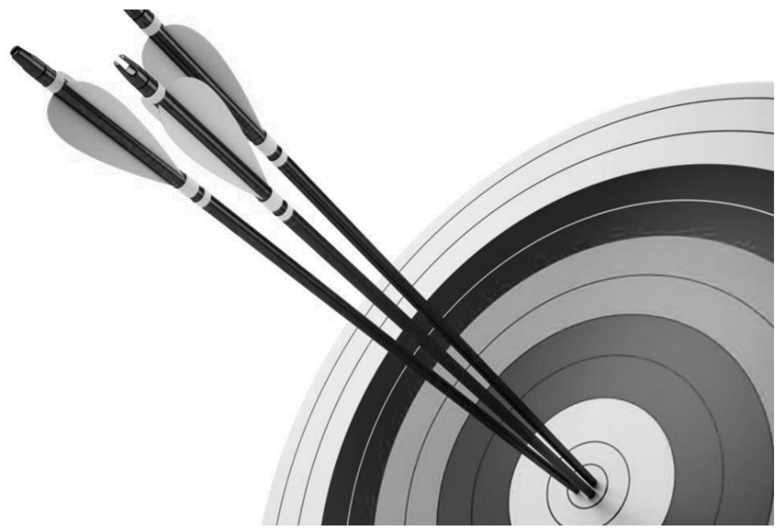
Earnings Estimates - 2Q18

5th July 2018



U Capital Research
research@u-capital.net
Tel: 00968 – 2494 9034/35/36

Earning Estimates 2Q18e

Company Name	Current Market Price (OMR)	YTD Chg. (%)	Market Cap (OMR mn)	Net Profit (OMR mn)	YoY %	QoQ %	Revenue (OMR mn)	YoY %	QoQ %	P/E (x)	P/Bv (x)	Div. Yld (%)
Banking												
Bank Muscat	0.374	-0.3%	1,102.3	44.82	11.8%	0.0%	108.02	7.9%	0.8%	5.90	0.57	8.3%
National Bank of Oman	0.178	-6.6%	289.4	12.42	1.0%	-1.4%	33.17	5.3%	3.3%	6.31	0.55	8.4%
Bank Dhofar	0.170	-17.3%	414.5	12.24	20.2%	-10.0%	33.76	12.0%	2.1%	7.92	0.67	6.5%
Bank Sohar	0.136	-1.6%	269.6	9.01	61.6%	1.2%	22.10	23.5%	1.3%	9.43	0.65	3.3%
Ahli Bank	0.163	-1.1%	243.9	7.07	-2.1%	0.3%	14.96	9.2%	2.5%	8.40	0.76	5.8%
HSBC Oman	0.114	-10.9%	228.0	4.57	83.5%	-43.6%	21.50	19.7%	3.3%	12.54	0.69	5.0%
Bank Nizwa	0.090	0.0%	135.0	1.27	78.1%	21.5%	6.77	24.9%	12.2%	17.31	0.95	-
Alizz Islamic Bank	0.080	21.2%	80.0	0.34	-125.8%	8.4%	4.89	91.8%	15.0%	49.48	0.72	-
Leasing												
Al Omaniya Fin Services	0.276	0.0%	78.8	1.23	-7.5%	22.3%	2.60	-14.2%	1.8%	11.04	1.16	7.0%
National Finance	0.133	-2.6%	67.0	2.85	113.9%	9.8%	6.03	88.9%	-13.1%	5.66	0.88	UR
Muscat Finance	0.087	-17.0%	26.1	0.95	-22.2%	2.2%	2.39	-2.5%	-6.1%	6.39	0.65	11.1%
Taageer Finance	0.109	-8.4%	27.6	0.97	-15.8%	17.8%	2.96	19.8%	16.1%	6.41	0.69	9.2%
United Finance	0.107	-26.2%	37.4	0.42	-6.2%	53.8%	1.88	-14.8%	-0.9%	29.42	0.83	-
Cement												
Oman Cement Ltd	0.380	-7.3%	125.7	2.74	-2.4%	-15.5%	13.37	-9.0%	-3.0%	10.83	3.58	7.9%
Raysut Cement Ltd	0.596	-23.6%	119.2	1.34	-12.7%	197.5%	18.17	1.1%	-13.3%	17.19	0.78	4.9%
Insurance												
Al Ahlia Insurance	0.366	10.91%	36.6	1.20	n/m	-27.7%	7.20	80.0%	-1.8%	9.63	0.91	7.7%
Vision Insurance	0.150	1.35%	15.0	0.80	n/a	-6.4%	7.60	n/a	-2.0%	6.05	0.97	9.3%
Oman Qatar Insurance	0.110	-25.68%	11.0	0.35	12.9%	-6.2%	7.00	-20.8%	-2.2%	6.88	0.70	11.8%
National Life Insurance	0.320	3.2%	84.8	2.80	n/a	-6.7%	49.00	n/a	0.5%	9.02	1.55	4.7%
Telecom												
Omantel	0.720	-40.2%	540.0	17.30	1.8%	8.3%	469.60	247.4%	-0.1%	6.44	0.93	6.9%
Ooredoo Oman	0.520	-1.1%	338.5	7.37	8.1%	-7.6%	67.41	0.3%	-0.8%	10.96	1.41	8.1%
Others												
Muscat City Desalination	0.140	27.6%	21.8	0.36	n/m	2.0%	4.10	0.0%	3.8%	17.42	1.24	6.7%
Voltamp Energy	0.264	-46.2%	21.5	0.32	-63.3%	n/m	10.96	3.1%	15.0%	19.50	1.04	3.8%
Oman Cables	0.888	-21.8%	79.7	2.16	-11.8%	3.5%	65.55	14.6%	1.8%	10.23	0.84	5.1%
Al Jazeera Steel	0.300	7.1%	37.5	1.10	53.4%	-25.0%	27.43	19.3%	-11.5%	6.38	0.94	7.3%
National Aluminium Products	0.364	118%	12.22	0.190	n/m	-44%	9.984	93.3%	-15.0%	10.18	1.40	-

