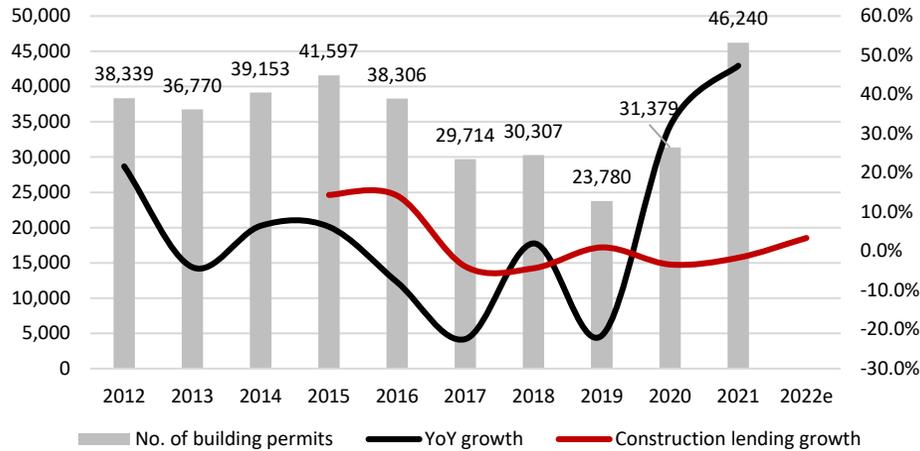
Telecom Sector Plays & Valuations

Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
Omantel	699.0	13.8	1.2	5.9	11.8
Ooredoo	259.1	15.0	1.0	5.0	6.4
Vodafone	Unlisted				

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023

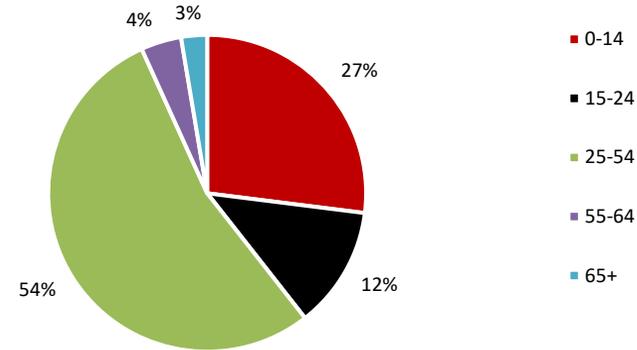
BUILDING MATERIALS – CEMENT SECTOR

Building Permits and Construction Lending Trend



Source: NCSI Statistical Yearbook, U Capital Research

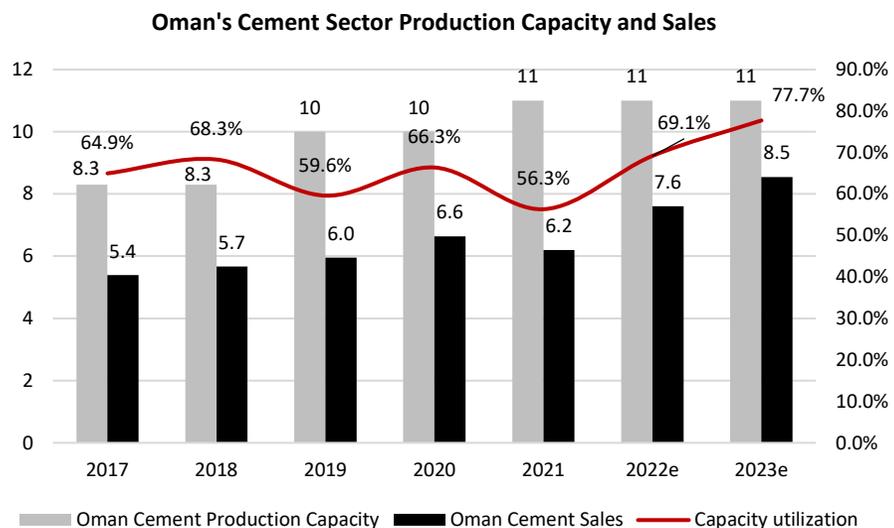
Oman has a young population which is expected to expand at ~3% CAGR



