6 May 2012

Oman Cement - *Results Update*

MSM Ticker	OCOI.MSM
Bloomberg code	OCOI OM
Reuters code	OCCO.OM
Target Price (RO)	0.719
Share Price (RO)	0.693
Upside	3.7%
Rating	HOLD
Market cap (RO mn)	229.3
PE TTM (x)	16.62
P/BV TTM (x)	1.6
Dividend Yield (%)	4.4

Source: Bloomberg, OABINVEST

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The era of the Demand

The Cement Sector is one of the most promising sectors thanks to prudent expansionary government policy as the sector stands to benefit from the urban renaissance and ongoing mega projects in the Sultanate.

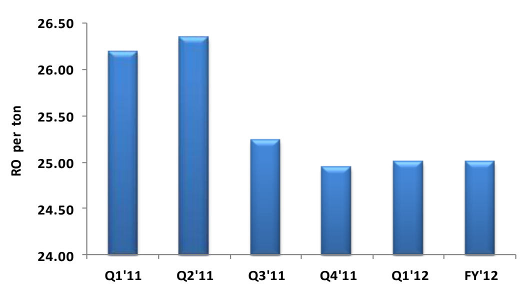
The Q1'12 performance (kindly refer to our flash note dated April 25) indicates that the sector in enjoying the fruits of these policies. The fiscal spending along with the re-operating of the 1st production kiln as well as the slightly improved situation in the construction segment in the UAE and the delivery of big projects in the forecasted period, make us comfortable about the industry's future demand. We forecast Oman Cement Co. to sell 2.3mn tons of cement in FY'12, an increase of 25% y-o-y.

Flat selling price with an ample room for recovery

We maintain our view (kindly refer to our results update on the company dated Feb 26) on the cement selling prices at an average realization level of RO 25 per ton for FY'12 but increase our forecasted prices after that to RO 26 per ton instead of RO 25.5 per ton.

We believe that the Saudi's recent move to remove restrictions on cement imports has opened an escape window for the UAE cement companies to cover their oversupply situation. According to market data, about 50% of total current production of the UAE cement companies is being exported. The current production levels in the UAE is around 24mn tones against local demand of around 11mn tons.

Adding to above, the high operation cost mainly due to the increase in fuel prices, less production of cement and the increase cost of shipping as well as other raw materials, all of these factors have resulted in an increase of about 21% YTD in cement selling prices in the UAE to almost RO 25.4 a ton as per recent UAE cement sources. Accordingly we don't see further pressure on local selling prices. Below chart shows the trend of Oman Cement Co. selling prices.



Source: company financials, OABINVEST

Healthy Margins

We maintain our view on no clinker import from 2012 onwards as the company shall be able to fill the missing gap through use of its sufficient inventory of the raw material. Accordingly, our projected EBITDA margins during 2012 – 2015 (kindly refer to our results update on the company dated Feb 26) is still valid at 45%. Net margins expected to be at an average level of 34% during the forecasted period.

Outlook and valuations

All things considered, we are comfortably positive about the sector demand and feel that despite the pressure from the UAE and local peer's subsidiary in Northern Part of country, Oman Cement's new production line provided the needed support to meet the expected demand in the Sultanate and has positioned the company in a safe zone. We feel that the geographical location is a key factor in supporting this.

Valuation

RO'000	2012e	2013e	2014e
NOPAT	16,372	18,781	19,995
Add depreciation	6,034	6,236	6,455
Add: change in working capital	-1,886	-2,093	-878
Less: capex	-5,499	-6,056	-6,419
FCF	15,021	16,868	19,152
Terminal growth rate	1.5%		
Total enterprise value	237,840		
Value/share RO	**0.719**		
Premium/(Discount)	3.73%		
Market price per share RO	**0.693**		
Risk Free Rate	4%		
Beta	0.92		
Equity premium	7.2%		
Cost of equity	11%		
Cost of debt	4.5%		
Cost of Capital (WACC)	10%		

Source: OABINVEST, Bloomberg

In light of the better performance in sales volumes, the stability of selling prices and better control of sales, we revise our earlier target of RO 0.521 (Kindly refer to our previous update on the company dated Feb 26) to RO 0.719, indicating an upside of 3.73% from current market price.

