

August 2010 Issue

Indices	Closing as on 15.06.2010	Closing as on 15.07.2010	Monthly Change (%)	Year To date Change (%)
MSM 30 Index	6100.12	6217.80	1.93%	-2.37%
Banking & Investment	8583.51	8885.85	3.52%	-5.21%
Industry Index	6776.86	7019.75	3.58%	-5.73%
Service & Insurance Index	2383.13	2367.79	-0.64%	-12.37%

Top Gainers		Closing as on 15.06.10	Closing as on 15.07.10	% Chg	Top Losers		Closing as on 15.06.10	Closing as on 15.07.10	% Chg
Gulf Int. Chemicals	Industry	0.255	0.304	19.2%	Al Shurooq Inv	Inv Hldg	2.299	1.100	-52.15%
National Aluminum	Industry	0.422	0.502	19.0%	Nat. Min Water	Industry	0.153	0.120	-21.57%
Engineering & Financial Services	Service Inv/Brok	0.523 0.106	0.617 0.124	18.0% 17.0%	Port Service	Service	0.579	0.474	-18.13%
A Saffa Foods	Industry	0.269	0.309	14.9%	Muscat Finance	Leasing	0.290	0.241	-16.90%
					Oman Inv. & Fin	Service	0.295	0.256	-13.22%

Volume Leaders	Sector	Volume	Market Share (%)	Value Leaders	Sector	Turnover	Market Share (%)
Global Investment	Inv Holding	24,295,818	9.64%	Bank Muscat	Banking	12,160,779	12.76%
Al Anwar Ceramic	Industry	18,648,841	7.40%	Al Anwar Ceramic	Industry	6,126,158	6.43%
Bank Muscat	banking	15,174,475	6.02%	Renaissance	Service	5,194,627	5.45%
Om. Emirates	Inv Holding	14,477,010	5.74%	Galfar	Engg/Const	5,077,737	5.33%
A Saffa Foods	Industry	12,526,715	4.97%	Oman Cement	Cement	4,829,011	5.07%

Market Performance

After a steep fall of global equity markets starting mid May 2010 till end of June 2010, the markets took a breather and closed on a positive note for the period under review. MSM30 Index also some good buying at the lower levels with the markets valuations becoming more attractive. The local benchmark index closed the period under review with a gain of about 1.93%, amidst presence of lower market volumes. The Banking & Investment sector and Industry sector were the key gainers for the period with an increase of more than 3.5%. Banking majors saw some good buying interest from the institutional participants at the lower levels. The commodity counters also had a sharp rally from beginning of July backed by expectations of improved Q2 Earnings. The beginning of Q2 corporate numbers release had a say on the market direction from the start of July. We expect the corporate quarterly earnings to provide the near term trigger for the markets, however the long term market investors may look in for value buying opportunities at the current levels.

In this report, **GBCM Research has done a comprehensive research on the recent happenings in the Oman Cement Sector.** In this research study, we have covered the impact of listed cement companies namely Oman Cement and Raysut cement towards the recent cut in cement prices and the sales volume pressure in the local markets.

Oman Cement company - Competitive pressure lead to revision of cement prices

Revision of Cement Prices: Oman Cement has reduced the selling price of cement effective July 2010 to remain competitive in the market (MSM announcement dated 11-July-2010). The company has stated that the new price incorporates structured reduction in selling price over different slabs linked to the quantity of cement purchased by the customer. The company expects this to improve the volume of cement thereby resulting in enhanced revenue and expects to attain the levels of operational results the company achieved during FY09. As per the statement, this is still subject to market forces of demand and supply of cement in Oman.

Realization to fall further: Oman cement has indicated during the beginning of the year that it is considering price reduction on the back of market situation and requirements. With mounting pressure from its neighbouring peer, the UAE, due to cement dumping at lower prices, the company has announced the reduction in cement prices by c.14% to RO 27/tonne from its earlier prices of RO 31/tonne effective 1st July 2010. At the same time, Oman cement is also considering further discounts to corporate as well as retail customers for bulk purchases.