Source: Bloomberg & U Capital , Price as of 04-Jul-18

**nm = not meaningful and NA = not available*

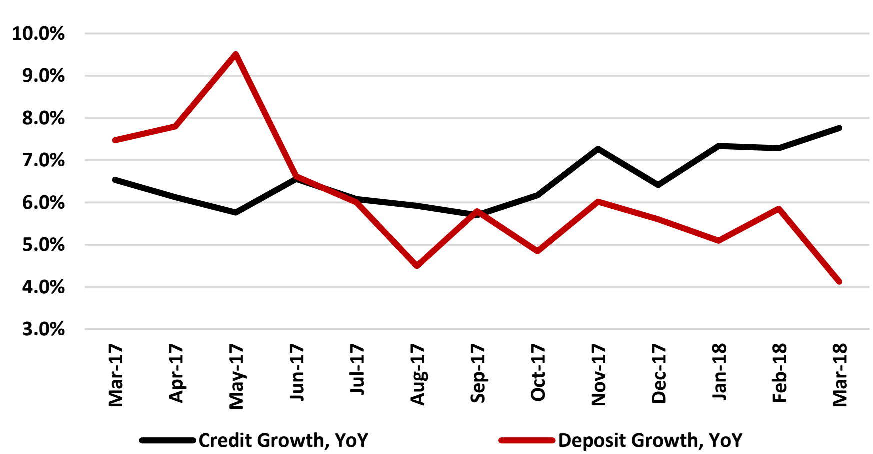
Oman Banking Sector Outlook

CBO's Mar'18 data indicates that conventional credit in Oman grew to OMR 20.90bn, +6.0%YoY and +0.7%MoM, with growth pace having picked up from +4.1%YoY and -0.2%MoM in Dec'17. Islamic credit grew by 20.9%YoY and 3.6%MoM, to reach OMR 3.18bn at the end of Mar'18. We believe that the growing demand for Islamic finance products amongst the Omani population is helping Islamic banking to become significantly important in the Omani credit market with a share of 13.2%. We expect Islamic Banking to continue to gain market share of the total credit pie.

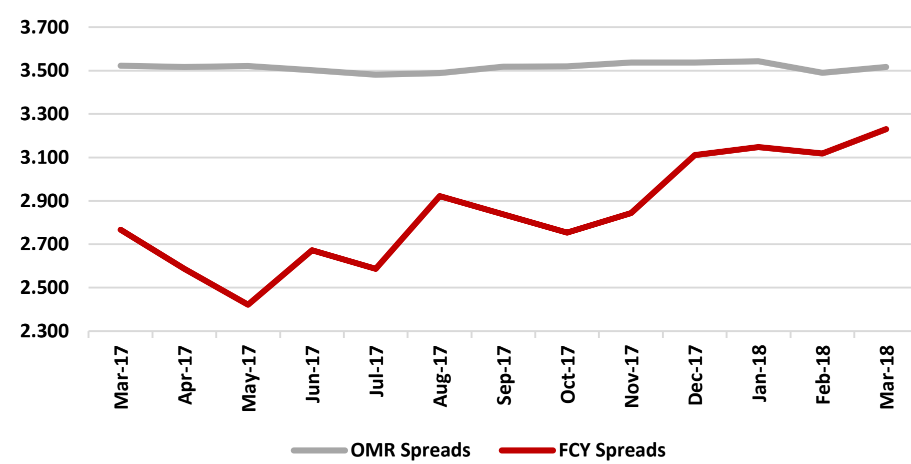
The total credit within the Omani Banking sector grew by 7.8%YoY as at the end of Mar'18 vs. 6.4%YoY as at the end of Dec'17. We are optimistic on credit growth as Government-led revenue diversification efforts begin to bear fruition over our forecast horizon in addition to the recent lowering of minimum capital adequacy ratio from 12% to 11% (further details in this report). Additionally, OPEC-plus production cut efforts have assisted in sustaining oil price increase that has helped the liquidity levels. The IMF forecasts Oman's GDP growth at 3.8% for 2018, with an average growth of 2.4% over the period 2018-22 which we believe will translate into a credit growth of ~5% in 2018 with an average growth of 6% over 2019-22e.

The recent revisions in regulation concerning liquidity management is bound to have a positive effect on lending growth as well as liquidity management of banks. Deposit growth for conventional banks slowed to +0.6%YoY and 1.4%MoM in Mar'18, with conventional Loan-to-Deposit Ratio (LTD) stretching to 109.3% from 103.7% a year ago. However, Islamic deposit growth has been very strong, with total Islamic deposits reaching OMR 3.16bn (+32.4%YoY and 0.4%MoM), with market share of 14.1%. Therefore, total deposits of Omani banking sector stand at OMR 22.3bn, +4.1%YoY and +1.2%MoM.

Omani Banking Sector: Credit growth vs Deposit growth (YoY)



Spreads, %

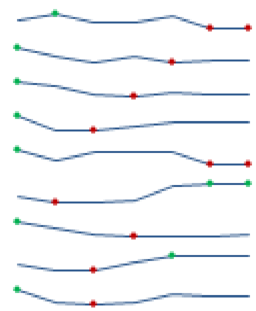


Source: CBO, U Capital Research

The banks have been able to grow their lending portfolio without an alarming increase in NPLs, which augers well for the credit risk in the banking sector. The total NPLs at the end of Q1’18 were 3.5% (FY’17: 3.0, FY’17: 2.7%) of gross loans. The low NPL ratio suggests satisfactory asset quality and a well-contained credit risk. Moreover, the existing loan portfolio of banks is well covered against expected losses through adequate provisions with an average coverage ratio (provisions to NPLs) of ~114% including general provisions, which compares favorably with regional peers. As at the end of Q1’18, non-performing loans (NPL) ratio of National Bank of Oman (NBOB) was the highest at 4.2%, which is higher than the average of the rest of the Omani banks in our coverage universe which hovers around 3%. NBOB’s provision cover at 114% is adequate.

We expect yields on assets to improve in the medium to long term, as the US Fed’s benchmark interest rate continues to rise. We have seen some banks with improved annualized yields over the last few quarters. However, spreads continue to be dampened by rising interest costs, due to liquidity crunch as well as deteriorating bank credit ratings.

Spread	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18F
BKMB	2.7%	2.8%	2.7%	2.7%	2.8%	2.6%	2.6%
NBOB	2.7%	2.5%	2.4%	2.5%	2.3%	2.4%	2.4%
BKDB	2.6%	2.5%	2.3%	2.2%	2.3%	2.3%	2.3%
ABOB	2.4%	2.1%	2.0%	2.1%	2.3%	2.2%	2.2%
BKSB	2.0%	1.8%	1.9%	1.9%	1.9%	1.8%	1.8%
HBMO	2.8%	2.5%	2.6%	2.6%	3.2%	3.3%	3.3%
BKNZ	3.2%	3.0%	2.8%	2.7%	2.7%	2.7%	2.8%
BKIZ	1.7%	1.5%	1.4%	1.8%	2.1%	2.1%	2.1%
Simple Average	**2.5%**	**2.3%**	**2.3%**	**2.3%**	**2.5%**	**2.4%**	**2.4%**



**NBO includes Islamic Profit Paid; BKNZ & BKIZ is Net Profit Income*

Source: Company Financials, U Capital Research

International Financial Reporting Standard (IFRS) 9 came into effect on 1 January 2018. Although most banks technically have been able to meet the date of initial implementation, much more refinement of processes will have to be done before IFRS 9 will become business as usual.

