بنك الاستثمار العُماني
Oman Investment Bank

Country Report

Oman
Capital Markets Outlook

Unlocking Potential and Opportunities in an Emerging Capital Market in the GCC

www.oib.om

بنك الاستثمار العُماني
Oman Investment Bank

26 November 2024

Country Report

Oman – Capital Markets Outlook

Unlocking Potential and Opportunities in an Emerging Capital Market in the GCC

This report offers a comprehensive analysis of Oman's capital markets, structured into five sections: (1) an evaluation of Oman's potential reclassification to Emerging Markets status by MSCI and FTSE, (2) an overview of market structure and key participants, (3) an assessment of growth prospects in equity markets, (4) an analysis of the fixed income market, and (5) the implications of attaining Investment Grade status. We conclude that Oman has substantial growth potential in its capital markets and is on the right path toward Emerging Markets inclusion, although several challenges remain to be addressed.

- **Path to Emerging Market Status**: Recent IPOs on the MSX have moved Oman closer to being classified as an Emerging Market by MSCI and FTSE. However, the stricter criteria for EM inclusion reduce the likelihood of Oman being reviewed in 2025. Our base case scenario anticipates Oman to be considered for a review in 2026, with the possibility of inclusion by 2027, assuming no future changes to MSCI's inclusion process and market depth improves by then, either by new listing or mergers.
- **Primer to Oman Capital Markets:** Oman's capital markets have made significant strides in recent years, with a clear focus on rapid development. However, further modernization efforts are still required, many of which are scheduled to be completed by 2025.
- **Potential for Fastest-Growing Equity Market in the GCC**: While Oman's equity market is currently small compared to other GCC markets, the momentum from ongoing IPOs and the government's strong commitment to capital market development are set to unlock significant growth. The total market capitalization of the Muscat Stock Exchange (MSX) has more than doubled since 2020, reaching USD 32bn (following listings such as OQEP, OQGN, and Abraj). Despite this progress, there remains ample room for growth, and we anticipate that the total market capitalisation could double to USD 64-66bn by 2030, with daily trading volumes expected to increase from USD 13m in 2024 to USD 50-60m by that time.
- **Return to Investment Grade Status:** On September 27, S&P upgraded Oman to Investment Grade (BBB-) due to improvements in fiscal health and economic resilience. We expect Moody's to follow suit within the next 3-6 months, assuming no significant decline in oil prices or geopolitical risks.
- **Growth of the Fixed Income Market:** We foresee continued growth in Oman's fixed income market, driven primarily by non-government issuances. The total size of the market is expected to increase from USD 46 billion to approximately USD 70 billion by 2030.
- **Next Steps for Unlocking Oman's Potential:** Building on the progress made to date, several key actions can further enhance Oman's market potential. These include: enabling custodians to become clearing members of MCD, promoting OTC debt trading, establishing a full linkage with Euroclear, introducing hedging mechanisms, increasing actively traded free floats, enhancing market making and liquidity provision, expanding the range of securities listed on the MSX, and streamlining investor relations efforts, all in alignment with global market standards.

Oman
Macro
Strategy
Equity
Fixed Income

THIS IS A SYNOPSIS OF OUR 58 PAGE REPORT. PLEASE CONTACT OUR RESEARCH TEAM AT: RESEARCH@OIB.OM FOR THE FULL VERSION OF THE REPORT.

Research Team
Akin Tuzun, Head of Research
+968 21116120
Akin.Tuzun@oib.om

Mazin Al Farsi, Senior Research Specialist
+968 21116133
Mazin.Alfarsi@oib.om

Al Maamun Al Mutairi, Research Specialist
+968 21116134
AlMaamun.AlMutairi@oib.om

Prices as of 17th of November 2024, unless stated otherwise

Executive Summary

- This report seeks to analyse the prospects of the Oman capital markets and identify the necessary steps moving forward, while also offering preliminary guidelines for investors.
- We conclude that Oman is emerging as a promising securities market player in the GCC, poised for rapid growth in its capital markets, presenting opportunities in both equity and fixed income for investors.

