MSM decline does not reflect strong market fundamentals

GCC markets took their cue from buoyant international markets and began last week in the green. Global markets greeted Bank of Japan's surprise announcement of its intention to increase asset purchases.

During the rest of the week, volatility took over the markets amidst developments in global and regional markets, as well as geopolitical issues at hand. Markets showed some resilience to these economic pressures, with differing weekly performances. However, it is vital to understand that regional markets, including the local market, continue to be characterised by strong underlying fundamentals, in

addition to the strong presence of institutional players. These institutional investors provide a safety net in times of volatility, when speculators and individuals tend to sell off. These investors are known for their long-term approach, strategic thinking and surplus cash, which provides them with ample investment opportunities.

The week also saw many disclosures by companies either in respect of dividends or other business-related issues. Such disclosures are critical to the market and investors as they provide a view on companies' performance, providing more transparency and needed details for building rational decisions, which help investors with their analysis of companies and investment positions.

Sharqiyah Desalination Co rose 5.68 per cent on a daily basis after the board of directors proposed the distribution of bonus shares to shareholders, equivalent to 50 per cent of the capital of the company - which translates to one bonus share for every two shares. The proposal will be considered at the AGM meeting to be held on November 20.

As stated earlier, we have an optimistic view on the local economy and are confident of its ability to mitigate unfavourable events, taking into account the official assurance of continuity of government spending and tendering activity and progress of current projects.

The MSM30 lost 0.77 per cent on a weekly basis to close at 6,921.23 on the back of general pressure from Renaissance Services, HSBC Oman and Ominvest.

Shares of Al Maha Ceramics began trading last week and accounted for around 28.7 per cent of value and 17.5 per cent of volume of the total on the bourse, excluding special deals. The stock ended the week up 54.77 per cent (with no price cap for the first three days).

The Al Arabi Oman20 index dropped 0.51 per cent to 1,273.32 as turnover amounted to RO21.10mn. The Al Arabi GCC50 index lost 3.21 per cent, while the Al Arabi MENA200 index slipped 2.22 per cent to close at 1,249. The MSM Shariah index ended the week up by 0.36 per cent at 1,045.41.

Among the sub-indices, the Financial index ended the week down by 1.46 per cent on declines in banks such as HSBC Oman and Ahlibank and some investment and holding companies.

Dhofar International Development & Investment reported its earnings, posting a decline of 17.5 per cent in 9M'14 net profit to RO12.92mn, against RO15.66mn a year earlier. However, this drop was largely due to the absence of a recovery by its banking associate in connection with a legal case as the company registered a share of profit from associates of RO9.5mn in Q1'13 compared with a normal average of RO3.2mn on a quarterly basis. Thus, excluding this one-off item, the financials look healthy. On a quarterly basis, the group registered an increase of 29 per cent QoQ (+119% YoY) in net profit at RO4.6mn.

United Finance Co announced that it has decided to delist its shares from the Bahrain bourse and transfer them to the Muscat Securities Market (MSM) due to limited activity over the last three years.

The Services sub-index ended the week down 1.51 per cent, mainly pressurised by Renaissance Services, SMN Power Holding, Al Jazeira Services, and Sembcorp Salalah.

Renaissance and Omantel are yet to report their results, which are likely to impact the market this week.

The Industrial index closed up 0.9 per cent on a weekly basis on support from National Aluminium Products, Voltamp Energy, Al Anwar Ceramic, and Salalah Mills.

Total share volumes on the local bourse soared 183.62 per cent to 301.7mn, registering a value of RO94.1mn, which was up a handsome 133.29 per cent from the previous week, mainly due to a special deal on Ahlibank, involving more than 181.5mn shares valued at RO44.47mn.

Local institutional investors registered a net purchase of RO6.78mn of shares, mainly as a result of positions in Al Maha Ceramics.

On the macro-front, the Tender Board awarded RO46.3mn worth of projects taking the total this year to above RO1bn, which is 52.7 per cent of the total in the same period last year, as per our database.

All Gulf markets, except Qatar, dropped on a weekly basis. The drop was led by the Saudi market which retreated 4.15 per cent, effected by the drop in oil prices as well as the announcement by Etihad Etisalat (Mobily) revising several accounting items, which led to discounting around SAR1.4bn from its announced profits for FY'13 and H1'14. The Saudi Tadawul all share index ended the week below the 10,000-level. The Kuwait Stock Exchange was the next worst performer, as it retreated 3.08 per cent, followed by the UAE bourses. Bahrain was down 0.22 per cent.

Internationally, reports have continued to provide mixed signals on the world's largest economies. The UK manufacturing growth unexpectedly accelerated to the fastest pace in three months in October. The latest Markit Economics Purchasing Managers' Index reading came in at 53.2, against 51.5 in September. Economists had expected 51.4. On the other hand, The European Commission reduced its growth projections for the euro-area, indicating growth is expected to be 0.8 per cent in 2014, 1.1 per cent in 2015 and 1.7 per cent during 2016.

US markets continue to receive positive news, as a report indicated the number of new employees in the private sector during October increased at its fastest pace since July, beating analyst expectations, as it reached 230,000, with most employment generation coming from mid-size companies.

Recommendation

We advise investors to benefit from the volatility in the market and rebuild their portfolios taking care to keep enough cash for catching attractive opportunities, which in our view are always available.

MSM summary	Current Wk	Previous Wk	Change	W/W	MTD	YTD
				%	%	%
Al Arabi Oman 20 Index	1,273.32	1,279.82	(6.50)	(0.51)	(0.51)	4.96
Al Arabi GCC 50 Index	1,344.40	1,388.97	(44.57)	(3.21)	(3.21)	10.79
Al Arabi MENA 200 Index	1,249.00	1,277.42	(28.42)	(2.22)	(2.22)	10.34
MSM Shariah Index	1,045.41	1,041.71	3.70	0.36	0.36	(4.94)
MSM 30	6,921.23	6,974.62	(53.39)	(0.77)	(0.77)	1.27
Volume (In 000)	301,697	106,373	195,324.5	183.62		
Value traded (In RO 000)	94,121	40,345	53,775.9	133.29		
No. of Transactions	28,463			Volume of Bonds		277,286

Top Gainers	Price	Chg	Chg
Companies	RO	RO	%
ALMAHA CERAMICS	0.616	0.218	54.77
OMAN FIBER OPTIC	5.505	0.500	9.99
NATIONAL ALUMINIUM PRODUCTS	0.295	0.018	6.50
VOLTAMP ENERGY	0.444	0.024	5.71
SHARQIYAH DESALINATION	4.650	0.250	5.68

Top Losers	Price	Chg	Chg
Companies	RO	RO	%
UNITED POWER	1.225	(0.380)	(23.68)
GULF INV. SER. PREF SHARES	0.150	(0.028)	(15.73)
RENAISSANCE SERVICES	0.570	(0.042)	(6.86)
AL JAZEERA SERVICES	0.350	(0.022)	(5.91)
CONSTRUCTION MATERIALS IND.	0.050	(0.003)	(5.66)

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