Oman Leasing Sector

The Omani leasing sector has been 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 total net finance assets for the six listed leasing companies reached OMR 1.01bn (-0.8%YoY and -0.6%QoQ) as of Q1'18, with growth having stagnated to all-time lows.

However, 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. The combined net finance income of the sector increased to OMR 15.2mn (+2.5%YoY and 9.5-%QoQ) in Q1'18, indicating picking up of finance yields, in spite of contraction in net finance assets. The 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. The sector's NPAs have reached a high of 9.5% in Q1'18 vs. 6.3% a year ago. Sector provision cover is also down to 0.62x in Q1'18 vs. 0.70 in Dec'17.

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.

Oman Insurance Sector

During 1Q18, Insurance companies' performance was better than expected. Majority of the companies were able to post sizable growth in GWP and profit during 1Q18. Overall, insurance sector witnessed GWP growth of 12.6% during 1Q18 while net income during the period went up by 23.0%.

Performance of insurance sector is expected to remain challenging in the coming quarter as auto segment is witnessing decline because of low new car sales and also because of the performance of the equity market of Oman, in which some companies are invested. During 2Q18, insurance companies faced turbulent times because of Cyclone Mekunu. As per data compiled from CMA, insurance companies are seeing claims reach up to OMR75mn (~16 % of GWP) because of Mekunu. According to CMA, the total number of claims crossed 656 by the end of last week, with property insurance claims being the highest at 361, with a total valuation of OMR48mn. Engineering claims were the second most expensive, standing at OMR24.6mn while Auto claims on the other hand, were a distant third, touching OMR 0.59mn. Amongst the companies which announced being most hit was Dhofar Insurance at OMR 1mn followed by OQIC and AFIC at OMR 260k and OMR 240k respectively.

However, the sector is supposed to get respite from the mandatory health insurance which is slowly and gradually being adopted by many companies in private sector. Recently, CMA announced that the mandatory health insurance for the private sector will be introduced in stages, starting with large organizations i.e. international companies, followed by Grade 1 companies and so on. Insurance companies have tremendous opportunities in light of this development as only 10% of expatriate workers in the Sultanate were covered by healthcare insurance in 2016 - figures that attest to the growing importance of healthcare insurance in the country.

Oman Telecom Sector

Overview: Oman Telecom Sector is facing various headwinds. Both operators saw reductions in their margins due to multiple factors such as higher taxes and royalties, stiff competition, regulatory changes and change in overall consumer spending behavior. Yet, we see some positives factors within the sector such as 1) strong macros and increasing demand for data, 2) attractive yields at current prices, 3) stable margins on cost control initiatives and 4) CAPEX to drop which shall provide better opportunity for higher dividend distribution in the medium to long run.

Omantel Group: we believe that OTEL is a good pick over the medium to long term run taking into account: 1) expected better performance by Zain Group in the coming years as we see gradual improvement in revenue over the forecasted years supported by better performance in key markets, 2) sound balance sheet of Zain group and ability to maintain good dividend levels, 3) Better revenue mix for Omantel thus ability to post gradual improvements over the coming years and 4) OTEL to continue paying dividends in all scenarios. Risks could cover lower distributed dividends by Zain group, higher than the estimated impact of implementing the IFRS 15 and IFRS 9 standards and synergy benefits getting delayed.

Key assumptions for 2Q'18 performance at the parent level include 1) lower wholesales, 2) pressures on ARPUs, 3) continuation of the bond issuance cost of OMR 2.6mn, 4) continuing impact of implementing IFRS 9 and IFRS 15 and 5) Royalty level at 8% of revenue. Thus, we expect revenue of the parent co. to stand at OMR 135.2mn. We expect an operating profit of OMR 28.2mn. For Zain Kuwait, our main assumptions for 2Q'18 include 1) stability in subscribers, 2) continuing impact of currency issues in Sudan and 3) implementing of IFRS 15 and IFRS 9. We estimate Zain Kuwait to report OMR 332.3mn of revenue for 2Q'18. Accordingly, Omantel Group top level will come at OMR 469.6mn. The group operating profit is estimated at OMR 87.8mn while net profit attributed to the owners of the parent company is seen at OMR 17.3mn (including 21.9% of Zain Kuwait net profit for the quarter).

Ooredoo Oman: Our view on the company remains largely unchanged as we believe factors such as stability in the forecasted dividends, promising growth of home broadband, possibility of any reduction in branding and management fees (combined form 4.5% of total revenue) and good cash position remain active. Risks to be considered cover but not limited to: higher interest expenses might occur on the probability of acquiring new loan to fund the renewal of Mobile License and 4G (LTE) licenses in 2020, pressures on ARPUs and limited overall market growth.

For 2Q'18, we estimate continuing pressures on ARPUs to limit growth in revenues despite better subscribers' numbers resulting in total revenue of OMR 67.4mn, slightly up by 0.3% on yearly basis. Moreover, despite our assumptions of better cost control, the absence of the one off reversal item in depreciation which happened in 1Q'18, will result in lower quarterly performance of EBIT, yet remains better on yearly basis. We expect EBIT to come at OMR 17mn and EBIT margin of 25.2%. We estimate net earnings attributable to the owners of the parent company at OMR 7.37mn, up by 8.1% on annual basis and a net profit margin of 10.9%.

Oman Cement Sector

The main local players i.e. Oman Cement and Raysut Cement have done good in terms of cement sales in 1Q'18 as a result of implementing efficient pricing strategy. For 2Q'18, seasonal factor to play role in pressurizing selling prices which will result in lower revenues. However, we see stable operating margins and expect Raysut Cement to benefit from Cyclone Mekunu as rehabilitation of Dhofar damaged infrastructure to created demand for cement.

