

CORONAVIRUS IMPACT ON GLOBAL, GCC & OMAN MARKET

05 March 2020

TABLE OF CONTENTS

TOPIC	Page No.
Coronavirus	3
Impact of China on Economies & Exports	5
How Coronavirus Compares to Historic Stock Market Falls	6
Coronavirus Impact on Global Stock Markets	7
Coronavirus Impact on Oil Price	9
Countries Announcing Potential Fiscal Measures to Counter Coronavirus Impact	11
Coronavirus Impact on GCC Markets	13
Coronavirus Impact on Oman	15
Sectoral Outlook of Oman in View of Coronavirus	19
High Conviction Calls in Oman	20

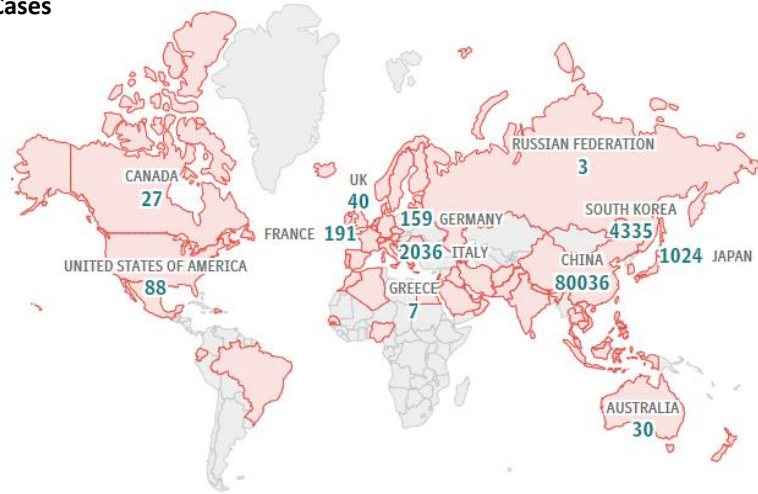
CORONAVIRUS AND ITS EFFECT

- Since late January 2020, Coronavirus (COVID-19) outbreak has quickly spread across the globe with most impact occurring initially in China and then spreading across the globe mainly affecting Iran, Italy and South Korea.
- Government-enforced closures of businesses have severely impacted the Chinese economy and are also impacting global growth.
- More than 50,000 companies around the world have one or more direct in the impacted region and at least five million companies around the world have one or more Tier 2 suppliers in the impacted region.
- Scientists and drug companies are racing to develop and test treatments and vaccines that address COVID-19. Work on both is progressing at an unprecedented speed but researchers are starting essentially from scratch on vaccine development, so the process is going to take a long time.
- First clinical trial results are expected to come in a months time. Until then we believe the stock markets will continue to remain turbulent as witnessed in the movement of VIX volatility index.
- In this note, we have tried to identify stocks in Oman which are either in defensive sector or are less likely exposed to COVID-19 outbreak or have a higher growth / dividend potential.

