



United Securities LLC

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Oman Cable Industry SAOG

Result Update

**Key Stock Data**

February 03, 2008

Listing

Regular

Sector

Industrial

MSM Index

9172.11

Industry Index

8157.58

CMP (RO)

3.006

52 Week H/L (RO)

3.644 / 1.020

PER (FY2008E)

12.4

P/BV (FY2008E)

7.02

DPS (RO)

0.04

Dividend Yield

1.30%

Paid up capital (RO ,000)

8970

No of Shares outstanding (,000)

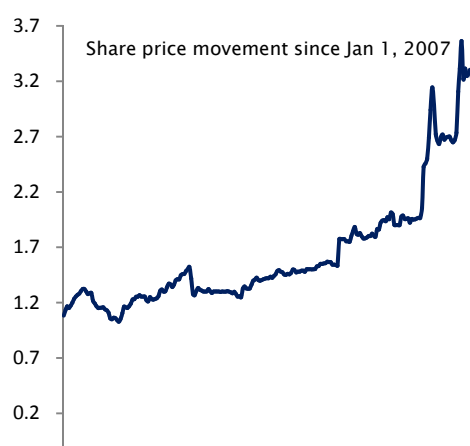
89700

Market cap (RO ,000)

269638

Recommendation

BUY

**FY2007 result highlights**

- **Oman Cable's** revenues for financial year 2007 showed a whopping increase of 73% to RO 217.4mn from RO 125.7mn for corresponding period during FY2006. On QoQ basis the revenues increased by 8.2% from RO 57.6mn to RO 62.3mn. Increased production volume from additional line capacity coupled with the booming construction activities across the Middle East region had helped the company in achieving record levels of sales revenue. Copper prices grew at 6.3% during 2007 while during 4th quarter price of Copper was beaten off the highs by more than 16%.
- **Gross profit** during the year increased by 50.8% to RO 24.99mn from RO 16.6mn achieved during FY2006. The company had been successful in controlling the selling and distribution costs especially in an environment where inflationary pressures remain at elevated levels. Selling expenses increased by 21% to RO 2.06mn during FY 2007 from RO 1.69mn during FY2006. As a result of effective cost control measures, operating profit for FY2007 registered an impressive growth of 60% YoY to reach at RO 20mn.
- **Net financing cost** increased by 45% to RO 2.93mn during the financial year while actual bank financing cost increased by 71% YoY to RO 4.16mn owing to increased working capital requirement arising out of growing production and business levels. During FY2007 there was a foreign currency translation gain amounted to RO 1mn as against RO 334,000 during FY2006. This has helped in bringing down net financing costs for the year under review.
- **Net profit** for FY2007 increased by 58.7% to RO 15.13mn from RO 9.54mn recorded for FY2006. On QoQ basis, net income after taxes increased by 4.5% from RO 4.86mn during Q3 2007 to RO 5.08mn during Q4 2007.
- **Gross margins** for FY2007 took a beating of 168 basis points to 11.49% as against 13.17% recorded in FY2006. On QoQ basis GP margins showed growth of 53 bps from 12% recorded in Q3 2007. Highly volatile base metal prices during the year under review have contributed to a large extent to change in margins. Higher financing costs and volatile raw material prices have caused the net profit margins to come down by 62 bps to 6.95% for FY2007.

**Future Outlook: Improved margins; increasing volumes**

We expect the decision of Oman Cables to expand vertically be a major milestone in the company's future business outlook. The project, which is expected to be operational during the first half of 2009 will extent greater leverage to the company in sourcing its raw material requirements for Aluminum metal. The company could reap in full benefits of its production line expansion during Q3 2007 and we expect higher volumes to contribute to growth of company's sales in 2008 as well, thereby reaping in the full benefits of its expansion processes that happened during past years. The sales volume figure of Oman Cables is showing spectacular growth of 59% CAGR since FY2002 while the net profit has grown 69% CAGR during the same period.

The company has been successful in managing its raw material price risk by effective usage of various derivative instruments. Given a stable outlook for base metal prices in 2008, we expect Oman Cables margins to improve from current levels during FY2008. We project the company to generate sales of RO 267mn in 2008 and a bottom line of RO 21.75mn registering 43% growth for the year ahead as against net profit recorded in FY2007.

Valuation and Recommendation

At current market price of RO 3.006, Oman Cables is trading at 12.4X and 10.4X of its FY2008E and FY2009E earnings respectively. We believe that Oman Cables is all set to take full advantage of the sustained real estate boom, industrial expansion and infrastructure development that is happening all across the MENA region through its capacity expansion exercises that were completed during FY2007. We continue to maintain our long term positive outlook on the company's business and its ambitious plans for expanding both vertically as well as horizontally. We recommend buying stock at current level with long term investment view.

Key Financial Data

(RO '000)	2005	2006	2007	2008E	2009E
Revenue	60,580	125,720	217,450	267,000	315,566
Gross profit	7,600	16,840	24,990	30,000	44,078
Operating profit	3,840	12,650	20,080	24,700	27,976
Net income	2,610	9,540	15,130	21,750	26,033
Gross profit margin (%)	13%	13%	11%	11%	14%
Operating profit margin (%)	6%	10%	9.2%	9.3%	8.9%
Net profit margin (%)	4%	8%	7.0%	8.1%	8.2%
EPS (RO)	0.029	0.106	0.169	0.242	0.290
BVPS (RO)	0.120	0.150	0.311	0.428	0.540
PER (x)	0	0	17.8	12.4	10.4
P/BV (x)	0	0	9.67	7.02	5.57
ROE (%)	24.4%	69.0%	54.0%	53.9%	46.1%
ROA (%)	5.6%	10.6%	13.3%	17.0%	17.9%
Inventory turnover (x)	5.02	4.67	5.55	5.86	6.63

