Oman Flour Mills

September 7, 2010
CMP: RO 0.670
Hold

Current business to normalize, market price builds in large element of growth

Volume stagnancy and commoditized nature of the business are the key features of Oman Flour's business model. The planned initiatives expected to pan out over 12-24 months can transform it into a value added foods company. However, as flour margin reverts to normalized levels, profitability will be negatively impacted in the near term.

A low-end consumption play Oman Flour is a low-end play on consumption and favorable demographics in the country. The company's bottom line growth depends heavily on the gross margin it achieves which is contingent on its wheat sourcing policies/timing and flexibility to pass on costs to the end consumer.

Market leader in flour and animal feed The company has a 65% market share in flour milling business and is also the market leader in animal feed. Being a 51% government owned company, it is obligated to participate in ensuring strategic reserves for the country. The company has grain storage capacity and wide distribution network, which bring economies of scale and reduces the overall operating cost.

Flour drives revenues Flour segment maintained its position as the revenue driver contributing 56.7% to the total revenue, though down from 61% in FY08. The gross margin on flour came in at 29% in FY10, up from 14% in FY08, largely due to the import subsidy received from the government. Similarly, animal feed import was banned due to bird flu outbreak in South East Asia in 2008, which resulted in high margin in animal feed business over last two years. The wheat import subsidy and the animal feed import ban were lifted in September and June 2009 respectively. Going forward, we expect a 400-450 bps drop in consolidated gross/net margins as cost and selling price spreads revert to normalized levels.

Significant capacity addition planned in poultry meat The company owns 86% stake in Modern Poultry Farm, which produces 100mn table eggs per year to cater to 350mn eggs demand in Oman. OFMI has formed a 50:50 JV with IFFCO group, UAE, to invest in various poultry projects. The JV recently acquired Sohar Poultry Farm (Capacity: 6000 tons/year) to enter poultry meat business. The JV is also setting up Atyab Poultry which will have a capacity of 15000 tons chicken/year and 2mn hatching eggs. The new farm is expected to become operational by Dec 2011. We expect poultry revenue to grow significantly after Atyab Poultry starts operations. The margins, however, are expected to remain subdued due to competitive pricing pressure from imported chicken and eggs. We have not built Atyab Poultry and bakery expansions into our numbers yet.

Entry into bakery market to leverage sourcing capacities Oman Flour Mills is setting up a state-of-the-art bakery production facility with an investment of RO 14mn. This will be the only industrial bakery in Oman with production facilities of both fresh & frozen bakery products and confectionery items. The new venture is a good strategic investment in forward integrating the flour business and opens high margin revenue streams.

New ventures not built into our numbers, large growth element in price
We estimate the FY11 (June ending) core EPS from its existing line of business at 27bz. At the current price of RO 0.670, the stock trades at PE of 25x FY11 earnings and EV/EBITDA of 16.7x. The current underlying wheat price at $270/ton is 35% less than the all-time high of 2008. Based on target EV/EBITDA multiple of 6.6x FY11e EBITDA we value the ongoing business at RO 0.403/share, 40% below the current market price. Our estimates run on normalized assumptions, however wheat price movement and the pass through effect of the same would drive the variation between estimate and actuals. Even though our assessment implies a substantially lower value than the current market price we assign a HOLD rating on the stock largely to reflect its ambitious projects that are still not built into our numbers. We opine that short term share price performance could be weak as near term earnings are at risk.

Stock Details

Exchange / Code	MSM/OFMI
Bloomberg Code	OFMI OM
Equity Capital	RO 15.75mn
Face Value	100 bz
52-Week L/H	0.540/0.715
Market Cap	RO 106mn

Shareholding Pattern

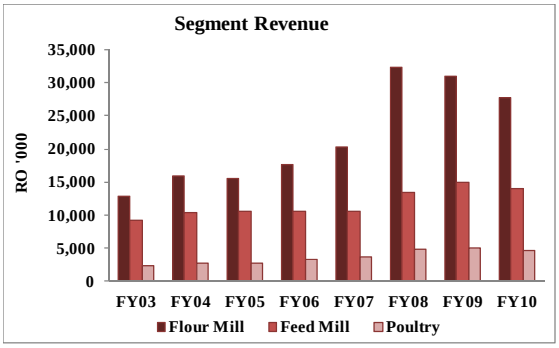
Government of Oman	51.06%

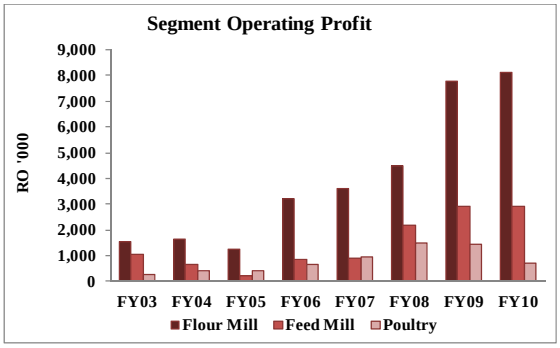
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Flour: flattish volumes, material cost drives profit; Poultry: severe import competition

Flour and feed mill are the two primary businesses

Oman Flour Mills was established in 1977. The Government of Oman holds 51% in the company. The company has two primary businesses: a flour mill with a milling capacity of 800 TPD and a feed mill with a capacity of 1200 TPD. The Company also has a substantial grain storage and ship unloading facility at Port Sultan Qaboos, Muscat (around 1km from its mill) to service the milling operations, with nominal grain storage capacity of 120,000 tons and an unloading capacity of 500 tons/hour. The company has three main revenue lines, wheat flour, animal feed and table eggs. Modern Poultry Farms, its 86% subsidiary sells eggs under the brand name *Dana*. Grains is the main raw material for both the mills, the only difference being that in animal feed other grains like maize are mixed.





