VOLTAMP ENERGY IPO

ACCUMULATE FOR THE MEDIUM TERM

May 13, 2008

This report attempts to provide relevant information to investors considering subscribing to the IPO from Voltamp Energy combined with our independent analysis on the merits and weaknesses of this issue. We consider this stock to be an excellent investment from a medium term perspective.

Essential facts that could help in your investment decision

The issue in a nutshell

- 25 million shares to be issued to the public through the IPO. Promoters' stake post IPO remains substantial at 50% which is a positive as their interest in the company stays large
- Out of RO 13.55 million to be raised through the IPO, RO 8.1 million to accrue to the company which will be used for working capital needs and other capital expenditure
- In case of oversubscription, 70% of shares will accrue to individuals on a pro-rata basis. Allocation to institutions is limited which may force them to buy stock from the secondary market actively
- Total outstanding shares to increase to 50 million from 25 million with a face value RO 0.1

About Voltamp Energy

- Voltamp Energy is the flagship company from the Al Anwar Group. The stake of the Al Anwar group will decline to 29% post IPO from 57%. Established in 1987, the company manufactures low voltage switchgear panels through a franchisee agreement with Schneider, France. It has two subsidiaries at present with a third one expected to commence operations from 2010:

    1. **Voltamp Transformers Oman** – A wholly owned subsidiary that manufactures power transformers in collaboration with Babcock Transformers, UK
    2. **Voltamp Manufacturing Company, Qatar** – A 51% subsidiary in Qatar engaged in the manufacture of transformers
    3. **Voltamp Power Oman –** To commence operations in 2010 at Sohar, Oman

Investment rationale

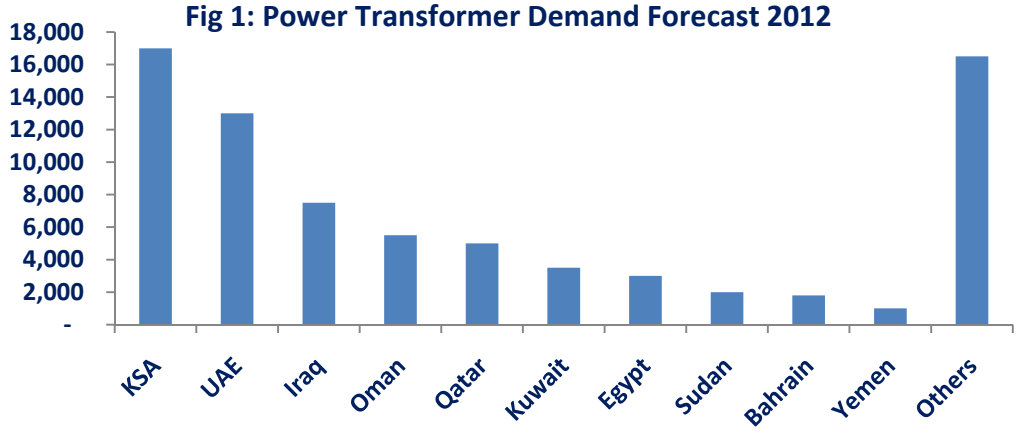
- Voltamp Energy is a fundamentally strong company with a strong vision. The power sector in the GCC is set to grow rapidly in the coming years and Voltamp intends to gain market share in Qatar, Bahrain , the UAE besides Oman. A major strength for this company is that 67% of its transformer sales are of the non-standard type which offer a better margin than the standard variety. It plans to widen its product portfolio by making higher rated power transformers at its new unit in Sohar in 2010 which would improve the product mix going forward
- The IPO at its offer price of RO 0.542 is priced 11.3x its FY 2008 EPS and 8.9x its FY 2009 EPS which is favourable compared to the estimated Industry index FY 2009 P/E multiple of 13.2x. Based on this comparison, the offer price is at a discount to 48.5% to the value arrived by using the FY 2009 industry P/E multiple. This implies a fair value of RO 1.042 which can be reached anytime by the end of 2009 (a time frame of around 18 months), an upside of 92%
- We believe that after the initial euphoria due to unmet demand from possible oversubscription the stock may not hold its gains in the short term due to shrinking margins till 2010 from high costs associated with the launch of two subsidiaries. We believe the best strategy for investors would be to accumulate the stock at lower levels till the end of 2010 beyond which the stock is poised for strong price appreciation

