



Oman Cement Co.

Purpose of Report

Results update

Recommendation

HOLD

MSM Ticker

OCOI.MSM

Last Closing Price

RO 0.689

Fair Value (DCF)

RO 0.722

Upside

4.9%

Market Capitalization

RO 228mn

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Maintain “HOLD”, Fine tuning target price upwards

In view of the Q1'13 performance and the RO 3.3mn received against the delay in completion of the new line for production of clinker which was installed in FY'11, we raise our fair value from RO 0.682 to RO 0.722 per share slightly, implying an upside of 5.9% from earlier target price and 4.9% from the current market price.

Q1'13 performance

Revenue: the best in 3 years

A Combination of better than expected sales of cement (0.63mn tons in Q1'13, up by 12.5% y-o-y and 1.8% q-o-q) and the ability to maintain the selling prices at an average of RO 24.9 mn per ton (higher than FY'12 average of RO 24.57 per ton and matching our FY'13 assumption at RO 25 per ton), have resulted in best quarterly revenue achieved in 3 years at RO 15.7mn, up by 12% y-o-y (+5.1% q-o-q) supporting our positive view on the industry and the demand for the company's products.

Gross margins at peak

The gross profit stood at RO 7.2mn, up by 29.2% q-o-q mainly due to lower cost of sales which declined by 9.3% q-o-q thanks to the drop in various costs such as the absence of imported clinker and a lower depreciation charge. As per the company notes, an amount of RO 3.3mn (most of it was received against the delay in completion of the new line for production of clinker which was installed in FY'11), has been adjusted from the cost of plant and machinery and other related items. Accordingly, an amount of RO 0.238mn which is related to excess depreciation charged on plant and machinery in earlier years has been reversed and set off in Q1'13.

In view of this, the company registered gross profit margin of 45.7% in Q1'13 compared with 40.1% and 37.22% in Q1'12 and Q4'12 respectively. Gross profit margin (excluding depreciation) stood at 54.1% in Q1'13. Similarly, EBITDA margin came at 48.4% in Q1'13 i.e. 6% higher than the FY'12 average EBITDA margin of 42.2%.

Quarterly net profit edged to its best in over two years

The quarterly comparison showed that in addition to the higher operating performance, the seasonal dividend income played a notable role in edging the bottom line by 49.2% q-o-q to RO 6.9mn in Q1'13. On a yearly basis, the bottom line expanded 34.9% attributable to the better performance at the top line. Net margin stood at 44.34% in Q1'13 compared with 36.8% and 31.2% on yearly and quarterly basis.

Sound Balance Sheet

In sync with its historical records, the company remains strong in terms of net cash position as it posted RO 15.6mn, providing a cushion for further CAPEXs and dividend pay offs. Trade and other receivables saw a notable increase by 24% q-o-q (10.8% y-o-y), a development that needs to be examined further.

Outlook

As per above:

- We lower the average yearly depreciation for the forecasted period from approximately RO 6.9 mn to RO 6.6 mn.
- Adjust and lower other costs in view of recent performance.
- Slightly increase the sales of volumes.
- Lower Net Property, plant and equipment in the BS.
- We maintain our cement selling prices at RO 25 per ton for FY'13

Gross, EBITDA and Net margins stood at 44%, 47% and 35.7% respectively compared 39%, 43% and 31.6% in the earlier update.

Overall pros remain same like, the growth of the Industry, the suitable capacity and the upcoming timing expansions, the proximity to the mega projects and the strong balance sheet.

At current levels the stock is trading at P/E of 10.42x FY13 P/B of 1.35x on 2013 estimates. We maintain our **HOLD** recommendation with revised target price of RO 0.722 per share.

RO'000, unless otherwise stated	FY'13e	FY'14e	FY'15e
NOPAT	20,052	21,692	22,991
Add depreciation	5,998	6,313	6,705
Add: change in working capital	-7,030	-2,958	-2,539
Less: capex	-2,637	-5,332	-6,407
FCF	16,382	19,716	20,751
Terminal growth rate	1.5%		
FCF for perpetuity	240,833		
Implied Market Cap	239,050		
Value/share RO	0.722		
Premium/(Discount)	4.9%		
Number of shares	330,870		
Market price per share RO	0.689		
Risk Free Rate	4%		
Beta	1.03		
Equity premium	8.0%		
Cost of equity	12%		
Cost of debt	2.1%		
Cost of Capital (WACC)	11%		

Financials

Income Statement

RO'000	FY'12	FY'13e	FY'14e	FY'15e
Local	60,431	65,426	68,515	72,442
Export	1,329	1,335	1,398	1,478
Less : sales discount	-5,102	-5,512	-5,563	-5,932
Revenue	56,658	61,248	64,350	67,988
Cost of Sales	-35,755	-34,188	-35,207	-37,248
Gross profit	20,903	27,061	29,143	30,740
General and administrative expenses	-3,592	-4,275	-4,492	-4,614
Operating Profit	17,311	22,786	24,650	26,126
Interest, investment and other income	2,381	1,794	1,821	1,849
Profit before tax	19,693	24,580	26,471	27,976
Taxation	-2,181	-2,704	-2,912	-3,077
Net Profit	17,511	21,876	23,559	24,898

