

### KEY DATA

Fair Value per share (RO)	0.879
Closing Price (RO) *	0.723
52-week High / Low (RO)	0.797 / 0.355
YTD / 12-month return	-3.2% / 104%
Trailing P/E	9.9
Shares Outstanding (000s)	330,900
Market Cap (RO Mn)	239.2
Free Float	20.64%
Reuters / Bloomberg Code	OCCO.OM / OCOI OM

\*Price as of close on April 07, 2010. Sources: Reuters, Zawya, and NBK Capital

### KEY METRICS

	2009A	2010F	2011F	2012F
P/E	9.9	11.5	9.8	8.9
EPS	0.073	0.063	0.074	0.082
Dividend Yield	5.1%	6.5%	7.7%	8.5%
EV/EBITDA	9.0	9.4	7.8	7.2
RoAE	19.1%	14.8%	16.4%	17.1%
RoCE	17.1%	12.8%	15.4%	17.2%
EBITDA margin	39.5%	46.2%	52.1%	52.5%
Net profit margin	35.5%	37.1%	40.9%	42.0%

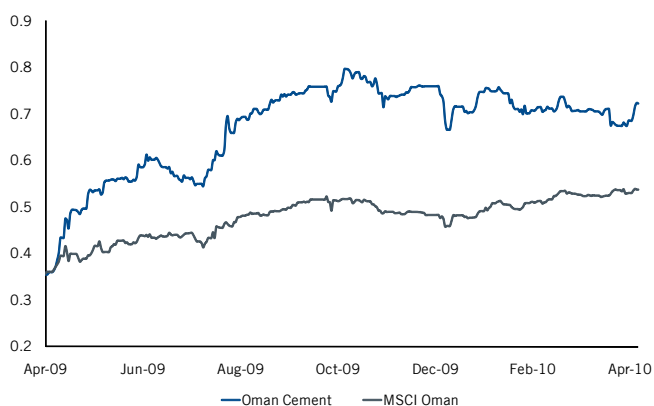
Sources: Company financials and NBK Capital

### FORECASTS

RO'000s	1Q2010F	2Q2010F	2010F	2011F
Revenue	14,750	14,250	56,028	59,951
EBITDA	7,100	6,750	25,862	31,210

Source: NBK Capital

### REBASED PERFORMANCE



Sources: MSCI, Reuters, and NBK Capital

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### HIGHLIGHTS

12-Month Fair Value: RO 0.879

Recommendation: Buy – Risk Level\*\*: 3

Reason for Report: 2009 Full-Year Update

- We believe the 10% decline in the stock price from the recent peak presents an opportunity, considering Oman Cement's strong fundamentals and our positive outlook on the company. Accordingly, we have upgraded our recommendation for the stock to Buy from Accumulate, with our earlier rationale of EBITDA margin expansion remaining unchanged. We now value the stock at RO 0.879, an upside potential of 21.5% from the last close. We have been quite conservative in our assumption regarding domestic cement prices as we expect them to decline year-on-year (YoY) by 7.4% and 5.5% in 2010 and 2011, respectively, and to maintain the 2011 level over our forecast period until 2015. We view the commissioning of the new clinker facility (1.2 million tons per annum) to be a strategic step, considering the potential benefit resulting from relinquishing future clinker/cement imports.
- As expected, lower clinker imports led to EBITDA margin expanding to 39.5% in 2009 compared to 23.5% in FY2008, higher than our forecast of 34.4%. The average EBITDA margin for 2009 increased significantly in the last three quarters (average margin of 43.9%) of the year, and we expect the 4Q2009 margin of 44% to be a prelude to our 2010 margin forecast. We now expect the EBITDA margin to further expand to 46.2% in 2010, mainly due to lower clinker prices. We also expect lower clinker imports during 2010 to be margin accretive. We do not expect any clinker imports from 2011 onwards as the new clinker line should be operational from the beginning of 2011. Accordingly, we now forecast the EBITDA margin to expand to 50.6% (five-year average from 2010 to 2014) compared to the last five-year average of 41.2%.
- On an expected payout of 75% for 2010, the stock is currently trading at an impressive yield of 6.5% (current yield of 5.1%). On forecasted free cash flow from operations (FCFOs) of 2011 and 2012, the stock trades at a notable free cash flow yield of 11% and 12%, respectively.
- Oman Cement reported total revenue of RO 68.3 million (our forecast was RO 68.8 million) in 2009, up 7.5% YoY. The increase in revenue was mainly due to a 5.7% increase in domestic cement prices to RO 31.4 per ton in 2009. The company reported EBITDA of RO 27 million in 2009, up by a significant 80.7% compared to RO 14.9 million in 2008 and 14% higher than our forecast. The deviation was entirely due to our assumption of higher prices for clinker imports. Net profit for the company almost doubled to RO 24.2 million in 2009, compared to 2008.

