November 4, 2013

Sector Update 9M'13

Omani Leasing Sector Update 9M'13

Key Balance Sheet Items	AOFS	NFCI	MFCI	UFCI	ORXI	TFCI	Sector
Gross finance assets Q3'13	251,522	180,237	146,547	140,800	130,476	118,093	**967,675**
Gross finance assets Q2'13	247,610	173,671	138,205	135,589	123,483	111,889	**930,447**
q-o-q	*1.58%*	*3.78%*	*6.04%*	*3.84%*	*5.66%*	*5.54%*	**4.00%**
Net finance assets Q3'13	221,163	144,393	121,471	111,091	106,323	98,010	**802,451**
Net finance assets Q2'13	218,248	138,899	114,175	106,762	100,287	92,643	**771,014**
q-o-q	*1.34%*	*3.96%*	*6.39%*	*4.05%*	*6.02%*	*5.79%*	**4.08%**
Borrowings, Q3'13	160,723	110,390	76,293	71,844	68,328	64,704	**552,282**
NPA Cover	207.0%	75.1%	70.1%	50.9%	101.0%	88.5%	**98.8%**
NPAs as % of Net Finance Assets	2.0%	7.4%	10.2%	16.0%	3.8%	6.8%	**7.7%**
Key Income Statement Items	**AOFS**	**NFCI**	**MFCI**	**UFCI**	**ORXI**	**TFCI**	**Sector**
Net Interest Income Q3'13	3,246	2,509	1,911	2,041	1,910	2,013	**13,630**
Net Interest Income Q2'13	3,204	2,476	1,591	1,809	1,831	2,132	**13,043**
q-o-q	*1.31%*	*1.33%*	*20.11%*	*12.82%*	*4.31%*	*-5.58%*	**4.50%**
Net Profit, Q3'13	1,330	1,116	934	890	950	979	**6,199**
Net Profit, Q2'13	1,507	1,178	947	914	872	1,089	**6,507**
q-o-q	*-11.75%*	*-5.26%*	*-1.37%*	*-2.63%*	*8.94%*	*-10.10%*	**-4.73%**
Key Ratios	**AOFS**	**NFCI**	**MFCI**	**UFCI**	**ORXI**	**TFCI**	**Sector Average**
Net Interest Margin	1.20%	1.60%	1.20%	1.51%	1.46%	1.77%	**1.46%**
Annualized Net Interest Margin	5.05%	6.32%	5.07%	5.59%	6.08%	7.36%	**5.91%**
Cost of Funds to Total Income	29.00%	27.12%	26.30%	25.20%	26.20%	21.90%	**25.95%**
Cost of funds to Interest Income	29.80%	28.50%	29.20%	25.70%	27.50%	22.00%	**27.12%**
Loan Portfolio Breakdown	**AOFS**	**NFCI**	**MFCI**	**UFCI**	**ORXI**	**TFCI**	**Sector**
Corporate	186,654	55,535	108,683	69,791	62,116	75,779	**558,558**
As % of Total Credit	*74%*	*44%*	*83%*	*63%*	*56%*	*64%*	***66%***
Personal	64,868	71,151	22,894	41,299	49,102	42,314	**291,628**
As % of Total Credit	*26%*	*56%*	*17%*	*37%*	*44%*	*36%*	***34%***
Total Credit	**251,522**	**126,686**	**131,577**	**111,090**	**111,218**	**118,093**	**850,186**
Corporate Market Share	33%	10%	19%	12%	11%	14%	**100%**
Retail Market Share	22%	24%	8%	14%	17%	15%	**100%**
Total Credit Market Share	**29.58%**	**14.90%**	**15.48%**	**13.07%**	**13.08%**	**13.89%**	**100%**

*Figures for Loan Portfolio Breakdown for National Finance are FY12

Source: Company Financials, OABINVEST

The Omani leasing sector has shown good growth in its Gross Finance Assets at 12.5% (with total gross loan assets standing at RO 967.7mn) in 9M'13, as compared to RO 860.4mn in FY12, but the growth has been slower than growth from FY11-FY12 (at 21%, with gross loans at RO 711.6mn in FY11). With one quarter still to go in this year, we expect the growth rate to be higher

Ayisha Zia
Research Analyst
a.zia@oabinvest.com
+968 24 754 673

than 12.5% for FY13E. When it comes to Net Finance Assets, the sector has shown similar growth at 12.7% in 9M'13, from FY12. Net Profit for the entire sector has declined by 4.7% on quarterly basis in spite of increase in the Net Interest Income (+4.5% q-o-q). This decline is mainly attributable to reduction in Net Interest margins of the companies due to increased competition in the market with entry of new banks and introduction of Islamic windows by existing banks.

The key market data for each of the companies is summarized in the following tables, along with our recommendations.

Key Market Data	**AOFS**	**NFCI**	**MFCI**	**UFCI**	**ORXl**	**TFCI**
Annualized EPS	0.024	0.018	0.017	0.013	0.016	0.017
Current Price, RO	0.498	0.163	0.155	0.155	0.150	0.158
Annulaized P/E	20.53	8.98	9.04	11.82	9.35	9.21
P/E TTM	18.45	8.88	8.64	10.31	9.58	9.24
P/B	2.22	1.18	1.13	1.168	1.17	1.24
Market Cap, RO'mn	111.2	40.8	33.4	42.6	33.5	37.5

Recommendation	**AOFS**	**NFCI**	**MFCI**	**UFCI**	**ORXl**	**TFCI**
Target Price, RO	0.490*	0.192	0.169*	0.170	0.164	0.169*
Upside/(Downside)	-2%	18%	9%	10%	9%	7%
Recommendation	Hold	Buy	Hold	Hold	Hold	Hold

Source: Company Financials, OABINVEST

* Target Price Revisions to our previous Omani Leasing Sector Report published in March 2013, based on 9M'13 Financial Data

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Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
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Al Omaniya Financial Services
Q3'13

Price: RO 0.498
12-month Target Price: RO 0.490
Annualized PE'13e – 20.53(x)
PE'13e TTM – 18.45(x)
PB'Q3'13e – 2.22(x)
Market Cap: RO 111.2 mn

Recommendation: **HOLD**

	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Installment financing Income	4,246	4,584	4,419	4,549	4,621
y-o-y	*23.0%*	*22.7%*	*18.4%*	*16.7%*	*8.8%*
q-o-q	*8.9%*	*8.0%*	*-3.6%*	*2.9%*	*1.6%*
Interest expense	-1,224	-1,205	-1,238	-1,345	-1,375
y-o-y	*38.3%*	*32.8%*	*28.6%*	*17.9%*	*12.3%*
q-o-q	*7.3%*	*-1.5%*	*2.7%*	*8.6%*	*2.2%*
Net Installment finance income	**3,022**	**3,378**	**3,181**	**3,204**	**3,246**
y-o-y	*17.7%*	*19.4%*	*14.9%*	*16.2%*	*7.4%*
q-o-q	*9.6%*	*11.8%*	*-5.8%*	*0.7%*	*1.3%*
Total Income	**4,364**	**4,806**	**4,516**	**4,680**	**4,748**
y-o-y	*22.8%*	*22.0%*	*17.5%*	*16.1%*	*8.8%*
q-o-q	*8.3%*	*10.1%*	*-6.0%*	*3.6%*	*1.5%*
Interest Income	1	-2	1	0	1
Other income	117	225	96	131	126
operating income	**3,140**	**3,601**	**3,278**	**3,335**	**3,373**
y-o-y	*17.6%*	*18.7%*	*13.8%*	*15.4%*	*7.4%*
q-o-q	*8.7%*	*14.7%*	*-9.0%*	*1.7%*	*1.1%*
Operating Expenses	-959	-947	-1,012	-1,019	-1,033
Depreciation	-28	-30	-37	-41	-40
Allowance for Impairment	-660	-408	-837	-563	-790
y-o-y	*26.2%*	*3.2%*	*25.9%*	*42.5%*	*19.7%*
q-o-q	*67.1%*	*-38.2%*	*105.3%*	*-32.7%*	*40.3%*
Total Operating Expenses	**-1,647**	**-1,384**	**-1,886**	**-1,623**	**-1,863**
y-o-y	*20.0%*	*14.5%*	*13.3%*	*15.4%*	*13.1%*
q-o-q	*17.1%*	*-16.0%*	*36.3%*	*-13.9%*	*14.8%*
Operating Cost to Operating Income	**52.5%**	**38.4%**	**57.5%**	**48.7%**	**55.2%**
Profit before taxation	**1,493**	**2,217**	**1,392**	**1,712**	**1,510**
y-o-y	*15.2%*	*21.6%*	*14.4%*	*15.4%*	*1.1%*
q-o-q	*0.7%*	*48.5%*	*-37.2%*	*23.0%*	*-11.8%*
Taxation	-178	-254	-166	-205	-180
Profit for the period	**1,315**	**1,963**	**1,226**	**1,507**	**1,330**
y-o-y	*15.2%*	*21.0%*	*14.4%*	*15.4%*	*1.1%*
q-o-q	*0.7%*	*49.3%*	*-37.6%*	*22.9%*	*-11.7%*
Net Interest Margin, %	**1.3%**	**1.4%**	**1.30%**	**1.25%**	**1.24%**
Operating Cost to Total Income, %	**37.7%**	**28.8%**	**41.8%**	**34.7%**	**39.2%**
Cost of Funds to Total Income, %	**28.0%**	**25.1%**	**27.4%**	**28.7%**	**29.0%**
Net Profit Margin, %	**30.1%**	**40.9%**	**27.1%**	**32.2%**	**28.0%**