Balance Sheet

RO'000	FY'12	FY'13e	FY'14e	FY'15e
Net Property, plant and equipment	107,089	103,728	102,746	102,448
Intangible assets	532			
Investments in an associate	914.23	928.86	947.44	968.28
Available-for-sale investments	13,420	13,689	13,962	14,242
Held-to-maturity investments	676.77	690.30	697.21	704.18
Bank deposits	25,339	24,072	22,868	21,725
Non current assets	147,971	143,108	141,222	140,087
Financial assets at fair value through profit or loss	5,786	6,249	6,562	6,890
Inventories	13,783	17,094	18,308	19,741
Trade and other receivables	9,734	12,250	14,157	15,637
Bank deposits	5,000	5,000	5,000	5,000
Cash and cash equivalents	2,590	8,466	15,024	21,757
Other assets	194	-	-	-
Current assets	37,088	49,059	59,050	69,026
Total Assets	185,060	192,167	200,272	209,113
Shareholder's equity	158,004	168,866	179,024	189,716
Term loans - non current portion	9,751	7,457	5,162	2,867
Deferred tax liability	4,529	4,574	4,620	4,666
End of services benefits	1,047	1,078	1,110	1,133
Non current liabilities	15,327	13,109	10,892	8,666
Term loans - current portion	2,295	2,295	2,295	2,295
Trade and other payables	7,601	6,398	6,561	6,936
Taxation	1,832	1,500	1,500	1,500
Total current liabilities	11,728	10,192	10,356	10,731
Total Liabilities	27,055	23,301	21,248	19,397

Cash Flow Statement

RO'000	FY'12	FY'13e	FY'14e	FY'15e
Net cash from operating activities	18,370	20,844	26,915	29,065
Net cash from / (used in) investing activities	-2,935	-13,565	-15,617	-16,433
Net cash used in financing activities	8,629	2,864	5,943	7,042
Net changes in cash flow	6,806	4,414	5,354	5,590
Cash at beginning of period	26,317	33,123	37,538	42,892
Cash at end of period	33,123	37,538	42,892	48,482

Key Ratios	FY'12	FY'13e	FY'14e	FY'15e
Profitability Ratios				
Gross Margins %	36.9%	44.2%	45.3%	45.2%
EBITDA Margins%	42.2%	47.0%	48.1%	48.3%
EBIT Margins%	30.6%	37.2%	38.3%	38.4%
PBT Margins%	34.8%	40.1%	41.1%	41.1%
Net Margins %	30.9%	35.7%	36.6%	36.6%
Return on Equity %	11.4%	13.4%	13.5%	13.5%
Return on Assets %	9.7%	11.6%	12.0%	12.2%
Efficiency				
Current Ratio	3.16	4.81	5.70	6.43
Quick Ratio	1.99	3.14	3.93	4.59
Asset turnover ratio (x)	0.31	0.32	0.32	0.33
Inventory Turnover (x)	2.59	2.00	1.92	1.89
Inventory days	141	183	190	193
Receivables turnover	5.82	5.00	4.55	4.35
Account receivables days / Collection period	62.7	73.0	80.3	84.0
Payables / Creditor turnover	4.70	5.34	5.37	5.37
Account payable days	77.6	68.3	68.0	68.0
Per share				
EPS Basic (RO)	0.053	0.066	0.071	0.075
YoY growth (%)	36.8%	24.9%	7.7%	5.7%
DPS (RO)	0.035	0.042	0.045	0.048
YoY growth (%)	16.7%	20.9%	6.0%	7.4%
Operating CF/share (RO)	0.058	0.062	0.082	0.088
BV per share	0.478	0.510	0.541	0.573
Leverage				
Gross debt/equity (%)	7.6%	5.8%	4.2%	2.7%
Leverage (%)	7.1%	5.5%	4.0%	2.6%
Debt/assets (%)	6.5%	5.1%	3.7%	2.5%
Cash/assets (%)	1.4%	4.4%	7.5%	10.4%
Dividend cover (x)	0.66	0.64	0.63	0.64
Dividend yield (%)	5.1%	6.1%	6.5%	7.0%
Dividend pay-out ratio (%)	66.1%	64.0%	63.0%	64.0%
Valuation Ratios				
PE (X)	13.02	10.42	9.68	9.16
P/B (X)	1.44	1.35	1.27	1.20

Source: company financials, OABINVEST estimates

Recommendation

Based on the range for the upside/downside offered by the 12-month target price of a stock versus the current market price

Strong Buy	Greater than 20%
Hold/Accumulate	Between +10% and +20%
Hold	Between +10% and -10%
Hold/Reduce	Between -10% and -20%
Sell	Lower than -20%



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