Further, in the medium to long run, we are positive on the sector considering the implications of the current and upcoming cost saving initiatives, better utilizations, continuity of demand for cement and the attractive opportunities at the export front. It is estimated that total demand for cement in Oman is around 9mn tons a year, of which 55-60% is covered by local players, mainly Raysut Cement and Oman Cement. Theoretically, this provides excellent opportunities for expansions bearing in mind that current implied level of utilizations is set at good levels of 80 - 85%. Total revenue to increase at a compounded annual growth rate (CAGR) of 5.3% during 2018-22.

Oman Cement: Revenue to be impacted due to seasonality and stiff competition in 2Q'18. We expect sales of cement at the level of 0.58mn in 2Q'18, down by 8.6% YoY. Realizations to be almost stable at OMR 23/ton. This will result in total revenue of OMR 13.4mn, down by 9% YoY. However, better cost control and initiatives towards upgrading the power plant will support operating margins. We estimate operating margins to stand at 20.4% in 2Q'18 versus 2017 average of 18.8%. Net profit is forecasted at OMR 2.7mn down by 2.4% YoY. Despite seasonality, Oman Cement remains in our top picks due to its strong cash position, sustainability in dividends and improvements in margins. The company attempts to strengthen its export segment and implement cost saving initiatives are critical for the business stability.

Raysut Cement: We believe Raysut Cement would be top most beneficiary from Cyclone Mekunu impact. Ravaging roads, public facilities, properties and businesses will all require cement and that will be an additional unbudgeted revenue. Raysut Cement to benefit the most as the company is located in the region which is affected, hence provisioning and delivery of cement at low cost would be much easier for Raysut compared to others. However, second and third quarter might not see an immediate increase in cement offtake as the assessment and clearing of the areas along with summer season, which is seasonally a low selling quarter for cement. We might see increased sales post 3Q'18. In 1Q'18, the company was successful in mitigating the Yemeni market impact which historically accounted for half of the parent company's external sales as we saw healthy increase in sales. As for 2Q'18, we expect lower sales on quarterly basis, yet better on annual basis, on seasonality and continue to see pressures on realizations. We estimate the group sales to stand at 0.86mn tons of cement, up by 17.3% on annual basis and blended selling prices of OMR 19.7/ton (RCC: OMR 25/ton, Pioneer Cement: OMR 14.5/ton). This results in total revenue of OMR 18.2mn, up by 1% YoY. In our view, the company experienced unusual higher expenses in 1Q'18 and we expect better cost control going forward. Operating margin is forecasted at 8.7%. The company net earnings are estimated at OMR 1.3mn down by 12.7% on yearly basis. The future expansions either locally or internationally shall support the stability of the company business.

Other Companies

Al Jazeera Steel Products Co.: Some pressures due to seasonality to impact revenues in 2Q'18. However, we expect lesser impact than usual due to the pricing strategy and diversity of the targeted markets. We expect utilizations rates at 69% resulting in total sales of 103k MT and see realization of OMR 265/ton considering recent rally in steel prices. Accordingly, the company revenue for the quarter is set at OMR 27.4mn, up by 19.3% on yearly basis. Operating margin is expected at 5.6% versus 2017 average of 6.3%. Net profit is estimated at OMR 1.1mn for 2Q'18, up by 54% with net profit margin of 4%. Al Jazeera Steel which was recently acquired by Suhail Bahwan Group whose business spreads across Engineering, Infrastructure, Energy and Tech might bring in more synergies and additional revenue for Jazeera Steel as well.

Oman Cables Industry: One of our picks due to:

- Its healthy sales profile and demand for its products. The company enjoys good links with the government and recently signed agreement with Nama Group for a contract of 3 years with the opportunity for a further 2-years renewal. According to news source, Nama Group signed 3 contracts totaling OMR 400mn - one of which was with Oman Cables Industry SAOG.
- Continuing recovery of its main subsidiary OAPIL which suffered from the disruption in supply of input metal from Sohar Aluminum.
- It is a low debt company with debt to equity ratio stands at only 0.09x resulting in ability to maintain dividends payout.

For 2Q'18, we expect the continuity of better copper prices and stability of the subsidiary production to support top earnings. Accordingly, revenue is estimated to stood at OMR 65.55mn up by 14.6% YoY. We see stability in cost of sales to sales ratio considering the recovery of OAPIL. However, we still believe that OAPIL to remain a pressure factor on the group performance as the rod premiums levels being offered by market continue to be at un-remunerative levels. EBIT margin is estimated at 4.1% for 2Q'18 versus 2017 average of 3.4%. Profit attributable to non-controlling interests is forecasted at OMR 2.16mn resulting in net margin of 3.3%.

Voltamp Energy: The Company posted disappointing performance in 1Q'18 as it incurred its first time quarterly loss. The reason was attributed to drop in demand of company's high yielding products. This has translated to lower our short term optimistic view on the stock. Yet, we believe that the two Qatari contracts for the supply of Distribution Transformers to the Qatar General Electricity and Water Corporation (KAHRAMAA) for a value of OMR 34mn will step in and support the company overall performance in the medium term. We still believe that this shall result in at least OMR 10mn to OMR 12mn additional revenue in 2018. For 2Q'18, we expect revenue of OMR 10.96mn, up by 15% on yearly basis as traditionally the company revenue is gradually improving over quarters besides the Qatari contract partial impact. EBIT is seen at OMR 0.49mn as we conservatively assume the continuity of high cost of sales to revenue but marginally lower that its peak in 1Q'18. We expect net profit to stand at OMR 0.32mn for 2Q'18 resulting in net profit margin of 2.9%.

National Aluminium Products Co: Better overall performance is seen in 2018 on 1) higher utilizations as we see better demand regionally and 2) better margins on cutting costs. Yet challenges include stiff competition, high financing costs, and metal prices volatility. It is expected that Aluminum prices to be higher average in 2018 at USD 2,250/ton compared with USD 2,075/ton for 2017, resulting in higher cost of sales and difficulty to pass this to clients. In order to mitigate this risk, we believe the company will look at markets of which it can sell at better prices in addition to the existing focus on introducing new products to support volumes. For 2Q'18, we expect revenue to be lower on quarterly basis on seasonality and lower realizations, yet at healthy level compared to a year earlier. We expect NAPI to post OMR 9.9mn of revenues, up by 93% YoY. EBIT margin to stand at 3.5% compared to negative operating margins of 2017 on higher sales and better cost control. We expect a net profit of OMR 0.190mn for 2Q'18 resulting in net margin of 1.9%.