Source: Company Financials, OABINVEST

The company's Net Interest Margin has reduced slightly from 1.25% in the previous quarter to 1.24%, but the allowance for impairment has increased by 40.3%, translating into reduced net profit margin, but the net profit has shown growth of 1% y-o-y, and reduction of 11.7% q-o-q.
On the balance sheet side, the Net Investment in Finance Leases stands at RO 221.1mn, which is higher by 12.2% y-o-y, as compared to average yearly growth rate of 29.5% over the last four quarters, indicating slower growth. The asset has increased on quarterly basis by 1.3%, as compared to average quarterly growth rate of 4.2% over the last four quarters. NPA stands at RO 4.32mn, up by 44.2% q-o-q, but is only 2.0% of Net Investment in Finance Lease Asset, and the provision cover stands at 2.07 times. We have revised our target price upward at RO 0.490 per share, on the back of better-than-expected growth and performance metrics.

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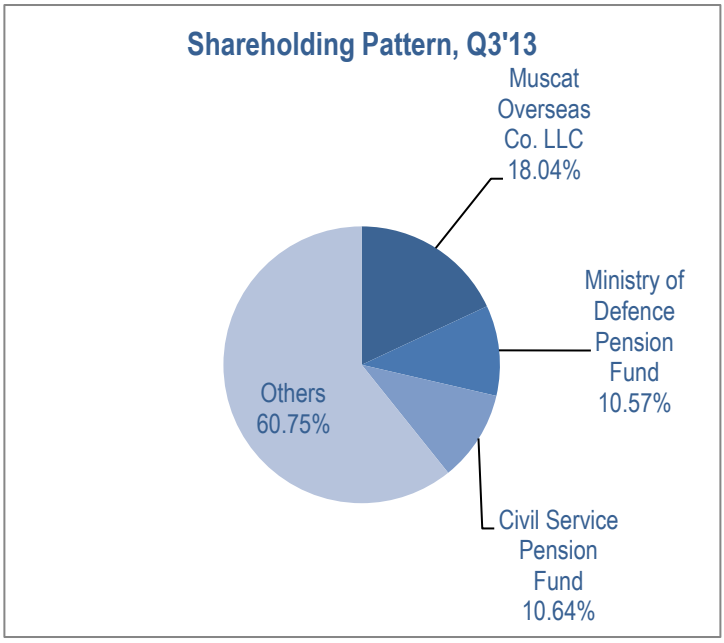
Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

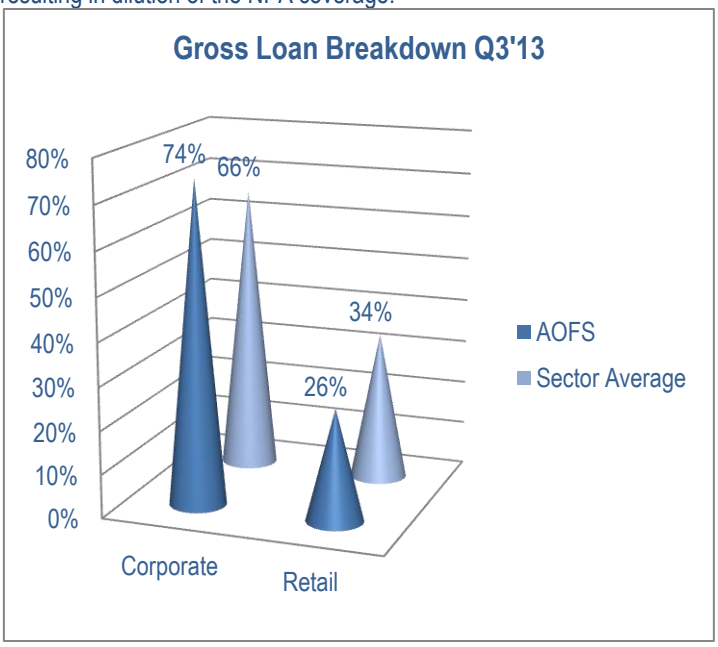
Profile

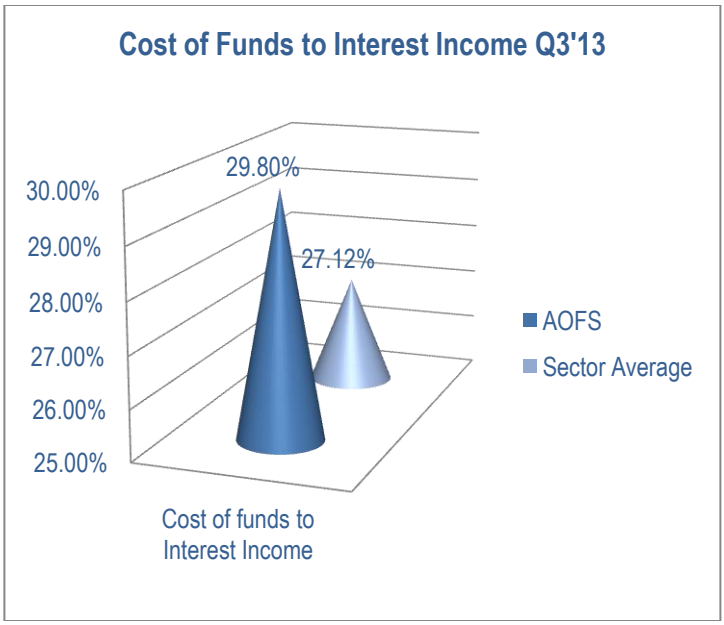
Al Omaniya Financial Services was incorporated by a group of corporate houses led by Bank Muscat to take over its retail asset finance business. Over a decade, the company has grown to become the largest Non-banking Finance Company (NBFC) in terms of its gross lease asset size at RO 251.5mn.

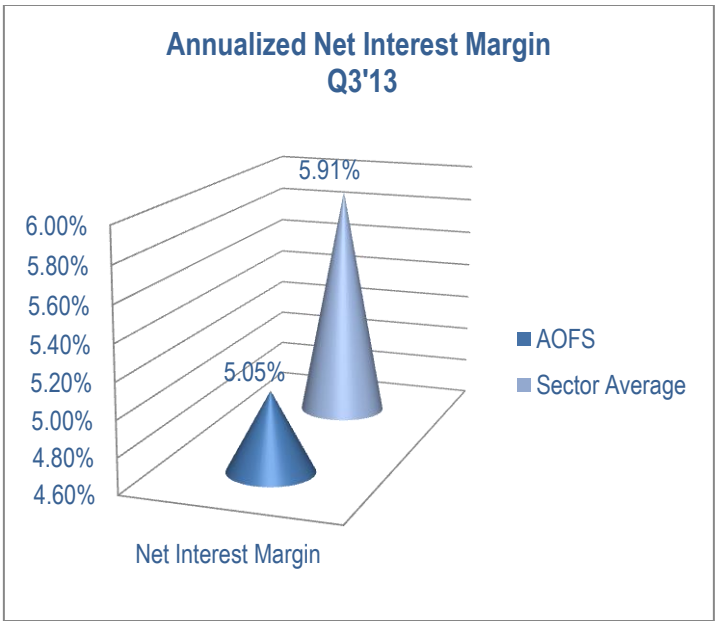
Key Concerns

Diminishing margins due to intense competition, rising cost of funds, and higher delinquencies due to reduced cash flow at the individual borrower level are causes of concern. The impact of the credit crunch and continuation of slow recovery could see increase in delinquencies resulting in dilution of the NPA coverage.