Robust demand for transformers

- The high demand for power has resulted in a significant increase in demand for power transformers. During 2006, the market demand for power transformers in the MENA region was 32,595 MVA(Megavolt Ampere). Oman represented 8% of the total MENA demand; KSA had the biggest share of 19%, Qatar 6%, UAE 15%, Kuwait 6% and Bahrain 2%. At present, more than 90% of the transformer demand in the GCC is met by imports. This represents a significant business potential for existing players to replace imported products

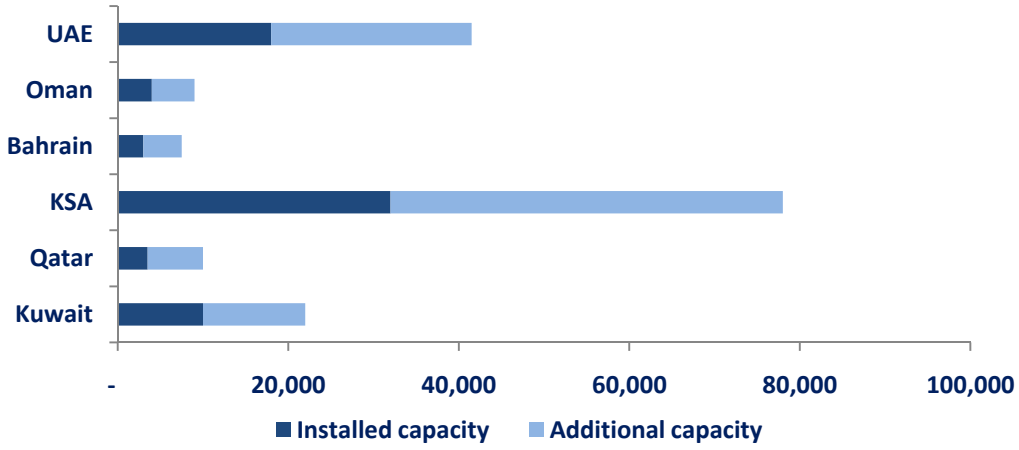
- The power transformer market for the MENA region is projected to reach 75,080 MVA by 2012 as shown in Fig 1. The company hopes to tap this large market by starting new projects in Oman and Qatar

Fig 1: Power Transformer Demand Forecast 2012



Source: A. F. Ferguson & Co.

Fig 2: Future GCC Power Capacity



Source: The Power of Watt, ABQ Zawya Ltd, 2007

- Its subsidiary in Oman serves the entire GCC whereas its unit in Qatar would cater to customers in Qatar and Bahrain
- The absence of a local manufacturer in Qatar till now gives Voltamp a clear lead
- The Qatari unit is expected to generate profits from its second year of operation itself (2009)

Table 1: Projected earnings of Voltamp's subsidiary in Qatar

in RO	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net profit	(249,795)	765,090	920,651	1,085,711	1,225,752	1,772,391	2,015,719
Earnings per share	-0.016	0.050	0.060	0.071	0.082	0.115	0.131

Source: Voltamp Energy

- A new subsidiary, Voltamp Power Oman LLC is expected to go on stream in 2010 at Sohar. It will make a higher rated 150 MVA/132 KV class transformers thereby broadening its product portfolio. This plant will cater to the MENA region