Summary of findings from the five sections in this report

1. Oman's Journey to Emerging Market Status

The regulatory improvements and the IPOs of the past few years in Oman moved the country closer to being classified as an Emerging Market. However, MSCI has tightened its market size criteria considerably throughout 2024, reducing the likelihood of Oman being considered for a review in 2025. While the total market capitalization requirements are generally met, it is only OQEP which meets the free float adjusted market capitalization, with Bank Muscat slightly below the requirement. More importantly, there needs to be a third security alongside OQEP. Our base case scenario is Oman being reviewed in 2026, with the possibility of inclusion by 2027, assuming market depth improves by then, either by new listing or mergers (most likely in the Banking Sector).

2. Structure of the Capital Markets in Oman

In this section, we provide a broad overview of the capital market structure in Oman, with key regulatory bodies and key market participants. It also outlines the progress made to date and ongoing initiatives by the Muscat Stock Exchange and Muscat Clearing & Depository.

3. Oman's Equity Market Outlook

We anticipate significant growth in both the market size and liquidity of the Oman equity market (MSX) over the coming years, gradually converging with its GCC neighbours. Oman has taken many steps to pave the way for this goal, yet there are still tasks to be implemented, which we highlight in this report. Assuming the required steps are taken, such as improved settlement and clearing as well as liquidity enhancements and hedging mechanisms (stock lending / short selling), and the ongoing political will continues in terms of privatisation of government-owned entities, we expect a significant growth in MSX market capitalization.

4. Oman's Credit Rating Outlook

Oman was upgraded to Investment Grade by S&P (on Sep 27). We expect Moody's to follow within the next 3-6 months, as it already holds a positive outlook on the country. Thus, our base case is that Oman will be rated 'Investment Grade' by at least two credit agencies by the end of 1Q25.

5. Oman's Fixed Income Market Outlook

Oman's fixed income market also presents growth opportunities on the corporate side, with government debt being reduced and likely to remain stable. In order to realize this potential, critical steps need to be taken, such as establishing an OTC trading framework and an active money market, as well as making OMR-denominated securities Euroclear-able. These are prerequisites that the authorities appear eager to expedite as soon as possible.

Oman's Journey to Emerging Markets Status

- While Oman is largely prepared in terms of market accessibility criteria, there is still a need for at least one more company to meet the required size and liquidity thresholds, alongside Bank Muscat and OQEP.
- Oman is on the right track for being upgraded to Emerging Markets Status, however it is not yet imminent. There is still a need to increase market depth by listing more blue-chip companies, as well as implementing regulatory measures to support liquidity.
- Based on our estimates, Oman's inclusion in the EM index could attract inflows of between USD 550 million and USD 1.36 billion into Oman equities, on a pro-forma basis.

Summary overview

Oman is on track to potentially achieve Emerging Market status by 2026, but it faces key challenges—namely, increasing market size and liquidity. The inclusion of a third qualifying company, along with an increase in free float, will be critical to meeting MSCI and FTSE criteria.

Several global agencies are recognized for classifying countries into frontier, emerging, and developed market categories. The most widely used are MSCI and FTSE Russell, with MSCI being the dominant classification system. In the following sections, we will closely examine these two indices and analyse Oman's prospects for reclassification to Emerging Market (EM) status.

Oman has made significant progress in recent years in addressing regulatory and market framework issues. However, its primary challenge remains the size, liquidity, and foreign institutional investor base of its market. With the successful IPOs on the MSX over the past two years, and particularly following the listing of OQEP, Oman has come close to meeting the criteria, but the tightened size criteria by MSCI in 2024 now requires Bank Muscat's market capitalisation to increase further, and more importantly, there is still a need for a third company alongside Bank Muscat and OQEP to meet the thresholds.

Our base case is that Oman will be put under review in 2026

As Oman has come closer to meeting the overall EM requirements, the recognized indices (particularly MSCI) have made their criteria stricter in terms of size and liquidity. For instance, the full market cap and float-adjusted market cap criteria for individual securities increased by 36% over the past 12 months. This has reduced the likelihood of Oman being under review considerably. In fact, Oman's economic prospects justify it to be considered as an Emerging Market, in our view, but the equity market size and depth still need to improve. Based on the clear motivation and focus of Oman Government, in line with the Oman 2040 Vision, we expect these issues to be addressed in 2025, which could open the path for Oman to be put under review in 2026 for an EM reclassification.

Increasing Free Float and Market Cap

The central issue for Oman's EM reclassification is the need to increase the effective free float of its larger companies. While Sohar International has a sufficiently large market capitalization, its effective free float is relatively low. Conversely, Oman Telecommunications (OmanTel) has an adequate free float percentage but a smaller market cap. To comfortably meet the criteria for Emerging Market status, it may be necessary for (1) key companies to increase their free float through equity transactions or restructuring deals, (2) new blue chips to enter the market, (3) mid-caps to merge (particularly in the banking sector), or (4) a sizeable increase in the share price of stocks like Sohar International, OmanTel, and OQGN.

