

January 28, 2010

OMAN CEMENT (OCCO.OM)

- Oman Cement has only released the total revenue, total expenditure and the net profit for FY2009. The reported top line of RO 71.9 million (inclusive of interest, investment & other income and share of results of associates) for 2009, is up 7.8% compared to 2008 and in line with our expectation of RO 70.7 million. Net profit for the company almost doubled to RO 24.2 million in 2009 compared to RO 12.5 million in 2008. This was way above our 2009 expectation of RO 18 million. We feel this variance, to a certain degree, may be attributed to a higher than expected interest, investment and other income for the year.
- We reiterate our 12-month fair value of RO 0.864 which is 20% above the latest closing price of RO 0.718; hence our Buy recommendation. We expect a payout ratio of 55% for 2009 (58% for 2008) in spite of the capex for the new clinker line. Our expected payout would translate in a dividend per share of almost RO 0.030 (RO 0.022 per share in 2008) and hence a dividend yield of 4.3%. However, with notable drop in capex in 2010, we forecast the payout ratio to shoot up to 75%.
- We continue to be positive on Oman Cement mainly due to: 1) doubling of clinker capacity from the 1.2 million tons per annum and hence absence of both clinker and cement imports going forward, 2) which should lead to EBITDA margin expansion (we forecast 46% in 2010) and 3) the strong free cash flow/dividend story as the stock currently trades at a free cash flow (FCF) yield of 10.1% and 12.2% on our forecasted FCFs for 2010 and 2011. The company currently trades at an EV per ton of USD 261, a 16% discount compared to its only competitor in Oman, Raysut Cement, but 18% above the regional peer average. We feel our forecasted EBITDA margin of 46% for 2010 for the company compared to our expected regional peer of 44.3% justifies Oman Cement's premium in terms of EV per ton.

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Related Research

- Oman Cement Initiation of Coverage - 10 September 2009

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