GCC STOCKS ESTIMATES

GCC Earnings Estimates – 2Q18e

Company Name	Price (LC)	YTD Chg.	P/E	P/Bv	Div. Yld	Profit 2Q18e (LC mn)	QoQ	YoY	Revenue 2Q18e (LC mn)	QoQ	YoY
Earning Estimates - Saudi Arabia											
Saudi Cement Co.	47.80	0.8%	15.39	2.37	6.8%	121.82	-14.4%	29.7%	284.99	-12.0%	6.1%
Yamama Cement	15.98	-9.4%	37.99	0.93	0.0%	18.75	-21.4%	54.0%	131.76	-6.7%	-32.3%
Qassim Cement	38.55	-14.4%	16.68	2.04	7.3%	47.23	-17.4%	-11.2%	123.21	-16.7%	-8.8%
Yanbu Cement	26.65	-21.2%	10.58	1.22	7.5%	32.57	-17.8%	-59.5%	202.27	-6.1%	-5.6%
Dar Al Arkan	10.32	-28.3%	19.90	0.60	-	110.30	-66.7%	n/m	969.60	-65.3%	112.4%
Saudi Real Estate	14.64	30.7%	26.03	1.00	3.4%	33.68	-24.5%	79.6%	95.00	-10.4%	11.0%
Earning Estimates - UAE											
Abu Dhabi Comm. Bank	7.10	4.4%	7.95	1.22	5.9%	1,367.00	13.0%	35.0%	2,674.00	13.0%	26.0%
Emirates NBD	10.00	22.0%	6.01	0.97	4.0%	2,406.00	1.0%	19.0%	4,546.00	10.0%	19.0%
Abu Dhabi Islamic Bank	3.90	3.2%	5.28	1.03	6.4%	583.78	-1.1%	5.9%	1,382.00	2.1%	-1.1%
Dubai Islamic Bank	4.97	-9.8%	6.72	1.60	8.0%	1,213.99	3.0%	15.0%	1,805.00	-5.0%	-1.0%
Air Arabia	1.00	-19.8%	7.06	0.71	9.0%	136.80	34.6%	-9.2%	912.20	4.0%	0.7%
Emirates Integrated Tel. - DU	4.92	-3.5%	12.39	2.94	7.1%	478.99	-6.6%	7.3%	3,421.34	2.7%	5.1%
DXB Entertainments	0.33	-48.0%	n/m	0.43	-	(155.00)	n/m	n/m	220.00	27.0%	83.0%
Earning Estimates - Kuwait											
Jazeera Airways	0.75	12.6%	19.66	3.78	7.7%	1.60	n/m	-30.0%	15.48	8.0%	10.3%
Mezzan Holding	0.76	-2.1%	17.02	2.03	4.0%	4.80	-3.7%	137.9%	59.50	1.1%	18.4%

Source: Bloomberg & U Capital , Price as of 04-Jul-18

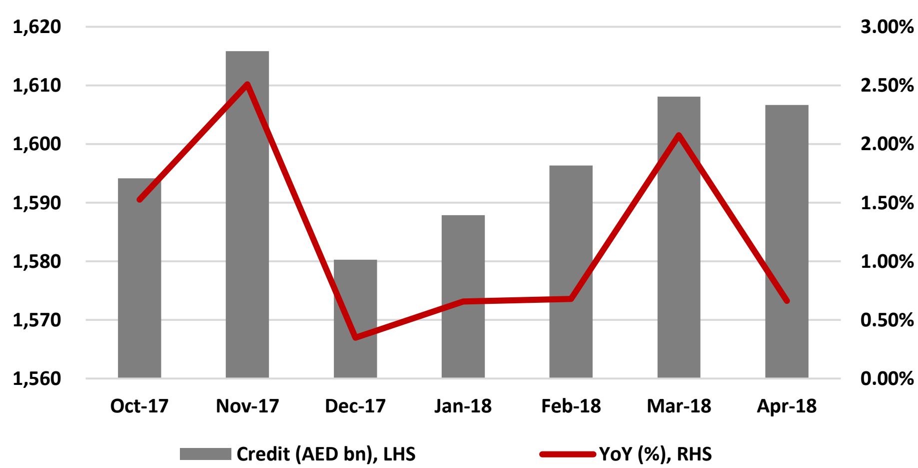
UAE Banking Sector

We expect investment expenditure to be the key driver of non-oil GDP growth for the UAE in 2018, as economic activity accelerates ahead of Expo 2020, and as the implementation of hydrocarbon sector projects in Abu Dhabi progresses. A further strengthening of the global economy and trade volumes will also support the UAE's economic activity in 2018.

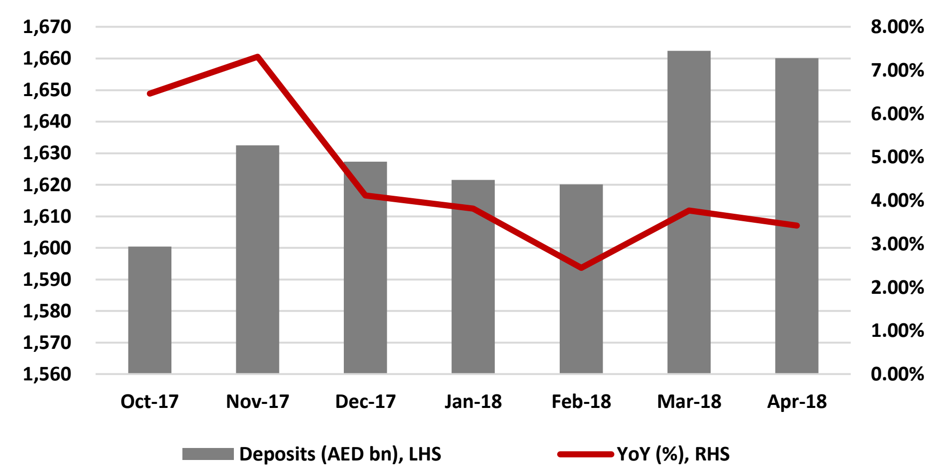
The International Monetary Fund (IMF) expects UAEs' economic growth to nearly triple next year as Abu Dhabi, benefits from an expected recovery in oil exports. Its gross domestic product will expand by 3.4% in 2018 as compared to 1.3% in 2017, largely on expectations that growth in oil-rich Abu Dhabi will surge to 3.2% from 0.3% in 2017, the IMF forecasts. Dubai's output will accelerate more moderately; to 3.5% from 3.3% in 2017. The introduction of VAT from 1st Jan, 2018 is likely to raise taxes of around 1.5% of GDP in its first full year, realizing a balanced fiscal position in 2018 with higher government revenue despite a pick-up in government spending. However, one caveat of this tax is that it might result in dampening of consumer spending and a rise in inflation. Some corporates might have to initially absorb part of the VAT given the impact on demand.

