

FINANCE

Ominvest

The investment firm's decision to diversify into tourism marks a change in strategy

COMPANY SNAPSHOT

Date established 1983

Main business areas Banking, financial services, real estate, commerce, tourism and industry

Main business region Oman

Chief executive officer Shariq Azhar

Chairman Hani bin Muhammad al-Zubair

STRUCTURE

Oman International Development & Investment Company (Ominvest) is one of Oman's largest firms, with a diversified portfolio of investments in banking, financial services, commercial and industrial sectors. The company was founded in 1983 and was one of the first investment firms to list on the Muscat Securities Market.

Ominvest has built up a shareholder base of about 1,000, which includes local banks, pension trusts, insurance companies, investment brokerage houses, various joint stock companies, major trading houses and prominent local investors. Up to 70 per cent of the company's shares are open to foreign ownership.

The main shareholding is a 20 per cent interest held indirectly by the Zubair Corporation, a prominent Omani business house, owned by the Al-Zubair family. The Ominvest holding is exercised through Al-Hilal Investment Company, a 100 per cent subsidiary of the Zubair Corporation. Al-Hilal also has major holdings in several other listed firms on the Muscat bourse.

OPERATIONS

Ominvest business activities fall into four major categories: direct investment in companies and projects (private equity); real-estate investments; capital market investments and advisory; and placement and asset management services.

As a fully integrated investment and financial services group, Ominvest looks for opportunities that offer solid return potential. Particular focus is put on equity investments in the financial services and industrial sectors as well as in tourism-related real-estate within the sultanate and internationally.

Besides significant financial services holdings, Ominvest owns 51 per cent of Oman Arab Bank and holds a stake in National Finance

OMINVEST IN NUMBERS

1,000

Ominvest's approximate shareholder base

51 per cent

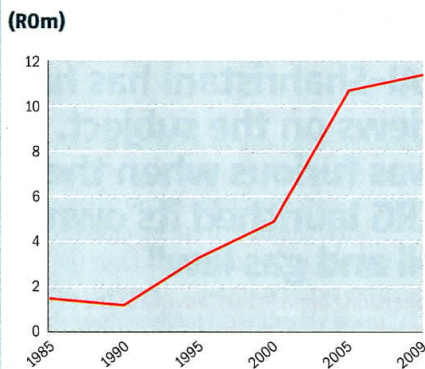
Share of Oman Arab Bank owned by Ominvest

\$11.9m

Amount invested in Budva tourism project

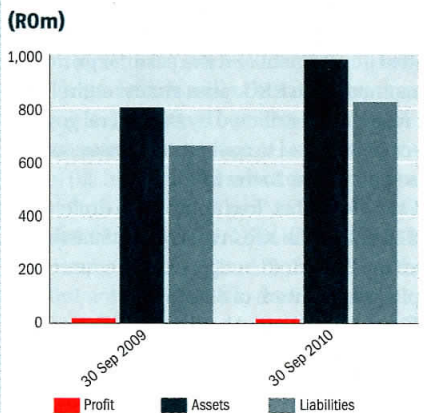
Source: MEED

OMINVEST GROUP CONSOLIDATED PROFIT



Source: Ominvest

OMINVEST GROUP NINE-MONTH RESULTS



Source: Ominvest

Company, a major leasing firm. Oman Arab Bank was established in 1984 with Arab Bank of Jordan, which manages the joint venture.

In addition, Ominvest has shareholdings in steel, aluminium, plastics, detergents, chemicals and food product companies. These include the National Biscuit Industries and National Detergent Company. In the past year, the firm has embarked on an overseas expansion programme, forming a special purpose vehicle (SPV), Budva Beach Properties, to set up a tourism project in Montenegro. Ominvest also has positions in a diversified overseas portfolio of marketable securities and private equity investments.

AMBITIONS

Ominvest seeks to take part in ventures that contribute to the economic development of the sultanate. It aims to build a focused portfolio of strategic and diversified investments to provide sustained earnings in the medium to long term.

The company says it is exploiting new investment opportunities in private equity, in line with the company's strategy of diversification. These investments are expected to earn returns and provide cash flows over the long term.

A new focus on tourism has emerged in the past couple of years and points to future diversification strategies. The Montenegro SPV is 100 per cent owned by Ominvest and RO4.6m (\$11.9m) has been invested in the scheme – representing 8 per cent of the parent company's assets.

At home, the major focus is on the Salalah integrated tourism complex. The proposed \$1bn scheme in the southern port city, first announced in March 2010, will comprise four hotels and housing units, which will be offered for sale to local and international investors. Ominvest's project team is working with advisors to complete the initial phases of project planning and detailed assessment of the commercial aspects. Construction on the proposed three-phase development is due to start in 2011.

MEED ASSESSMENT

Market conditions have not been easy for Omani investment companies over the past couple of years and Ominvest is no exception.