\*\* Please refer to page 8 for recommendations and risk ratings.

## VALUATION

We believe the 10% decline in the stock price from the recent peak presents an opportunity, considering Oman Cement's strong fundamentals and our positive outlook on the company. Accordingly, we have upgraded our recommendation for the stock to Buy from Accumulate, with our earlier rationale of EBITDA margin expansion remaining unchanged. We now value the stock at RO 0.879, an upside potential of 21.5% from the last close.

The stock also appears attractive on EV per ton of USD 239 per ton, which is a 26% discount compared to the company's immediate peer Raysut Cement, which trades at USD 300 per ton. An EBITDA margin of 52.1% for Oman Cement in 2011, 23% higher than the peer group average of 42.3%, makes the valuations look even more compelling. The company's current dividend yield of 5.1% is worth mentioning as well.

We believe the company's strong balance sheet lends further support to our investment case. At the end of 2009, the company had cash reserves of RO 26.75 million. In addition, the company also has an investment portfolio of RO 21.5 million, which is mainly composed of quoted equity investments. These assets account for almost 20% of the company's market capitalization. Having made adjustments for these, the company currently trades at a price-to-earnings ratio (PER) of 9.2x on 2010 net profit.

Our view remains the same regarding the Omani cement sector, as discussed earlier in our update on Raysut Cement (dated December 14, 2009). We are somewhat cautious due to the continuous cement imports (we expect approximately 500,000–600,000 tons in 2010) from the United Arab Emirates (UAE). We firmly believe this will lead to pricing pressures. Accordingly, we expect ordinary portland cement (OPC) bulk prices in Oman to dip by 10% to RO 27 per ton. However, we are optimistic regarding the focused infrastructure spending by the government and expect the airport expansion projects and other major tourism and road projects to act as a catalyst for the sector in the medium term.

Figure 1 Fair Value per Share

Valuation Method	Old		New		Change
	Weight	Value (RO)	Weight	Value (RO)	
Discounted cash flow	80%	0.904	80%	0.885	-2.1%
Peer comparison	20%	0.701	20%	0.855	22.0%
<b>Weighted average fair value</b>	<b>100%</b>	<b>0.864</b>	<b>100%</b>	<b>0.879</b>	<b>1.7%</b>

*Our new 12-month fair value for Oman is RO 0.879*

Source: NBK Capital

### 2009 results review – lower clinker imports lead to EBITDA margin expansion

- Oman Cement reported total revenue of RO 68.3 million in 2009, up 7.5% YoY, which is in line with our forecast of RO 68.8 million. The increase in total revenue was mainly due to a 5.7% increase in domestic cement prices to RO 31.4 per ton in 2009. Cement volumes were almost flat at 2.18 million tons in 2009, compared to 2.15 million tons in 2008.
- Though cement prices were strong during 4Q2009, the volume of cement sold dipped 21% to 499,000 tons during the quarter, compared to 633,000 tons in 4Q2008. This resulted in similar YoY declines in the quarterly revenue. We assume that the cheaper cement imports from the UAE were mainly responsible for the company's decreased sales volume during 4Q2009.