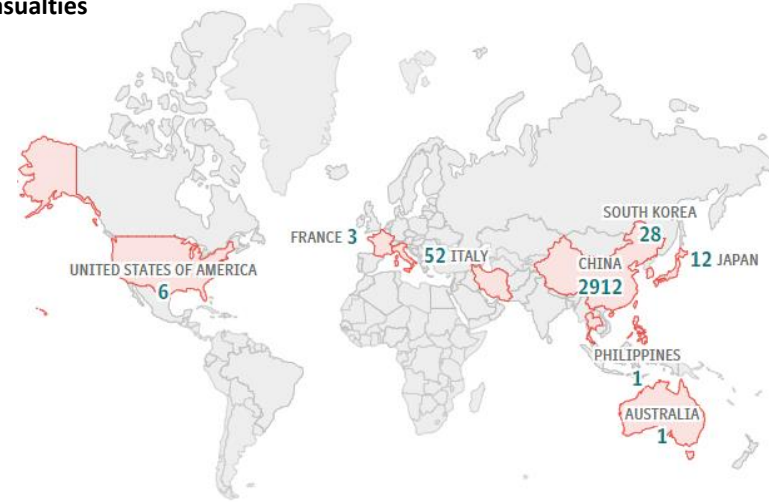


CORONAVIRUS CONFIRMED CASES & CONFIRMED CASUALTIES

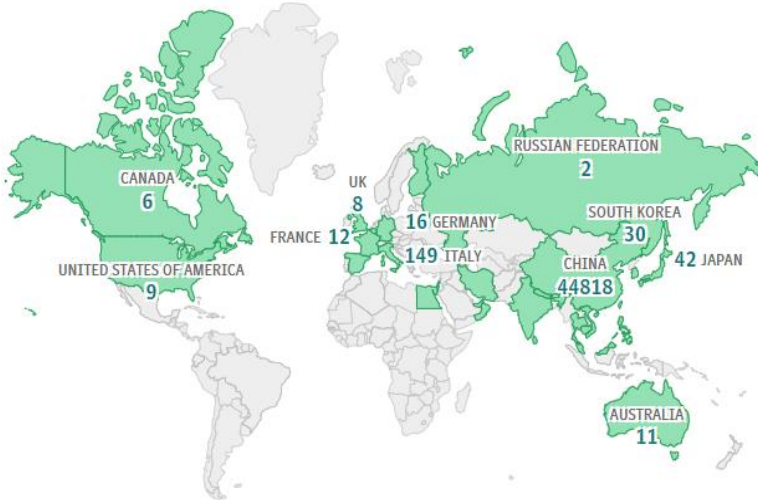
Confirmed Cases



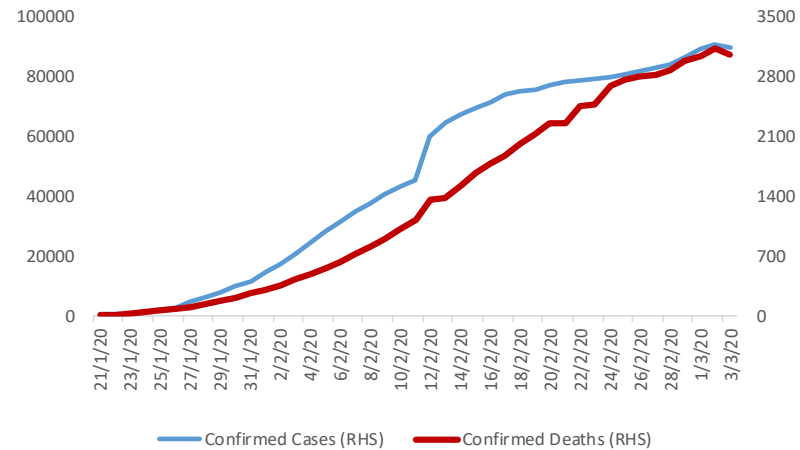
Casualties



Recoveries



Coronavirus Confirmed Cases & Confirmed Deaths



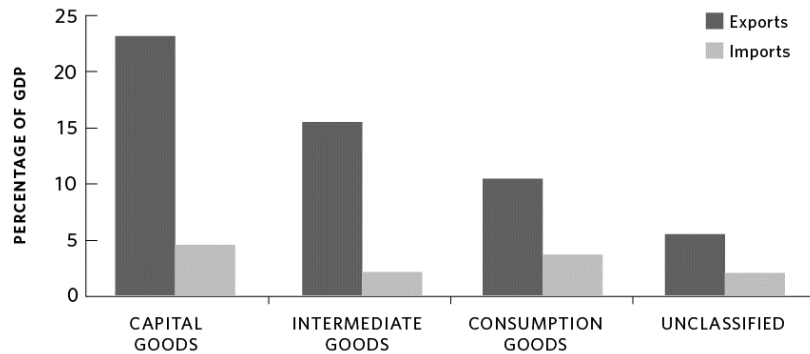
Source: WHO, CDC, ECDC, NHC, DXY. Last updated: 02/03/2020. Japan total Includes Diamond Princess

Source: Bloomberg

IMPACT OF CHINA ON ECONOMIES & EXPORTS

- Chinese economy now accounts for 16% of global gross domestic product -- four times larger than in 2003.
- 150mn Chinese tourists travelled abroad in 2018. The vast nation remains the world's manufacturing hub.
- China consumes about 50% of some raw materials, and so far, its economic slowdown has therefore had the most acute impact on commodity-related sectors.
- China's GDP growth in 2020 could fall by as much as 0.5 percentage point, according to the ASEAN Macroeconomic Research Office, which acts as a policy adviser to the Association of Southeast Asian Nations.

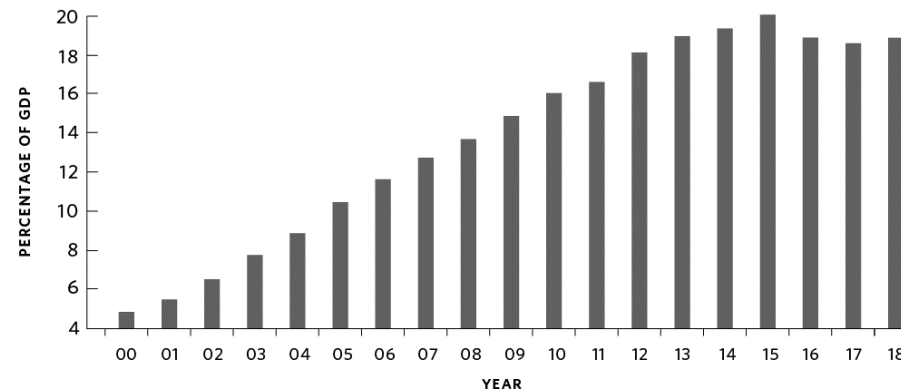
China's share of Key Elements of Global Trade



SOURCES: Natixis, UNCTD

NOTE: Products classified under the Broad Economic Categories. Unclassified products consist mainly of food and live animals.

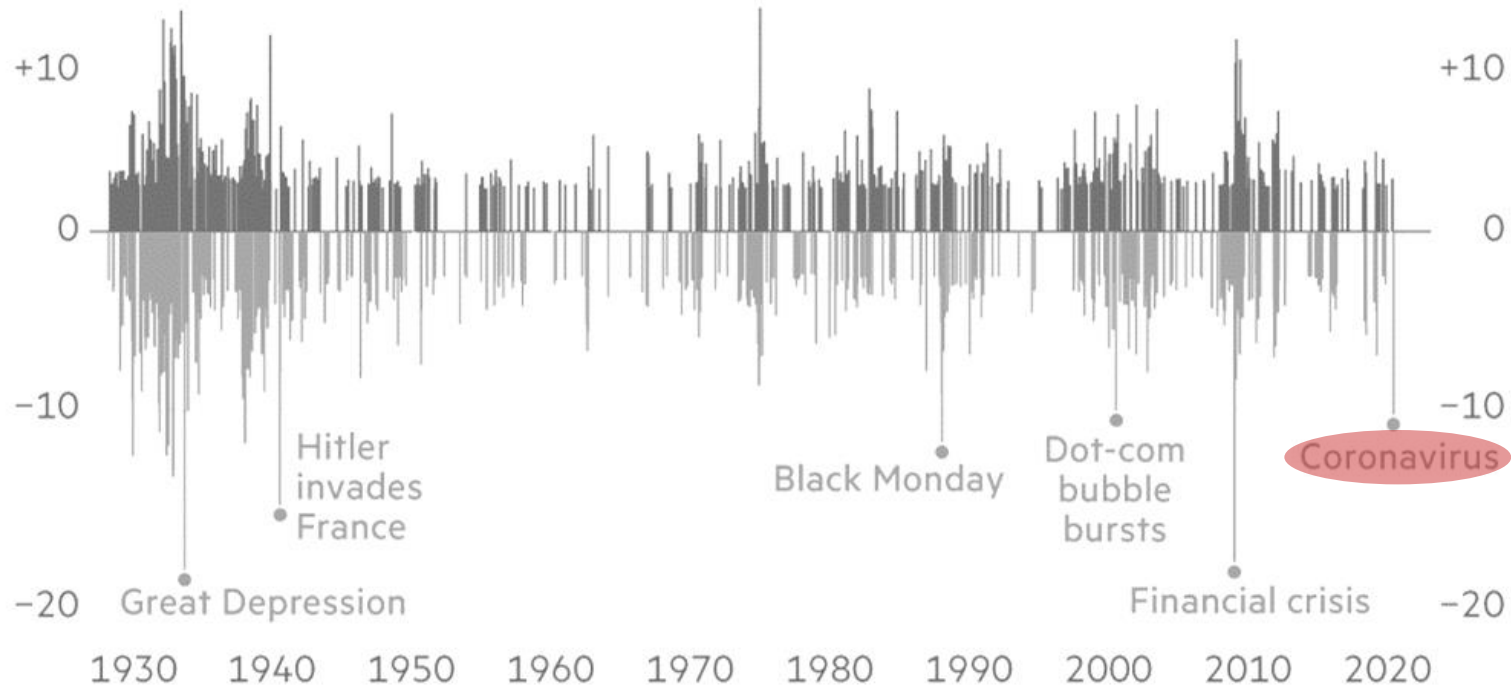
China's Global Market Share of Manufacturing Exports



SOURCES: Natixis, United Nations Conference on Trade and Development (UNCTD)

HOW CORONAVIRUS COMPARES TO HISTORIC STOCK MARKET FALLS

Week-on-week change in S&P 500 (%)



Source: FT



CORONAVIRUS IMPACT ON GLOBAL STOCK MARKETS

- World stock markets which gained USD 17.35 trn in 2019 in market capitalization has lost USD 9.2 trn ever since the Coronavirus cases started reporting.
- World stock market capitalization now stands at USD 79.9 trn compared to USD 89.2 trn on 21st January 2020 and USD 86.9 trn as of 31st December 2019.