Source: Company Reports

Market leader in flour, only player in animal feed

Oman Flour Mills is currently the dominant player, capturing 65% market share of the flour sales business in Oman, implying total flour demand of c250,000 tons (83kgs/capita). The company's main operations involve importing wheat, which is grinded and sold in the local market and export market. The company markets more than 20 varieties of its flour products under the brand name Dahabi. More than 90% of these products are consumed locally, while the rest are exported to Somalia, East Africa, Indonesia and other GCC countries.

The company also produces different animal feeds under the brand name Barakat. In the absence of natural fodder in the country, majority of animal feed is consumed locally (FY10 revenue: RO14mn), while a small portion is exported to the UAE. Feed is delivered mostly to southern Oman, where consumption is higher. Institutional clients i.e. bakeries are the main clients for flour, while farms are the clients for animal feed. Roughly, across business streams institutional to retail ratio is 70:30.

Competition and pricing power

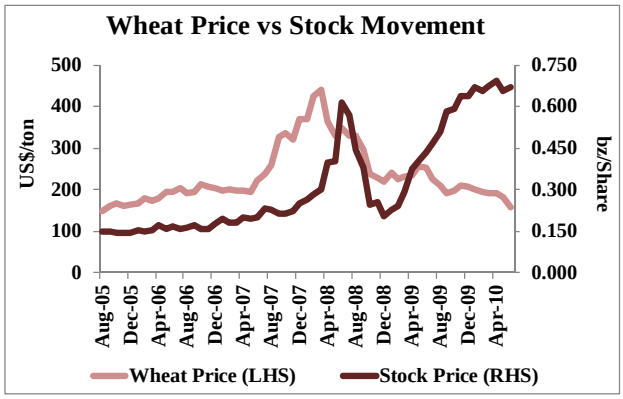
There are currently four major flour manufacturers in UAE and Oman with access to the Omani market. The capacities represent nearly 4x local demand of the two countries. This overcapacity limits pricing power. Various brands such as Annapurna, Shaktibhog, Al Baker, Pillsbury etc are active in the country to cater to the taste of large number of expatriates from the Indian subcontinent. Various pan-GCC players from Turkey and Saudi Arabia are also planning to enter the Omani market. We expect these competitive factors to limit pricing power and cap any (sustainable) price-led margin movement.

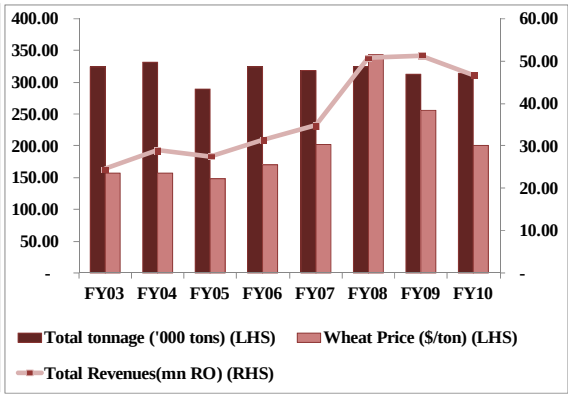
Country	Per Capita Wheat Consumption (kg)
Egypt	**132**
Oman	**83**
Saudi Arabia	**86**
UAE	**93**
USA	**83**
UK	**102**

Source: FAOSTAT, BankMuscat Research

Flattish volume growth, revenues a function of wheat prices

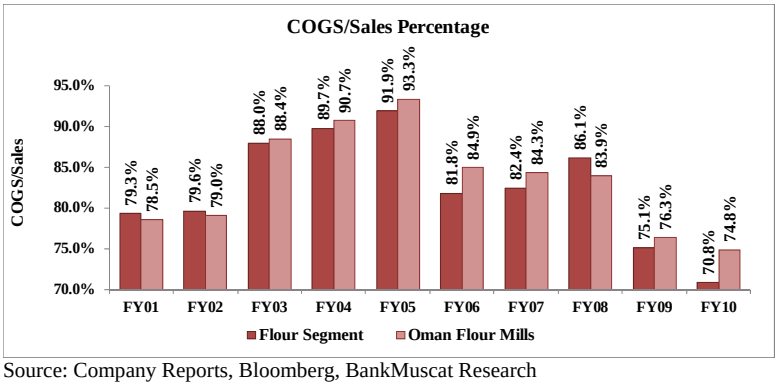
The company's flour tonnage has been flat for last several years. The turnover growth has come from increase in flour prices as higher wheat prices were passed on. The wheat price acted as a leading indicator of stock price till end of CY08. The stock price has since appreciated by more than 250%, whereas wheat price has stabilized to USD 200-250/ton. We expect moderation in turnover and margin contraction due to expected lower spreads (margin over wheat cost) in the future.





Source: Company reports, Bloomberg, BankMuscat Research

Grain sourcing policies are the key to margin trend for the company. According to the management, the final price of the flour is dictated by the cost of the latest wheat shipment of each individual producer. This makes the selling price of the flour highly volatile, but it can be assumed that increase in raw material prices are passed on to the consumers. The extent of the pass-on is subject to competitive pressures. The volume growth in the flour business is expected to remain moderate at around 2-3%, in line with the population growth of the country. The global wheat prices have averaged $200/ton in FY10, lower than $250/ton average in FY09. Given the 75% institutional exposure of total flour sales, we feel the selling prices have already adjusted. The management expects retail prices to decline in next 6-8 months due to lower input prices and competitive pressure.



