

OCAI - RO 1.552 MSM – 6476.61

FY2009 Results Flash

Outlook **Neutral**

Key Figures (RO ,000)	2008A	2009A	2010E	2011E
Net Sales	304,377	155,474	245,075	316,465
Operating Profit	9,845	9,794	16,064	20,192
EBITDA	11,772	11,782	18,123	20,192
Net Income	6,132	6,642	12,872	16,845

Key Ratios	2008A	2009E	2010E	2011E
NPM (%)	2.0%	4.3%	5.3%	5.3%
EBITDA Margin (%)	3.9%	7.6%	7.4%	6.4%
Gross Margin (%)	5.5%	8.8%	9.4%	10.3%

Valuation	2008A	2009E	2010E	2011E
EPS (RO)	0.068	0.074	0.143	0.188
P/E(x)	22.15	20.45	10.82	8.06
BVPS	0.351	0.450	0.518	0.616
P/BV(x)	4.31	3.36	3.00	2.46

Basic Details			
Market Price (RO)	1.552	52Wk high (RO)	1.780
Shares O/S (,000)	89,700	52Wk low (RO)	0.315
Market Cap (RO ,000)	139,214	YTD Change	-9.50%
Bloomberg	OCAI OM		
MSM Ticker	OCAI		
Reuters	OCAB.OM		

Peer group valuation	Market Cap USD mn	PER			EV/EBITDA		
		2009A	2010E	2011E	2009A	2010E	2011E
Oman Cables	362	20.45	10.55	8.06	13.2	8.6	7.7
El Sewedy Cables	1,780	13.1	10.4	7.2	12.6	9.2	6.2
Saudi Cable Company	502	10.1	8.1	7.4	10.2	7.9	7.2
Average		11.9	9.5	7.3	11.6	8.7	6.8
Oman Cables Premium / Discount		72%	11%	10%	14%	-1%	13%

Oman Cables reported FY2009 sales revenue and net profit fell in line with our expectations. The company reported total sales revenue of RO 155.6 million, and net profit of RO 6.6 million, without giving any further details it income statement components. The company has stated that the reported income includes RO 100K pre operative loss incurred by the joint venture company Oman Aluminum Processing Industries Ltd. The surge in copper prices has helped the company in reporting higher sales revenue during 4Q2009.

Sequential quarterly improvement in revenue; drop in capacity utilization: Lower prices for copper during the year coupled with lower demand and subsequent under utilization of the company's capacities have caused the 49% dent in sales revenue as compared to FY2008 levels. However, on a sequential quarterly basis, improvements are visible in the revenue growth trend. On a Q-o-Q basis the company was able to display revenue growth of 17%. Lower capacity utilization owing to a disruption in regional demand has caused the company to operate at 76% of FY2008 levels. Revenue growth for the company for 2004-2008 has been robust at a CAGR of 70% driven mainly by copper prices and new capacities coming on stream. Lower capacity utilization during the year under review was attributed to lower demand from the major regional customers. Domestic demand forms just about 40% of the company's production capacity, which necessitates it to depend more on regional and export markets for improvements in capacity utilization thereby achieving economies of scale.

Product certification from BASEC; seeking more export markets: A possible economic recovery in the regional markets is expected to drive capacity utilizations to higher levels during FY2010. Higher copper prices along with improved capacity utilization are expected to drive the revenue growth going forward. Oman Cables has been continuously expanding its target markets by way of establishing its presence in different regions. During FY2009 the company obtained product certification from British Approvals Service for Cables, United Kingdom which is expected to expand its export potential.

Infrastructure projects to create demand: The governments in the region are going ahead with their commitment towards infrastructure and utility sector spending. We expect this to have a favourable impact in the demand for products from Oman Cables. The company's products are highly in demand towards the completion stages of infrastructure projects; we have earnings visibility for fairly good term of 3 years. Competition for its products is expected to intensify as a result of demand destruction in UAE and subsequent excess capacities created from regional players. The major threat to our earnings forecast model would be a crash in copper and aluminum prices which can detrimentally affect the revenue and subsequently on margins. The working capital intensive business model exposes the company to interest rate risks. We see that the company is consciously trying to deleverage its balance sheet and consequently reducing the interest burden.

FY2010 revenue to show 58% growth: With average copper price assumption of USD 5800 during the year and demand growth of 20%, we estimate the parent company revenue to reach at RO 211 million towards the end of FY2010. With the commencement of operation from the aluminum plant in Sohar during the first quarter of the year, our models suggest the group revenue to reach RO 245 million in FY2010. With the help of efficient cost reduction strategies, we are anticipating the company to achieve net profit of RO 12.87 million resulting in an EPS of RO 0.143.

Earnings growth priced in, trading at premium to regional peers; Outlook - Neutral: Historically the shares of Oman Cables have been traded at a premium to its reported earnings. The shares are trading at 20.5X its FY2009A earnings, which looks a lot stretched. However, we feel that the market is pricing in the company's earnings potential during the current fiscal. At current valuations, the company's shares are trading at 10.8X and 8.1X its FY2010E and FY2011E earnings. On a peer group level valuation, the shares are being traded at a premium to other regional cable manufacturing companies. Owing to the high valuation among peers, we keep a neutral stance on the outlook on the shares of Oman Cables.

Major concerns

Commodity price fluctuation: Oman Cables is exposed to vagaries of copper price movements. The company has stated that it normally has a back to back hedging mechanism in place. However, the copper price fluctuations would affect the absolute revenue earned by the company and subsequently on margins.

Competition from unorganized players and overcapacity among the regional cable manufacturers leading to slow revival in capacity utilization levels.

Lower than expected sales could also impact Oman Cables adversely. Oman Cables is dependent on the real estate and infrastructure sectors to a large extent and while these sectors have shown signs of a revival, its sustainability largely depends on the level of crude oil revenue gained by governments. Any delay in execution of these projects would have a negative impact on the revenue generating potential of the company

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