Oman Cables - *Powering Ahead, Sectoral theme…*

Closing Price: RO 1.381

Recommendation: Accumulate **Fair Value:** RO 1.565 **Upside:** 13.4%

February 8, 2012

Sales drops on lower copper prices: Oman Cables (Group) posted revenue of RO 257.160 million for FY 2012, a decrease of 5.6% YoY. As per the management, the drop in the sales was on the back of lower copper prices despite the sales volume remaining robust during the year. While the contribution from the subsidiary has been healthy as the sales revenue surged 45.8% during the period under review.

For Q4 2012, the Group's sales revenue stood at RO 61.149 million, which increased of 2.2% YoY and a decline of 0.8% QoQ.

Copper prices declined in 2012: For FY 2012, LME copper futures averaged at about US$7,958 per ton, which is 9.7% lower as compared to the average of US$ 8,813 per ton in FY 2011. While the average price of copper for Q4 2012 has increased by 5.4% YoY and 2.6% QoQ to US$ 7,913 per ton. In the cables manufacturing industry, the key raw material copper forms majority of overall costs.

Cost control measures and drop in copper prices improve margins: The cost of sales (excluding depreciation) of the company too declined during 2012 by 9.0% higher than the sales revenue to RO 230.366 million from RO 253,780 million in 2011. As per the company, the fall in the expenditure was on account of a drop in the average copper prices along with effective cost control measures taken by the company.

Gross profit for 2012 stood at RO 26.794 million an increase of 44.6% on YoY. The gross profit margins improved substantially by 360 bps to 10.4% on yearly basis. While during Q4 2012, the cost of sales (including depreciation) of the company fell by 5% on YoY and QoQ to RO 53.080 million.

Q4 Performance best in last four years: The Gross profit for Q4 2012 stood at RO 8.069 million an increase of 95.1% YoY and 39.7% QoQ. The gross profit margins improved considerably to 13.2% as compared to 9.4% in Q3 2012 and 6.9% in Q4 2011. The numbers came in as a surprise and is the highest among the last 16 quarters. The company claimed that the contribution from the high margin segment especially during Q4 2012 has led to significant improvement in the margins.

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Considerable improvement in the OAPIL's performance: Oman Aluminium processing company witnessed a significant jump in its revenue as well as earnings. For 2012, the utilization of the company touched 100% on the back of substantial demand from the exports market. The sales revenue for the year touched RO 43.980 million, an increase of 45.8% YoY and the earnings of the company grew massively by 193.5% on YoY basis to RO 1.888 million from RO 643K in 2011.

After deducting the minority interest, the OAPIL's contribution towards the parent company for FY 2012 stood at RO 923k as against RO 282k in FY 2011, an increase of 227.3%

Aluminium prices declined in 2012: For 2012, LME Alumni futures averaged at about US$2,022 per ton, which is 15.7% lower as compared to the average of US$ 2,398 per ton in FY 2011. While the average price of copper for Q4 2012 has decreased by 4.6% YoY and increased 3.9% QoQ to US$ 1,999 per ton.

Other Income and subsidiary contribution boosts PAT further: During the period under review, the company had an Other Income of RO 852k, out of which RO 678k from the reversal of prior year provisions. Apart from lower copper prices which in turn had resulted in improvement in margins, the reversal of prior year provisions along with the contribution from OAPIL (~RO 923k) has further improved the profitability of the company during FY 2012.

The company reported a Net profit of RO 11.908 million, an increase of 73.2% YoY from RO 6.874 million in FY 2011. While the net profit margins of the company stood at 4.6% as against 2.5% in FY 2011. This is well above our estimates. For Q4 2012, the PAT of the company grew by 100% QoQ and 81.5% YoY to RO 4.646 million. The PAT margins expanded as much as by 380 bps on QoQ and 330 bps on YoY to 7.6%.

Outlook - Is the sector set for a recovery?

Sector Outlook - Affirmative for 2013: Increasing power requirements has prompted regional governments to increase the allocation towards the Power sector. As per MEED, the installed generating capacity in the GCC is forecasted to reach 170,000 MW by 2019. The cost of the new build requirements alone will be an estimated $66 billion, with at least the similar amount needed to be invested in Transmission and Distribution (T&D) infrastructure in the next six years.