Source: Company Reports, Bloomberg, BankMuscat Research

Volume growth follows population growth, OFMI fails to benefit from positive demographics

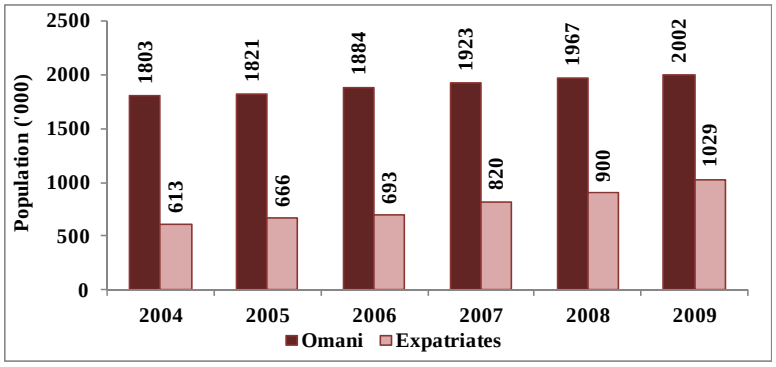
The growth for the company is purely driven by growth in population and consumption of value added bakery products in the country. The reported flour volumes for the company have been flattish even as total population grew by c4.6% from 2004 onwards, driven by expatriate population that grew significantly from 2006 with cumulative addition of 336,000. Assuming a similar realization per ton for exports and domestic sales of flour, the domestic flour tonnage has been stagnant.

Sales in RO '000	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Flour tonnage	182,237	157,451	178,505	162,727	180,229	180,960	162,954
Feed tonnage	149,103	132,131	146,050	156,273	143,771	131,040	151,046
Total tonnage	331,340	289,582	324,555	319,000	324,000	312,000	314,000
Flour export sales	5,105	3,241	4,339	4,990	9,730	3,702	3,743
% change	17%	-37%	34%	15%	95%	-62%	1%
Domestic flour sales	10,917	12,293	13,244	15,397	22,555	27,393	23,994
% change	28%	13%	8%	16%	46%	21%	-12%
Domestic flour tonnage (000)	124	125	134	123	126	159	141
Expatriate population ('000)	668	666	693	820	900	1,029	NA
Total population ('000)	2415	2,487	2,577	2,743	2,867	3,031	NA

Source: Company Reports, BankMuscat Research, Ministry of National Economy Statistical Report, NA: Not Available

Expatriate population has a larger proportion of manual laborers where the food consumption norms should be higher compared to overall population consumption norm. In addition, with higher proportion of workers amongst the expatriates compared to Omani population (where the proportion of youngsters are higher) and increase in expatriate population from c27% of total population in 2005 to c33% of total population as of 2009, should have resulted in significant increase in market for wheat flour in Oman and would have had a beneficial spill over on Oman Flour Mills. However, the flattish volumes do not seem to indicate this; rather they indicate that Oman Flour has at best been able to defend volumes at the cost of market share.

We opine that company's direct product penetration among expatriates could be low due to the nature of the product (fine flour), which may not be preferable for making the traditional bread consumed in the Indian subcontinent *(chapatti/roti)*. In addition, higher component of South Indian expatriates means that a meal would be rice heavy. The numbers suggest that institutional clients continue to be a focus area as against the retail market, which has seen high growth in terms of mouths to feed.



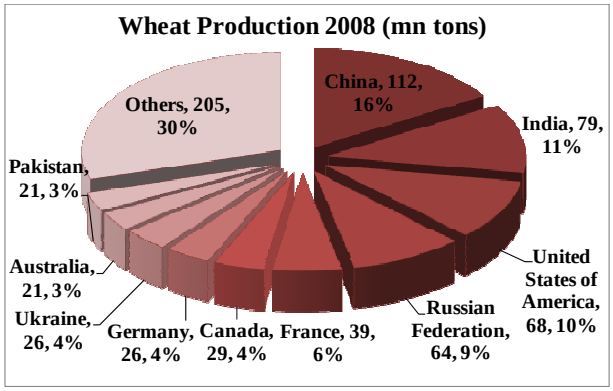
Source: BankMuscat Research, Ministry of National Economy Statistical Report

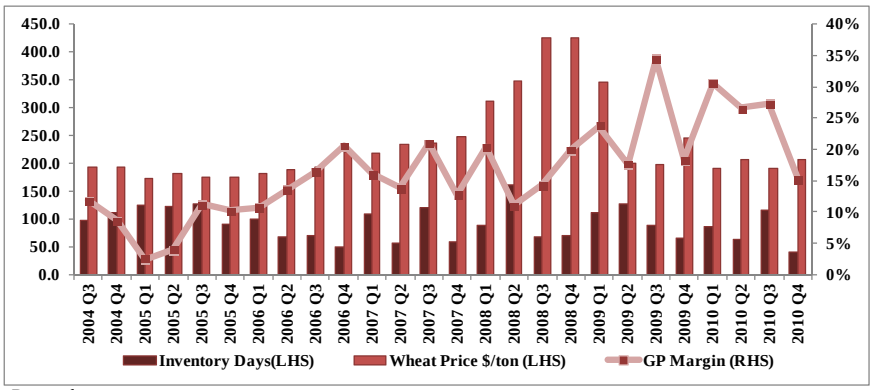
Trying to address a key expatriate market segment through *Chakki Fresh* Launch

To cater to the taste of expatriate population from Indian subcontinent, the company has launched Chakki Fresh, a stone crushed variety of wheat flour, which is more suited to the taste of expatriate population from Indian subcontinent (India, Pakistan, Bangladesh). This product is launched as a premium product with better packaging and labeling, rivaling imported flour. Current market penetration of this product is low as compared to its flagship products, which limits overall volume and margin growth. We believe that this product has a potential to generate higher margin as compared to flagship Dahabi brand flour due to its positioning.