- The company reported EBITDA of RO 27 million in 2009, up by a significant 80.7% compared to RO 14.9 million in 2008. The 2009 EBITDA was 14% higher than our forecast of RO 23.6 million. This variance was entirely due to our assumption of higher prices for clinker imports, which was based on management guidance. The EBITDA growth was entirely fueled by lower volumes of clinker and the absence of cement imports. The company imported 657,000 tons (vs. our forecast of 700,000 tons) of clinker in 2009, compared to 922,000 tons in 2008. The company also benefitted from the absence of cement imports during the year, compared to 265,000 tons in 2008. Lower imports led to EBITDA margins of 39.5% in 2009 compared to 23.5% in 2008, higher than our forecast of 34.4%. Worth highlighting is the EBITDA margin expansion from 27.1% in 1Q2009 to an average margin of 43.9% (4Q2009 – 44%) over the next three quarters.
- Net profit for the company almost doubled to RO 24.2 million in 2009, compared to RO 12.5 million in 2008. This was mainly due to the margin expansion discussed earlier.

Figure 2 2009 Financial Performance

*Lower clinker imports led to margin expansion during the year*

Key Financial Data								
Income Statement (RO Million)	2009	2008	Y-o-Y Growth	4Q2009	4Q2008	Y-o-Y Growth	1H2009	2H2009
Total Revenue	68.3	63.5	7.5%	15.6	19.6	-20.4%	35.5	32.7
Cost of Sales	39.0	46.1	-15.4%	8.1	16.2	-50.0%	21.5	17.5
Gross Profit	29.3	17.4	67.9%	7.5	3.4	120.7%	14.0	15.3
EBITDA	27.0	14.9	80.7%	6.8	2.5	175.6%	12.9	14.1
Net Profit after tax	24.2	12.5	93.2%	7.3	1.7	326.4%	11.2	13.1
Balance Sheet (RO Million)	2009	2008	Growth					
Property, Plant and Equipment	91.8	59.4	54.5%					
Current Assets	24.2	42.1	-42.5%					
Total Assets	153.5	133.0	15.4%					
Total Debt	4.0	0.8	401.4%					
Liabilities	5.1	4.9	2.8%					
Equity	135.9	117.9	15.3%					
Margins (%)	2009	2008		4Q2009	4Q2008		1H2009	2H2009
Gross Profit Margin	42.9%	27.5%		48.2%	17.4%		39.4%	46.6%
EBITDA Margin	39.5%	23.5%		44.0%	12.7%		36.2%	43.1%
Net Profit Margin	35.5%	19.7%		47.0%	8.8%		31.4%	39.9%
Operating Highlight	2009	2008	Y-o-Y Growth	4Q2009	4Q2008	Y-o-Y Growth	1H2009	2H2009
Cement sales volume	2.18	2.15	1.1%	0.50	0.63	-21.2%	1.13	1.04
Cement prices (RO per ton)	31.4	29.5	6.3%	31.2	30.9	1.0%	31.4	31.3

Sources: Company financials and NBK Capital

### Revised revenue forecasts

Management now expects the new clinker line of 1.2 million tons per annum to be ready for commercial production by the beginning of 4Q2010, resulting in a delay of approximately six months. However, taking a conservative stance, we expect the new clinker line to commence production from the beginning of 2011 and assume the line will operate at 80% capacity during the year. This would result in an average use of 90% for the total clinker capacity. We expect the company to gradually scale up the clinker utilization rate and operate at full capacity by 2015.

Considering the delay, we now expect the company to import around 500,000–600,000 tons (slightly less than the 657,000 tons in 2009) of clinker during 2010 at an average price of RO 17.8 per ton (USD 45–46 per ton). This will be higher than our earlier assumption of 300,000 tons of clinker. Though our new assumption about volume of clinker imports is comparable to 2009, we expect the company to benefit from lower clinker prices. We estimate the average landed price of imported clinker in 2009 to be approximately RO 30 per ton, with the prices dipping towards the latter part of the year. As mentioned earlier in our initiating coverage report on Oman Cement, we do not expect any cement imports going forward.