It is estimated that the total investment towards the Power and Water sector reached $25 billion in 2012 due to a massive demand. Among the GCC countries Saudi led with a total of 148 projects which is worth more than $ 8 billion; Kuwait followed with 68, valued at close to $ 3 billion. The UAE is next with 62 projects, worth a little more than $ 3 billion, while Oman has 49 projects worth $ 1.2 billion. Qatar boasts 35 projects worth $ 1.8 billion; and although Bahrain has only 15 projects, the total value of investment is estimated at $ 7.3 billion.

As per the management, the market size of Power Cables in the region is approximately around RO 2 billion, which is likely to grow at a CAGR of 10% over the next few years. Overall we remain positive on the sector on the back of robust demand that exists and we believe that Oman Cables to be one among the beneficiary of the high profile power projects.

Contract from EPC majors: In order to improve the revenue stream, Oman Cables had submitted its bid with various EPC contractors working on big ticket projects to supply power cables. During Q4 2012, Oman Cables and Samsung Engineering has signed a Framework agreement to supply Electrical Cables for Samsung's Engineering Procurement and Construction projects worldwide.

As per Samsung Engineering, it has a considerable order back log of USD 18 billion as at end of 9MFY2012. Out of the current 36 projects, 19 belong to MENA region which shows Samsung Engineering's huge dependence on Middle East. This contract arrangement is likely to benefit Oman Cables going forward. As of now, EPC contracts forms about 5% to 7% of revenue of the company.

Improving order book visibility: In the past owing to highly volatile copper prices, the off take of power cables from the end consumers remained patchy. However with the global economy returning to a stable path, the prices of copper remained constant over the last two quarter which resulted in high off take from the end consumers. Going forward, we anticipate the volatility in the copper prices to remain less and expect the prices to stay at $8,000 per tonne in FY 2013 owing to stable economic growth in high copper consuming countries such as China and the USA.

Overall the order book addition during 2013 is likely to improve in a considerable way on the back of huge power projects announced across the region coupled with incountry value policy in Oman, supply agreement with EPC players and also stabilizing copper prices.

Capex to aid growth: During 2012, the company earmarked RO 7 million to undertake an expansion project within the existing premises of OCI to expand the current capacity for selective product and introducing a new product range. As per the management, the new products will start contributing to the top line by Q2 2013.

Subsidiary contribution to scale up further: Oman Cables subsidiary Oman Aluminium processing industries (OAPIL) witnessed a significant growth during 2012 owing to high demand from its primary export markets. Considering the same, OAPIL has proposed to further increase its production capacity to 100,000 MTS from current 48,000 MTS. The company has completed the feasibility and is awaiting shareholders approval. As per the management the additional capacity will cost RO 7 million and it will take one year for installation from the date of approval. We believe an increase in the capacity of its subsidiary is likely to scale up further the contribution towards the revenue as well as earnings.

In the EC Rod plant efforts are ongoing to get international accreditation and the same is targeted to achieve during 2013. The year 2013 is expected to yield better utilization and this will add to the results from the conductor plant side as well.

Cyclical story, Positive on Growth

Earnings and Fair Value Revised upwards: The upcoming cyclical recovery story along with relative stability in the copper prices makes us optimistic on the sector and the stock. On the back of above mentioned arguments, we expect the sales revenue to grow by 10% YoY to RO 283.916 million for FY 2013.

We expect the company to report earnings of RO 13.623 million in 2013E, a growth of 14.4% YoY. We estimate PAT margins for 2013E works out to be 4.8% as compared to the levels of 4.6% in 2012. While we expect the company to maintain its dividend payout ratio above 50% going forward, this makes the stock attractive at the current levels.

At the current levels, the stock trades at 9.1X on FY13E EPS of 152 baiza and 1.9X on FY13E PBV. On the dividends front, the company has announced 2012 cash dividend of RO 0.070 (Dividend Payout - 53%), providing a yield of 5.1% at the current levels.