Prudent purchase of wheat and inventory management drives profits

Food grains account for around 90% of the total cost of manufacture and wheat accounts for a substantial portion. Since the end product flour is a direct derivative of wheat, the selling prices remain largely a function of the raw material price. Hence the raw material cost is key to profitability. Wheat prices peaked in the second half of 2008 and have since retreated to its pre-rally (2005) levels. The company's inventory holding period indicates that it stocked up wheat in the first half of 2009 to capture lower price levels. Subsequently, we have seen the inventory days decline/increase with a wheat price increase/decline. This suggests an efficient inventory management policy to minimize cost of raw material. The company seems to alternate between high and low inventory levels every quarter, possibly to benefit from wheat price fluctuations.





Source: Company reports, Bloomberg, FAO Statistical Yearbook 2009, BankMuscat Research

Omani poultry market: frozen poultry dominates, local egg capacity is not enough

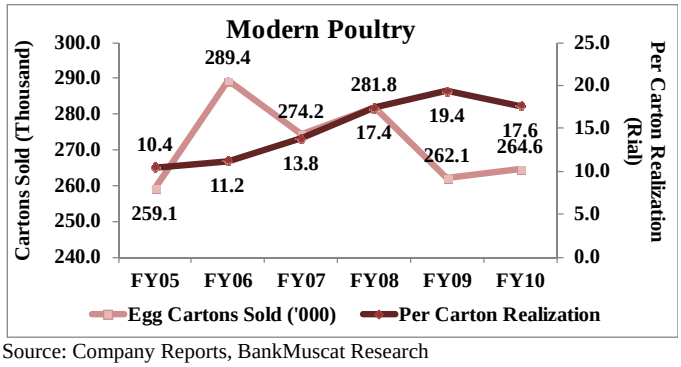
Domestic demand for chicken meat stands at 80,000 tons, of which more than 70% is imported. Poultry consumption can be classified into three broad categories: frozen poultry, fresh poultry and table eggs. Frozen poultry is processed at -18 °C temperature, and can be stored at this temperature for months at a time. Fresh poultry, once slaughtered, is immediately frozen at 4 °C temperature and is made available for consumption. The shelf life of fresh poultry is 10-15 days when stored at 4 °C or below.

Omani market is dominated by imported frozen poultry. Brazil is one of the largest exporter of frozen poultry to Oman. Animal feed, which mainly consists of maize and soya, accounts for 60-70% of poultry operating cost. Due to geographical advantage of being the second largest producer of these two agri-commodities, input cost in Brazil is less as compared to Oman, which makes poultry import from Brazil economically feasible. The market price of imported poultry is less than fresh poultry by as much as 20 to 25%. As a result, frozen poultry dominates with more than 70% market share.

There are currently two farms in Oman that produce table eggs: Modern Poultry Farm and Barka Poultry Farm. The company has 86% stake in Modern Poultry Farm, which produces over 100 million table eggs per year under brand Dana. The production capacity of the two farms is 200 million table eggs per year, which is inadequate to cater to country's demand of 350 million table eggs per year. The residual demand is met by imported eggs, which are cheaper as compared to domestic eggs.

Margins contract after lifting of import ban

Egg import in Oman was banned from early 2007 till June 2009 due to the bird flu outbreak in South East Asia and parts of Indian subcontinent. The demand for Omani eggs shot up and as a result, the company enjoyed improved margins for Omani eggs produced by Modern Poultry Farms. Since the lifting of ban in 2009, the margins have come under pressure due to imports from India and other countries. Gross margin, which were at 31% in FY08 and 28.6% in FY09, have since declined to 14.8% in FY10. The company made a pre-tax loss of RO 194k for FY10, against RO 407,000 profit in FY09.



Source: Company Reports, BankMuscat Research

Financial outlook

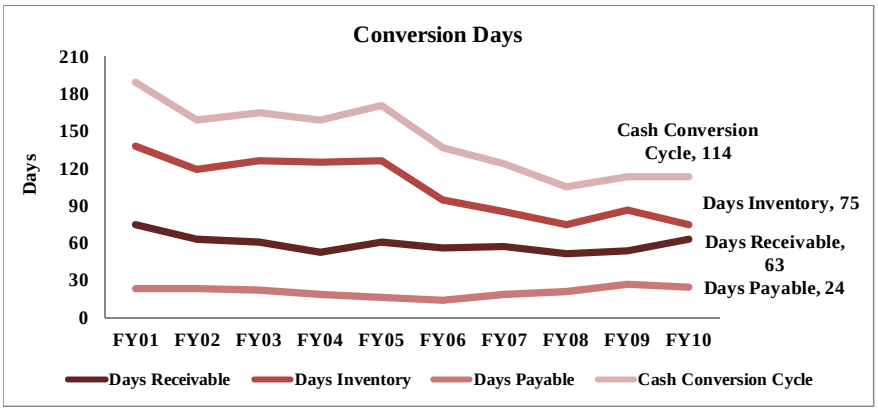
Decline of flour revenue share, continues to be the profit driver