Drop in realization to dent earnings beyond 2010: Oman cement was the only company to enjoy a healthy realization level ~RO 31/tonne (H1FY10 realizations) as compared to the regional peers. However, the recent price revision is expected to dent the earnings during 2011 and 2012. Earlier we have assumed RO 26/tonne in our earnings model for FY2011 and FY2012. Post this event we have lowered our realizations to about RO 25/tonne levels and the sales volume to 2.2 million from our earlier estimates of 2.4 million on the back of escalating volume pressure in the local market.

New Clinker facility to mitigate fall in margins: At the same time, we believe the installation of new clinker plant (expected by beginning of Q4FY10) by Oman Cement is bound to increase the in-house clinker production levels thereby replacing clinker imports which in turn is expected to improve the margins going forward. The fall in realizations will be mitigated by improvement in margins. Meanwhile, key driver for earnings would be the margin enhancement with the replacement of clinker imports with own production

Raysut Cement - Facing tough challenges in the local market

Reduction of Cement Prices: Raysut Cement has also decided to provide reductions in cement selling prices over different slabs linked to the quantities of cement purchased by the customers. With this measure, the company expects to protect its key markets, improving the cement volumes in the medium term.

Declining trend seen in Realizations: During Q2FY10, the local sales realization (excluding government compensation) declined moderately by 7% (YoY) and fell marginally by 3% (QoQ) to RO 29.3/tonne. Excluding clinker revenue, the realization on export market stood at RO 25.2/tonnes for the quarter declining thereby 20% (YoY) and 1% (QoQ) respectively. The company has not provided revenue break up details for cement sales and clinker sales.

Lower sales volume and trembling realization to daunt earnings: It is quite evident from the H1FY10 results that Raysut cement is losing its market share in terms of volume in the domestic market due to inflow of low cost cement from the UAE markets. We expect this deterioration of cement sales (volume) to continue further during the current year and in 2011. As discussed in our earlier report, we have factored in the lower realizations for the current fiscal and thereby maintained the realization at RO 27/tonne. While, for 2011 and 2012 we have lowered our assumption on realizations to about RO 25/tonne levels from our earlier estimate of RO 26/tonne and the total sales volume to 2.2 million for 2010 and 2011 on the back of escalating volume pressure in the local market.

Commercialization of new cement line: Overhaul of the disrupted line has enhanced the production potential (utilization) thereby replacing cement imports in the previous quarter which in turn have resulted in better margins. At the same time the company is in final stages of completing its capex plan towards installation of additional grinding unit. We believe the installation of new cement manufacturing line (to commercialize operations during 3QFY10) is bound to increase the utilization levels which may result in further improvement in margins going forward. Any fall in realizations will be mitigated by improvement in margins.

Local Demand continue to remain strong: Overall the research study on Oman Cement sector implied that the local players continued to face pressure on sales volume in local markets mainly due to dumping by UAE players. The increased presence of regional players in Omani markets lead to sharp fall in cement prices during H1FY10. However, the positive implication of the study is the continuing cement demand growth in Local markets aided by Government Infrastructure spending in developmental projects.

Stock Pick: National Bank of Oman

VALUE INDICATORS-Latest			
Sector	Banking	CMP (RO)	0.330
Market Value (RO 000's)	0.330	Face Value (RO)	0.100
Equity Capital (RO 000's)	108,100	Price/Book Value Ratio (Latest)	1.42
Book Value/Share (Latest)	0.232	Price/EPS Ratio (FY10E)	10.65
EPS 2010E	0.031	Dividend Yield (FY09)	3.6%

Oman Banking Sector – A Strong Credit Growth Story

Efforts on economic diversification with focus on development of non oil sector along with private sector participation have bolstered credit demand from corporate sector. Favorable demographics with a very young population and growing expatriate work force drive the retail segment. Oman's banking sector credit of RO 10 billion has got potential of healthy growth with low Credit to GDP ratio of est. 55.5%. Aggregate Banking sector credit has demonstrated commendable growth of 14.9% CAGR (2001-2009). Deposit formations in the sector were in line with credit addition, growing by 16.5% CAGR (2001-2009).