Oman – Structure of Capital Markets

- Oman's capital markets have been in accelerated development over the past several years. There are still market enhancing steps that need to be taken, most of which are planned and scheduled to be completed in 2025.
- As in other GCC countries, most large corporates are owned by the government: The key shareholders are Oman Investment Authority (OIA), Social Protection Fund (SPF) and Royal Court Affairs (RCA).
- Oman's capital markets currently lack sustained engagement from foreign institutional investors in size, however with further actions being taken such as completion of full Euroclear linkage, introduction of securities lending and borrowing, and global standard settlement and custodian framework, we see potential for a considerable ramp-up in foreign investor activity.

Overview of Oman Capital Markets

Oman's capital markets are at a pivotal stage of development, offering a growing range of investment opportunities while also facing challenges. Continued reforms and technological advancements can help enhance market efficiency and attract both domestic and foreign investors. As Oman moves towards broader economic diversification, its capital markets are poised to play a crucial role in supporting sustainable growth.

Oman's capital markets are at a critical juncture, with significant growth potential supported by ongoing reforms and technology upgrades. As the economy diversifies, these markets are set to play a key role in fostering sustainable growth and attracting investment

The key components of Oman's capital markets are the Muscat Stock Exchange (MSX), the Muscat Clearing and Depository (MCD), the Central Bank of Oman (CBO), and the Financial Services Authority (FSA).

Established in 1988, the MSM (now MSX) is Oman's stock exchange. It operates under the oversight of the FSA and facilitates the trading of equities, bonds, and other financial instruments.

In recent years, the Omani government has initiated progressive reforms to attract foreign investment. These reforms include easing restrictions on foreign ownership in listed companies and improving market infrastructure. The FSA has also introduced a robust regulatory framework. This includes guidelines for corporate governance, transparency, and disclosure requirements.

In addition, the Central Bank of Oman (CBO) plays a significant role in the country's capital markets, contributing to the stability and development of the financial system. The CBO oversees and regulates the banking sector and non-banking financial institutions. While the Financial Services Authority (FSA) primarily regulates the securities and insurance markets, the CBO's regulatory framework is designed to maintain overall financial stability.

Oman's Equity Market Outlook

- IPOs over the past two years have contributed to the expansion of Oman's equity market, but we believe there is still significant potential for growth in both market size and liquidity.
- Oman offers considerable growth opportunities compared to its GCC neighbours. We expect a gradual but partial convergence toward GCC averages in terms of market size and liquidity over the coming years.
- We anticipate that the free float market capitalization as a percentage of GDP to rise to approximately 20% by 2030, up from the current level of 12%, though still below the current GCC average of 46%.
- We also project that liquidity in Oman's equity market will increase significantly, from an average daily volume of just USD 13 million to USD 60 million levels by 2030, assuming various market reforms and developments come to fruition.

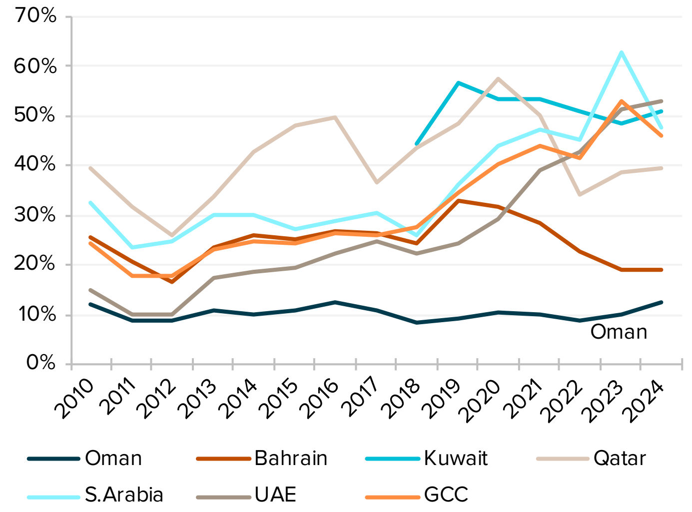
The Least Discovered Equity Market in the GCC

Oman's MSX has been smaller compared to most of the GCC markets in terms of both size and liquidity. Why has this disparity persisted, what factors could drive change, and what does this mean for investors? We will explore these questions in the following sections.