World Stock Market Capitalization

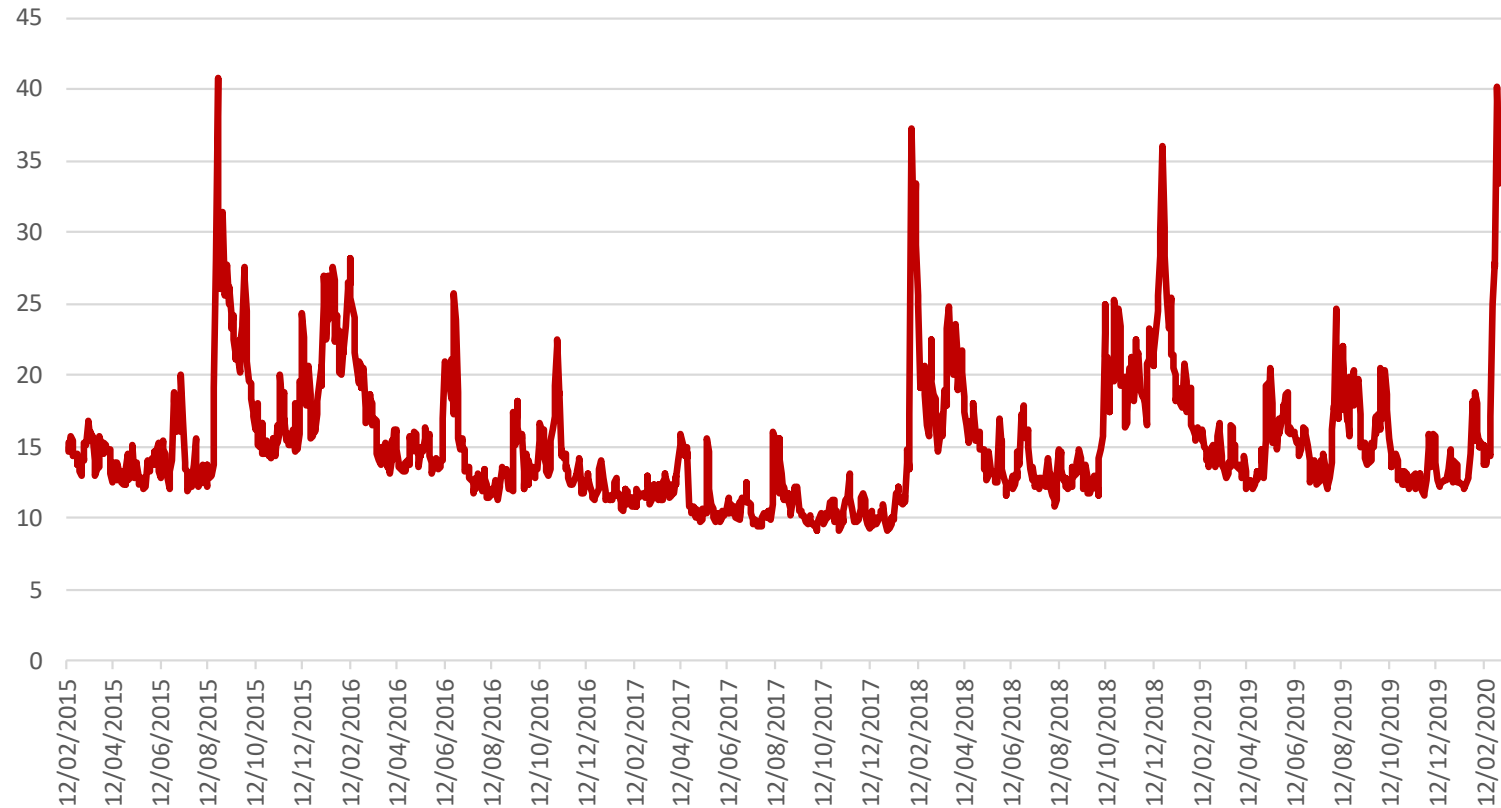


Source: Bloomberg

VOLATILITY INCREASE IN THE MARKETS BECAUSE OF COVID-19

- Volatility Index (VIX), a popular measure of the stock market's expectation of volatility based on S&P 500 index options which earlier brushed aside geopolitical tensions, could not stand the recent pandemic and rose to new highs.