The removal of subsidies and introduction of new taxes are fundamentally altering the economy, while new regulations are strengthening the banking sector. Furthermore, digitization is transforming the banking industry. Therefore, it is evident that the bank which can continuously innovate and adapt digitization will be able to preserve shareholder returns.

UAE Banking Sector Credit



UAE Banking Sector Deposits



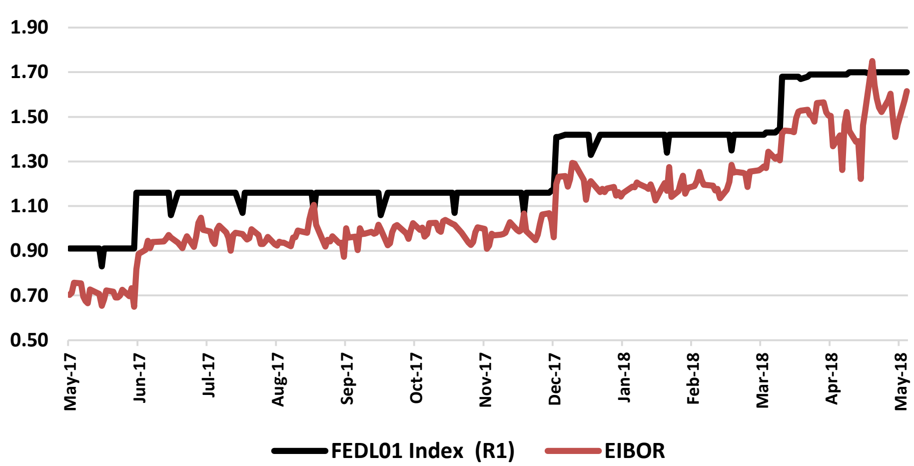
Source: CBUAE, U Capital Research

In March'18, total domestic credit of UAE reached AED 1.608 trn, up by +0.74%MoM and +0.68%YoY. Total deposits including non-resident deposits reached AED 1.662trn, up by +2.6%MoM and +3.8%YoY, bringing loan-to-deposit ratio down to 88.6% from 90.4% a month ago. On YTD basis, in the first three months of 2018, total credit has increased by 1.8% vs. almost flat for first three months of 2017, and deposits have grown at a somewhat similar pace (+2.2% YTD'18 vs. +2.5% YTD'17).

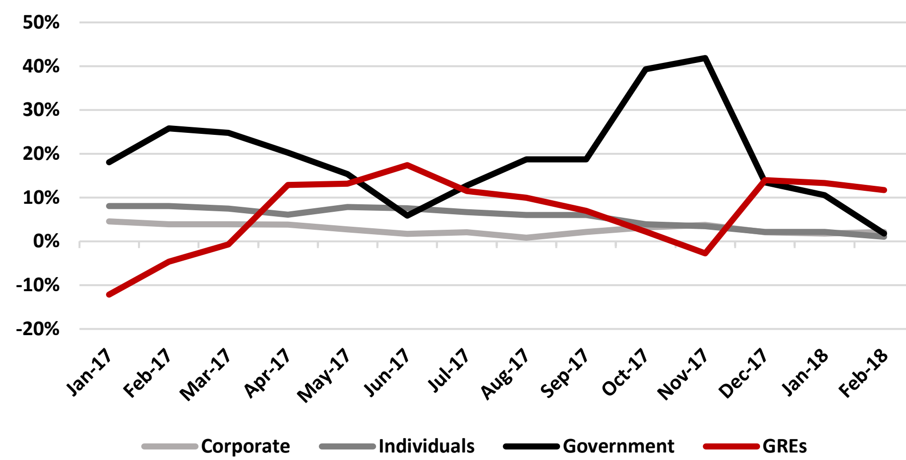
During the month of March'18, within sectors, credit to non-residents grew by 8.5%YoY, other financial institutions grew by 3.6%YoY Government grew by 2.4%YoY and private sector grew by 1.9%YoY. Deposits raised from corporates and individuals (share ~60%), the largest contributor to total deposits, rose by 0.9%YoY whereas Government deposits grew by 20%YoY. Deposits from Non-banking finance companies grew by 7%YoY, GREs grew by 5%YoY, and non-residents grew by 0.3%YoY.

The easing in banking sector liquidity conditions also reflected in the narrowing in spreads between UAE and US benchmark rates. While the overall data continues to highlight the weak credit demand environment, the main drivers of deposit growth in 2017 were the government and the GRE (Government Related Entities) sectors. We expect liquidity to remain comfortable in 2018 on the back of a higher oil price, further international debt issuance and a contained credit growth.

Fed Funds Rate & Emirates Interbank Overnight Rate



Deposit Growth YoY



Source: Bloomberg, CBUAE

Investment activity across the UAE gained solid traction during 2017 and is expected to play an even stronger role in the non-oil sector this year. Infrastructure projects related to Expo 2020, direct and indirect, alongside construction, power and transportation, featured heavily in Dubai in 2017. In 2017, more than AED 10bn direct Expo-related projects were awarded. There was also a surge of project awards in Abu Dhabi, particularly towards the year-end. Plans to increase oil, petrochemical and gas capacity are behind the major projects. While there is much to be positive about, some economic headwinds persist. Weak regional demand, the still relatively strong dollar and continuing concerns about job security have all played a part in dampening consumer appetite. This resulted in many corporates, particularly in hospitality and retail, cutting prices to bolster demand, thereby affecting their margins. Consequently, private sector credit growth remained soft in both the corporate and consumer sectors. However, Government initiatives like relaxation of visa requirement for certain nationalities resulted in a rising number of tourist visits that supported external growth and tourism-related sectors providing a welcome revenue boost. The significant rise was triggered by a relaxation in visa regulations for Chinese and Russian tourists, and for Indians with US or Eurozone visas.

Saudi Cement Sector

Saudi Cement sector faces multiple challenges as well as investment opportunities. For 1Q'18, total listed companies net profit stood at SAR 397mn, a notable decline of 48.8% on yearly basis. The high inventory level, drop in realizations and increasing cost of sales are some challenges to name. For instance, the average realizations went down by 10% on yearly basis to SAR 157/ton in 1Q'18. On the other hand, lifting export bans and Saudi Vision 2030 are key factors for supporting the demand for cement in the medium to long term. Companies such as Saudi Cement Co., Najran Cement Co., Eastern Province Cement Co. and Al Jouf Cement Co. have already started exporting.