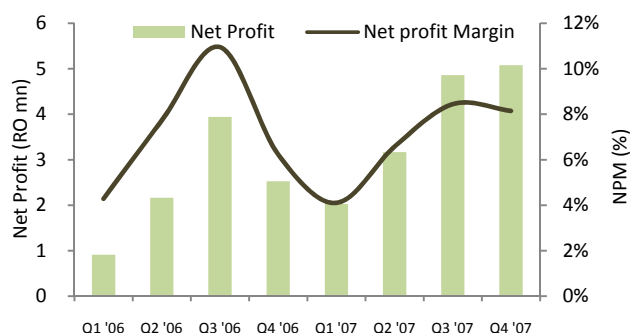
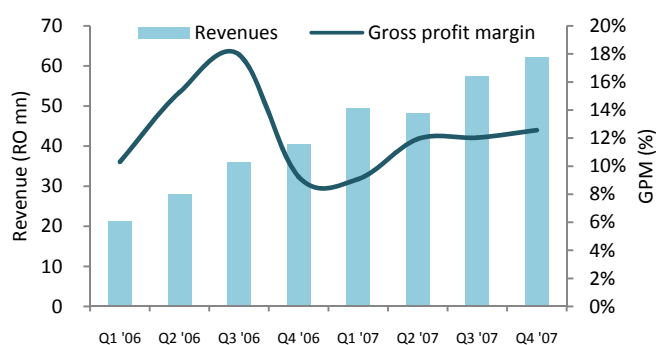
Source: Company reports, US estimates



Quarterly Income Statements

(RO '000)	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	YoY chg	QoQ chg
Revenues	35,968	40,515	49,404	48,150	57,570	62,321	73%	8%
Cost of Sales	29,511	36,777	44,921	42,403	50,644	54,489	76%	8%
Other Income	22	167	39	35	793	421	367%	-47%
Admin Expenses	1,549	523	1,259	1,235	1,384	1,405	26%	2%
Depreciation	159	242	33	35	0	0	-88%	0%
Operating Expense	31,197	36,891	46,174	43,638	51,235	56,315	75%	10%
Financing Costs	572	884	927	941	789	269	29%	-66%
Investment Income	278	110	0	42	42	0	-81%	-100%
Earnings Before Tax	4,477	2,850	2,303	3,613	5,504	5,737	59%	4%
Earnings After Tax	3,940	2,510	2,027	3,181	4,841	5,042	58%	4%
Share of Results in Affiliate	0	17	0	13	20	36	306%	80%
Net Income	3,940	2,527	2,027	3,168	4,861	5,078	59%	4%

Source: Company reports, US Research



**Financial Statements**

Balance Sheet	(RO '000)	FY2004	FY2005	FY2006	FY2007
Total Current Assets		21,046	32,804	72,334	91,930
Total Assets		33,314	46,845	89,608	113,458
Total Current Liabilities		21,402	32,418	68,578	80,412
Total Long Term Debt		3,130	3,261	6,674	4,478
Total Liabilities		24,908	36,137	75,818	85,544
Total Equity		8,406	10,708	13,790	27,914
Total Liabilities & Shareholders' Equity		33,314	46,845	89,608	113,458

Income Statement	(RO '000)	FY2004	FY2005	FY2006	FY2007
Revenues		36,002	60,577	125,718	217,445
Cost of Sales		31,210	52,974	108,881	192,457
Other Income		(48)	(317)	(276)	(445)
Administrative Expenses		1,784	2,205	2,679	3,150
Selling/Distribution		653	1,388	1,618	2,064
Total Operating Expense		34,033	56,739	113,072	197,362
Financing Costs		478	984	2,260	2,926
Net Income Before Taxes		1,555	2,962	10,820	17,157
Provision for Income Taxes		186	357	1,296	2,066
Share of Results in Affiliate		0	0	17	43
Net Income		1,369	2,605	9,541	15,134

Cash flow statement	(RO '000)	FY2004	FY2005	FY2006	FY2007
Cash Receipts from Customers		31,686	57,064	110,637	201,760
Cash Payments to Suppliers		(30,150)	(68,091)	(124,370)	(200,219)
Cash Interest Paid		(414)	(804)	(1,711)	(3,003)
Cash Taxes Paid		(93)	(163)	(354)	(1,162)
Cash from Operating Activities		960	(12,101)	(15,905)	(2,803)
Capital Expenditure		(1,321)	(1,955)	(6,889)	(5,195)
Cash from Investing Activities		(1,320)	(1,954)	(6,880)	(5,192)
Payment of Term Loans		(730)	(1,026)	(1,650)	(3,304)
Dividends Paid		(373)	(601)	(598)	(897)
ST Loans		1,155	2,886	2,968	17,642
Loan against trust Receipt		(1,098)	11,377	17,333	(7,042)
Receipt of Term Loans		1,374	1,500	5,422	1,488
Cash from Financing Activities		328	14,136	23,475	7,887
Net Change in Cash		(32)	80	689	(109)
Depreciation		380	435	1,173	136
Beginning Cash		256	224	251	941
Ending Cash		224	305	941	831

This report has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. While all care has been taken to ensure that the facts stated herein are accurate and the estimates, opinions and expectations contained herein are fair and reasonable, neither United Securities LLC, nor any of its employees shall be, in any way, responsible for the contents. This shall not be construed as an offer to buy or sell the investments referred to in this report.