VIX Index

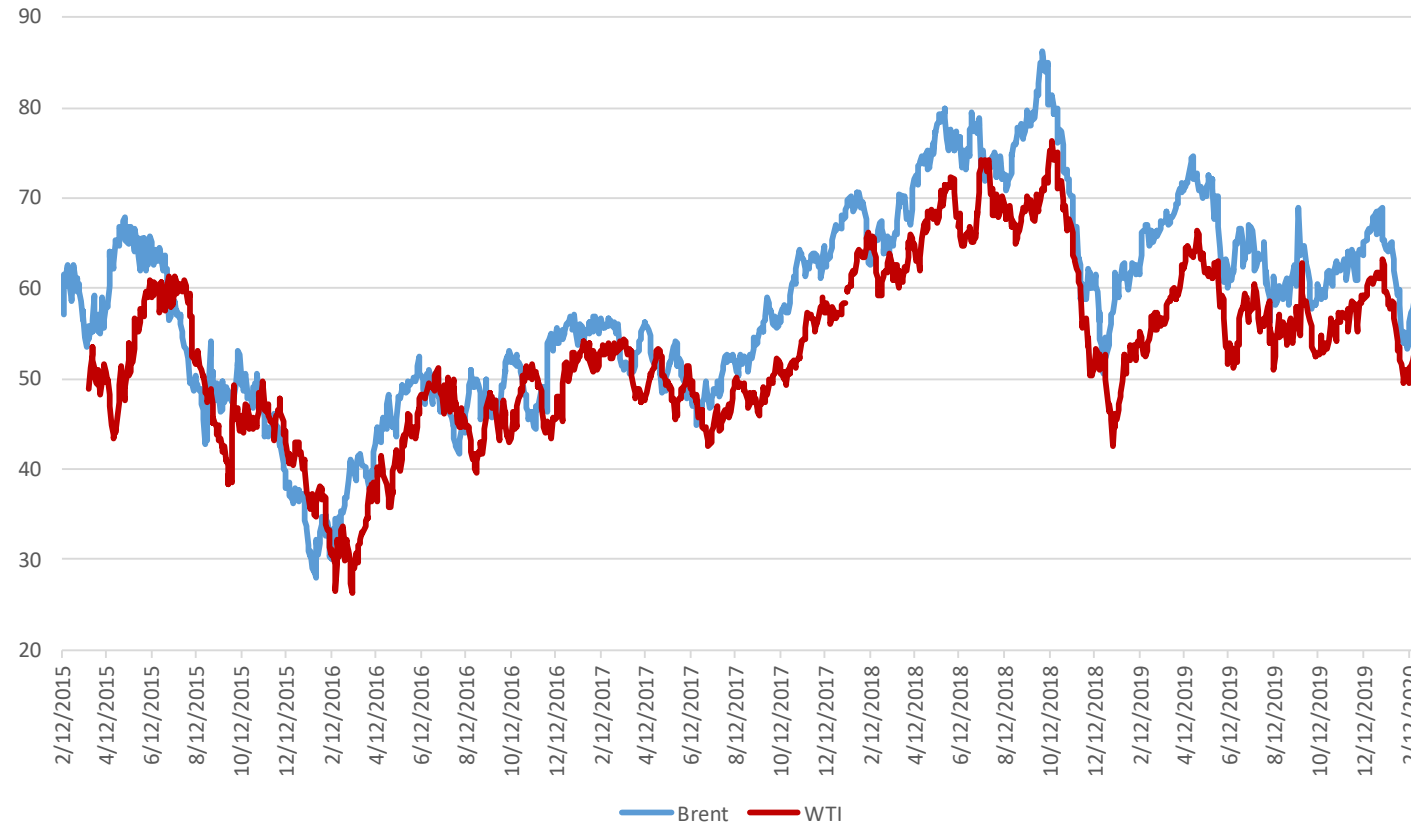


Source: Bloomberg

CORONAVIRUS IMPACT ON OIL PRICE

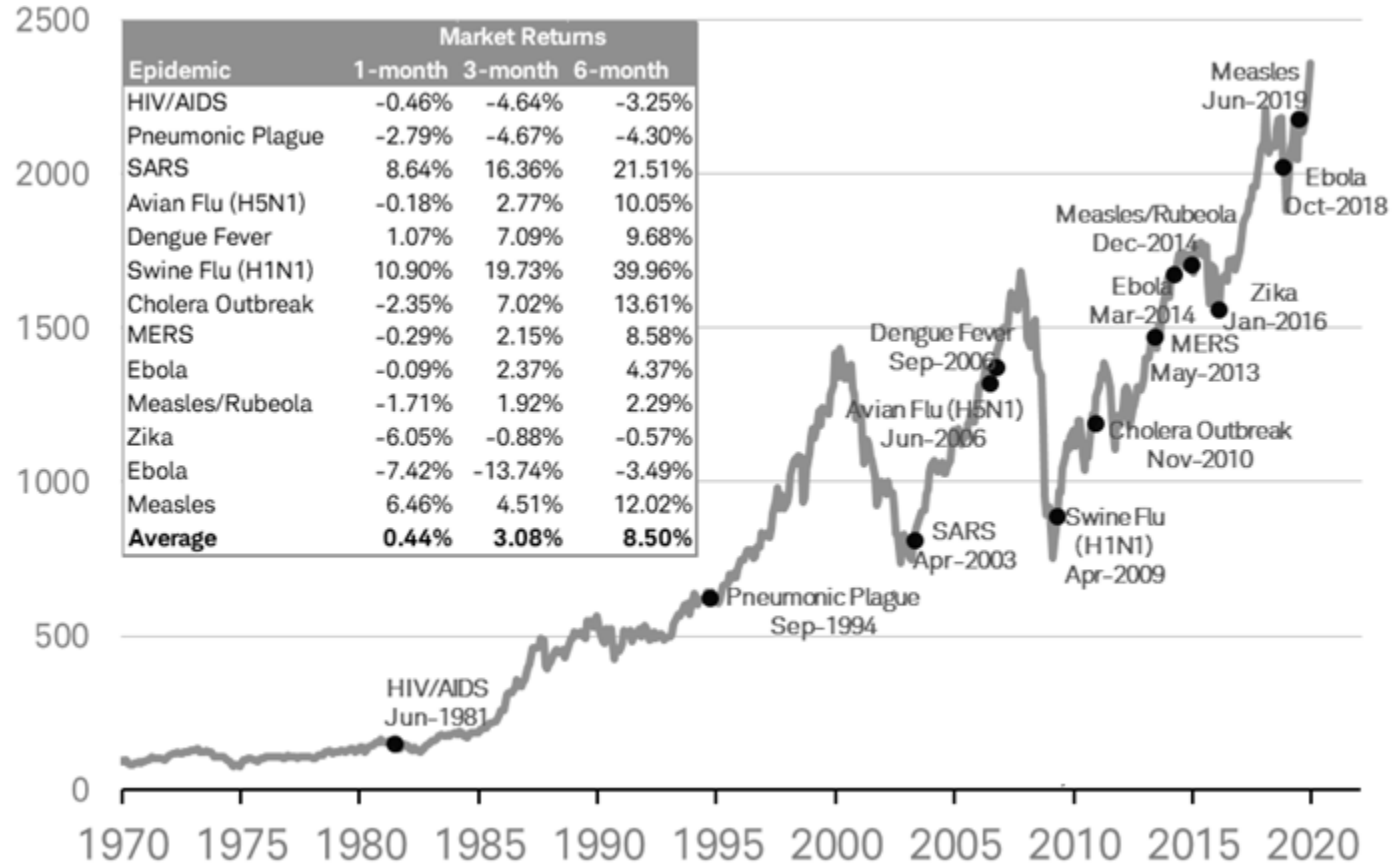
- Oil price have fallen to the lows seen last year but with falling oil price the shale oil/gas companies production has affected which will reduce the supply from the market.
- The latest EIA Drilling Productivity Report shows that production in all major shale basins outside of the Permian have started to decline, and even the Permian's expected growth for March is a fraction of the growth rates seen during the heady days of 2018.