The Muscat Stock Exchange (MSX) has remained considerably smaller than its neighbouring GCC markets, in terms of both size and liquidity. When comparing market size, we examine the free float market capitalization as a percentage of GDP (Figure 1). Despite significant IPO activity in the past two years, Oman's equity market still remains relatively small compared to other regional markets. However, as we will discuss in the following pages, we believe Oman's equity market is poised for substantial growth in the coming years.

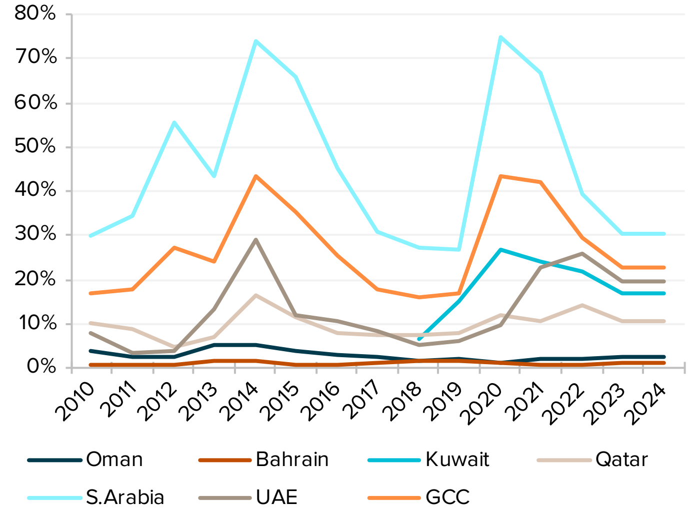
The liquidity has been an even greater challenge. Along with Bahrain, Oman has typically seen trade volumes of only 1% to-3% of GDP annually, far below the GCC average of 24% in 2024. In fact, the GCC average was as high as 40% in the past (Figure 2). In this section, we will explain the reasons behind Oman's low liquidity and how we anticipate it will improve in the near future.

1. GCC Region – Free float market caps of local equity indices as % of GDP



Source: Local Exchanges, Bloomberg, Oman Investment Bank Research

2. GCC Region – Annual trade volume in local equity indices as % of GDP



Source: Local Exchanges, Bloomberg, Oman Investment Bank Research

Outlook for Oman Fixed Income Market

- As of October 2024, the total size of Oman's fixed income market is USD 46bn, representing approximately 42% of GDP, which aligns with the GCC regional average.
- The government's share of outstanding issuances currently stands at 71%, a decrease from 84% in 2021, reflecting efforts to reduce sovereign debt.
- We expect total fixed income market size to grow from 2026 onwards, driven by the private sector, reaching USD70bn levels by 2030.
- Oman's fixed income market still requires key reforms, including Euroclear connectivity for OMR-denominated issuances, a primary dealer system, and other enhancements, which are actively being pursued by the authorities for implementation over the coming years.

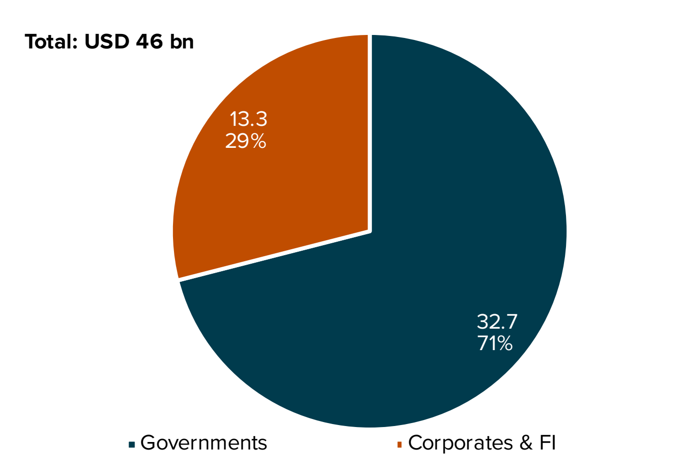
Overview

As of October 2024, Oman's fixed income market is valued at USD 46 billion, with the government representing 71% and the corporate sector making up the remaining 29%. Among corporate issuers, Oman Electricity Transmission, Energy Development Oman, and Nama Electricity Distribution are the largest, each with USD 2.1 billion, USD 1.75 billion and USD 1.75 billion, respectively.

