Oman Chromite – Visit Note

Stable operations, turnover linked to international chrome ore prices

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Company Overview

Oman Chromite Company S.A.O.G. (OCC) is an Oman-based company engaged in the production, processing and marketing of chrome ore. The Company produces different types of chrome ore, including metallurgical grade ore and refractory grade ore in different sizes and specifications. The company's plant is located near Sohar, Oman, where the chrome ore is mined and stored before transportation. Nearly all of company's production is for export purposes. The company produced 32,679 MT of chrome ore in FY09 (FY08: 30,730 MT), implying a realization of $128/ton and $137/ton for FY08 and FY09 respectively.

Export focused business linked to international chrome ore trends

About 60% of company's annual production is exported to China, making Chinese chrome ore demand a major factor of company's performance. The rest of the ore is exported to India and other countries. Chrome ore is used to make ferrochromium, which is in turn used to make stainless steel and other alloys. A majority of company's exports are used in stainless steel manufacturing, thus making is vulnerable to the stainless steel commodity cycle. Chromium has no substitute in stainless steel, the leading end use, or in superalloys, the major strategic end use. This chrome ore dependence in stainless steel production provides for a stable demand pipeline for chrome ore producers. Globally, chromium production is expected to surpass 22mn tons in 2010 (2009: 19.3mn tons). South Africa (FY10e Production: 8.5mn ton), India (FY10e Production: 3.8mn ton) and Kazakhstan (FY10e Production: 3.4mn ton) are some of the world's largest chrome ore producers, accounting for more than 75% of world chrome ore production.

Entry into construction aggregates business to diversify operating segments

The company has a 45% stake in Al Batinah Quarries Co. This associate company is currently in the process of developing its quarries and obtaining necessary permits to begin the operations. The management is hopeful that the associate company will commence production of construction aggregates in current financial year (2011). The diversification in construction aggregates will open a new revenue stream for the company. The company will be able to benefit positively from Oman Government's aggressive infrastructure spending plan.

Strong dividend track record with an average 60% payout ratio

The company has paid dividend consistently for last 5 years, payout ratio has ranged between 48% (FY06) and 71% (FY05), averaging at 60% over last 5 years. We opine that the company has a well defined dividend policy, and will continue to maintain at least 50% payout ratio in the future.

Current Valuation

The company currently trades at 9.1x FY10e EV/EBITDA and 2.5x FY10e P/B multiple. The company' operating cash flow has achieved a robust growth of 60% CAGR from FY08. We are concerned about the impact of company's investment portfolio on its bottom line, which has resulted in significant volatility in company's profitability over last three years. At current market price of RO 3.75, the company provides a 4% dividend yield on its FY09 dividend payout of RO 0.150. Owing to its robust financial performance in FY10, we expect the dividend payment could be better in FY10.

Sector
Mining

CMP
RO 3.750

Face Value
OMR 1.000

Equity Capital
RO 3.0 MN

Market cap
RO 11.25MN

52 Week H/L
3.750 / 1.764

Bloomberg
OCCI OM

MSM Index
6817

Price change	OCCI	MSM30
1 month return	0.00%	1.24%
3 month return	13.22%	4.35%
1 Year return	87.69%	4.69%

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Key Financials

Balance Sheet	FY08	FY09	9M FY10
Cash & Cash Equivalents	953	1,455	1,803
Securities and Investments	740	856	947
Receivables	73	327	97
Inventory	592	523	562
Total Current Assets	2,390	3,194	3,409
Net Fixed Assets	608	551	718
Investment in associates	876	825	656
Total Investments	1,126	825	656
Total Non-Current Assets	1,750	1,433	1,431
Total Assets	4,141	4,627	4,840
Short Term Debt	-	-	-
Accounts Payable	66	87	250
Total Current Liabilities	157	184	250
Long Term Debt	-	-	-
Total Liabilities	157	184	306
Total Liab & Provisons	273	309	306
Share Capital	3,000	3,000	3,000
Retained Earnings	602	983	1,133
Total Equity	3,868	4,318	4,534
Total Liab. & Equity	4,141	4,627	4,840

Income Statement	FY08	FY09	9M FY10	FY10
Gross Revenue	1,513	1,729	1,566	2,161
Cost of Goods Sold	(73)	(399)	(332)	
Gross Margin	1,440	1,330	1,234	
S.G. & A.	(535)	(595)	(421)	
Depr & Amort Expense	(231)	(160)	(117)	
Net Operating Profit	674	575	814	
Interest Income/(Expense)	47	53	31	
Investment Income	(241)	166	(9)	
Total Investment Income	(269)	115	(178)	
Profit Before Tax	416	743	667	978
Tax	(79)	(78)	-	(148)
Profit After Taxes	338	665	667	830

Cash Flow Statement	FY08	FY09	9M FY10
Profit Before Tax	416	768	667
Depreciation & Amortization	231	160	117
Change In Operating Activities	(205)	(419)	933
CF from Operating Activities	446	512	1,144
Investment in Fixed Assets	(160)	(62)	(276)
Investments	85	(158)	(200)
CF from Investing Activities	(75)	(277)	(446)
Dividend Paid	(346)	(233)	(450)
CF from Financing Activities	(346)	(233)	(450)
Net Change in Cash	25	2	248
Beginning Cash Balance	28	53	55
Ending Cash Balance	53	55	303

Ratios	FY08	FY09	9M FY10
EBIT%	44.5%	33.3%	52.0%
EBITDA%	59.8%	42.5%	59.5%
PAT%	22.3%	38.5%	42.6%
ROE%	8.7%	15.4%	19.6%
EPS (RO)	0.113	0.230	0.369
Book Value (RO)	1.289	1.439	1.511
DPS (RO)	0.080	0.150	-
EV/ EBITDA	11.4	15.3	9.1
PB	2.9	2.6	2.5
PE	33.2	16.3	10.2
Realisation/Ton ($)	**128**	**138**	
EBITDA/ton ($)	**77**	**58**	

Source: Company Financials, BankMuscat Research, FY10 Ratios are annualized where annual numbers unavailable

Disclosure

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