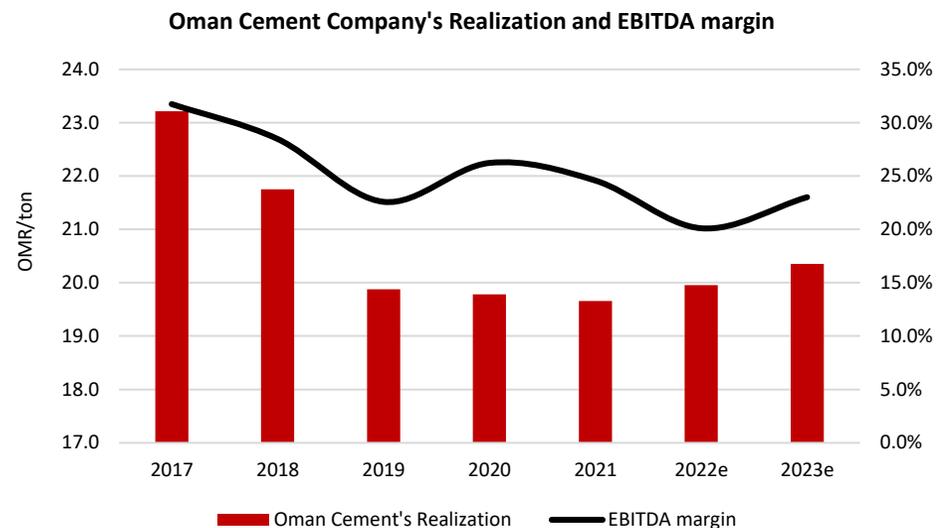
Source: NCSI Statistical Yearbook, U Capital Research; data as of year end 2021

- Oman's construction market is valued at ~**OMR 20bn** and is expected to grow at a CAGR of about 5% till 2027. The key drivers for this growth are as follows:
 - ✓ Government's new ownership plan which permits foreigners to buy properties outside of integrated tourism complexes (ITC).
 - ✓ Homes for all citizens where the government is targeting affordability and accessibility of housing for Omani nationals as a priority. Oman has 54% of its population falling in the young category in the 25-54 age group which will drive the housing aspiration.
 - ✓ Big ticket projects as mentioned below, including promotion of PPP infrastructure projects.
- Oman is implementing several **big-ticket projects** like Sino-Oman Industrial City Project in Duqm (project value USD 10.7bn), Naseem al Sabah Project (USD 10.5bn), Khazaen Economic City (USD 6.7bn), Oman-UAE 303km railway project (USD 3bn), and AIDA project – Yeti beach ITC (USD 1.6bn), which is a venture between government's OMRAN and Saudi's Dar Al Arkan. Recently, government of Oman and Saudi Arabia inked several MoUs for the development of various economic and industrial sectors such as an integrated economic zone in Dhahirah (1st phase project value over USD 300mn), an entertainment project in Muscat (over USD 150mn), etc. Together, these and similar other projects imply a healthy demand for building and construction materials such as cement.
- During early 2020, Oman had implemented some anti-dumping measures on cement as part of COVID-19 prevention measures and imposed anti-dumping duty on porcelain and ceramic tiles later that year. This shows the government stands ready to intervene and safeguard the interest of local business community.

BUILDING MATERIALS – CEMENT SECTOR



Source: Company data, U Capital Research



Source: Company data, U Capital Research

- Capacity utilization is expected to increase to over 75% by 2023 from at present. Subsequently, the realization per ton is also estimated to firm up, as exhibited in the above chart for Oman Cement SAOG, owned 74% by the government.