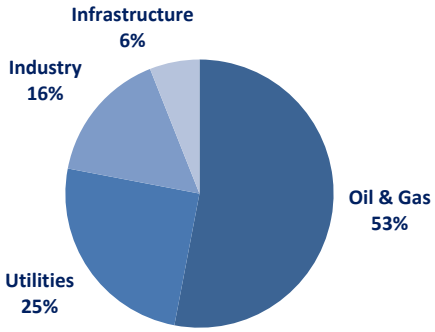
Product mix

- The company makes transformers and switchgears. Its range of transformers extend from low power transformers (3-15 MVA, 33 KV class) to above 50 MVA (any voltage class) high power transformers
- A key strength for Voltamp is that 67% of its sales are in the non-standard segment which offers a higher margin besides product differentiation
- In the case of switchgears, the company had a 14% market share in Oman in 2007

Customer mix

- Voltamp caters mainly to oil & gas and utilities companies. It also started supplying electric parts to the tourism industry which is at present a high growth sector with several integrated tourism projects coming up in the Sultanate

Fig 3: Clients by industry



Source: Voltamp Energy

Oil & Gas	Utilities	Heavy Industry
PDO	The Ministry of Defence, Oman	Sohar Aluminum
Occidental of Oman	Majan Electricity	Sohar Refinery
Kuwait Oil Company	Mazoon Electricity	Oman Gas
Kuwait National Petroleum Co	Rural Area Electricity	Oman LNG
	Sharjah water & electricity	
	Dubai Electricity & Water	
	PEC - Aden	

Source: Voltamp Energy

Order Book

- The company has sound technical collaboration with giants such as Schneider and Tatung
- Voltamp's client list in Oman includes PDO, The Ministry of Housing, Electricity and Water and Oman refinery company.

Table 2: List of Contracts for the Voltamp Energy		
Name of the contract	**Value of the contract (RO)**	**Completion Date**
Oman Refinery	420,000	Q3-Q4 2008
Al Opera	152,000	Q3-Q4 2008
Galfar (Sur & Buraimi Projects)	90,000	Q2-Q3 2008
Oman Gas	92,000	Q2 2008
Muscat Airport	100,000	Q3 2008
PDO	205,000	Q2-Q3 2008
Al Anwar Ceramics	40,000	Q2 2008
Switches & Boards	348,000	Q2-Q4 2008

Source: Voltamp Energy

Table 3: List of contracts for subsidiary Voltamp Transformers Oman		
Name of the contract	**Value of the contract (RO)**	**Completion Date**
Bechtel-Sohar Aluminium	116,000	Q3 2008
Bahwan Engineering	1,563,000	Q3 2008
Al Tayar Co. Qatar	3,000,000	Q4 2008
L&T Oman	323,000	Q2 2008
Mazoon Electric	254,000	Q3 2008
Majan Electric Company	199,000	Q4 2008
Trade Links	238,000	Q2 2008
STS Company	187,000	Q3 2008
Al Falahi Company	186,000	Q2 2008
Rural Electric Company	156,000	Q2 2008
Omran Company	108,000	Q2 2008

Source: Voltamp Energy

Peer comparison

- The table below shows that Voltamp Energy is well placed on key parameters compared to its peers in the MENA. Its net profit margin is high as it could pass much of the increase in raw material costs to its customers besides lower operating expenses in FY 2007. Owing to its low share capital in 2007, ROE was the highest in the peer group

Table 4: Voltamp Energy compare to its peers

As at 31st Dec'07	EL NASR TRANSFORMERS (EGYPT)	El SEWEDY CABLES (EGYPT)	GULF CABLE & ELECTRICAL INDUSTRIES (KUWAIT)	VOLTAMP ENERGY
NET PROFIT MARGIN	9.00%	7.75%	32.04%	23.00%
ROA	11.16%	13.01%	10.13%	33.00%
ROE	24.49%	27.19%	11.29%	56.00%
SHARE CAPITAL (RO Mn)	2.80	83.59	22.69	3.50
NETWORTH (RO Mn)	0.96	214.16	400.51	4.36
EPS (RO)	0.056	0.412	0.235	0.692
PER	28.99x	23.36x	18.72x	7.83x
P/BV	7.09x	5.50x	1.77x	4.33x
DY (%)	0.25%	---	1.60	---