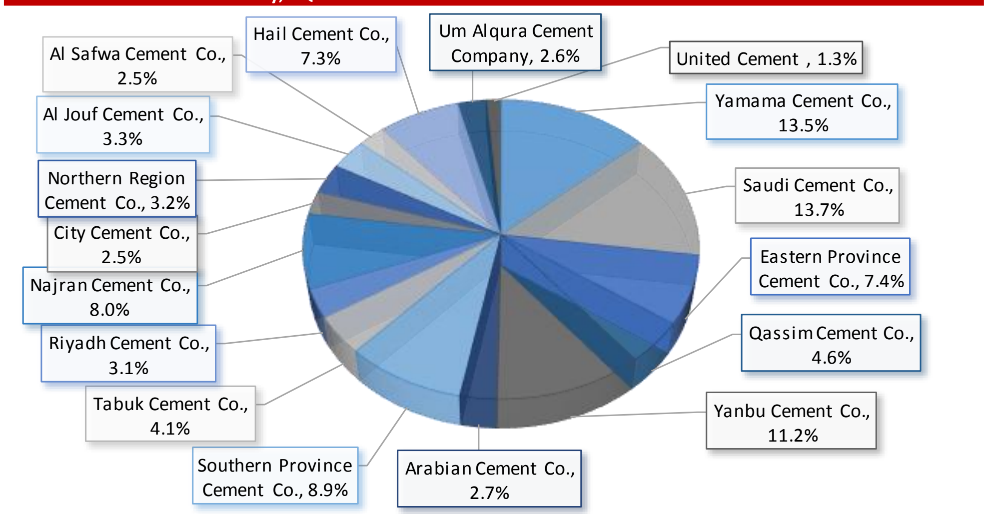
Further, many listed cement companies are traded on attractive multiples and offer good level of dividends yields considering the notable drop in stock prices. We believe that despite ongoing defending market share strategy and pressures on realizations, Saudi cement companies are in better shape than before to adopt new strategies in order to sustain their key margins considering cutting cost initiatives and slight recovery in demand for cement. We like Saudi Cement Co. and Yanbu Cement within our coverage due to their export opportunities, reduction in power usage and notable market share.

Sector in charts

Market Share - Local Sales	1Q'16	2Q'16	3Q'16	4Q'16	1Q'17	2Q'17	3Q'17	4Q'17	1Q'18
Yamama Cement Co.	9.8%	9.6%	10.4%	9.4%	9.2%	10.7%	9.0%	7.2%	6.3%
Saudi Cement Co.	11.6%	13.1%	13.1%	12.0%	10.2%	10.7%	10.3%	11.0%	12.0%
Eastern Province Cement Co.	4.7%	4.4%	3.9%	5.0%	4.3%	4.6%	4.1%	5.4%	4.8%
Qassim Cement Co.	7.5%	7.0%	7.5%	7.5%	8.0%	7.8%	8.4%	8.7%	7.8%
Yanbu Cement Co.	10.9%	10.2%	10.6%	15.6%	11.8%	10.8%	12.2%	10.5%	12.5%
Arabian Cement Co.	8.8%	8.7%	7.1%	7.5%	8.3%	7.2%	7.1%	7.3%	8.7%
Southern Province Cement Co.	13.5%	14.2%	14.6%	12.1%	11.3%	11.5%	12.2%	12.4%	11.1%
Tabuk Cement Co.	2.4%	2.5%	2.5%	2.4%	2.5%	2.1%	1.9%	2.6%	3.0%
Riyadh Cement Co.	5.8%	6.4%	7.0%	6.0%	6.1%	6.5%	5.9%	4.8%	4.3%
Najran Cement Co.	6.1%	5.0%	5.2%	4.6%	4.2%	3.6%	2.9%	4.2%	4.0%
City Cement Co.	5.4%	5.9%	5.5%	6.1%	7.8%	7.1%	6.7%	7.2%	6.1%
Northern Region Cement Co.	4.3%	3.6%	2.9%	2.5%	2.4%	2.4%	2.4%	2.6%	2.9%
Al Jouf Cement Co.	3.0%	3.7%	3.9%	3.3%	3.0%	2.9%	3.4%	2.8%	2.9%
Al Safwa Cement Co.	3.5%	3.2%	3.0%	3.8%	3.6%	4.3%	3.2%	3.7%	3.9%
Hail Cement Co.	2.7%	2.6%	2.8%	2.1%	2.0%	1.8%	2.5%	2.7%	2.8%
Um Alqura Cement Company	0.0%	0.0%	0.0%	0.0%	2.2%	2.3%	3.0%	3.0%	3.1%
United Cement	0.0%	0.0%	0.0%	0.0%	3.0%	3.6%	4.6%	3.8%	3.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Yamama Cement, U Capital

Market Share - Clinker Inventory, 1Q'18



Source: Yamama Cement, U Capital

Saudi Cement: Good pick considering its export opportunities and market share. We believe better exports to largely offset seasonality pressures in 2Q'18, thus expecting cement sales at 1.27mn tons, up by 6% yearly basis. We continue see stiff competition thus estimate lower realizations. We see revenue of SAR 285mn, up by 5.8% on yearly basis. Operating margin is seen at 44.8% in 2Q'18, compared with 2017 average of 40% mainly on better cost control. We expect operating and net income profit of SAR 127.6mn and SAR 121.8mn respectively for the same quarter. This represents an average rise of 29% on yearly basis. Overall, we think export sales to support the company on the medium to long term. Further, its CAPEX program regarding saving power costs and enhancing efficiency will result in better margins. The key drop is its highest clinker inventory level among the sector (13.7% of the total market).

Yanbu Cement: Despite tougher competition in the Western region which covers 32% of the total cement sales in the Kingdom, we are positive on Yanbu Cement due to factors like 1) potential exports to relax pressures on inventories, 2) continuity of strong demand in the Western region due to the ongoing mega projects and 3) lower cost of production to help margins resist the sharp decline. The company strategy to lower realizations will help in sustaining its market share of 11.2% as of 1Q'18. According to the company management, the company has started exporting in April this year as part of a one-year agreement to export one million tons of clinker and 0.5 million tons of cement to Egypt, Yemen and East Africa. At current selling prices, this shall add around SAR 96mn to revenues in 2018. For 2Q'18 we estimate sales of 1.47mn tons of cement of which 17% for export front. Thus, we see a yearly improve of 21%. In contrast, we expect pressures to continue on realizations to SAR 137.5/ton resulting in total revenue of SAR 202.3mn for 2Q'18. Better cost control to help operating margin to stand at 17% with operating profit of SAR 34.4mn. We assume no special gains from selling machines and equipment related to old kilns, which shall weaken the net profit for the quarter. We estimated a net profit of SAR 32.6mn, down by 59% on yearly basis.