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National Finance
Q3'13

Price: RO 0.163
12-month Target Price: RO 0.192
Annualized PE'13e – 8.98(x)
PE'13e TTM – 8.88(x)
PB'Q3'13e – 1.18(x)
Market Cap: RO 40.8 mn

Recommendation: **BUY**

	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Income from financing activities	**3,017**	**3,249**	**3,342**	**3,418**	**3,539**
y-o-y	*14%*	*-13%*	*20%*	*16%*	*17%*
q-o-q	*3%*	*8%*	*3%*	*2%*	*4%*
Interest expense	-822	-883	-885	-942	-1,030
y-o-y	*-1%*	*7%*	*10%*	*21%*	*25%*
q-o-q	*6%*	*7%*	*0%*	*6%*	*9%*
Net interest income	**2,195**	**2,366**	**2,457**	**2,476**	**2,509**
y-o-y	*20%*	*-19%*	*23%*	*15%*	*14%*
q-o-q	*2%*	*8%*	*4%*	*1%*	*1%*
Total Income	**3,129**	**3,380**	**3,482**	**3,594**	**3,663**
y-o-y	*10%*	*-9%*	*17%*	*15%*	*17%*
q-o-q	*0%*	*8%*	*3%*	*3%*	*2%*
Other income	112	**131**	140	176	124
Total Operating Income	**2,307**	**2,497**	**2,597**	**2,652**	**2,633**
y-o-y	*14%*	*-14%*	*20%*	*13%*	*14%*
q-o-q	*-2%*	*8%*	*4%*	*2%*	*-1%*
General and administrative expenses	-756	**-733**	**-890**	**-915**	-956
Depreciation on property and equipment	-71	**-65**	**-71**	**-71**	-72
Operating Expenses	-827	-798	-961	-986	-1028
y-o-y	*8%*	*-9%*	*15%*	*15%*	*24%*
q-o-q	*-3%*	*-4%*	*20%*	*3%*	*4%*
Profit before provisions	**1,480**	**1,699**	**1,636**	**1,666**	**1,605**
y-o-y	*18%*	*-16%*	*24%*	*11%*	*8%*
q-o-q	*-1%*	*15%*	*-4%*	*2%*	*-4%*
Provision for impairment of lease receivables – net	-387	**-386**	-362	-393	-400
Bad debts written back	13	48	38	63	16
Profit before taxation	1,106	**1,361**	**1,312**	**1,336**	**1,221**
y-o-y	*3%*	*-24%*	*23%*	*11%*	*10%*
q-o-q	*-8%*	*23%*	*-4%*	*2%*	*-9%*
Taxation	-132	**-171**	-195	-158	-105
Profit for the period	**974**	**1,190**	**1,117**	**1,178**	**1,116**
y-o-y	*3%*	*12%*	*22%*	*14%*	*15%*
q-o-q	*-6%*	*22%*	*-6%*	*5%*	*-5%*
foreign currency reserve	4			**0**	**0**
Revaluation of land & building			4	**0**	2
Total comprehensive income for the period	**978**	**1,177**	**1,121**	**1,178**	**1,118**
Net Interest Margin	**1.6%**	**1.66%**	**1.65%**	**1.59%**	**1.57%**
Operating Cost to Total Income, %	**26%**	**23.61%**	**27.60%**	**27.43%**	**28.06%**
Cost of funds to Total Income, %	**26%**	**26.12%**	**25.42%**	**26.21%**	**28.12%**
Net Profit Margin, %	**31%**	**35.21%**	**32.08%**	**32.78%**	**30.47%**

Source: Company Financials, OABINVEST

The company's Net Interest Margin has reduced slightly from 1.59% in the previous quarter to 1.57%, but the rise in operating expenses (+4% q-o-q) and reduction in other income combined with only 1% q-o-q increase in Net Interest Income has led to reduced net profit margin, and net profit growth of of 15% y-o-y, and reduction of 5% q-o-q.

On the balance sheet side, the Net Investment in Finance Leases stands at RO 144.4mn, which is higher by 14.8% y-o-y, as compared to average yearly growth rate of 20.6% over the last four quarters, indicating slower growth. The asset has increased on quarterly basis by 3.2%, as compared to average quarterly growth rate of 5.4% over the last four quarters. NPA stands at RO 10.7mn, up by 12% q-o-q, but is 7.4% of Net Investment in Finance Lease Asset, and the provision cover stands at 0.75 times. We maintain our target price at RO 0.192 per share, on the back of expected growth.

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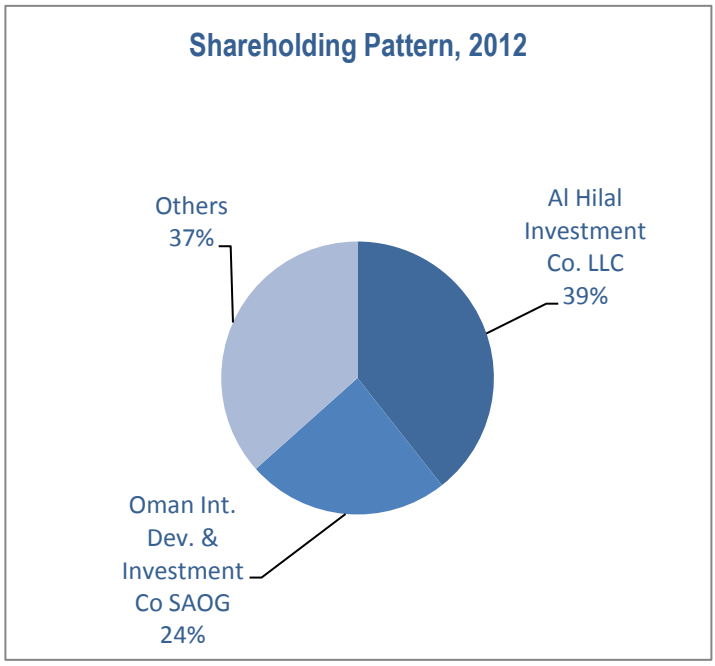
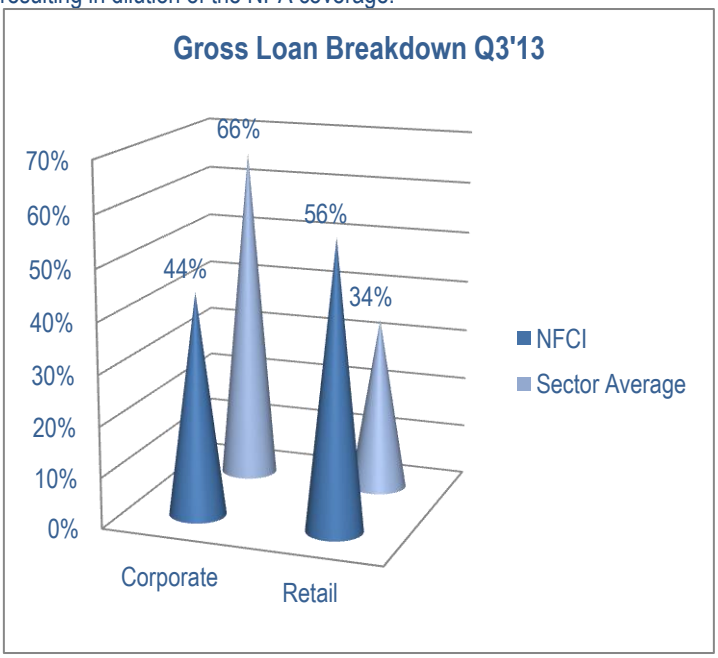
Profile

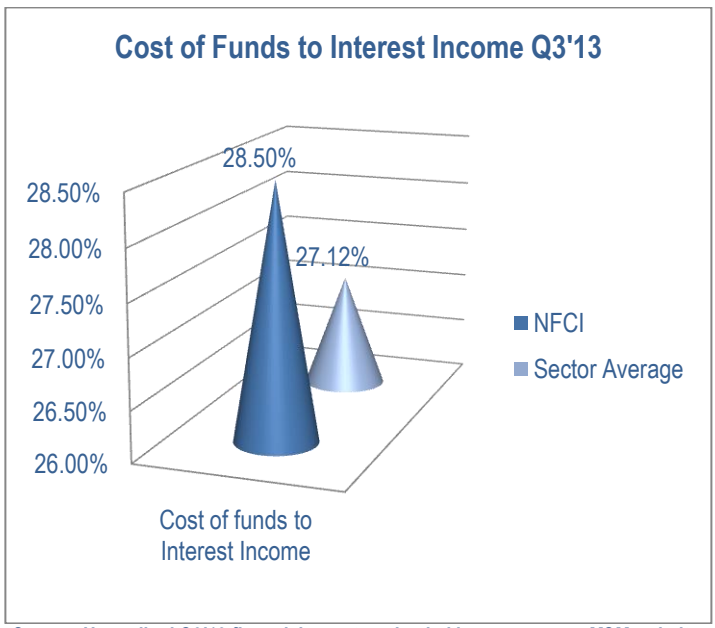
National Finance Company SAOG is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and has a primary listing on the Muscat Security Market. The principal activity of the Company is leasing business.