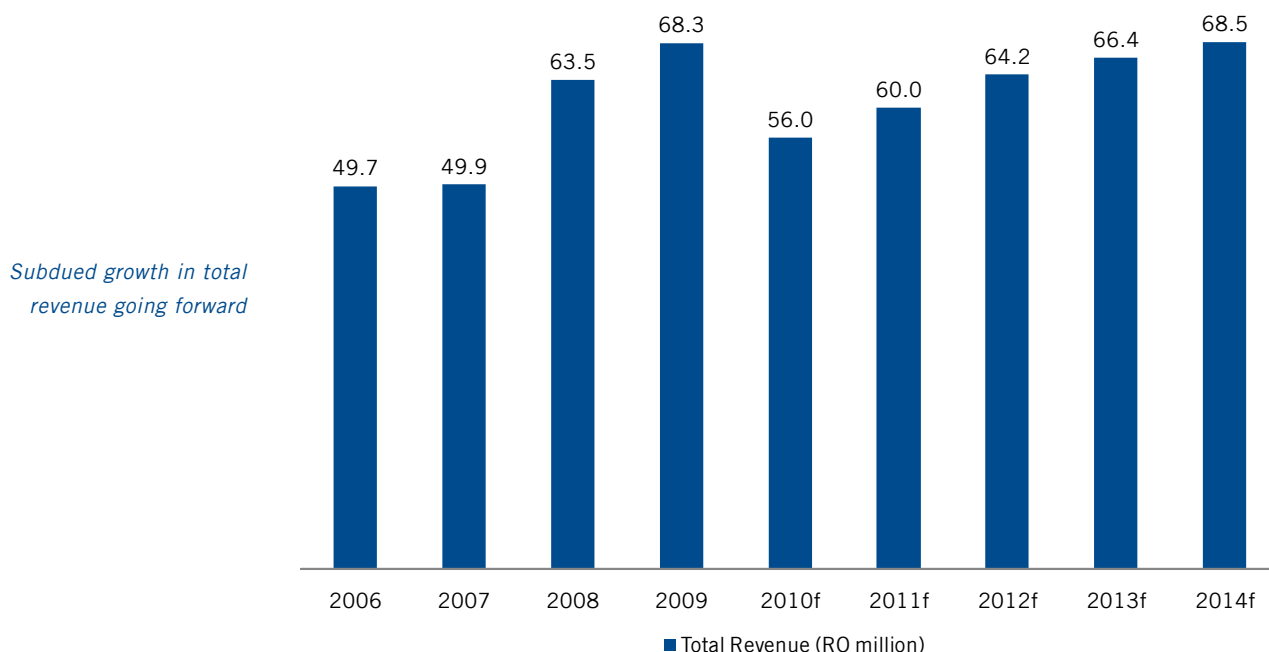
Figure 3 Old vs. New Forecasts

	New Forecast	Old Forecast
	2010	2010
<i>We expect lower sales volume during 2010, due to cheap cement imports from the UAE</i>		
Clinker imports (million tons)	0.55	0.30
Total cement sales volume (million tons)	1.93	2.23
Domestic cement price (RO per ton)	29.1	27.8
Total revenue (after sales discount) (RO million)	56.0	61.4

Source: NBK Capital

We expect the total sales volume of cement to decrease by 11.2% to 1.93 million tons in 2010, compared to 2008. This is mainly due to cheaper cement imports from the UAE, a trend that was seen in 4Q2009. We now forecast the sales volume to increase at a six-year CAGR of 2.6% from 2.17 million tons in 2009 to 2.54 million tons in 2015. Going forward, we now expect the total revenue to be flat over our forecast period (RO 68.3 million in 2009 to RO 69.6 million in 2015). We expect export revenue to account for 1% of total revenue going forward.

Figure 4 Trends in Total Revenue



*Subdued growth in total revenue going forward*

Sources: Company financials and NBK Capital

Our view remains the same regarding the Omani cement sector, as discussed earlier in our update on Raysut (dated December 14, 2009). We are somewhat cautious due to the continuous cement imports (we expect approximately 500,000–600,000 tons in 2010) from the UAE. Anecdotal data suggests that the landed price of the UAE cement is in the range of RO 26–27 per ton, compared to the current price of OPC bulk cement in Oman of RO 30 per ton (USD 78 per ton). We firmly believe this will lead to pricing pressures and accordingly expect OPC bulk prices in Oman to dip by 10% to RO 27 per ton during 2H2010 (previously, we were expecting a drop in prices by the end of 1Q2010).