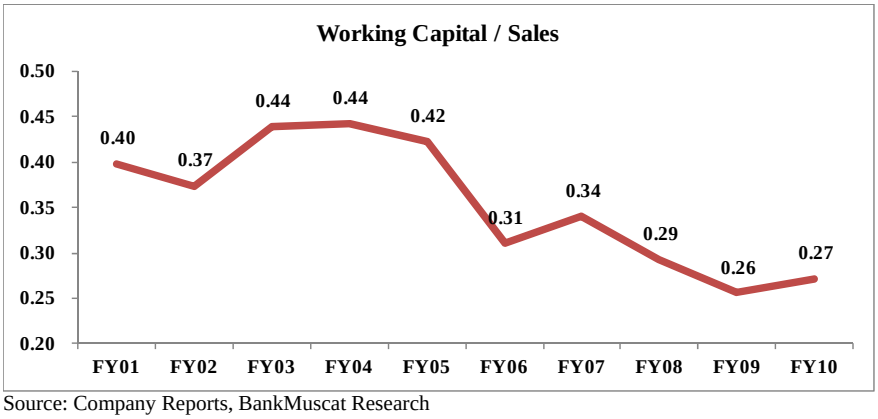
For FY08, the flour milling division generated 61% of the turnover, while the feed mill and poultry constituted 25.6% and 9.2% to the revenues respectively. For FY10, the share of flour mill division revenue has dropped to 56.6%, whereas the same for feed mill and poultry was 28.7% and 9.5% respectively. We believe this is due to declining end-user prices of flour in both industrial and retail segment due to lower input prices and higher competition.

Flour milling division continues to be the main profit driver with an operating profit margin of 29% for FY10. This division generated 69% of total profit during this period. Feed division saw its operating profit margin increase to 20.6% in FY10, an increase from 19.5% margin in FY09. The overall profit share of feed segment rose from 24% in FY09 to 25% in FY10. Poultry division generated 6% of gross profit in FY10, down from 12% in FY09, mainly due to competition from cheap imports. The operating profit margin also declined from 28% in FY09 to 14.7% in FY10.

Internal efficiencies in inventory management helping margin expansion

OFM has consistently improved its inventory management by way of lower inventory, receivables days and flat to increasing creditor days. With more than 75% of its revenue coming from institutional clients, company seems to have improved its credit policy, which has lowered its outstanding receivables as a percentage of sales. Company's ratio of working capital to sales has dropped from a high of 0.42 for FY05 to 0.27 in FY10. A lower cash conversion cycle has allowed the company to route cash towards productive capex rather than block it for working capital requirements.



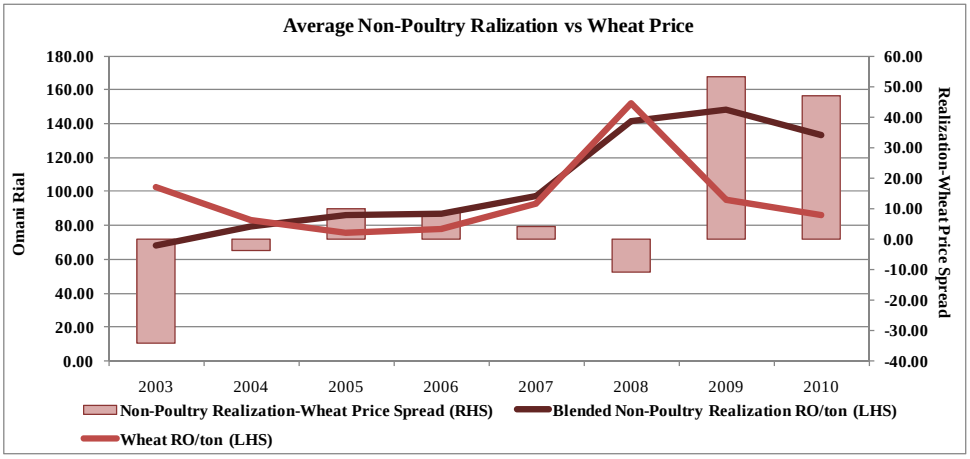


Source: Company Reports, BankMuscat Research

Realization follows global wheat prices, government subsidy enables better spreads

Average realization per ton has varied in the (-7%) to (13%) range over the average wheat price through 2005-2008, indicating that the revenue is highly correlated to global wheat prices. However FY09 and FY10 realization has diverged from this trend to show a difference of 55% over average wheat prices. Due to rising wheat prices, the government provided import subsidy of RO25/ton for all wheat imported between February 2008 and September 2009. This resulted in higher spread over wheat price and higher operating margins in FY09 and most part of FY10. The subsidy was withdrawn in September 2009 owing to wheat prices going back to their pre-rally level. We feel that such surprises are unsustainable due to declining pricing power and competition, and expect the spread over wheat price to decline to 20% of wheat price going forward.

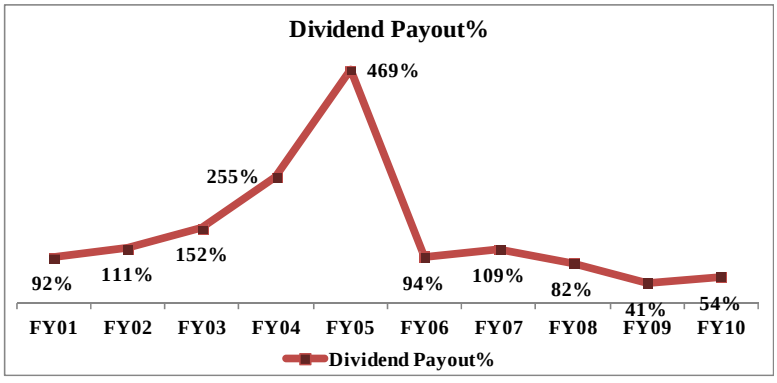
The non-poultry gross margin averaged between RO13/ton to RO21/ton over 2006-2008, the same came in at RO34-35/ton for 2009 and 2010. We build a normalized spread assumption of RO25/ton in our explicit forecast.



Source: Company Reports, Bloomberg, BankMuscat Research

High Dividend payout to taper off

Prior to FY09, the company historically has had a high dividend payout ranging between 82-469%. With new expansion plans announcements in FY10, the dividend payout has come down to 54% in FY10. Considering the expansion plans to the tune of RO 38mn, we expect the dividend payout ratio capped at 50%, with a possibility of lower levels in the next 2-3 years. We expect the DPS to be 20% to 25% for next three years.