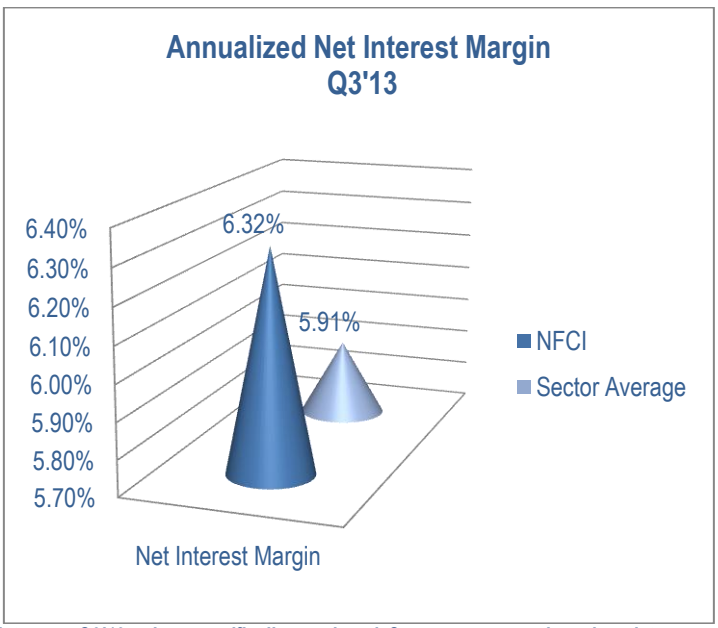
Key Concerns

Diminishing margins due to intense competition, rising cost of funds, and higher delinquencies due to reduced cash flow at the individual borrower level are causes of concern. The impact of the credit crunch and continuation of slow recovery could see increase in delinquencies resulting in dilution of the NPA coverage.









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Muscat Finance
Q3'13

Price: RO 0.155
12-month Target Price: RO 0.169
Annualized PE'13e – 9.04(x)
PE'13e TTM – 8.64(x)
PB'Q3'13e – 1.13(x)
Market Cap: RO 33.4 mn

Recommendation: **HOLD**

RO'000	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Interest income	2,359	2,455	2,519	2,279	2,646
yoy	7.5%	4.2%	9.0%	-0.7%	12.2%
qoq	2.8%	4.1%	2.6%	-9.5%	16.1%
Interest expense	-546	-578	-619	-688	-735
yoy	15.7%	18.7%	27.4%	38.4%	34.6%
qoq	9.9%	5.9%	7.1%	11.1%	6.8%
Net interest income	**1,813**	**1,877**	**1,900**	**1,591**	**1,911**
yoy	5.3%	0.4%	4.1%	-11.5%	5.4%
qoq	0.8%	3.5%	1.2%	-16.3%	20.1%
Other operating income	**124**	**146**	**135**	**102**	**151**
yoy	67.6%	89.6%	33.7%	-8.9%	21.8%
qoq	10.7%	17.7%	-7.5%	-24.4%	48.0%
Total Operating Income	**1,937**	**2,023**	**2,035**	**1,693**	**2,062**
yoy	7.9%	3.9%	-15.7%	-11.4%	6.5%
qoq	1.4%	4.4%	0.6%	-16.8%	21.8%
Selling, general and administrative expenses	-533	-549	-580	-576	-676
Depreciation	-25	-20	-15	-15	-20
Directors' remuneration	0	-103			
Expenses	**-558**	**-672**	**-595**	**-591**	**-696**
Profit before provision for impairment	**1,379**	**1,351**	**1,440**	**1,102**	**1,366**
yoy	11.5%	16.8%	-22.5%	-17.3%	-0.9%
qoq	3.5%	-2.0%	6.6%	-23.5%	24.0%
Provision for impairment	**-336**	**-300**	**-314**	**-44**	**-307**
yoy	23.1%	93.5%	18.0%	-79.1%	-8.6%
qoq	59.2%	-10.7%	4.7%	-86.0%	597.7%
Impairment of Investment					
Profit before income tax	**1,043**	**1,051**	**1,126**	**1,058**	**1,059**
yoy	8.2%	4.9%	-29.3%	-5.7%	1.5%
qoq	-7.0%	0.8%	7.1%	-6.0%	0.1%
Income tax expense	-129	-48	-129	-124	-125
yoy	108.1%	-62.8%	-9.8%	-21.0%	-3.1%
qoq	-17.8%	-62.8%	168.8%	-3.9%	0.8%
Profit for the period	**914**	**1,003**	**997**	**934**	**934**
yoy	1.3%	14.9%	-31.2%	-3.2%	2.2%
qoq	-5.3%	9.7%	-0.6%	-6.3%	0.0%
Net gain on AFS fin asset			-13	13	0
Total comprehensive income for the period	**914**	**1,003**	**984**	**947**	**934**
Net Interest Margin	**1.53%**	**1.51%**	**1.49%**	**1.09%**	**1.24%**
Operating Cost to Total Income, %	**22.5%**	**25.8%**	**22.4%**	**24.8%**	**24.9%**
Cost of funds to Total Income, %	**22.0%**	**22.2%**	**23.3%**	**28.9%**	**26.3%**
Net Profit Margin, %	**36.8%**	**38.6%**	**37.6%**	**39.2%**	**33.4%**
Cost of funds to Interest Income, %	**23.1%**	**23.5%**	**24.6%**	**30.2%**	**27.8%**

Source: Company Financials, OABINVEST

The company's Net Interest Margin has improved from 1.09% in the previous quarter to 1.24%, but the allowance for impairment has increased by roughly 600% q-o-q, translating into reduced net profit margin, but the net profit has shown growth of 2.2% y-o-y, and has been flat on quarterly basis. On the balance sheet side, the Net Investment in Finance Leases stands at RO 121.5mn, which is higher by 21.6% y-o-y, as compared to average yearly growth rate of 19.4% over the last four quarters, indicating slightly better growth. The asset has increased on quarterly basis by 6.4%, as compared to average quarterly growth rate of 5.2% over the last four quarters. NPA stands at RO 12.5mn, up by 19.5% q-o-q, and is 10.2% of Net Investment in Finance Lease Asset, and the provision cover stands at 0.7 times. We have reduced our target price to RO 0.169 per share, due to slower-than-expected growth and performance metrics.

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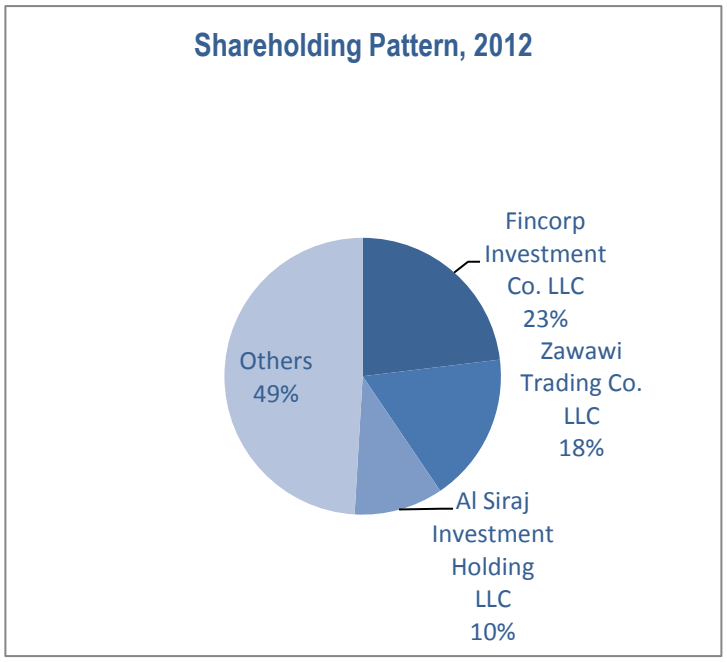
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