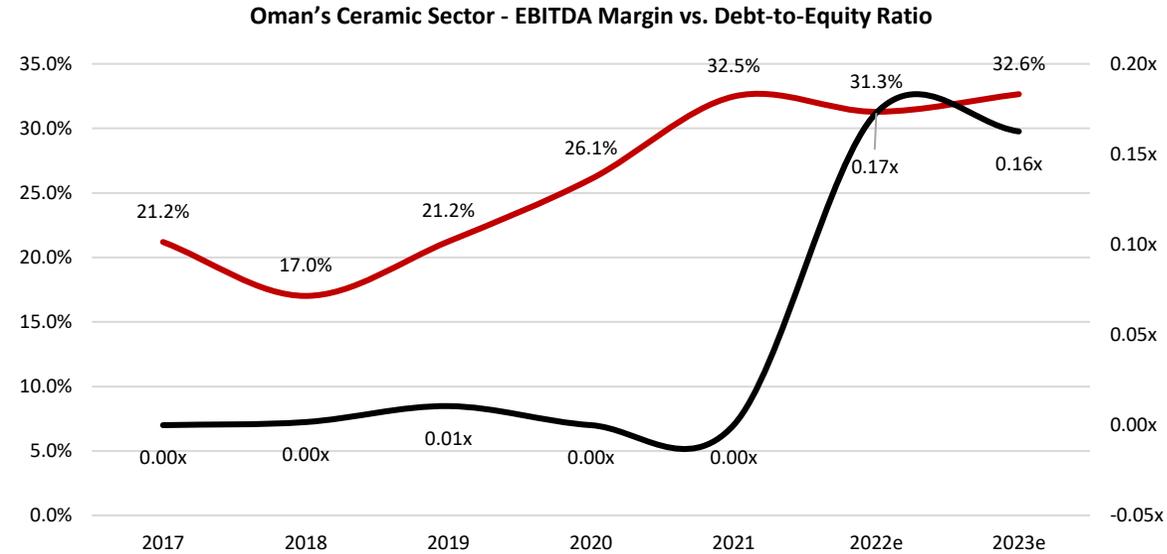
Cement Sector Plays & Valuations

Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
Oman cement	99.3	7.6	0.66	3.3	4.3
Raysut Cement	24.0	N/A	0.22	N/A	-13.3

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023

BUILDING MATERIALS – CERAMIC TILES

- The two companies Al Anwar and Al Maha are the ceramic tile leaders in Oman which is a duopoly.
- Competitive advantage is being one of the lowest cost producers due to the cost of feedstock. Subsequently, both the companies the highest gross margins and RoE in the region of over 40% and 21%, respectively. Also, both the companies are almost debt-free.
- They have large export sales to Saudi and the UAE. Construction activity under Vision 2030 for KSA and Vision 2030 for Abu Dhabi/Vision 2040 for Dubai will likely be supportive for sales.
- Given that freight costs were high in 2022 which impacted raw material prices, a softening of these prices as well as raw material prices in 2023 will likely result in an expansion of margins.
- Furthermore, Saudi Arabia and Oman did impose a high import duty on tiles coming from India and China in 2022 (over 40%). This supported the industry and protected their margins.



Source: Company filings, U Capital Research

Ceramic Sector Plays & Valuations

Company Name	Market Cap (OMR mn)	P/E	P/BV	Div. Yield (%)	RoE (%)
Al Anwar Ceramic	68.2	27.7	2.22	3.2	9.7
Al Maha Ceramic	23.1	9.4	1.97	4.8	21.9