Source: Company Reports, BankMuscat Research

Appears fully priced

The expected core EPS for FY11E is 27bz. At the current price of RO 0.670, the stock trades at PE of 25x FY11e earnings. A similar dividend payment of 25bz for FY10 provides a dividend yield of 3.7%. The company trades at an EV/EBITDA of 16.7x on FY11 numbers. The current wheat price at $270/ton is 35% less than the all-time high price of 2008.

In our view the stock appears fully priced at current market price. The planned ventures can expand total asset base by RO 26.5mn over two years and are promising with hurdle rates of 15%. However in absence of exact details we refrain from building the same into our numbers. At a market cap of RO 106mn and our estimate of the sustainable profit range of RO4-5mn from the current business lines, the market seems to be enthused about its new ventures and seems to be pricing it to some degree. Applying a multiple of 10x for the current profit, nearly 50% of the market cap could be attributed to its new ventures.

A sensitivity of expected FY11 net profit (excluding investment income) at various spread (FY11 non-poultry realization – FY11 non-poultry cost) levels is given below:

Non-Poultry Spread (RO)	FY11 Net Profit (RO '000)
15	1,423
20	2,818
25	4,213
30	5,609
35	7,004
40	8,400

Risks

The cumulative capital expenditure in the planned projects is $100mn (RO 38.5mn), which is 85% of its current balance sheet size. Of this capex, RO 25mn is towards Atyab Poultry project, which is a first JV project for the company. Poultry as an industry is witnessing declining margins and has turned net loss in FY10. We opine that the project will require significant management attention. Considering that this is the first major diversification venture for the company, in addition to securing funding for the project, the management skills will also be put to the test.

Strategy hinges on forward integration

As of June 2010 the company carried cash and cash equivalents (including investments and deposits) of RO 21mn or 41% of the balance sheet. Historically this figure has averaged between at 33%. High cash accumulation and low return core business prompted various forward integration initiatives to leverage on the strength of current infrastructure and market experience and move up the value chain. The company has formed an investment company, Atyab Investments, to invest up to $100mn (RO 38.5mn), in existing and forthcoming projects. The planned investment is nearly twice its net fixed assets as of FY10. The new company will be a 100% subsidiary of OFM.

Atyab Bakery expected to open a new revenue stream

Oman Flour Mills is setting up a state-of-the-art bakery production facility with an investment of RO 14mn. Currently, the bakery industry is very fragmented in the Sultanate. Manufacturing of bakery products is lagging behind world standards. There is a very strong market for premium bakery products made from world class equipment and processes. There is an unmet need to provide quality products to the growing affluent and quality conscious market segment. The company expects to fill up this void. Atyab Bakery will be the only industrial bakery in Oman with production facilities of both fresh & frozen bakery products and confectionery items. Bakery products planned are buns, breads (including Arabic and specialty breads), cakes and confectionery including Arabic and Indian sweets. The company expects to start production in Q1 CY11. We believe this new venture is a positive step in forward integrating the flour business. However, the benefits in form of significant top line and bottom line addition will reflect over long term.

Large investments in poultry set to increase poultry revenue share in the overall mix post FY12

Oman Flour Mills' investment arm, Atyab Investment, has setup a 50:50 JV with UAE based IFFCO group to make future investments in poultry. IFFCO, UAE is one of the largest food companies in GCC. Both JV partners have proven competencies in poultry and allied industries, which is a positive for the business. Atyab-IFFCO JV is setting up a broiler farm with a slaughtering capacity of 50,000 birds/day and a capacity to produce 2 million table eggs per year. The plant will also have a parent broiler farm with 50 million hatching capacity per year. The new venture, with an investment of RO 25mn, is developing a 30-square kilometer state-of-the-art farm in Ibri, closer to Oman-UAE border. The large area is in view of bio-security reasons associated with poultry business.

Acquisition of ailing Sohar Poultry Farm, expecting to turnaround the company

The JV has acquired 92% stake in Sohar Poultry Farm in October 2009, with an investment of RO 0.3mn. Sohar Poultry Farm carries accumulated losses of RO 5.1mn. Sohar Poultry Farm has been a loss making company for some time. Our discussion with management shed some light on the new initiatives launched since the acquisition. The JV partners, with their own expertise are expecting to turnaround Sohar Poultry Farm and benefit from its existing capacity and its suitable location to cater to Omani and UAE market. The mortality rate, which was around 30%, has come down to around 10%, an industry benchmark in GCC poultry market. Sohar Poultry has reduced its equity capital from RO 5.14mn to RO 2mn to reduce accumulated losses. The company is planning to infuse fresh capital through a rights issue in Q3 CY10.