Brent & WTI Price - 5 Year Price (USD /bbl.)



Source: Bloomberg

HOW THE STOCK MARKET HAS PERFORMED DURING PAST VIRAL OUTBREAKS



Source: Factset
 Note: MSCI World Index

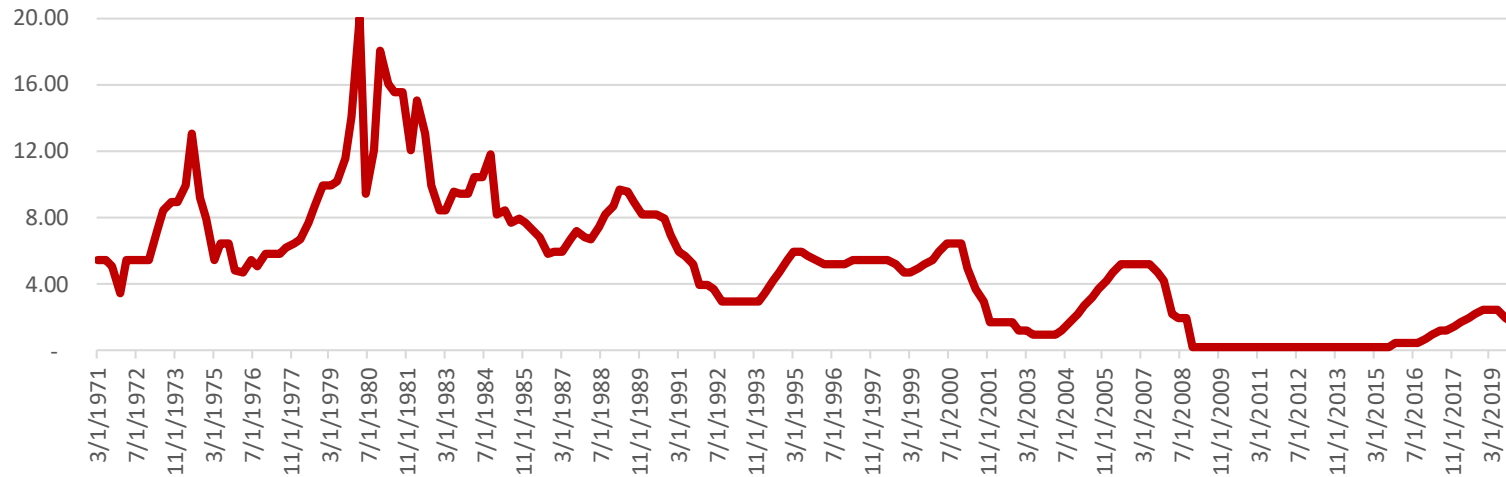
COUNTRIES ANNOUNCING POTENTIAL FISCAL MEASURES TO COUNTER CORONAVIRUS IMPACT

- **CHINA:** Chinese Central bank announced it will use reverse repurchase agreements to supply 1.2 trillion yuan of liquidity, with the figure coming to 150bn yuan (USD 21.7bn) on a net basis.
- **US:** The Federal Reserve cut benchmark interest rates by half a percentage point. The committee, which sets short-term interest rates, lowered the target range to between 1% and 1.25%. “The Committee is closely monitoring developments and their implications for the economic outlook and will use its tools and act as appropriate to support the economy.
- **GCC:** Following US Fed rate cut many countries within the GCC also slashed their rates. Kuwait, Qatar, Saudi Arabia and Bahrain reduced their benchmark/discount rates.
- **ECB:** Investors are pricing in an increased chance the European Central Bank will cut interest rates sooner rather than later, reflecting heightened fears that coronavirus will spread and hit the euro zone economy hard.
- **UK:** The Bank of England has joined in a chorus of central banks in the last two days who are talking up the prospect of monetary measures to fight the coronavirus.
- **JAPAN:** Japan said the government had sufficient reserves to tap for emergency spending related to the epidemic and started by ETF's.
- **ITALY:** Announced a USD 4bn stimulus package as it had the highest number of cases in Euro Area.
- **MALAYSIA:** Government will dedicate USD 4.8bn to support businesses affected by the virus, particularly in the tourism industry. The country may issue bonds for funding if necessary.
- **AUSTRALIA:** Reserve Bank of Australia has cut the official cash rate by 0.25 percentage points to a record low of 0.5 per cent. The cut - the fourth in less than 12 months - follows turmoil in financial markets over the past week driven by fears about the impact of the global coronavirus outbreak.

FED SURPRISE RATE CUTS – SINCE 2000

Date	Event	Cut %
March 3 2020	Coronavirus	50 bps
October 8 2008	Lehman Brothers	50 bps
March 16 2008	Bear Sterns	50 bps
Jan 22 2008	Jan Stock Downturn	50 bps
August 17 2007	Subprime Crisis	50 bps
Sept 2001	9 / 11	50 bps