Yamama Cement: Overall, we are cautious about the company performance considering multiple challenges such as) losing market share due to stiff competition in the central region, 2) missing export opportunity, 3) further pressures on realizations and 4) high level of clinker despite lower production. We see lower sales of cement in 2Q'18 by 3.5% on quarterly basis at 720k tons. Realizations are seen at SAR 183/ton, (-3.3% QoQ, +13% YoY) on defending its market share. Accordingly, revenue is estimated at SAR 131.7mn, down by 32.3% YoY. We see continuity of high cost of sales to revenue at 76% along with distribution expenses that result in an operating profit of SAR 19.3mn, up by 26% YoY but 23% lower on quarterly basis. We expect a net profit of SAR 18.7mn, up by 54% YoY translating into net profit margin of 14.2% versus 2017 average of 14.3%.

Qassim Cement: We like the company in terms of 1) high dividend payout at 100%, 2) largest market share in the Central region at around 28%, 3) low inventory to LTM sales ratio of 131% compared to the sector average of 224%. However, the company in 1Q'18 saw drop in volumes of cement sales and we saw an absence of sales to the Northern part of the kingdom. Further, stiff competition is getting tougher in the Central region as players try to increase their market share which in return impacts the realizations. For 2Q'18, we see drop in cement sales by about 15% on quarterly basis to 785k on seasonality factor, yet we feel that realizations will be lesser impacted, and we assume SAR 157/ton. This results in total revenue of SAR 123.2mn in 2Q'18. We expect operating margin of 37.5% in 2Q'8 which is near to 2017 average as we believe the company controls its costs well. Net profit is estimated at SAR 47.2mn, down by 11% on yearly basis with net profit margin of 38.3%. The stock saw one of the lowest drops in EPS over one year compared to other local players.

UAE Telecom Sector

Overview: The industry attractiveness and strong growth drivers to support the top level of the players. This built on 1) low penetration of broadband internet subscriptions at 15% (of inhabitants) in 8M'17, 2) on going mega projects such as Expo 2020, 3) the government commitment in achieving high ranks in telecom industry worldwide, 4) shift in preferences among subscribers towards digital services and 5) the favorable demographic outlook as youth represents 74% of total population and 6) near commercial launch of 5G network.

Du: One of our picks considering 1) improving cost control, 2) growth at top level, 3) near launch of 5G Network, 4) ability to maintain dividends and 5) provides one of the highest return on equity among regional telecom players. On the other hand, implementing IFRS 15 has limited revenue growth. Out key assumptions for 2Q'18 performance include 1) stronger revenues backed by higher broadcasting and fixed segments, 2) lack of one off reversal related to regulatory costs and reduction in costs. We expect total revenues at AED 3.4bn up by 5% on yearly basis. The lack of one off positive reversal of about AED 144mn which was happened in 1Q'18 to restrict EBIT margin from posting better performance despite our assumptions of better cost control over other segments. Accordingly, we estimate EBIT margin at 29% and see net earnings at AED 479mn, up by 7% on yearly basis.

GCC Aviation Sector

Air Arabia: We anticipate airline 2Q18 profitability to grow by 34.6% in 2Q18 to AED 136.8mn. Growth in bottom line would largely result because of addition of new airline fleet in 2018 & 2019 and benefits which will flow because of launch of two new bases, four new aircrafts and 21 new routes during 2017 and previous quarter. Airline was airline was able to lower its cost during 2017 and 1Q18 on account of better cost control and right hedging positions. For 2018, Air Arabia has 27% of its fuel requirements at USD 67/bbl. while average oil price so far in 2018 have averaged over USD 69/bbl. and are estimated by various international oil agencies to rise further in anticipation of geopolitical risks and production issues in some oil producing countries.

Jazeera Airways: We anticipate airline to post positive income after challenging 4Q17 and 1Q18 on account of lowest ever reported yield in Company's history. We expect, Jazeera to post profitability of KWD 1.6mn which is down YoY by 30.0% on account of higher oil prices as Jazeera Airways does not have a prudent hedging policy unlike Air Arabia. During the quarter, the airline also launched its own terminal at Kuwait with a 2,500 sm of retail space – full impact of which would come in 3Q18.

Saudi Real Estate Sector

Saudi Arabia real estate sector is going through various changes, some of which are supportive while other pose as a great challenges.

Catalysts

Government support and schemes

Since last year government has come up with various schemes and plans to prop up the real estate sector. Starting with the Sakani Program which planned to deliver 280,000 units followed by launch of Saudi Real Estate financing company and recently by changing the loan-to-value (LTV) ratio to 90%, so that the buyers will only have to pay 10% of the property's value to obtain a housing loan.

White Land Tax

In 2Q17, Saudi Arabia began levying 2.5% tax on undeveloped land in the cities of Riyadh, Jeddah and Makkah, with an aim to stabilize real estate prices and increase the supply of affordable residential units. According to the MoH, the total land area subject to the white land tax in these four cities is 400 million sq. meters. According to the Justice Ministry, the tax was able to reduce real estate prices by 18.5% on average post its implementation, and that the tax reform has thus far achieved the desired effect. We believe this will negatively impact the selling price of the companies with high land banks specially Dar Al Arkan.

Ultra high Project underway: Announcement of the construction of NEOM and reviving King Abdullah Economic City would drive the demand for high-quality commercial spaces.

Challenges

Expat levy and consequent reduction in population

Effective 3Q17, Saudi Arabia implemented expat levy on the dependents of expat employees forcing many expatriates to relocate their families back to their origin and making many residential units empty. This action has adversely affected the demand for residential sector realty in the Kingdom.

Rising interest rates

Followed by increase by US Fed rate, KSA has been following suit and increasing the rates accordingly due to its currency peg. With expectation of further hikes by Fed this and next year, it might affect the real estate loan offtake by consumers.

Higher cost because of VAT implementation – VAT implementation last year is likely to drive the cost of fuel and construction materials higher, which would adversely affect real estate players.

Recommendation Scale

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9034/35/36
Fax: +968 2494 9099
Email: research@u-capital.net