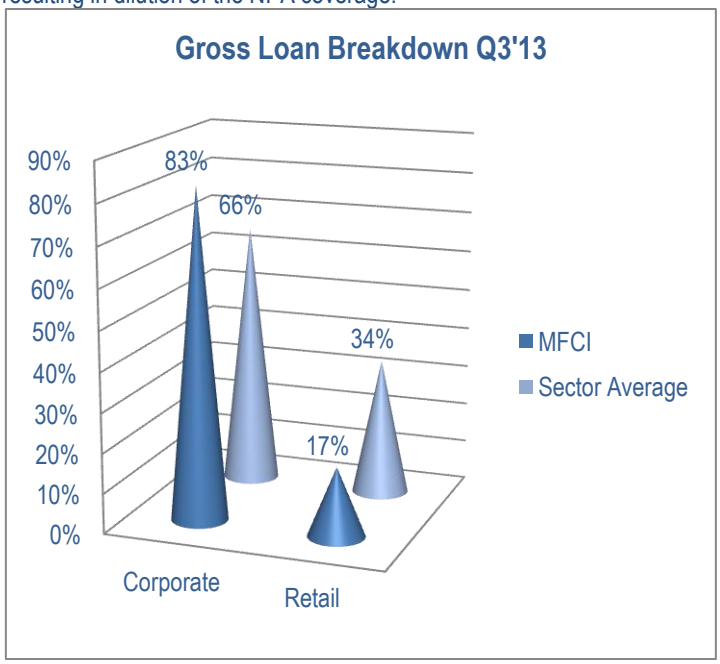
Profile

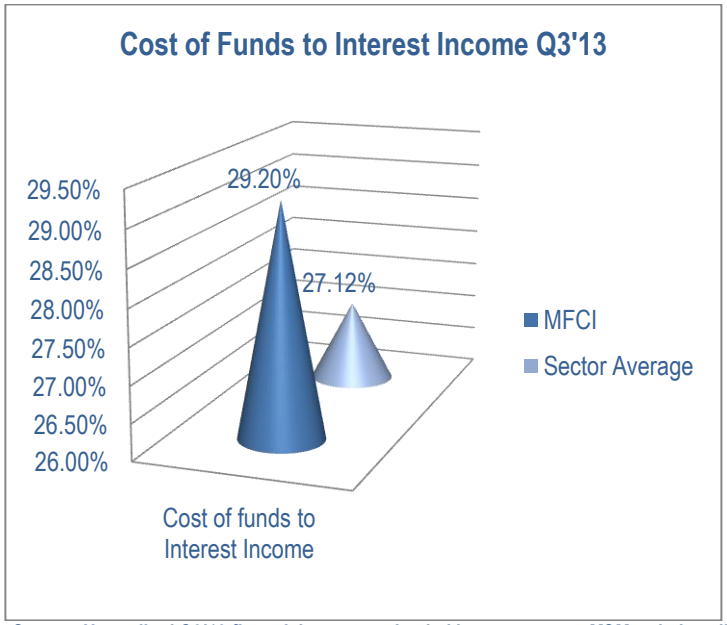
MuscatFinanceSAOG is a joint stock Omani company established on 11 October 1987.The company is involved in activity of leasing, debt-factoring, and working capital and receivable financing.

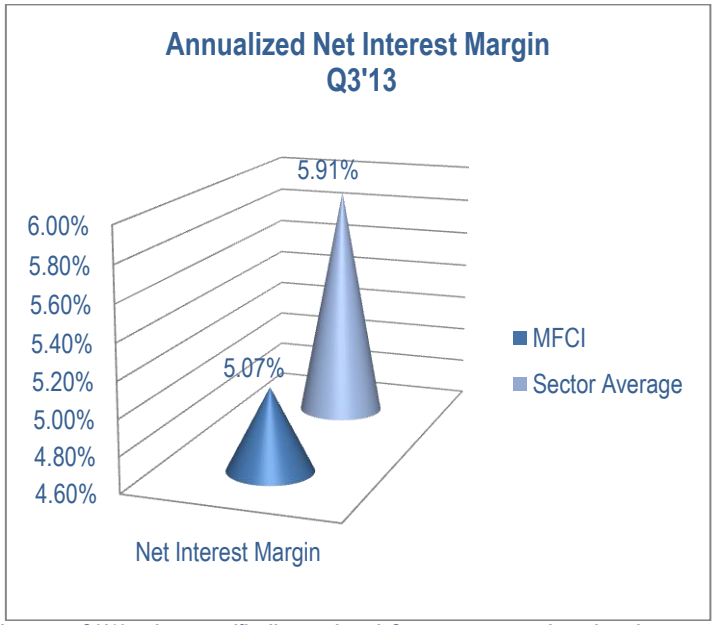
Key Concerns

Diminishing margins due to intense competition, rising cost of funds, and higher delinquencies due to reduced cash flow at the individual borrower level are causes of concern. The impact of the credit crunch and continuation of slow recovery could see increase in delinquencies resulting in dilution of the NPA coverage.









Source: Un-audited Q3'13 financial reports uploaded by company on MSM website, all data as at Q3'13 unless specifically mentioned, Sector aggregates based on data available for listed leasing & finance companies.

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United Finance
Q3'13

Price: RO 0.155
12-month Target Price: RO 0.170
Annualized PE'13e – 11.82(x)
PE'13e TTM – 10.31(x)
PB'Q3'13e – 1.17(x)
Market Cap: RO 42.6 mn

Recommendation: **HOLD**

Income Statement (RO'000)	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Installment finance income	2,286	2,202	2,394	2,487	2,747
yoy	*29%*	*3%*	*29%*	*12%*	*20%*
qoq	*3%*	*-4%*	*9%*	*4%*	*10%*
Interest expense	-588	-597	-612	-678	-706
yoy	*27%*	*30%*	*21%*	*24%*	*20%*
qoq	*7%*	*1%*	*3%*	*11%*	*4%*
Net installment finance income	**1,699**	**1,605**	**1,782**	**1,809**	**2,041**
yoy	*30%*	*-4%*	*32%*	*8%*	*20%*
qoq	*2%*	*-6%*	*11%*	*2%*	*13%*
Other income	178	260	458	287	59
yoy	*-65%*	*66%*	*141%*	*38%*	*-67%*
qoq	*-15%*	*46%*	*76%*	*-37%*	*-79%*
Total Operating Income	**2,465**	**2,462**	**2,852**	**2,775**	**2,807**
yoy	*8%*	*7%*	*40%*	*14%*	*14%*
qoq	*2%*	*0%*	*16%*	*-3%*	*1%*
Other expenses	-728	-743	-909	-754	-839
Depreciation	-33	-35	-36	-32	-32
Total operating expenses	**-761**	**-778**	**-945**	**-786**	**-1,816**
Impairment on installment finance debtors	-105	244	-275	-272	-219
Profit before tax	**1,011**	**1,332**	**1,020**	**1,038**	**1,011**
yoy	*48%*	*12%*	*49%*	*25%*	*0%*
qoq	*22%*	*32%*	*-23%*	*2%*	*-3%*
Income tax expense	-121	96	-119	-125	-121
Profit for the period	**890**	**1,428**	**902**	**914**	**890**
yoy	*48%*	*36%*	*50%*	*25%*	*0%*
qoq	*22%*	*60%*	*-37%*	*1%*	*-3%*
NIM	**1.4%**	**1.2%**	**1.37%**	**1.32%**	**1.51%**
Operating Cost to Total Income, %	**31%**	**32%**	**33.1%**	**28.3%**	**64.7%**
Cost of Funds to Total Income, %	**24%**	**24%**	**21.4%**	**24.4%**	**25.2%**
Net Profit Margin, %	**36%**	**58%**	**31.6%**	**32.9%**	**31.7%**

Source: Company Financials, OABINVEST

The company's Net Interest Margin has improved from 1.32% in the previous quarter to 1.51%, but the operating expenses have increased by 131% q-o-q translating into flat net profit growth on yearly basis and reduction of 3% on quarterly basis. On the balance sheet side, the Net Investment in Finance Leases stands at RO 111.01mn, which is higher by 16.8% y-o-y, as compared to average yearly growth rate of 22.1% over the last four quarters, indicating slower growth. The asset has increased on quarterly basis by 4.1%, as compared to average quarterly growth rate of 4.6% over the last four quarters. NPA stands at RO 17.8mn, up by 9.6% q-o-q, and is 16% of Net Investment in Finance Lease Asset, and the provision cover stands at 0.51 times. We maintain our target price at RO 0.170 per share, on the back of expected growth.

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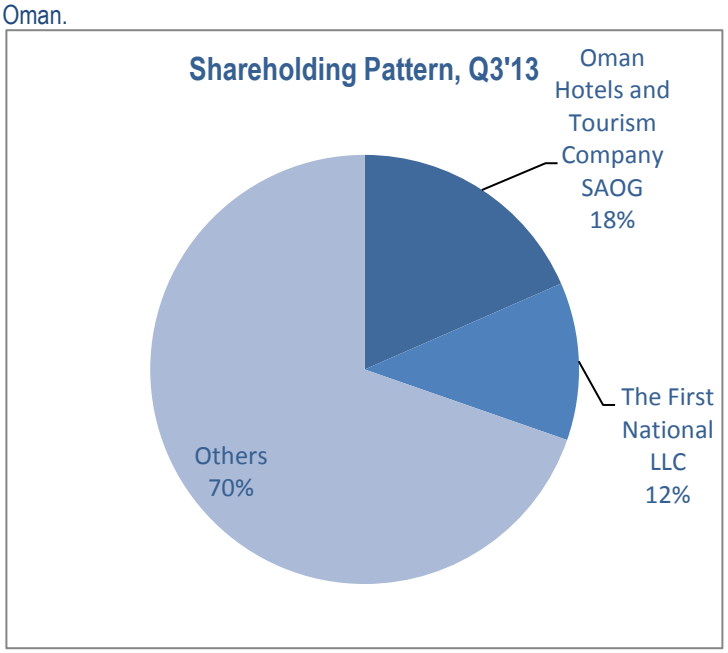
Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