US FED Rate

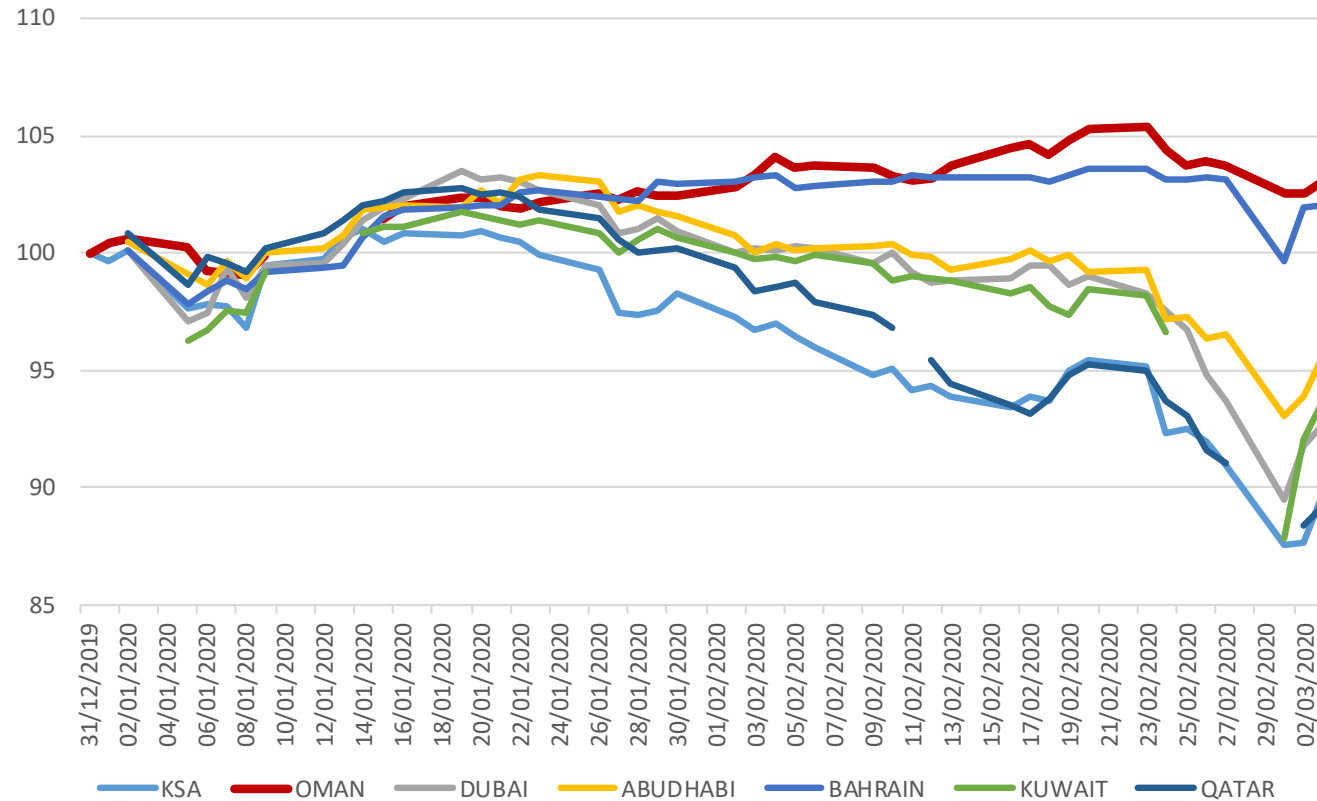


Source: Bloomberg

CORONAVIRUS IMPACT ON GCC MARKETS

- Coronavirus coupled with low oil prices have removed USD 190bn from the stock market capitalization of GCC with USD 85bn alone from Saudi Aramco and USD 105bn of remaining companies.
- GCC stock market capitalization now stands at USD 2.7 trn compared to USD 2.89 trn on 29th January 2020 (first reported case of Corona in GCC i.e. in DXB) and USD 2.95 trn as of 31st December 2019.

YTD Relative Performance of GCC Markets



Source: Bloomberg

GCC MARKET MULTIPLES

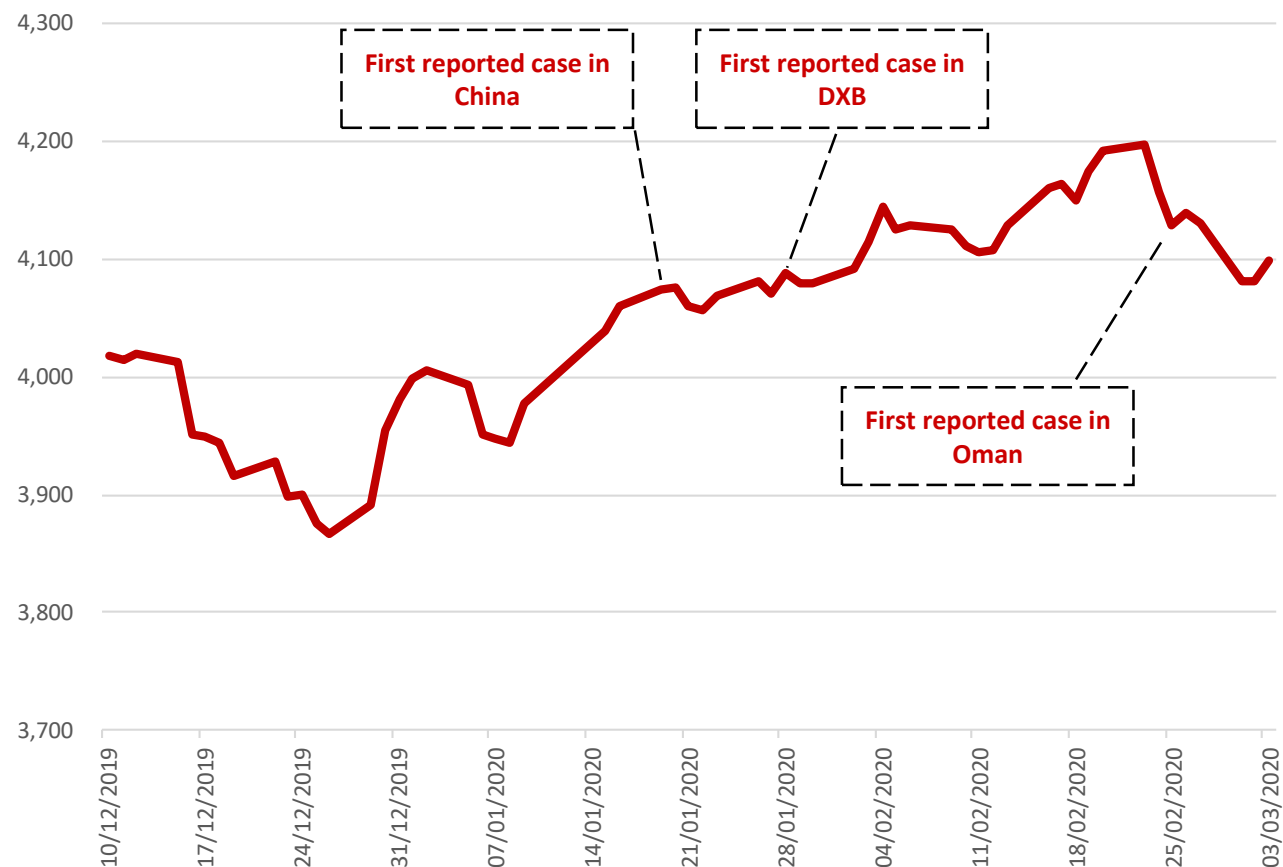
GCC INDICES	YTD CHANGE	PRICE TO EARNINGS	PRICE TO BOOK	DIVIDEND YIELD
	%	(x)	(x)	%
Muscat Securities Market	2.89%	8.18	0.76	7.3%
Saudi Stock Exchange	-9.93%	21.20	1.65	3.5%
Kuwait Stock Exchange	-6.15%	14.92	1.35	3.6%
Qatar Exchange	-11.19%	13.59	1.33	4.4%
Bahrain Stock Exchange	1.73%	11.64	0.98	4.4%
Dubai Financial Market	-8.27%	9.17	0.90	4.6%
Abu Dhabi Exchange	-5.31%	14.20	1.31	5.2%
MSCI GCC Countries Index	-10.50%	14.95	1.61	4.2%

As of 04 March 2020

CORONAVIRUS IMPACT ON OMAN

- So far the impact on Oman of Coronavirus has been very limited.
- Oman is the best performing market YTD in GCC. As not many sector / companies are exposed either to China or to the countries which have reported cases.
- Very few cases have been reported in Oman and some of them have been released too after getting well.
- Many companies in Oman are consistent dividend paying companies which have also safeguarded the fall in the market.