However, bearing in mind the recent rally in the stock price (YTD change +60.4%) and +33% from our last earlier recommendation, we assign **"HOLD"** recommendation instead of the earlier **"BUY"**.

Key Financials

Income Statement

RO'000	2011	2012e	2013e
Local	49,768	57,522	63,412
Export	1,111	1,611	1,707
Less : sales discount	-2,966	-4,139	-4,558
Revenue	**47,913**	**54,993**	**60,561**
Cost of Sales	-31,103	-32,787	-35,274
Gross profit	**16,809**	**22,206**	**25,287**
General and administrative expenses	-3,372	-3,601	-3,945
Profit from operations (EBIT)	**13,438**	**18,605**	**21,342**
EBITDA	19,223	24,941	27,890
Profit before tax PBT	14,518	21,240	23,993
Taxation	-1,719	-2,549	-2,879
Profit for the year	**12,799**	**18,691**	**21,114**

Balance Sheet

RO'000	2011	2012e	2013e
Net Property, plant and equipment	107,840	107,306	107,125
Investments in an associate	776.41	787.28	799.88
Available-for-sale investments	11,024	11,135	11,246
Held-to-maturity investments	872.42	881.14	898.77
Bank deposits	11,339	11,112	10,890
Non current assets	**131,853**	**131,221**	**130,960**
Investments held for trading	5,430	5,973	6,570
Inventories	12,649	12,098	13,323
Trade and other receivables	8,948	10,449	12,112
Cash and cash equivalents	2,977	18,093	22,421
Current assets	**37,004**	**53,613**	**61,426**
Total Assets	**168,857**	**184,834**	**192,386**
Shareholder's equity	**148,387**	**157,744**	**166,253**
Term loans - non current portion	6,400	8,621	7,021
Deferred tax liability	3,932	3,736	3,549
End of services benefits	1,119	1,141	1,175
Non current liabilities	**11,451**	**13,498**	**11,745**
Term loans - current portion	1,600	1,600	1,600
Trade and other payables	11,428	10,492	11,288
Provision for taxation	1,443	1,500	1,500
Total current laiblities	**14,471**	**13,592**	**14,388**
Total Liabilites	**25,922**	**27,089**	**26,133**

Cash Flow Statement

RO'000	2011	2012e	2013e
Net cash from operating activities	**8,367**	**22,722**	**25,105**
Net cash from / (used in) investing activities	**713**	**-493**	**-6,573**
Net cash used in financing activities	**-11,609**	**-7,113**	**-14,204**
Net change in cash and cash equivalents	-2,529	15,116	4,328
Cash and cash equivalents at beginning of the year	3,174	2,977	18,093
Cash and cash equivalents at the end of the year	**645**	**18,093**	**22,421**

Key Ratios	2011	2012e	2013e
Profitablity Ratios			
Gross Margins %	35.1%	40.4%	41.8%
EBITDA MArgins%	40.1%	45.4%	46.1%
EBIT Margins%	28.0%	33.8%	35.2%
PBT Margins%	30.3%	38.6%	39.6%
Net Margins %	26.7%	34.0%	34.9%
Return on Equity %	8.6%	12.2%	13.0%
Return on Assets %	7.4%	10.4%	11.2%
Efficiency measurements			
Current Ratio	2.90	3.94	4.27
Quick Ratio	2.03	3.05	3.34
Asset turnover ratio (x)	0.27	0.30	0.31
Inventory Turnover (x)	3.79	4.55	4.55
Inventory days	96.36	80.30	80.30
Receivables turnover	5.35	5.26	5.00
Account receivables days / Collection period	68.16	69.35	73.00
Payables / Creditor turnover	4.19	5.24	5.37
Account payable days	87.1	69.6	68.0
Leverage measurements			
Gross debt/equity (%)	5.4%	6.5%	5.2%
Leverage (%)	5.1%	6.1%	4.9%
Debt/assets (%)	4.6%	5.5%	4.5%
Cash/assets (%)	1.7%	9.8%	11.7%
Dividend cover (x)	0.78	0.70	0.70
Dividend yield (%)	4.3%	5.7%	6.4%
Dividend pay-out ratio (%)	77.6%	70.0%	70.0%
Valuation Ratios			
PE (X)	17.91	12.27	10.86
P/B (X)	1.55	1.45	1.38

Source: OABINVEST, Company's Financials

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