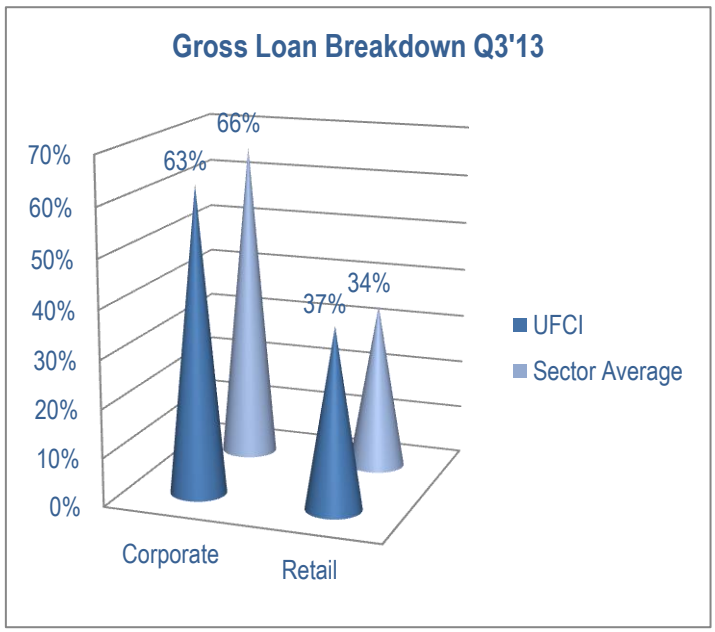
Profile

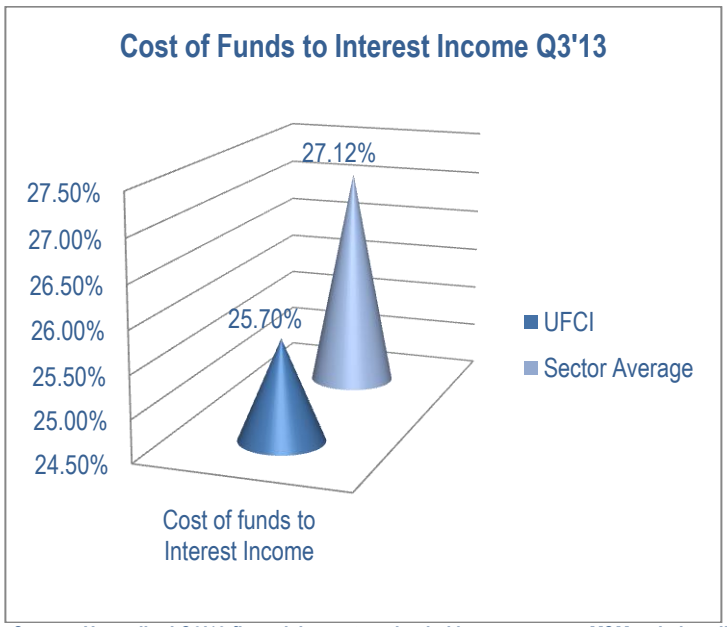
United Finance Company SAOG is an Omani Joint Stock Company, licensed by the Central Bank of Oman and registered under the Commercial Companies Law of the Sultanate of Oman. The Company is principally involved in providing vehicle and equipment financing and is also licensed to provide composite loans, bridge loans, hire purchase, debt factoring and financing of receivables and leasing in Sultanate of Oman.

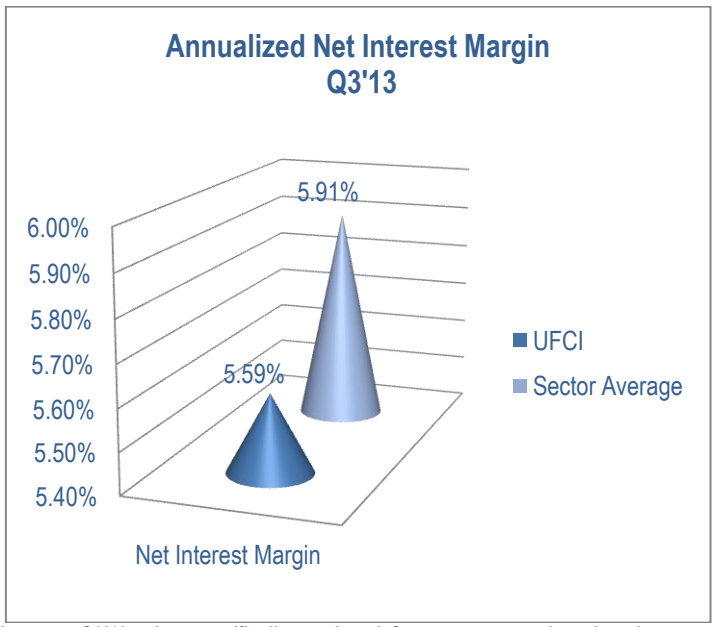
Key Concerns

Diminishing margins due to intense competition, rising cost of funds, and higher delinquencies due to reduced cash flow at the individual borrower level are causes of concern. The impact of the credit crunch and continuation of slow recovery could see increase in delinquencies resulting in dilution of the NPA coverage.









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Oman Orix Leasing
Q3'13

Price: RO 0.150
12-month Target Price: RO 0.164
Annualized PE'13e – 9.35(x)
PE'13e TTM – 9.58(x)
PB'Q3'13e – 1.17(x)
Market Cap: RO 33.5 mn

Recommendation: **HOLD**

	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Lease Income	2,060	2,197	2,380	2,505	2,636
y-o-y	*16.4%*	*18.1%*	*20.2%*	*25.8%*	*28.0%*
q-o-q	*3.4%*	*6.7%*	*8.3%*	*5.3%*	*5.2%*
Interest expense	-516	-521	-586	-674	-726
y-o-y	*6.6%*	*5.7%*	*9.7%*	*26.0%*	*40.7%*
q-o-q	*-3.6%*	*1.0%*	*12.5%*	*15.0%*	*7.7%*
Net Lease Income	**1,544**	**1,676**	**1,794**	**1,831**	**1,910**
y-o-y	*20.1%*	*22.5%*	*24.1%*	*25.7%*	*23.7%*
q-o-q	*6.0%*	*8.5%*	*7.0%*	*2.1%*	*4.3%*
Total Income	**2,202**	**2,379**	**2,548**	**2,684**	**2,776**
Interest & Other Income	142	182	168	179	140
Selling, general & administrative exp	-604	-648	-719	-744	-671
Depreciation	-20	-20	-19	-20	-20
Operating Expenses	**-624**	**-668**	**-738**	**-764**	**-691**
Profit before Provision for impairment	**1,062**	**1,208**	**1,224**	**1,246**	**1,359**
y-o-y	*19.5%*	*32.3%*	*25.4%*	*24.4%*	*28.0%*
q-o-q	*6.0%*	*13.7%*	*1.3%*	*1.8%*	*9.1%*
Provision for impairment of lease re	-132	-126	-244	-256	-258
Profit before taxation	**930**	**1,082**	**980**	**990**	**1,101**
Taxation	-110	-274	-117	-118	-151
Profit for the period	**820**	**808**	**863**	**872**	**950**
y-o-y	*19.5%*	*7.4%*	*14.9%*	*11.1%*	*15.9%*
q-o-q	*4.5%*	*-1.5%*	*6.8%*	*1.0%*	*8.9%*
Net Interest Margin	**1.5%**	**1.6%**	**1.6%**	**1.50%**	**1.46%**
Operating Cost to total Income, %	**28.3%**	**28.1%**	**29.0%**	**28.5%**	**24.9%**
Cost of funds to Total Income, %	**23.4%**	**21.9%**	**23.0%**	**25.1%**	**26.2%**
Net Profit Margin, %	**37.2%**	**34.0%**	**33.9%**	**32.5%**	**34.2%**

Source: Company Financials, OABINVEST

The company's Net Interest Margin has declined slightly from 1.50% in the previous quarter to 1.46%, but the 23.7% y-o-y and 4.3% q-o-q increase in Net Interest Income has resulted in net profit growth of 15.9% y-o-y and 8.9% q-o-q. On quarterly basis, the net profit margin has also improved due to reduction in operating costs. On the balance sheet side, the Net Investment in Finance Leases stands at RO 106.3mn, which is higher by 29% y-o-y, as compared to average yearly growth rate of 27% over the last four quarters, indicating better growth. The asset has increased on quarterly basis by 6%, as compared to average quarterly growth rate of 7% over the last four quarters. NPA stands at RO 4.0mn, up by 9% q-o-q, and is 3.8% of Net Investment in Finance Lease Asset, and the provision cover stands at 1.01 times. We maintain our target price at RO 0.164 per share, on the back of solid growth and well-maintained NPAs as well as credit risk.