MSM Index - YTD

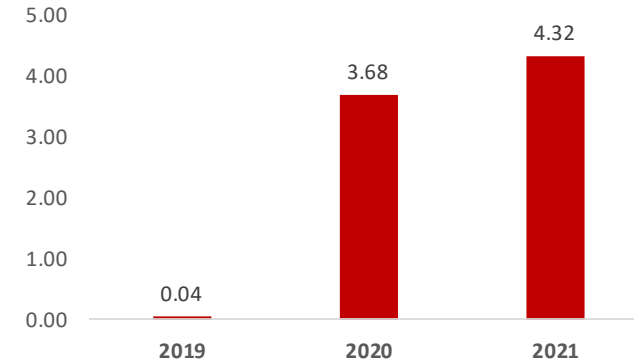


Source: Bloomberg

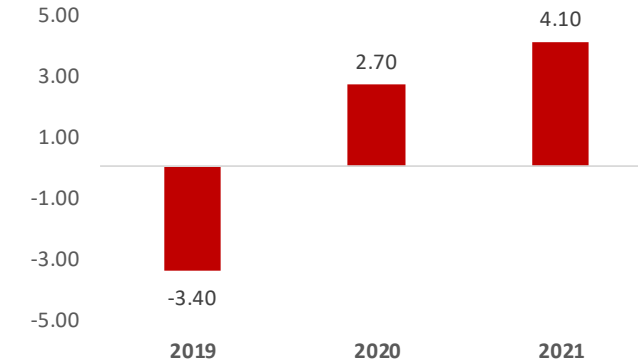
OMAN ECONOMY IN NUMBERS

- Oman to be the fastest growing economy within GCC with real GDP growth of 3.68% in 2020, as per IMF.
- Nominal GDP is estimated to grow by 2.7% in 2020, on account of higher oil/gas prices and production.
- Gross debt to GDP ratio of Oman is expected to remain range bound i.e. between 60-65% during 2019-21.
- Current Account Deficit to GDP is estimated to decline to 6.6% of GDP in 2021 from 7.17% and 8.01 of GDP in 2019.

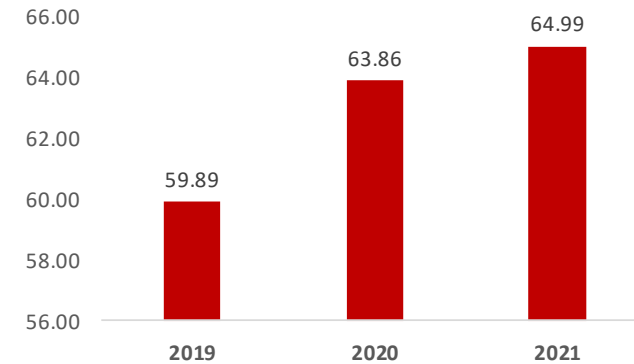
Real GDP - %



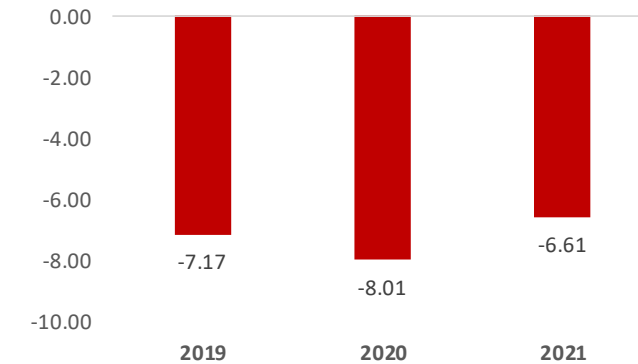
Nominal GDP - %



Gross Debt to GDP - %



Current Account Deficit to GDP - %



Source: IMF

OMAN PROVEN OIL & GAS RESERVES

TOTAL OIL PROVED RESERVES

1998	2008	2018		
Thousand million barrels	Thousand million barrels	Thousand million barrels	Share of total in World	R/P Ratio
5.4	5.6	5.4	0.3%	15.0

TOTAL GAS PROVED RESERVES

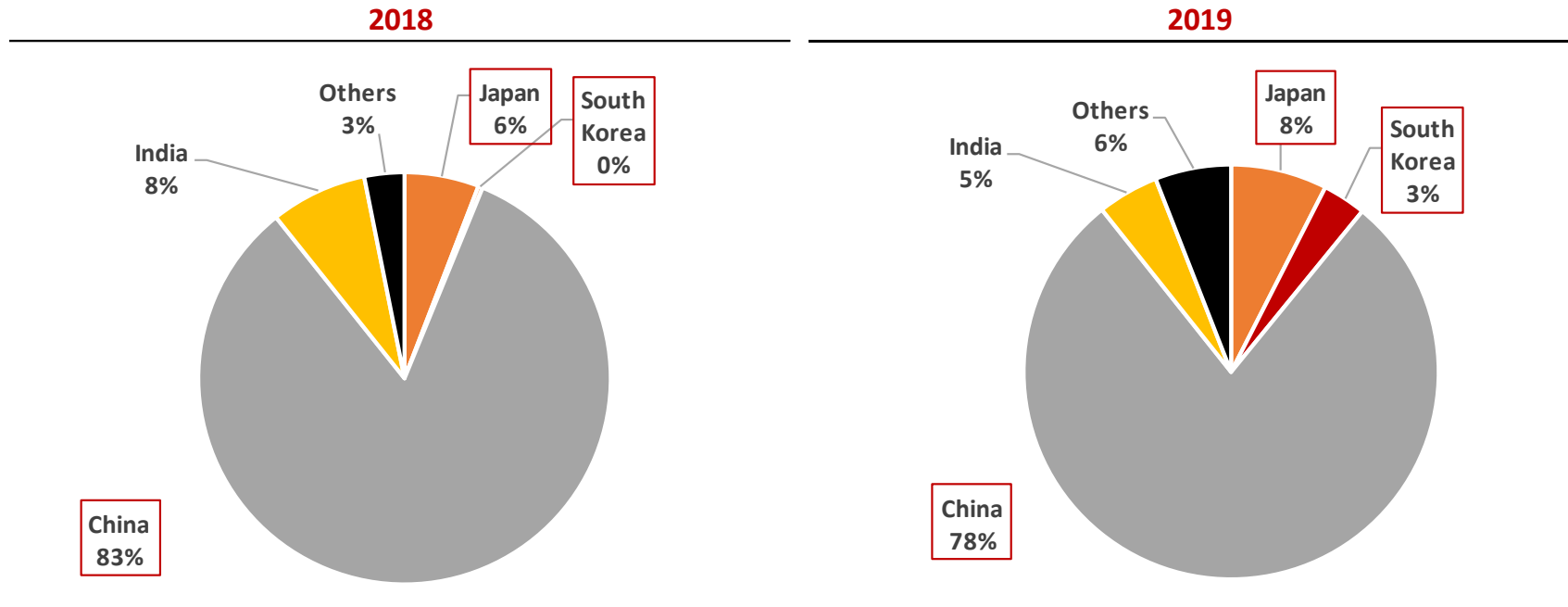
1998	2008	2018		
Trillion cubic metres	Trillion cubic metres	Trillion cubic metres	Share of total in World	R/P Ratio
0.5	0.9	0.7	0.3%	18.5