However, we are optimistic regarding the focused infrastructure spending by the government and expect the airport expansion projects and other major tourism and road projects to act as

a catalyst for the sector in the medium term. We believe that UAE cement prices are very close to the bottom (refer to our update on RAK Cement dated November 22, 2009), and hence we expect the prevailing cement prices of AED 210–220 per ton (USD 57–60 per ton) in the UAE to hold. We feel the UAE cement players are in a better position compared to their Saudi Arabian peers as far as exports to Oman are concerned. Since UAE cement prices are currently lower than the prevailing Saudi cement prices of SAR 230–235 per ton (USD 60–62 per ton), we do not expect any cement imports from Saudi Arabia to Oman in the near term. In fact, any such cement imports from Saudi Arabia will actually have a favorable impact on our assumption of a 10% drop in OPC bulk prices in Oman.

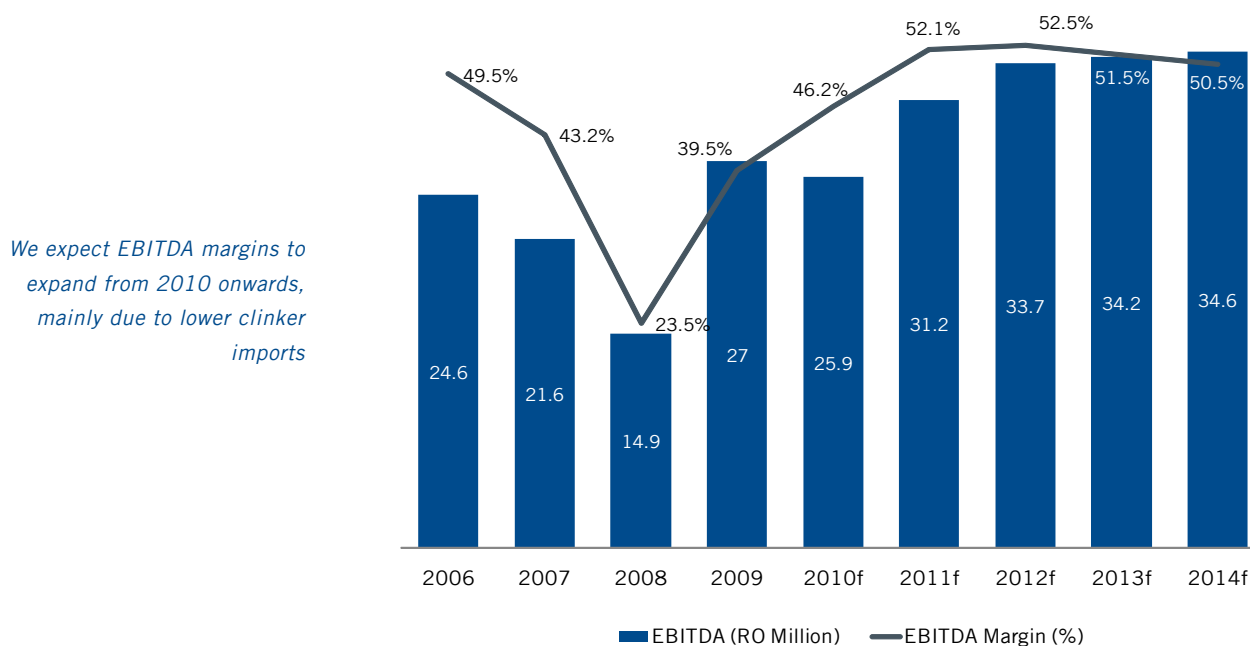
Taking into consideration all these threats, we expect domestic blended cement prices for Oman Cement to be at RO 29.1 per ton during 2010, a YoY decline of 7.4%. We further expect domestic prices to drop by an additional 5.5% in 2011 and thus to bottom out.

**Absence of imports will lead to expansion in EBITDA margins**

In light of the company’s recent performance in 4Q2009, we now expect the EBITDA margin to expand significantly to 46.2% in 2010 compared to 2009, almost unchanged from our earlier forecast of 46%. As mentioned earlier, we expect the company to benefit from a lower volume and lower prices of clinker imports in 2010. We think this warrants attention, considering it will counter the pricing pressures. We then forecast EBITDA margins to expand further in 2011 due to the absence of clinker imports, as illustrated in Figure 5. We now expect, the EBITDA margin to expand to 50.6% (five-year average from 2010 to 2014) compared to the last five-year average of 41.2%.