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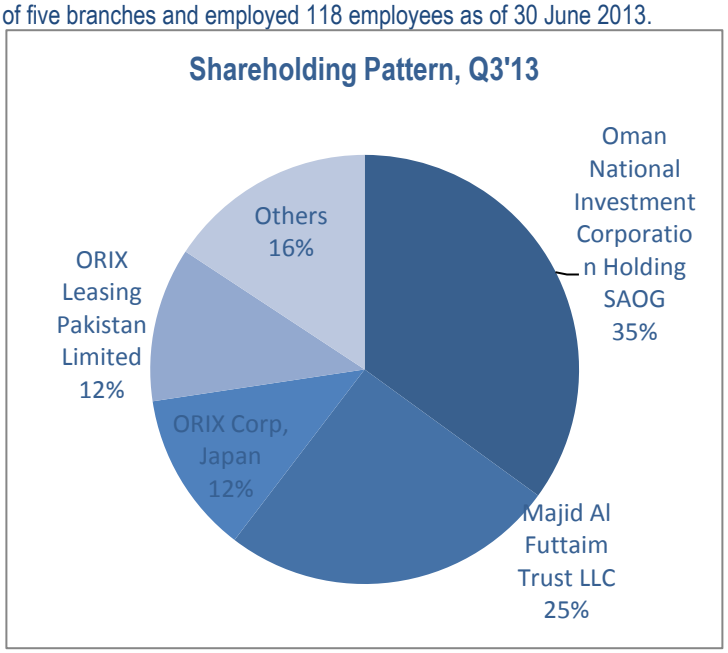
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

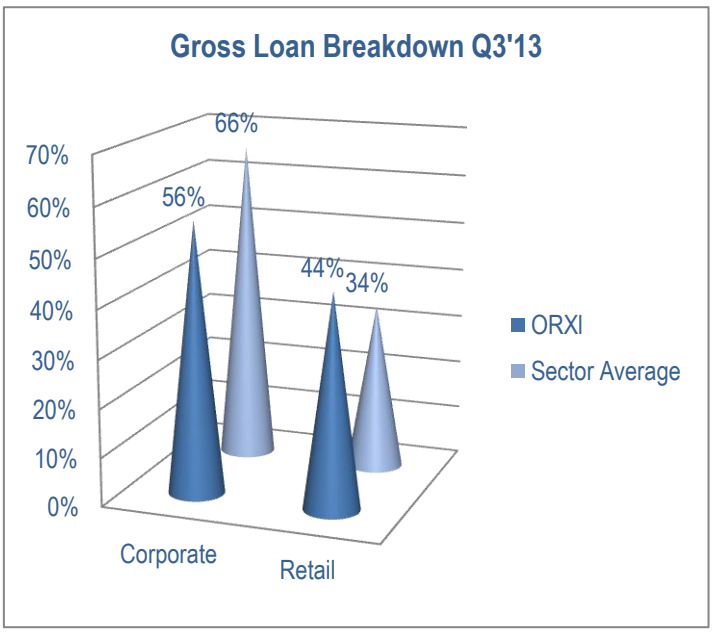
Profile

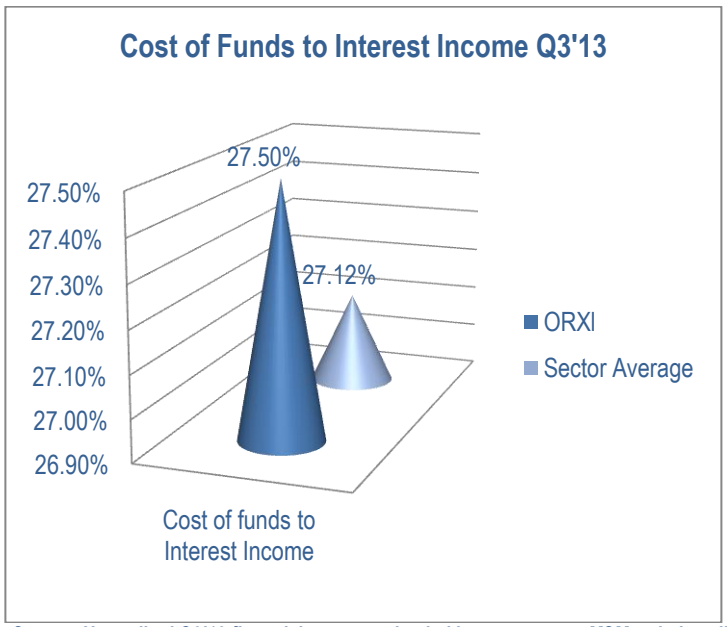
Oman ORIX Leasing Company SAOG is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The principal activity of the Company is leasing of motor vehicles, equipment and plants and machinery. The Company derives all of its income from leasing and factoring operations within the Sultanate of Oman. The Company operates in the Sultanate of Oman with a network of five branches and employed 118 employees as of 30 June 2013.

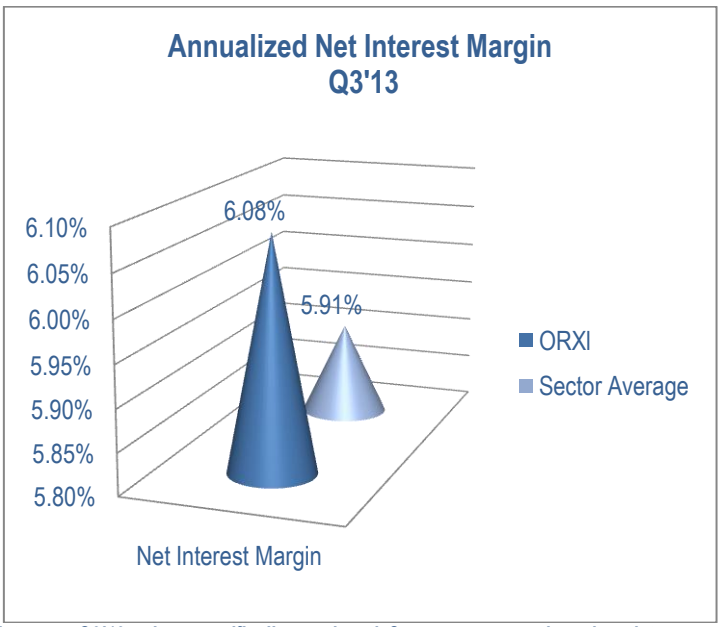
Key Concerns

Diminishing margins due to intense competition, rising cost of funds, and higher delinquencies due to reduced cash flow at the individual borrower level are causes of concern. The impact of the credit crunch and continuation of slow recovery could see increase in delinquencies resulting in dilution of the NPA coverage.









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Taageer Finance
Q3'13

Price: RO 0.158
12-month Target Price: RO 0.169
Annualized PE'13e – 9.21(x)
PE'13e TTM – 9.24(x)
PB'Q3'13e – 1.24(x)
Market Cap: RO 37.5 mn

Recommendation: **HOLD**

	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
	RO'000	RO'000	RO'000	RO'000	RO'000
Income from financing activities	2,603	2,563	2,563	2,678	2,582
y-o-y	*7.2%*	*-3.2%*	*2.4%*	*4.5%*	*-0.8%*
q-o-q	*1.6%*	*-1.5%*	*0.0%*	*4.5%*	*-3.6%*
Interest expense	-554	-594	-547	-546	-569
y-o-y	*-6.6%*	*20.2%*	*6.4%*	*3.4%*	*2.7%*
q-o-q	*4.9%*	*7.2%*	*-7.9%*	*-0.2%*	*4.2%*
Net Interest Income	**2,049**	**1,969**	**2,016**	**2,132**	**2,013**
y-o-y	*11.6%*	*-8.6%*	*1.4%*	*4.8%*	*-1.8%*
q-o-q	*0.7%*	*-3.9%*	*2.4%*	*5.8%*	*-5.6%*
Other income	0	34	0	0	17
General and administrative expe	-633	-689	-730	-741	-710
Depreciation	-21	-1	-22	-23	-22
Expenses	**-654**	**-690**	**-752**	**-764**	**-732**
y-o-y	*0.9%*	*-7.6%*	*21.5%*	*23.8%*	*11.9%*
q-o-q	*6.0%*	*5.5%*	*9.0%*	*1.6%*	*-4.2%*
Profit before impairment provisi	**1,395**	**1,313**	**1,264**	**1,368**	**1,298**
Impairment for finance lease and	-276	-259	-118	-118	-148
Profit after impairment but befo	**1,119**	**1,054**	**1,146**	**1,250**	**1,150**
Income tax	-152	-51	-165	-161	-171
Profit for the period	**967**	**1,003**	**981**	**1,089**	**979**
y-o-y	*26.2%*	*-3.7%*	*1.6%*	*12.4%*	*1.2%*
q-o-q	*-0.2%*	*3.7%*	*-2.2%*	*11.0%*	*-10.1%*
Net Interest Margin	**1.90%**	**1.76%**	**1.80%**	**1.94%**	**1.77%**
Operating cost to Total Income, %	**25.1%**	**26.6%**	**29.3%**	**28.5%**	**28.2%**
Cost of Funds to Total Income, %	**21.3%**	**22.9%**	**21.3%**	**20.4%**	**21.9%**
Net Profit Margin, %	**37.1%**	**38.6%**	**38.3%**	**40.7%**	**37.7%**

Source: Company Financials, OABINVEST

The company's Net Interest Margin has declined from 1.94% in the previous quarter to 1.77%, resulting in net profit growth of only 1.2% y-o-y and reduction of 10.1% q-o-q. On quarterly basis, the net profit margin has also declined due to increase in operating costs. On the balance sheet side, the Net Investment in Finance Leases stands at RO 98.0mn, which is higher by 8.3% y-o-y, as compared to average yearly growth rate of 8% over the last four quarters, indicating stable growth. The asset has increased on quarterly basis by 5.8%, as compared to average quarterly growth rate of 1.1% over the last four quarters. NPA stands at RO 6.7mn, up by 19% q-o-q, and is 6.8% of Net Investment in Finance Lease Asset, and the provision cover stands at 0.89 times. We have reduced our target price to RO 0.169 per share because we have reduced the company's credit growth estimate as well as net profit growth due to reduced NIM in the future.