Source: BP Statistical Review 2019

Note: As per Current Level of Reserves & Production & excludes the upcoming new oil/gas explorations and discoveries

OMAN DIVERSIFIED ITS CRUDE OIL EXPORTS IN 2019

- Oman government continues to work prudently as it finds new customers for its crude oil exports on the back of expectation of slowdown in some of the world leading economies.
- In 2019, crude oil exports to China only grew by 1.2% to 243.3mn barrels compared to 240.3mn barrels in 2018, growth of 1.2%. Whereas the same for India dropped by 33% to 14.7mn barrels compared to 22mn barrels in 2018. In the same time export of crude to South Korea and Japan grew by 952.6% and 37.8% to 10.5mn barrels (earlier 1mn barrels) and 23.3mn barrels (earlier 16.9mn barrels), respectively.
- Growth in South Korea and Japan covered up for slowing growth in China and drop in India.



Source: NCSI

SECTORAL OUTLOOK OF OMAN IN VIEW OF CORONAVIRUS

SECTOR	OUTLOOK	COMMENTS
Banking Sector	Neutral	Banking sector is vulnerable to potential Fed rate cut but falling interest rates are expected to provide a respite from rising delinquency in loans (as cost of borrowing contracts), along with some improvement in NIMs for banks with a higher CASA % (short term), until re-pricing of loans ensues.
Insurance Sector	Neutral to Negative	Life and non-life insurers will be exposed to claims from the outbreak of the new coronavirus, but there is a sense that claim levels on both sides of the industry could be constrained by low insurance penetration and restrictive policy language.
Cement Sector	Neutral to Positive	No raw materials are sourced from outside Oman. Omani companies are self sufficient in terms of local demand as half of the demand in Oman is catered by companies from UAE which will be subject to more stricter quality checks announced recently.
Ceramic Sector	Positive	No raw materials are sources from outside Oman. With lesser production in China which was earlier dumping cheaper ceramic products, the local ceramic companies will stand to benefit. Also imposition of duty on cheaper products from China and India.
Telecom Sector	Neutral to Positive	If coronavirus spreads there will be more stay at home population which will use more Home and Mobile internet to keep themselves entertained in view of limited mobility and lesser entertainment options.
Education Sector	Neutral	No Impact
F&B Manufacturing Sector	Neutral	Continuation of use of essential food products.
Oil Marketing Sector	Negative	Lesser consumption of fuel from motorists and aviation companies as outside mobility will be less.
Tourism & Hospitality Sector	Negative	Lesser travel translating into lesser hotel occupancy.
Logistics Sector	Negative	Lesser global trade to effect the volumes.

HIGH CONVICTION CALLS IN OMAN

COMPANY	COMMENT	Growth or Dividend Play	TP (OMR/SHARE)	UPSIDE - %	DIV. YIELD 2021e (%)	DIV. PAYOUT 2021e (%)	PE (x) 2021e
Bank Muscat	<ul style="list-style-type: none"> • Double digit and growing ROE • Good customer deposit mix in a falling interest rate environment • High GDP growth this year to translate into higher loan growth 	Dividend	0.470	6%	7.9%	59.0%	7.5
Bank Nizwa	<ul style="list-style-type: none"> • Rapidly increasing market share as being the only standalone Islamic bank • Robust asset growth • First dividend expected to be paid in 2021 	Growth & Dividend	0.112	12%	5.0%	54.5%	10.9
Raysut Cement	<ul style="list-style-type: none"> • Checks on imported cement • Expansions at multiple locations • Cost cutting 	Growth & Dividend	0.620	28%	3.1%	50.0%	16.2
National Life & General Insurance	<ul style="list-style-type: none"> • Consistent growth in earnings • Mandatory health insurance to yields its benefit as NLIF is a market leader • Expansion in regional markets 	Growth & Dividend	0.358	13%	8.5%	68.8%	8.1
Al Ahlia Insurance	<ul style="list-style-type: none"> • Consistent growth in earnings • Leader in Comprehensive motor insurance • Consistent growth in income and dividends 	Dividend	0.440	10%	9.5%	86.4%	9.1
Al Anwar Ceramics	<ul style="list-style-type: none"> • Imposition of anti dumping duty on cheaper ceramic products from abroad • Net cash company 	Growth & Dividend	0.190	18%	5.0%	79.0%	15.9
Omantel	<ul style="list-style-type: none"> • No potential impact of 3rd operator in 2020 • Potential synergies of Zain acquisitions & sale of towers • Higher dividend payout 	Growth & Dividend	0.740	8%	8.7%	50.0%	5.7
Renaissance Services	<ul style="list-style-type: none"> • Healthy balance sheet • Duqm expansion to come online in 2020 • Business growth in facility management business 	Dividend	0.620	29%	6.3%	50.7%	8.1
Oman Flour Mills	<ul style="list-style-type: none"> • Multiple expansions and acquisitions in the 2018/19 to bring results • Consistent dividend play with higher payout 	Growth & Dividend	0.640	10%	8.6%	105.0%	12.2

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%

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