Source: Bloomberg, U Capital Research; valuation as of 25 Feb 2023

Major projects in the UAE

Projects	Description
Reem Mall	Reem Mall will have more than 450 shops, a hypermarket, two food courts, and a multiplex cinema, plus Snow Abu Dhabi , which is set to be about four times the size of Ski Dubai.
One Zaabeel	This pair of towers is located next to Dubai's Trade Centre and connected by a 7,700-tonne bridge. Once completed, the buildings will feature luxury residences, a hotel and retail spaces.
Saadiyat	The integrated community will include about 2,700 residential units, most of which are villas, and will be home to more than 15,000 people. Work on the four-year project is scheduled to begin in the second half of 2022.
Mohammed Bin Rashid Library	It is located in Al Jaddaf, by the Dubai Creek, and offers spectacular views of the waterway. It spans more than 54,000 square metres, with seven floors and nine thematic libraries.
Natural History Museum	Named the Natural History Museum Abu Dhabi, the project is under construction and is due to be completed at the end of 2025. Its galleries will span a 13.8 bn year journey through time and space, from the beginnings of the universe to a glimpse at its possible future.
Louvre Abu Dhabi Residences	Louvre Abu Dhabi Residences will be within Saadiyat Grove and the development has an expected handover date of 2025. It will comprise 400 apartments — a mix of studios, one, two & three-bedrooms, and five penthouses.
Uptown Tower	The 79-floor high-rise will be available for handover later in 2022, according to the Dubai Multi Commodities Centre. It is the first of two “super-tall towers” in the DMCC’s Uptown Dubai District.

Source: U Capital Research, U Capital Research

Major projects in Oman

Projects	Description	Project Value (USD bn)
Hayy Al Sahil	Oman's Qurayyat Development Company has launched the Hayy Al Sahil project in the Wilayat of Quriyat in the Governorate of Muscat. The area of the project is 1.3 mn square metres.	1.00
Sur Industrial City	The project, which will be developed on an area exceeding 180,000m ² which will include a variety of accommodation options and it will also comprise other services such as gyms and a shopping center.	0.04

Source: U Capital Research, U Capital Research

Major projects in Saudi

Projects	Description	Project Value (US \$ bn)
Ad Diriyah Gate	It is set to become a major tourist destination. The development will encompass several luxury resorts, including major international hotel brands, hundreds of dining and entertainment options.	17
King Salman Park	The Park will have an arts section including theaters, cinemas, art academies, museums and space events and concerts, world-class, golf course, a sports complex, an entertainment games area, and a water sports section. As well as 12,000 residential units, 16 hotels, food and retail area, and libraries.	19
Jabal Omar	This major Makkah development will cover an area of 40 hectares. A mix of towering hotels and residential buildings. The eight-phase project will see the construction of a twin-tower hotel, a seven-star facility, and multiple further hotel towers.	4.4
Red Sea	This project is being built in a region spanning 30,000 square and will provide 8,000 new hotel rooms once completed. The developers of the Red Sea Project want it to become one of the world’s most successful sustainable tourist resorts	8
Amaala	The development will consist of 1,800 hotel rooms and 900 private villas along with a retail area with 200 outlets. The 3,000-square-kilometre development will have its airport and target luxury travelers.	10
Jeddah Tower	The Jeddah Tower will be the world’s tallest structure and will stand at an estimated height of one kilometer with more than 250 floors, Jeddah Tower will be a mix of residential units, serviced apartments, and hotels, with a Four Seasons expected to open within.	1.5
Qiddiya	Qiddiya City is an entertainment development project, spanning more than 334 square kilometers on the outskirts of Riyadh, offering a mix of attractions. Work has been under way on the \$8 billion project since January 2019, with the first phase slotted to open in 2023. Qiddiya will be home to more than 300 recreational and educational facilities.	8

Source: U Capital Research, U Capital Research

MSX advisory..

conclusion of formulation of capital markets plan
including review of market making and liquidity providing regulations



Muscat Stock Exchange agreement signing with Al Ramz Corporation Investment and Development PJSC Ubhar Capital SAOC

MARKETS

Muscat Stock Exchange appoints financial advisors Al Ramz Corporation and Ubhar Capital

MSX, Al Ramz Corporation and U Capital will devise plans aimed at improving the participation of Oman's capital markets

THANK YOU!



PARTNERING FOR SUCCESS

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