Based on the PE model we have assumed a 10.3X (*Last two years average PE)* on FY13E EPS which yields a fair value of RO 1.565, an upside of 13.4% from the current levels. Hence we reiterate our **Accumulate** rating on the stock with the 12M target price of **RO 1.565.** *(Previous Rating- 'Accumulate' with target price of RO 0.974, Last Report -GBCM Research-Oman Cables -Q2FY2012Earnings Update dated 30 July 2012)*

Oman Cables Industry: FY12 Quarterly Earnings

Profit & Loss Highlights (In RO 000's)	Q1 2012	Q1 2011	Var (%)	Q2 2012	Q2 2011	Var (%)	Q32012	Q3 2011	Var (%)	Q4 2012	Q4 2011	Var (%)
Revenue	65,843	69,771	-6%	68,507	79,151	-13.4%	61,661	63,561	-6%	61,149	59,821	-6%
Cost of Sales	61,320	66,492	-8%	62,838	74,199	-15.3%	55,883	59,927	-8%	53,080	55,684	-8%
Gross Profit	4,523	3,279	38%	5,669	4,952	14.5%	5,778	3,634	38%	8,069	4,137	38%
GPM (%)	6.9%	4.7%		8.3%	6.3%		9.4%	5.7%		13.2%	6.9%	
EBIT	2507	1561	61%	4,265	2,945	44.8%	3,043	1561	61%	5,817	3,229	61%
EBIT Margin (%)	3.8%	2.2%		6.2%	3.7%		4.9%	2.5%		9.5%	5.4%	
Net Profit	1708	1049	63%	3,234	2,050	57.8%	2,320	1,216	63%	4,646	2,559	63%
NPM (%)	2.6%	1.5%		4.7%	2.6%		3.8%	1.9%		7.6%	4.3%	
Balance Sheet Highlights (In RO 000's)												
Share Capital	8,970	8,970	0%	8,970	8,970	0%	8,970	8,970	0%	8,970	8,970	0%
Retained Earnings	30,938	27,837	11%	34,172	29,887	14%	36,603	31,103	18%	39,953	32,929	21%
Cumulative changes in fair values	32	397		-76	253		1,164	1,190	-2%	1,004	488	106%
Total Equity	**50,019**	**45,589**	10%	**53,102**	**48,053**	11%	**56,538**	**50,629**	12%	**49,927**	**42,387**	18%
Term Loans	8,938	10,247	-13%	7,313	10,247	-29%	7,313	9,751	-25%	6,500	8,938	-27%
Bank Borrowings	45,656	56,275	-19%	45,341	60,851	-25%	39,808	56,378	-29%	47,196	50,536	-7%
Trade and Other payables	26,882	33,172	-19%	33,964	37,218	-9%	38,292	30,665	25%	26,018	24,543	6%
Total Current Liability	73,561	90,625	-19%	81,785	99,339	-18%	80,696	88,109	-8%	76,355	76,759	-1%
Total Equity and Liability	**133,435**	**147,264**	-9%	**143,112**	**158,416**	-10%	**145,581**	**149,300**	-2%	**146,813**	**139,526**	5%
Fixed Assets	35,709	33,221	7%	36,484	35,706	2%	36,037	35,648	1%	36,270	35,641	2%
Total non-current assets	37,723	35,756	6%	38,466	38,236	1%	38,041	38,186	0%	38,265	37,620	2%
Inventories	35,613	46,779	-24%	43,138	50,333	-14%	50,178	51,023	-2%	49,095	45,839	7%
Trade and other receivables	57,394	58,120	-1%	54,753	64,202	-15%	53,332	54,793	-3%	52,814	53,120	-1%
Cash and bank balances	751	3,978	-81%	5,067	3,161	60%	2,580	2,676	-4%	4,652	1,416	229%
Total Current Assets	95,712	111,508	-14%	104,646	120,180	-13%	107,540	111,114	-3%	108,548	101,906	7%
Total Assets	**133,435**	**147,264**	-9%	**143,112**	**158,416**	-10%	**145,581**	**149,300**	-2%	**146,813**	**139,526**	5%

Source: Company Reports; GBCM Research

Oman Cables: Income Statement

In RO 000's	2008	2009	2010	2011	2012	2013E
Revenue	304,377	155,603	200,885	272,304	257,160	283,916
Cost of Sales	285,967	139,048	181,717	253,780	230,366	253,679
Gross Profit	18,410	16,555	19,168	18,524	26,794	30,237
EBITDA	11,771	11,443	12,626	12,274	18,666	21,100
Depreciation	1,927	1,870	2,194	2,717	3,034	3,175
EBIT	9,845	9,573	10,432	9,557	15,632	17,925
Finance Cost	0	2,210	1,051	1,449	1,008	1,350
PBT	6,950	7,533	9,345	8,122	14,628	16,575
Tax	818	907	1,271	888	1,755	1,989
PAT	**6,152**	**6,674**	**8,165**	**6,874**	**11,908**	**13,623**

