Analyst Comment

NBK CAPITAL

October 28, 2009

OMAN CEMENT (OCCO.OM)

- Oman Cement reported revenues of RO 17.2 million in 3Q2009, which shows no growth compared to the same quarter last year. However, the company reported a 20% growth in revenues to RO 52.7 in 9M2009 compared to 9M2008 supported by 10.4% increase in sales volume and 8.6% rise in domestic cement prices. This was 7.7% lower than our forecast of RO 57.1 million for 9M2009.

- The company's sales volume dipped marginally by 1.6% to 546 thousand tons in 3Q2009 compared to 3Q2008. However, a 2.2% rise in domestic cement prices to RO 31.5 per ton during the quarter offset the negative impact of the dip in sales volume. We expect pricing pressure in the domestic market going forward with anecdotal evidence of cement dumping by some of the UAE cement companies in Oman. In our initiating coverage report on Oman Cement (dated September 10th, 2009) we had highlighted this as a potential threat which seems to fall in line with our expectations.

- The company reported EBITDA of RO 7.25 million in 3Q2009, significantly up by 69% compared to 3Q2008 mainly due to lower clinker imports and absence of cement imports. Though the company's clinker imports increased by 25% in quantity (279 thousand tons in 3Q2009), it benefitted from the lower cost of clinker. Our 3Q2009 EBITDA forecast of RO 6.7 million was 8.2% lower than the reported figure. EBITDA grew by 61.7% to RO 20.2 million in 9M2009 compared to 9M2008. This was 2.6% higher than our forecast of RO 19.6 million for the same period.

- EBITDA margins expanded to 37.9% in 9M2009 compared to 27.7% in 9M2008. We forecast an EBITDA margin of only 34.4% for the full year due to a rise in production costs associated to trial runs for the new 1.2 million ton clinker line during the last quarter of 2009.

- Higher demand for cement and excess grinding capacity resulted in clinker imports of 521 thousand tons till the end of September, 2009. We originally forecasted clinker imports to be in the range of 700,000 – 800,000 tons for the entire year.

- Net profit was up 57.5% to RO 16.9 million in 9M2009 compared to RO 10.7 million in 9M2008 mainly due to healthy growth of the top line resulting in margin expansion.Net profit growth was comparatively even more impressive at 85.1% to RO 5.7 million during the current quarter.

- For now, we maintain our long term fair value for Oman Cement at RO 0.864 per share. This is 11.2% above the last closing price as of 27 October 2009; hence, our "Accumulate" recommendation.

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Related Research

- Initiation of Coverage - 10 September 2009

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