Despite its size, Oman's OMR-denominated fixed income market remains relatively underdeveloped, with limited liquidity in the secondary market. In 2023, total bond trading volume on the Muscat Stock Exchange (MSX) was only USD 329 million. The government issues both conventional bonds and sukuks, but the investor base remains largely domestic, dominated by local banks, with minimal participation from foreign investors. This is partly due to the lack of integration with international markets, such as the absence of an OMR-denominated Euroclear connection.

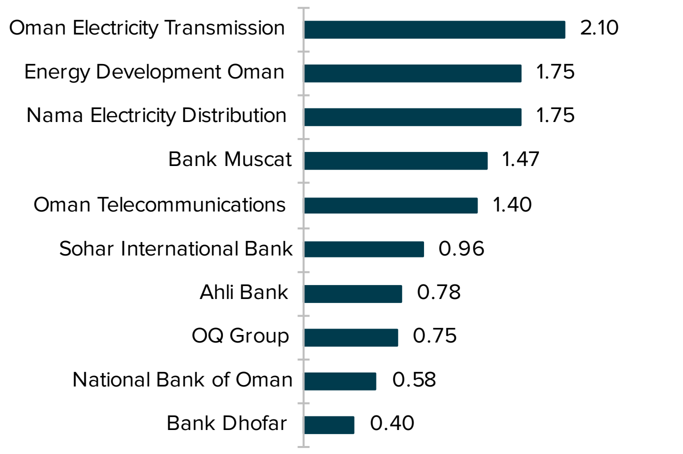
To address these challenges, Omani authorities are actively pursuing a series of reforms aimed at improving market liquidity and depth. Key initiatives include establishing a regular issuance calendar, creating a primary dealer system, and attracting a more diverse range of investors, including non-bank financial institutions and foreign participants. These efforts are part of Oman's broader strategy under Vision 2040 to modernize and strengthen its financial sector.

3. Oman Fixed income market size, USD bn



Source: Bloomberg, Oman Investment Bank Research

4. Top ten corporate issuer, USD bn



Source: Bloomberg, Oman Investment Bank Research

Oman's Credit Rating Outlook

- Oman was upgraded to Investment Grade by S&P on 27 September 2024, following seven years of non-investment grade status.
- Moody's and Fitch are currently one notch below Investment Grade, but we expect Moody's (which currently has a Positive Outlook) to upgrade Oman to Investment Grade within the next 3 to 6 months.
- The oil price outlook is a key factor in Oman's Investment Grade assessment. If oil prices remain at or above USD 70-80 per barrel in the medium term, upgrades by Moody's and Fitch are highly likely.

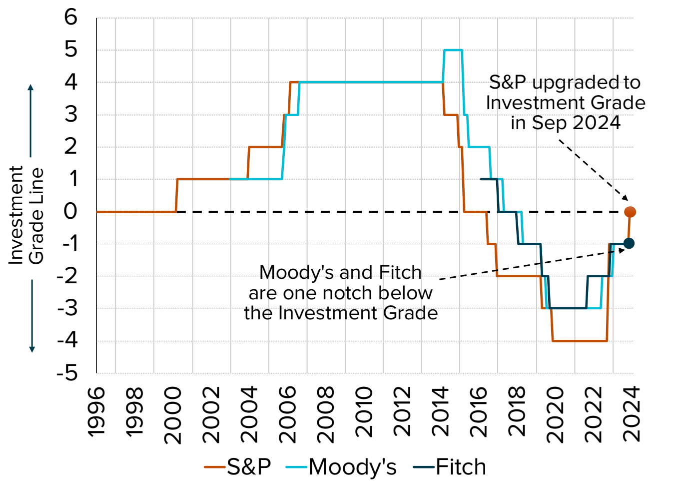
Oman back to Investment Grade Status

Oman lost its Investment Grade status in 2017-2018 due to falling oil prices, a rising fiscal deficit, and increasing public debt. The COVID-19 pandemic further worsened these economic challenges, causing Oman's credit ratings to drop to 3-4 notches below Investment Grade by 2020-2021 (Figure 5).

However, following the economic recovery from the pandemic and a rebound in oil prices in 2022, Oman made significant progress in managing its debt challenges. As a result, credit rating agencies began to upgrade Oman's ratings, with S&P most recently restoring its Investment Grade status (BBB-) on September 27, 2024, after seven years.