Source: Company Reports; GBCM Research Estimates

Oman Cables: Balance Sheet

In RO 000's	2008	2009	2010	2011	2012	2013E
Fixed assets	22,051	27,993	33,079	35,641	36,270	33,246
Stock	56,219	25,036	42,408	45,839	49,095	52,894
Debtors and prepayments	50,000	40,864	49,946	53,067	52,814	54,450
Cash and cash equivalents	7,096	3,107	2,463	1,416	4,652	5,099
Current assets	114,401	69,997	96,481	101,853	108,548	113,998
Total assets	**137,522**	**100,069**	**132,046**	**139,473**	**146,813**	**149,252**
Share capital	8,970	8,970	8,970	8,970	8,970	8,970
Share Premium	978	978	978	978	978	978
Statutory Reserve	2,990	2,990	2,990	3,064	3,261	3,261
General Reserve	1,122	1,794	2,620	3,279	4,378	4,378
Retained Earnings	21,520	25,728	30,376	32,929	39,953	46,393
Shareholders Equity	**32,232**	**41,510**	**46,899**	**52,058**	**61,745**	**63,654**
Long Term Borrowings	78,401	34,475	40,200	50,536	47,196	45,000
Short Term Borrowings	36,830	8,912	11,142	19,654	11,500	20,000
Creditors and accruals	19,959	14,301	31,405	25,398	26,018	31,275
Other Liabilities	1,712	903	1,232	868	1,516	1,898
Total liabilities	**137,522**	**100,068**	**132,046**	**139,473**	**146,813**	**149,252**

Source: Company Reports; GBCM Research Estimates

Key Ratios	2008	2009	2010	2011	2012	2013E
Margins (%)						
GPM (%)	6.0%	10.6%	9.5%	6.8%	10.4%	10.6%
EBITDA Margins (%)	3.9%	7.4%	6.3%	4.5%	7.3%	7.4%
NPM (%)	2.0%	4.3%	4.1%	2.5%	4.6%	4.8%
Per Share Ratio						
EPS	0.069	0.074	0.091	0.077	0.133	0.152
Book Value	0.359	0.463	0.523	0.580	0.688	0.710
EV Per Share	2.587	1.830	1.926	2.148	1.984	2.049
Multiples						
PE	20.1	18.6	15.2	18.0	10.4	9.1
PBV	3.8	3.0	2.6	2.4	2.0	1.9
EV/EBITDA	19.7	14.3	13.7	15.7	9.5	8.7
Profitability Ratio						
RoAE (%)	20.5%	18.1%	18.5%	13.9%	20.9%	21.7%
RoE	19.1%	16.1%	17.4%	13.2%	19.3%	21.4%
RoAA (%)	4.9%	5.6%	7.0%	5.1%	8.3%	9.2%
RoA	4.5%	6.7%	6.2%	4.9%	8.1%	9.1%
Leverage Ratios						
Net Debt to Equity	3.4	1.0	1.0	1.3	0.9	0.9
Total Debt to Equity	3.6	1.0	1.1	1.3	1.0	1.0
Long term debt to equity	2.4	0.8	0.9	1.0	0.8	0.7
Short term debt to equity	1.1	0.2	0.2	0.4	0.2	0.3
Current Ratio	0.9	0.7	0.8	0.8	0.7	0.7
Working Capital Ratios						
Debtors turnover	60	96	91	71	75	70
Creditors turnover	25	38	63	37	41	45
Inventory turnover	72	66	85	66	78	76
Cash Cycle	106	124	113	101	112	101

Source: Company Reports; GBCM Research Estimates

Stock Rating Methodology:

Buy *- Upside more than 20%*
Accumulate *- Upside between 10% and 20%*
Neutral *- Upside or downside less than 10%*
Reduce *- Downside between 10% and 20%*
Sell*- Downside more than 20%*
Not Rated *- Stocks not in regular research coverage*

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