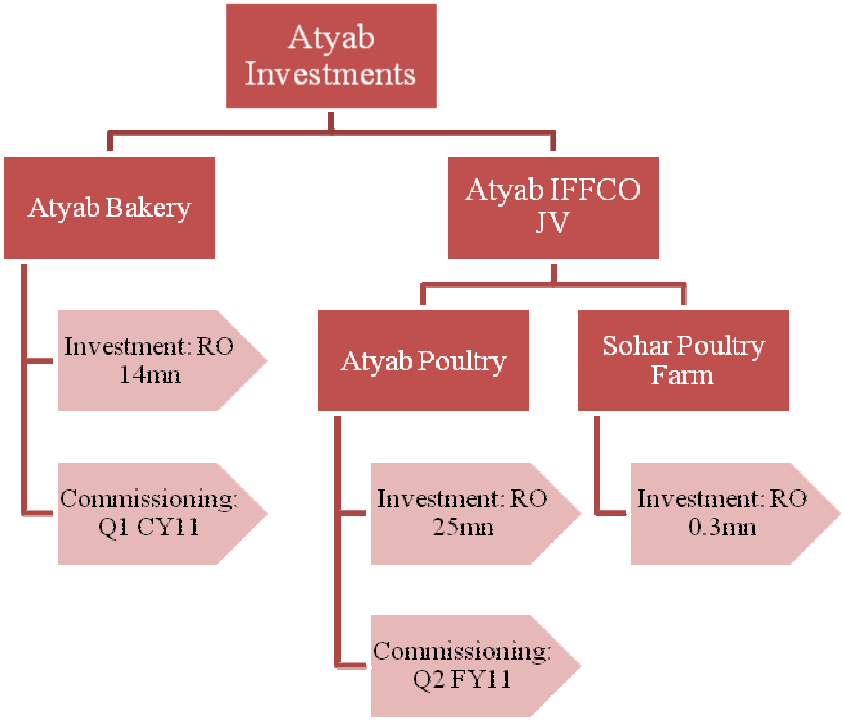
Key Data– Sohar Poultry Farm

RO '000	FY08	FY09	FY10E	FY11E	FY12E
Revenues	5,186	3,980	5,174	5,795	6,490
EBITDA	459	(423)	714	952	1,221
EBIT	(178)	(1,097)	40	277	546
PAT	(271)	(1,156)	(243)	19	368
EBITDA%	8.85%	-10.63%	13.80%	16.42%	18.81%
EBIT%	-3.44%	-27.57%	0.77%	4.79%	8.42%
PAT%	-5.23%	-29.03%	-4.69%	0.32%	5.67%
Net Worth	1,198	43	800	819	1,187
EPS (RO)	(0.053)	(0.225)	3,000	3,000	3,000
BV (RO)	0.233	0.008	(0.081)	0.006	0.123

Source: Company Reports, BankMuscat Research

New projects

Project	Capex	Details	Commissioning
Bread House	--	In 2008, the Oman Flour set up a 100% subsidiary called Bread House LLC, under franchise, to market and distribute frozen bakery products under brand Bakery & Co.	Currently 2 outlets in Muscat.
Atyab Bakery	RO 14mn	The bakery will largely target institutional clients and other organized retail chains in addition to possibly scaling up Bread House operations.	Q1 CY11
Sohar Flour Mill	RO 15mn	The company is planning to replicate existing flour mill infrastructure at Sohar with an initial flour mill capacity of 300 TPD, expandable up to 2000 TPD. This project is a part of government's plan to import grains for its food reserve. Oman Flour will be managing its facility and at the same time increasing its flour production capacity.	Not finalized
Atyab Poultry	RO 25mn	In November 2008, Oman Flour signed a Memorandum of Understanding with IFFCO Group of UAE for the establishment of a poultry project near the Oman/UAE border. The project will include poultry (eggs) and broiler operations. On the poultry side there is plenty of scope for import substitution with 45% of chicken meat imported and 25% of eggs imported. This joint venture will see the setting up of a broiler farm with a slaughtering capacity of 50,000 birds/day along with a broiler parent farm that will produce 50 million hatching per year.	Q2 FY12
Atyab Commodities International	--	ACI is a management company specialized in grain silo management and International commodity trading. ACI will be managing the Sohar grain silos and will be a hub for regional grain trading targeting the GCC, Iran and East Africa.	Not finalized
American Institute of Bakery	--	Oman Flour Mills will be establishing with AIB a regional bakery Institute offering diplomas in baking and other related courses to the baking industry. This institute first graduate batch will be employed in Atyab Bakery.	Not finalized



Source: BankMuscat Research

Key details (Fiscal Year ending June) RO '000

Revenues	2008	2009	2010	2011E	2012E
Total tonnage	324,000	312,000	314,000	317,140	320,311
% change	1.6%	-3.7%	0.6%	1.0%	1.0%
Total Revenues	50,744	51,333	46,701	42,979	43,258
% change	46%	1%	-9%	-8%	1%
Non Poultry	45,844	46,262	41,794	38,057	38,437
% change	48%	1%	-10%	-9%	1%
Poultry revenues	4,900	5,071	4,666	4,723	4,581
% change	30%	3%	-8%	1%	-3%
Revenue Share					
Non Poultry	90%	90%	89%	89%	89%
Poultry	10%	10%	10%	11%	11%
Bakery	--	--	0.5%	0.5%	0.6%
Non poultry Realization/ton $	368	386	346	312	312
Non poultry cost/ton $	314	296	255	247	247
Non poultry (Realization – Cost)/ton Spread $	53	89	91	65	65
Wheat prices $/ton	396	247	223	260	270
Revenue	**2008**	**2009**	**2010**	**2011E**	**2012E**
Flour mill	32,285	31,095	27,737	22,834	23,062
Feed mill	15,696	17,380	14,056	15,223	15,375
Poultry	4900	5,071	4,666	4,723	4,581
Bread House	12	172	241	200	240
Total	**52,893**	**53,718**	**46,700**	**42,979**	**43,258**
Revenue Share					
Flour mill	61%	58%	59%	53%	53%
Feed mill	30%	32%	30%	35%	36%
Poultry	9%	9%	10%	11%	11%
Bread House	0%	0%	1%	0%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
GP					
Flour mill	4,498	7,757	8,102	5,709	5,074
Feed mill	2,165	2,928	2,901	2,220	2,934
Poultry	1,517	1,448	689	708	687
Bread House	2	22	58	40	53
Total	**8,182**	**12,155**	**11,750**	**8,677**	**8,748**
GPM					
Flour mill	13.9%	24.9%	29.2%	25.0%	22.0%
Feed mill	13.8%	16.8%	20.6%	12.0%	10.0%
Poultry	31.0%	28.6%	14.8%	15.0%	15.0%
Bread House	16.7%	12.8%	24.1%	20.0%	22.0%
Average	**15.5%**	**22.6%**	**25.2%**	**20.2%**	**20.2%**
EBIT					
Flour mill	3,565	6,661	7,022	4,795	4,151
Feed mill	1,261	1,891	1,863	1,066	769
Poultry	771	407	-194	189	183
Bread House	-57	-83	-22	-2	14
Atyab Investment	--	--	-144	--	--
Total	**5,540**	**8,876**	**8,525**	**6,048**	**5,118**
EBIT %					
Flour mill	11.0%	21.4%	25.3%	21.0%	18.0%
Feed mill	8.0%	10.9%	13.3%	7.0%	5.0%
Poultry	15.7%	8.0%	-4.2%	4.0%	4.0%
Bread House	0.0%	-48.3%	-9.1%	-1.0%	6.0%
Total	10.5%	16.5%	18.3%	14.1%	11.8%

