Voltamp Energy - FY09 Earnings First Cut (CMP- RO 0.569)

January 24, 2010

Results in line with our expectations

- Voltamp energy announced its FY09 preliminary results. The company reported FY09 total revenues of RO 13.253 million as compared to RO 13.695 million, a decline of 3.23% on a YoY basis. While the total revenue for Q4FY09 stood at RO 3.510 million as compared to RO 3.214 million in Q3FY09, an increase of 9.2% on a QoQ basis.

- The overall expenditure for 2009 showed a marginal decline of 3.2% YoY to RO 10.953 million as against RO 11.313 million in 2008. The company has not disclosed the breakup of expenditure for FY09 in its preliminary results. However we believe that the presence of lower raw material costs during last fiscal year had lead to decline in total expenditure of the company.

- Profit before tax for FY09 declined by 3.5% YoY to RO 2.299 million from RO 2.382 million achieved a year ago.

- The company reported a FY09 Profit after tax (Including minority interest) of RO 1.968 million as against RO 2.044 million in FY08, a decline of 3.7% on a YoY basis. This in line with our estimates of RO 1.904 million.

- FY09 Profit after tax (PAT) attributable to equity shareholders was at RO 2.212 million as compared to RO 2.244 million, a decline of 1.4% YoY. In the same period, the PAT margins had witnessed a marginal growth of 30 basis points to 16.7%. During Q4 2009, PAT stood at RO 586K, reporting a significant growth of 168.8% on YoY basis. PAT margins too went up significantly to 16.7% levels from 6.7% levels in Q4 2008. As per the company, it has fully considered losses on account of Voltamp Manufacturing Company, Qatar.

- The company has incurred losses from its Qatar subsidiary, Voltamp Manufacturing Company WLL (VMCQ) till FY09. As per the provisional numbers, VMCQ has incurred an accumulated loss of QR 8.538 million for FY09. Voltamp energy's share (51%) on the accumulated loss will form around QR 4.354 million (approximately RO 461K). VMCQ has eroded 57% of its capital.

- The company has said that there was delay in getting factory approval and also setback in getting product approval from the utility company KAHRAMA, which in turn has hindered the company in selling its product in local market.

- Further, the Board has decided not to go for additional investment to the tune of QR 15 million in VMCQ and is in the process of exploring options in the coming weeks to limit further losses to the company.

- The Government's continuing thrust of investment in the power sector is expected to drive the transformers demand in a significant way going forward. However the growing competition in the segment is expected to put pressure on the margins front. In addition, we believe that the delay in starting up of its subsidiary is expected to increase its pre-operative costs which in turn could affect the earnings of the company moving ahead.

- At current levels, the stock trades at a PE (FY09 EPS of 0.044) of 12.9X. We recommend a **'Neutral'** rating on the stock at the current levels.

We would be issuing a detailed note on availability of detailed audited results for FY2009.



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