Forecast

- Revenues expected to grow at 28% CAGR during 2008-14 driven by a robust demand for power transformers
- Despite a sharp increase in the price of copper, the main raw material used from an average of 167 cents/pound in 2005 to 323 cents/pound in 2007, the company could increase its gross margin from 22% in 2005 to 35% in 2007 which implied that price realization was good and also it had been successful at passing raw material cost escalation onto its customers
- The forecast for copper prices during 2008-2010 is a steady decline from 325 cents/pound in 2008 to 270 cents/pound in 2010 according to the Chilean Copper Commission. Hence, gross margin will continue to remain healthy
- Gross margin is forecasted to lie between 25-29% with a bottom in 2010 due to the commencement of the operations of the Sohar unit which will contribute nearly 41% of total sales in the long run. (gross margin during 2004-06 was 19-22%)
- Operating margin is expected to shrink from 28% in 2007 to 13% in 2010 due to a sharp increase in operating expenses owing to the commencement of operations of its Qatari subsidiary in 2008 and also its Sohar subsidiary in 2010
- Likewise, net profit margin is expected to drop from 23% in 2007 to 9% in 2010 for the same reason
- Margin expansion will start from 2011 and will continue till 2014 as its new subsidiaries improve their operational efficiency
- Regarding its working capital management, the company has projected that its days sales of inventory would improve from 105 days in 2007 to 77 days in 2014. The forecast for its days

receivables is a drop from 96 days in 2008 to 78 days in 2014. Days payable are expected to decline from 67 days in 2008 to 53 days in 2014

- Company released projections show strong cash from operations from 2011 after its new operations stabilize
- Probably, the best time to buy the stock is at the likely lows of 2010 and see appreciation in price through 2014 driven by strong cash flows
- Based on 2007 EPS comparison with peer companies , the current price of 0.542 is a buy as Voltamp trades at 7.83 compared to an average multiple of around 15. Voltamp's P/E multiple for 2008 is 11.29 reflecting the increase in share capital to RO 5 million from RO 3.5 million at the end of 2007

Table 5: Voltamp's Earnings Model

	2005	2006	2007	2008E	2009E	2010E
Revenue	5,471,762	7,992,619	10,693,597	14,334,473	20,397,784	27,846,766
YoY growth		*46%*	*34%*	*34%*	*42%*	*37%*
Raw material cost	3,877,658	5,743,641	6,381,086	9,370,277	13,391,875	18,849,999
YoY growth		*48%*	*11%*	*47%*	*43%*	*41%*
As a % of revenue	*71%*	*72%*	*60%*	*65%*	*66%*	*68%*
As a % of cost of sales	*91%*	*92%*	*91%*	*92%*	*91%*	*90%*
Average price of copper (cents per pound)	*167*	*305*	*323*	*325*	*300*	*270*
Cost of sales	4,281,585	6,247,602	7,002,719	10,185,084	14,716,346	20,944,443
As a % of revenue	*78%*	*78%*	*65%*	*71%*	*72%*	*75%*
Gross profit	1,190,177	1,745,017	3,690,878	4,149,389	5,681,438	6,902,323
Operating profit	663,488	1,077,692	2,972,289	2,964,284	3,690,127	3,636,335
Net profit	496,101	787,242	2,422,215	2,402,126	3,064,701	2,445,521
Net profit YoY growth		*59%*	*208%*	*-1%*	*28%*	*-20%*
Margins						
Gross margin	22%	22%	35%	29%	28%	25%
Operating margin	12%	13%	28%	21%	18%	13%
Net margin	9%	10%	23%	17%	15%	9%

Source: Voltamp Energy, Chilean Copper Commission, FINCORP Investment Research

Risks

The nature of business for Voltamp is cyclical. If economic growth slows down then it will find it difficult to maintain the above mentioned growth rates. Though the stock at its issue price of RO 0.542 is a good value relative to its peers , margins will shrink till 2010 due to high costs initially from the commencement of operations of its subsidiary in Qatar in 2008 and another one at Sohar, Oman in 2010.

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