As highlighted earlier in our initiating coverage report, if we were to exclude the effect of cement and clinker imports on margins, we estimate that the average EBITDA margin would have been 58.7% between 2004 and 2009. Considering the historical trend in adjusted margins, we are being conservative in our forecasts. Any positive surprises on the margin front will only add to the upside potential of the stock. This conservative stance is mainly due to the progress of the new clinker facility, as that will influence future clinker imports.

Figure 5 Trends in EBITDA and EBITDA Margin



Sources: Company financials and NBK Capital

We previously mentioned in our initiation the possibility that the Omani government will cover any losses as a result of the 2008 cement imports. The matter has not been clarified further and thus we have not incorporated any such claim compensation in our 2010 net profit. There is a possibility the company might be reimbursed to the extent of RO 3.6 million.

### Capacity expansion and balance sheet impact

The new clinker production line entails a capital outlay of USD 162.5 million (RO 62.6 million), of which the remaining USD 40 million (RO 15.45 million) will be spent in 2010. We expect this capex to be financed by a RO 20 million (RO 3.7 million drawn until the end of 2009) loan from Bank Sohar at an interest rate of 6.5% per annum. The loan will increase Oman Cement's debt-to-equity ratio to 0.14 in 2010, compared to 0.03 in 2009. Servicing the loan will not be a problem for Oman Cement, considering the company's strong cash-flow-generating abilities.

Oman Cement is a debt-free company on a net debt basis. At the end of 2009, the company had total debt of RO 4.02 million compared to cash and cash equivalents of RO 4.4 million. In addition, the company has long-term fixed deposits of RO 22.35 million.

At the end of 2009, Oman Cement had only 14% of its assets invested in investment portfolios. As a percentage of shareholder equity, this works out to 15.8%. The long-term investment portfolio of RO 13.65 million includes RO 12.5 million of quoted equity investments having a marked-to-market profit of RO 8.3 million at the end of 2009. Sixty percent of the portfolio is invested in equity shares of Raysut Cement Co. and Shell Oman Marketing.

Figure 6 Revised Forecasts for 2010

Income Statement (RO million)	2010 Forecast		
	Old	New	Change
Revenue	61.4	56.0	-8.7%
Cost of sales	29.3	27.6	-5.6%
Gross profit	32.1	28.4	-11.5%
Selling and general & admin. expenses	3.8	2.5	-34.3%
EBITDA	28.2	25.9	-8.4%
EBITDA margin	46.0%	46.2%	
Depreciation	5.9	4.3	-27.5%
EBIT	22.4	21.6	-3.4%
Interest expense	1.3	0.8	-40.5%
Investment income	2.2	2.8	27.5%
Net profit before taxes	23.2	23.6	1.6%
Tax	2.8	2.8	1.6%
Net profit after tax	20.5	20.8	1.6%

Source: NBK Capital

## FINANCIAL STATEMENTS

Income Statement (RO Thousands) Fiscal Year Ends December	Historical		Forecast					
	2008	2009	2010	2011	2012	2013	2014	2015
Total Revenue	63,523	68,284	56,028	59,951	64,247	66,355	68,458	69,627
Cost of Revenue	46,086	39,009	27,645	25,743	27,298	28,679	30,095	31,175
<b>Gross Profit</b>	<b>17,437</b>	<b>29,275</b>	<b>28,383</b>	<b>34,207</b>	<b>36,949</b>	<b>37,676</b>	<b>38,363</b>	<b>38,452</b>
Selling/General/Admin. Expenses	2,516	2,314	2,521	2,998	3,212	3,484	3,765	3,829
Depreciation/Amortization	3,950	3,218	4,258	4,497	4,444	4,572	4,622	4,859
<b>Operating Income</b>	<b>10,972</b>	<b>23,743</b>	<b>21,604</b>	<b>26,712</b>	<b>29,293</b>	<b>29,620</b>	<b>29,975</b>	<b>29,763</b>
Interest Income (Exp), Net Non-Operating	(67)	(21)	(781)	(1,192)	(975)	(758)	(542)	(325)
Interest/Invest Income - Non-Operating	3,156	3,639	2,800	2,320	2,341	2,352	2,362	2,368
<b>Net Income before Taxes</b>	<b>14,108</b>	<b>27,363</b>	<b>23,624</b>	<b>27,840</b>	<b>30,659</b>	<b>31,213</b>	<b>31,796</b>	<b>31,806</b>
Provision for Income Taxes	1,567	3,131	2,835	3,341	3,679	3,746	3,816	3,817
<b>Net Income after Taxes</b>	<b>12,541</b>	<b>24,232</b>	<b>20,789</b>	<b>24,499</b>	<b>26,980</b>	<b>27,468</b>	<b>27,981</b>	<b>27,989</b>