NBO- Well Placed in the sector

National Bank of Oman (NBO), the second largest bank (Loan book market share of 13.8% as on 31st march 2010) in Oman in terms of assets size was incorporated in 1973. The Bank in Oman operates through 64 Branches (including 2 Booths) and 170 ATMs as well as 5 branches in Egypt and 1 in U.A.E. NBO has sailed through large-scale deterioration in asset quality during 2001-04. Restructuring through a combination of write offs, recoveries and the strategic involvement of Commercial Bank of Qatar (CBQ) has put in place the necessary risk management culture and revived the bank's financial position.

H1FY10 Loan book grew by 3.8% on YTD basis: Net Loans & Advances of the bank has shown a growth of about 2.3% during Q2FY10. The loan book has increased by RO 32.061 million during the previous quarter. During H1FY10, the overall credit addition of the bank stood at RO 51.165 million, an increase of 3.8% on YTD basis. This is in line with the total Oman banking sector credit addition of about RO 219.2 million during Jan-May 2010 (Source: CBO).

Fall in Q2 Deposits: The bank's total customer deposits had dropped by RO 66.125 million during Q2FY10. This is mainly on bank of deliberate steps taken by the bank in reducing the higher cost deposits. We also believe that the bank would further take steps towards reducing high cost liabilities, in turn leading to lowering cost of funds. For H1FY10, the bank has added about RO 45.98 million in deposits, an increase of 3.6% on YTD basis.

Fee based income expected to pick up

Global crisis during 2009 had its impact on local economic activities in terms of trade related activities. This along with drop in investment income has put pressure on the Fee based income during 2009. Non-interest income as a % of average assets dropped from 5.1% in 2008 to 4.3% during 2009. In terms of Non Interest Income to net operating Income, it has dropped from 46.1% in 2008 to 30.6% in 2009. With improvement in trade activities and market conditions, we believe the contribution of fee based income to improve during the next fiscal year.

High local concentration to maintain asset quality

Throughout credit crisis and global economic slowdown Oman has demonstrated stability in terms of economic activity augmented higher level of fiscal spending. Prudent policies of the Central Bank have kept Oman Banking sector away from jitters as seen in some regional markets. Although liquidity was an issue regionally, government support in Oman through the Central Bank facilities has provided comfort for local Banks. NPA build in the sector were seen from overseas exposures of troubled Saad and Gosaibi groups and Dubai world which announced a standstill agreement by end of 2009. NBO having more of local assets had the comfort during the period.

Strategic partner brings in Synergies

NBO's strategic partnership with the Commercial Bank of Qatar (CBQ) gives support in terms of cross-border businesses, sharing of products, processes and systems. The Bank continues to work in coordination with the strategic partner to expand its balance sheet and also continue to focus on various projects in the areas of Information technology, process re-engineering and strategic policy alignments. The partner brings in opportunities to capitalize on the regional businesses, which we believe would help the bank in the longer term. The two banks have established an operational team towards making recommendations for synergies to expand the functional activities between the two organizations.

Outlook

National Bank of Oman, as presented above is well placed to participate in Oman's growth story. We believe that the restructured bank would align itself to the regional banking standards with the assistance of CBQ. With worthy efforts from management, the Bank is expected to scale up its operations, which would contribute to overall growth. Also worthwhile efforts from proven recovery strategies and redesigned relationship model would benefit the Bank.

We expect the bank to show improved growth in the coming quarters on back of expectations of improved credit addition, maintenance of spreads through reducing cost of funds and lowering provisioning requirements with stabilizing NPAs. At the current levels, the bank trades at 1.36X of FY2010E P/BV (FY10E Book value: RO 0.242), which is attractive as compared to the local banking sector average of 1.75X and regional average of about 1.8X (Source: Bloomberg). We recommend a **'BUY'** rating on the stock for the long term investors.



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