For the first half of 2010, the group reported a 13 per cent decline in net profits compared with the first six months of 2009. This was attributed to inclement conditions in the local, regional and international capital markets – where the parent company has significant exposure – as well as lower profits achieved by the banking subsidiary.


Nine-month figures were also disappointing. Ominvest reported profit of RO7.26m for 2010 against RO11.63m the first nine months in 2009 – decline of 37.5 per cent. Total income for the period decreased by 32 per cent to RO8.73m.

This jars with a robust historical profit performance and a steady record of returning dividends to shareholders. The previous year, Ominvest reported a 37 per cent increase in profits to RO11.41m. Until the end of 2009, Ominvest had achieved an internal rate of return of 16.45 per cent since it was founded.

Ominvest's financial position has also been affected by the firm's inability to exit investments as desired. In December 2010, Ominvest was unable to complete the sale of a 24 per cent stake in National Finance Company, blaming the failure of the potential buyers to obtain the necessary regulatory approvals.

But there are a number of positives that the company can draw on. The management's conservative approach to risk has minimised fallout from the financial crisis. Strong 2009 profits suggest the prudent investment strategy will continue to provide good returns to its shareholders, once market conditions stabilise.

Ominvest will be helped by an improved performance at Oman Arab Bank. The bank has recorded an estimated net profit of RO6.5m in the third quarter of 2010, representing a 19 per cent year-on-year increase, mainly due to higher net interest income.

Much will depend on the success of its new entries into the tourism field. Ominvest's Salalah tourism scheme is ambitious in scale and it will prove a challenge to secure the financing for the estimated \$1bn project. The faltering progress of the much larger Blue City integrated development outside Muscat does not inspire confidence, but Ominvest is likely to have done its homework on the scheme. 

James Gavin

LONG-TERM STRATEGY JOURNEY BACK TO SOLID PROFIT

Ominvest's strategy, as laid out by its chairman, Hani al-Zubair, is to build a focused portfolio of strategic and diversified investments, with the objective of improving sustained earnings in the medium to long term.

The past year has been a tough one for a group that has consistently delivered strong earnings growth in its 28-year history. Al-Zubair believes by branching out into new areas, such as tourism and real estate – the former including a move beyond the sultanate's borders to Montenegro's nascent tourism sector – it will deliver the long-term objectives that will keep its shareholders satisfied for another couple of decades.

Although diversified, the company is heavily dependent on the fortunes of its subsidiary, Oman Arab Bank. The Egypt-based brokerage EFG Hermes estimates that 60 per cent of Ominvest's net asset valuation is derived from the bank.

Tourism is, therefore, a significant new opportunity for Ominvest. Its major project is centered on Salalah, which has traditionally been a hub for Gulf tourism. The big challenge is in financing the scheme.

Raising the cash for the project, estimated to carry a \$1bn price tag, could be tricky given the tepid lender appetites in the region and the lack of progress on other major tourism ventures in the sultanate. In its favour, Ominvest at least has Oman Arab Bank as its

"The move into European tourism through its Budva special purpose vehicle ... will see \$10m of investment"

subsidiary, which could prove useful in helping to raise the financing package.

It has not been an easy environment for launching a new tourism venture. The financial crisis of 2009 undermined some of the largest tourist developments in Oman, including the \$1.5bn Blue City development near Muscat. Another large-scale tourism development, the \$1.7bn Salam-Yiti tourism project, south of Muscat, was also put on hold, but there is no disputing the untapped tourism potential of Oman. Its Salalah project could be well timed, with the doubling of capacity at the city's airport to 1 million passengers due for completion by 2013.

The move into European tourism through its Budva Beach Properties special purpose vehicle, which is setting up a tourism project in the former Yugoslav republic of Montenegro, involves the investment of about \$10m. This appears a typically low-risk move in a region that is regarded as a major potential tourism growth area.

Ominvest's nine-month profit figures for 2010 represent a disappointment after a strong 2009 performance, when it reported a 37 per cent rise in profit. Performance should pick up on the back of an improvement in the banking environment, which is already in evidence.

Although conservative in its approach, Ominvest has shown it can become more aggressive when opportunity knocks, as shown by its decision to diversify from banking and financial services into tourism projects.

However, analysts have looked for greater clarity in the diversification programme into real-estate developments in Oman and international markets. EFG Hermes says the lack of clarity is an overhang on the stock.

Al-Zubair remains confident about Oman's economic outlook and the opportunities for growth offered by the country's significant investment infrastructure requirements. The upgrading of port facilities, airport development and expansion, new roads and investment in new industrial port cities are projects of potential interest.

Ominvest, via its diversified share holdings, will be looking to capitalise on this investment opportunity. If it can build on a stronger performance from its Oman Arab Bank subsidiary, it should also be in a position to return to the solid profitability of previous years.