Balance Sheet (RO Thousands) Fiscal Year Ends December	Historical		Forecast					
	2008	2009	2010	2011	2012	2013	2014	2015
<b>ASSETS</b>								
Cash and Short-Term Investments	19,281	4,407	13,736	22,535	30,820	37,247	43,526	49,893
Total Receivables, Net	7,109	5,140	5,323	5,845	6,264	6,635	6,846	6,963
Total Inventory	15,243	7,687	7,844	8,393	8,673	9,124	9,584	9,748
Other Current Assets	435	6,953	6,953	6,953	6,953	6,953	6,953	6,953
<b>Total Current Assets</b>	<b>42,069</b>	<b>24,187</b>	<b>33,856</b>	<b>43,727</b>	<b>52,711</b>	<b>59,960</b>	<b>66,909</b>	<b>73,557</b>
Property/Plant/Equipment, Total - Net	59,430	91,793	105,535	103,538	100,593	97,521	94,899	92,039
Long-Term Investments	19,098	15,151	15,151	15,151	15,151	15,151	15,151	15,151
Other Long-Term Assets, Total	12,390	22,350	22,350	22,350	22,350	22,350	22,350	22,350
<b>TOTAL ASSETS</b>	<b>132,987</b>	<b>153,480</b>	<b>176,892</b>	<b>184,765</b>	<b>190,805</b>	<b>194,982</b>	<b>199,309</b>	<b>203,097</b>

**LIABILITIES & EQUITY**

Accounts Payable	7,123	4,889	4,202	5,995	6,425	6,635	6,846	6,963
Other Liabilities	1,896	3,262	2,835	3,341	3,679	3,746	3,816	3,817
<b>Total Current Liabilities</b>	<b>9,320</b>	<b>8,451</b>	<b>7,037</b>	<b>9,336</b>	<b>10,104</b>	<b>10,381</b>	<b>10,661</b>	<b>10,779</b>
Long-Term Debt	502	3,721	20,000	16,667	13,333	10,000	6,667	3,333
Other Liabilities	1,360	1,579	1,579	1,579	1,579	1,579	1,579	1,579
<b>Total Liabilities</b>	<b>15,056</b>	<b>17,543</b>	<b>32,407</b>	<b>31,373</b>	<b>28,808</b>	<b>25,752</b>	<b>22,699</b>	<b>19,483</b>
<b>Total Equity</b>	<b>117,931</b>	<b>135,938</b>	<b>144,484</b>	<b>153,392</b>	<b>161,998</b>	<b>169,230</b>	<b>176,610</b>	<b>183,614</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>132,987</b>	<b>153,480</b>	<b>176,892</b>	<b>184,765</b>	<b>190,805</b>	<b>194,982</b>	<b>199,309</b>	<b>203,097</b>

Cash Flow (RO Thousands) Fiscal Year Ends December	Historical		Forecast					
	2008	2009	2010	2011	2012	2013	2014	2015
Cash from Operating Activities	20,095	3,538	25,639	29,250	30,313	30,119	30,640	30,922
Cash from Investing Activities	(7,119)	8,114	(14,053)	(497)	522	531	40	45
Cash from Financing Activities	(11,823)	(9,234)	3,063	(19,954)	(22,550)	(24,223)	(24,402)	(24,599)
Net Change in Cash	1,153	2,419	14,649	8,799	8,285	6,427	6,279	6,367

Sources: Company financials and NBK Capital

## RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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