

## 3Q2010 Results: Overall Margin Trend In Line with Expectation; Maintain Neutral Rating

### RESULTS REVIEW

### POWER COMPONENTS & SERVICES | OMAN

#### ≡ Pricing Competition Remains Intense; Maintain Neutral Rating and FV

Oman Cables' (OC) 3Q2010 margin trend was in line with our view - that mark-ups would weaken with intensifying pricing competition in 2H2010. It is noteworthy that the magnitude of the margin decline in 3Q2010 was higher than expected. We believe our FY2010 earnings estimate of OMR7.2million is attainable, and as such, we reiterate our Neutral rating and our fair value (FV) of OMR1.288/share

#### ≡ 3Q2010 Earnings below Expectation

The capacity overhang in the region and pricing competition is clearly affecting OC's performance, which is noticeable in its low gross margin in 3Q2010. OC's 3Q2010 earnings decreased by 25% Y-o-Y and 22% Q-o-Q to OMR1.8million, significantly below our estimate of OMR2.56 million mainly due to lower-than-expected mark-ups. OC's gross margin decreased by 180 basis points (bps) Q-o-Q and 360 bps Y-o-Y to 7.6%, below our expectation of 9.5%.

#### ≡ Revenue Growth Likely on Higher Sales Volume and Copper Prices

OC's 3Q2010 revenue increased by 41% Y-o-Y and 3% Q-o-Q to OMR51.7million, above our expectation. The revenue increase was driven by higher sales volume and copper prices. Strong domestic demand and penetration of international markets are believed to have increased volumes, but at the cost of margins. International markets have posed strong pricing headwinds due to the introduction of new competition.

#### KEY FINANCIAL HIGHLIGHTS

| December Year End (OMR mn) | 2009a | 2010e | 2011e  | 2012e |
|----------------------------|-------|-------|--------|-------|
| Revenue                    | 156   | 177   | 233    | 245   |
| EBITDA                     | 11.3  | 12.1  | 17.7   | 20.3  |
| EBITDA Margin              | 7.2%  | 6.8%  | 7.6%   | 8.3%  |
| Net Profit                 | 6.7   | 7.2   | 11.7   | 13.5  |
| EPS (OMR)                  | 0.07  | 0.08  | 0.14   | 0.16  |
| DPS (OMR)                  | 0.03  | 0.03  | 0.04   | 0.04  |
| Net Debt (Cash)            | 39.4  | 36.5  | 44.2   | 37.3  |
| P/E* (Attrib.) (x)         | 17.8  | 16.1  | 9.7    | 8.3   |
| EV/EBITDA (x)              | 14.56 | 13.60 | 9.3    | 8.1   |
| P/BV* (x)                  | 2.92  | 2.62  | 2.19   | 1.85  |
| P/CF* (x)                  | 2.4   | 12.2  | (40.4) | 10.0  |
| Div. Yield                 | 2.3%  | 2.3%  | 3.0%   | 3.0%  |

\*Prices as at 11 October 2010

Source: Oman Cables Industry, EFG Hermes estimates



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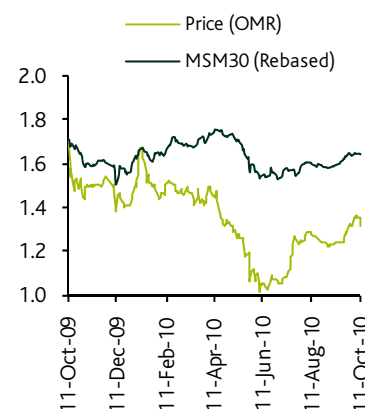
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#### STOCK DATA

|                        |                       |
|------------------------|-----------------------|
| Price                  | OMR1.313*             |
| Fair Value             | OMR1.288              |
| Last Ex / Div. Date    | OMR0.030 on 23 Mar 10 |
| Mkt. Cap / Shares (mn) | OMR 119 / 90          |
| Av. Mthly Liqdt (mn)   | OMR 3.2               |
| 52-Week High / Low     | OMR1.71 / OMR1.019    |
| Bloomberg / Reuters    | OCAI OM / OCAB.OM     |
| Est. Free Float        | 40.49%                |

#### SHARE PRICE PERFORMANCE RELATIVE TO MSM30 REBASED



#### QUARTERLY FIGURES

|    | 2009a | 2010e |
|----|-------|-------|
| Q1 | (0.9) | 1.7   |
| Q2 | 2.0   | 2.4   |
| Q3 | 2.5   | 1.8   |
| Q4 | 3.2   |       |



## 3Q2010 FINANCIAL HIGHLIGHTS

FIGURE 1: OMAN CABLES - 3Q2010 RESULTS VERSUS OUR ESTIMATES

In OMR '000, unless otherwise stated

|                   | 3Q09a  | 2Q10a  | 3Q10a  | Y-o-Y | Q-o-Q | 3Q10e  | Vs. Est. |
|-------------------|--------|--------|--------|-------|-------|--------|----------|
| Revenue           | 36,583 | 50,273 | 51,659 | 41%   | 3%    | 48,423 | 7%       |
| Gross Profit      | 4,091  | 4,723  | 3,901  | -5%   | -17%  | 4,598  | -15%     |
| Operating Profit  | 3,118  | 3,110  | 2,255  | -28%  | -27%  | 3,163  | -29%     |
| Finance Cost      | 270    | 366    | 248    | -8%   | -32%  | 250    | -1%      |
| Profit before Tax | 2,854  | 2,828  | 2,020  | -29%  | -29%  | 2,913  | -31%     |
| Profit after Tax  | 2,457  | 2,362  | 1,833  | -25%  | -22%  | 2,564  | -28.5%   |
| Gross Margin      | 11.2%  | 9.4%   | 7.6%   |       |       | 9.5%   | -20%     |
| Operating Margin  | 8.5%   | 6.2%   | 4.4%   |       |       | 6.5%   | -33%     |
| Net Margin        | 6.7%   | 4.7%   | 3.5%   |       |       | 5.3%   | -33%     |

Source: Oman Cables Industry, EFG Hermes estimates

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|---------|-------------------------------|
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