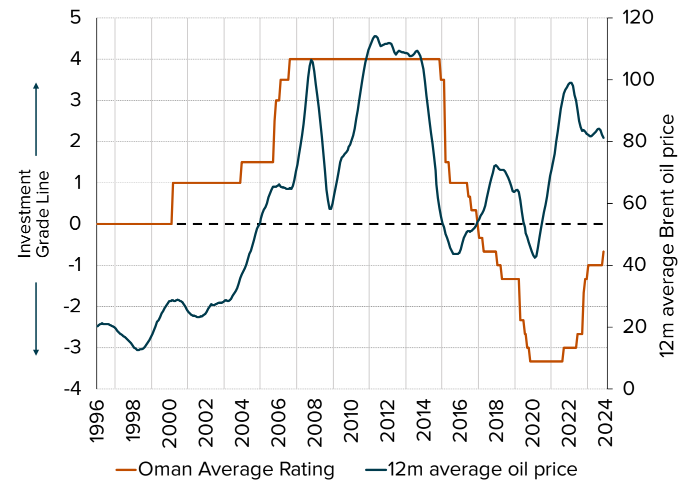
Currently, Moody's and Fitch are one notch below Investment Grade, with Moody's assigning a Positive Outlook. A country is considered Investment Grade when it receives ratings of BBB- (or equivalent) or higher from at least two of the major credit rating agencies (Moody's, S&P, Fitch). Based on Oman's positive macroeconomic developments, we expect both Moody's and Fitch to follow S&P's lead, potentially bringing Oman back to Investment Grade status from at least two agencies in the near future.

5. Oman – Credit rating history



Source: Bloomberg, Oman Investment Bank Research

6. Oman – Credit rating (average of 3 agencies) vs. 12-months Average Oil Price



Source: Bloomberg, Oman Investment Bank Research

Disclosures

Oman Investment Bank SAOC (OIB) is fully owned by the Government of Oman and regulated by the Central Bank of Oman and the Financial Services Authority of Oman.

This report has been produced by the Research Department within OIB on factual public market information accuracy. Analytical models used for this report may reflect assumptions specific to the Research Department, and as such, results may vary if different methodologies are applied. Any views expressed in this document are solely those of the Research Department and may not necessarily reflect the views of the other divisions of OIB.

OIB provides a wide range of investment banking services and its employees may take positions which conflict with the views expressed in this document. Sales people, traders and other client facing OIB staff may provide oral and written market commentary or trading strategies to clients that reflect opinions that are contrary to opinions expressed herein. OIB may have or seek investment banking and other relationships for which it may receive compensation from companies that are referred to in this document.

The information provided herein is for information purposes only. While we make every effort to ensure the accuracy and completeness of the information provided in this report, we do not guarantee its accuracy or completeness, and the information and analysis may be subject to change without notice. The inclusion of any company, product, or service in this document should not be interpreted as an endorsement or recommendation by the authors, unless explicitly stated. This report may contain forward-looking statements that involve risks and uncertainties. These statements are based on the authors' current expectations and assumptions, and actual results may differ materially from those expressed or implied in these statements.

OIB makes neither implied or expressed representations or warranties and, to the fullest extent permitted by applicable law, expressly disclaims any representations and warranties of any kind, including, without limitation any warranty as to accuracy, timeliness, completeness and fitness of the content for a particular purpose. OIB accepts no liability in any event including without limitation for reliance on the information contained herein, any negligence for any damages or losses of any kind.

This document is intended for general distribution and may not be reproduced, distributed, or transmitted to any other person or entity without the prior written consent of the OIB Research Department. This document is provided in compliance with all applicable laws and regulations. However, readers are responsible for ensuring compliance with any relevant laws or regulations in their jurisdiction.

Contents of this document do not constitute a solicitation, an offer to invest, legal, tax or other advice or guidance and readers should not rely on this document for making investment decisions. In preparation of this document, OIB did not take into account the investment objectives, financial situations or particular needs of any particular person. The reader should seek independent advice from qualified professionals and conduct their own due diligence before making any investment decisions.

بـنـك الاسـتـثـمـار الـعُـمـانـي
Oman Investment Bank

26 Novmber 2024

Oman Investment Bank SAOC

CR No. 1482570
P.O. Box 10, PC 133 South Al Khuwair
Tel. +968 2111 6111
Email: info@oib.com