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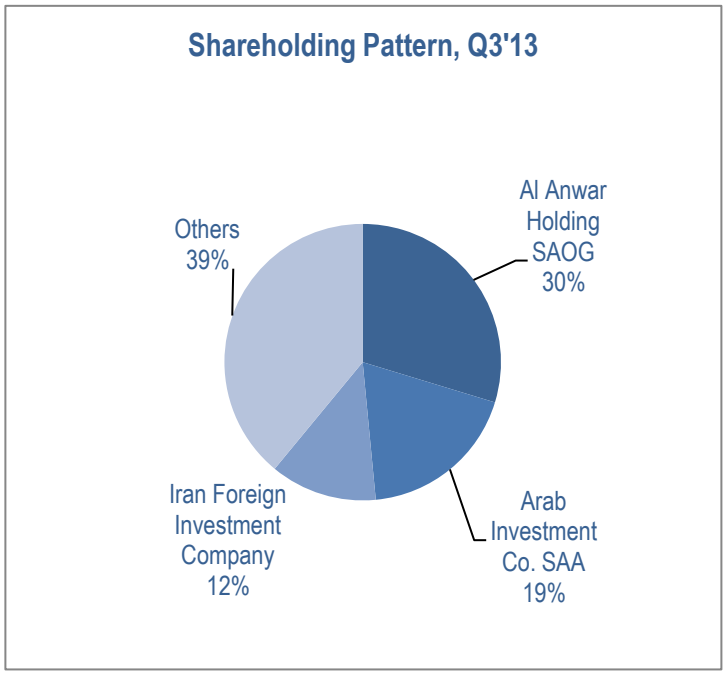
Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

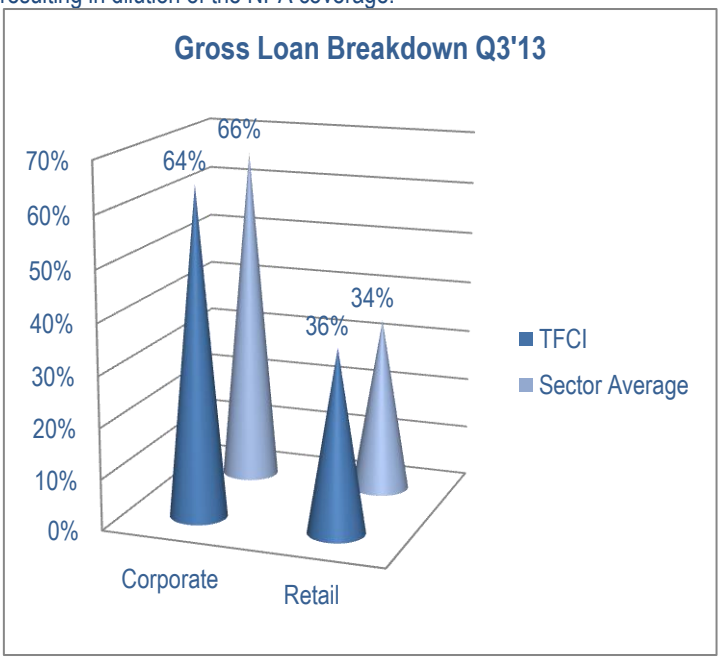
Profile

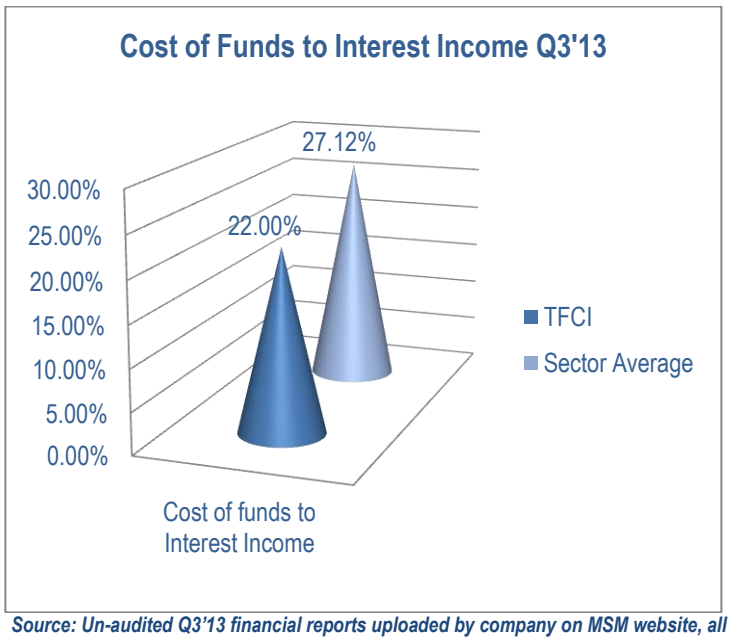
Taageer Finance Company SAOG is an Omani general joint stock company registered with the Ministry of Commerce on 22 October 2005. The Company is engaged in the business of providing leasing, debt factoring, bridge loan and construction loans in the Sultanate of Oman.

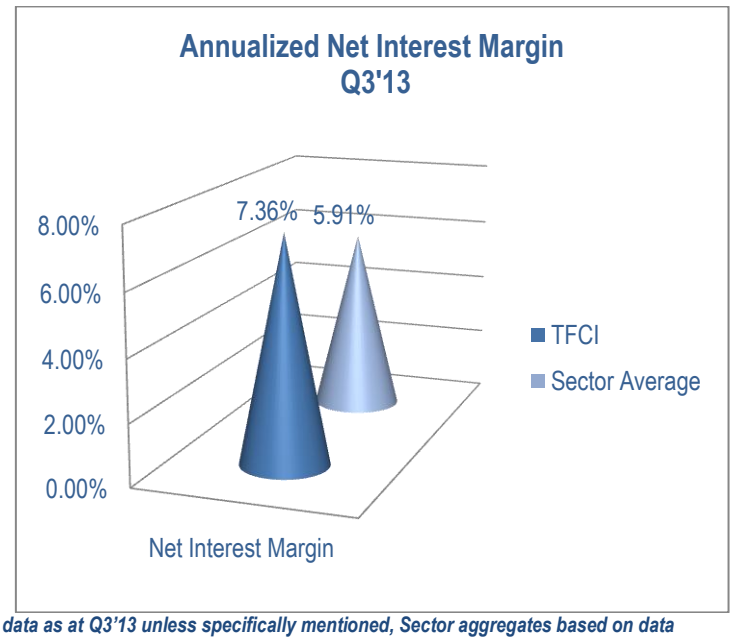
Key Concerns

Diminishing margins due to intense competition, rising cost of funds, and higher delinquencies due to reduced cash flow at the individual borrower level are causes of concern. The impact of the credit crunch and continuation of slow recovery could see increase in delinquencies resulting in dilution of the NPA coverage.









Source: Un-audited Q3'13 financial reports uploaded by company on MSM website, all data as at Q3'13 unless specifically mentioned, Sector aggregates based on data available for listed leasing & finance companies.

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Recommendation	
Based on the range for the upside/downside offered by the 12-month target price of a stock versus the current market price	
Strong Buy	Greater than 20%
Hold/Accumulate	Between +10% and +20%
Hold	Between +10% and -10%
Hold/Reduce	Between -10% and -20%
Sell	Lower than -20%

Oman Arab Bank - Investment Management Group (IMG)

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PO Box 2010, Ruwi, 112, Muscat-Oman. Tel: +96824827399 Fax: +96824827367
Web site http://www.oabinvest.com
e-mail:research@oabinvest. com

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