Financial Data (Fiscal Year Ending June) OMR '000

Income Statement	FY08	FY09	FY10	FY11E	FY12E
Revenues	50,744	51,333	46,701	42,979	43,258
EBITDA	7,023	10,096	9,688	6,405	6,194
Margin %	13.8%	19.7%	20.7%	14.9%	14.3%
Interest	50	28	33	40	40
Depreciation	1,483	1,220	1,285	1,317	1,349
Operational PBT	5,490	8,848	8,370	5,048	4,804
Invest Income	3,275	(2,801)	791	-	-
Profit from Associates	-	-	(46)	(52)	89
PBT+OI	8,765	6,047	9,115	4,997	4,893
Current tax	603	1,120	1,104	600	587
Minority Interest	101	48	(48)	132	128
PAT	8,061	4,879	8,059	4,213	4,267
Adj PAT	4,786	7,680	7,268	4,213	4,267

Balance Sheet	FY08	FY09	FY10	FY11E	FY12E
Equity Capital	15,750	15,750	15,750	15,750	15,750
Net worth	41,145	42,086	46,995	48,058	49,175
Minortiy interest	254	302	254	386	515
Debt	1115	965	795	581	441
Emp benefits	273	349	409	450	491
Def tax	496	483	542	542	542
Total Capital Employed	43,283	44,185	48,995	50,018	51,164
NFA & intangibles	13,439	14,030	15,186	15,069	14,720
Investments	7,196	13,376	14,619	15,407	15,407
Cash & Bank Balances	8,522	4,784	7,546	9,422	10,852
Current Assets	26,170	20,691	22,112	22,485	23,989
Current Liabilities	3,522	3,912	2,922	2,943	2,952
Net Current Assets	22,648	16,779	19,190	19,542	21,037
Total Assets	43,283	44,185	48,995	50,018	51,164

Cash Flow Statement	FY08	FY09	FY10	FY11E	FY12E
PAT	8,162	4,927	8,011	4,346	4,395
Depreciation	1,483	1,220	1,285	1,317	1,349
Less non operating income	3,275	(2,801)	791	-	-
less Inc in Current Assets	3,906	(1,741)	(1,341)	(1,503)	74
Add Inc in Current Liabs	1,175	390	(990)	21	9
Emp benefits	44	76	60	41	41
Others	387	(148)	146	-	-
Operating cash flow	4,070	11,007	9,062	7,228	5,720
Capex	(1,812)	(1,811)	(2,441)	(1,200)	(1,000)
Investing cash flow	(2,043)	(10,657)	(2,980)	(1,200)	(1,000)
Financing cash flow	(3,393)	(4,088)	(3,320)	(4,152)	(3,290)
Change in cash	(1,366)	(3,738)	2,762	1,876	1,430
Beg. cash balance	9,888	8,522	4,784	7,546	9,422
End cash balance	8,522	4,784	7,546	9,422	10,852

Key Ratios	FY08	FY09	FY10	FY11E	FY12E
EBITDA%	13.8%	19.7%	20.7%	14.9%	14.3%
EBIT%	10.9%	17.3%	18.0%	11.8%	11.2%
PAT%	9.4%	15.0%	15.6%	9.8%	9.9%
RoE%	20.8%	11.7%	18.1%	8.9%	8.8%
ROCE%	13.5%	20.3%	18.0%	10.3%	9.6%
EPS	0.030	0.049	0.046	0.027	0.027
BV/Share	0.261	0.267	0.298	0.305	0.312
DPS	0.025	0.020	0.025	0.020	0.020
Payout%	82.0%	41.0%	54.0%	75.0%	74.0%
Receivable Days	50.7	53.7	62.8	55	55
Inventory Days	74.2	85.9	74.9	70	70
Payable Days	20.1	26	24.1	20	20
Cash Conversion Cycle	104.8	113.7	113.6	105	105
Working Capital/Sales	0.29	0.26	0.27	0.26	0.26

Interims	Sep-09	Dec-09	Mar-10	Jun-10	FY10
Revenues	10,816	11,059	10,930	13,895	46,701
% Growth	-13.0%	-2.0%	-6.0%	20.0%	-9.0%
Gross Profit	3,466	3,104	3,163	2,199	11932
GPM	32.0%	28.1%	28.9%	15.8%	25.5%
EBIT	2,812	2,439	2,458	1,026	8,403
EBIT Margin	26.0%	22.1%	22.5%	7.4%	18.0%
PBT	3,490	2,292	2,802	612	9,196
PAT	3,204	2,040	2,546	617	8,059
PAT Margin	29.6%	18.4%	23.3%	4.4%	15.6%

Source: Company Reports, BankMuscat Research

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