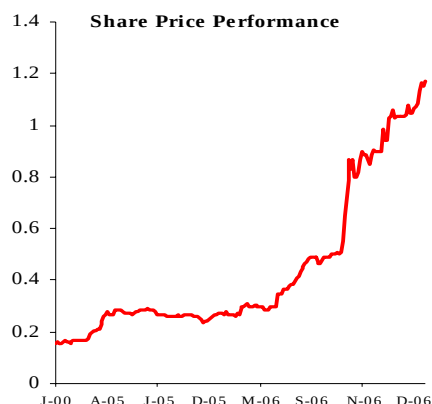


Initiating Coverage

January 17, 2007

Sector
IndustrialCMP
RO 1.30Face Value
100 baizasEquity Capital
RO 8.9MN52 Week H/L
1.30/0.263Market cap
RO 116MNBloomberg /Reuters
OCAI OM / OCAB.OMMSM Index
5944

Price change	OCAI	MSM30
1 month return	26%	6%
3 month return	137%	7%
1 Year return	379%	15%

Number of shares (in MN)	% Holding	
Draka Holding	30.95	34.7
Mustafa Muktar	11.21	12.5
Husain Salman	9.74	12.
Others	32.9	40.7
Total	80.9	100%

Oman Cable Industry SAOG

BUY

Investment Thesis

12 month target: RO1.56

Oman Cables Industry, one of the leading copper cable manufacturers in GCC has benefited immensely from the ongoing economic buoyancy in the region and the high copper prices, which has led to CAGR sales and profits growth of 45% and 372% respectively for 2003-2006.

The outlook for the power cable business remains bright, as the GCC region is expected to witness large-scale investments in the power sector, of which OCI will be a direct beneficiary. Investments of US\$22bn for power generation and US\$2bn in transmission is envisaged in the GCC over the next 5 years.

The company has been successful in maintaining its margins despite rapid increase in input costs by passing on the cost increases to its customers and through an efficient hedging mechanism.

The company expanded its capacity in 2006, which is likely to drive value sales growth in the event of declining copper prices. We forecast 50% growth in volumes in FY07E and 11% drop in realizations.

We expect gross margin drop of 200bps in FY07E from 15.3% to 13.3% yoy on account of lower realizations and less volatile copper prices in FY07E.

Net profit growth for FY07E is likely to be lower at 30% yoy as against 297% in FY06E as the management believes that performance in 2006 is one off due to exceptionally high copper prices.

At the current price the stock is trading at PEX of 11.1x FY06E and 8.5x FY07E and an EV/EBITDA of 7.3 and 5.9 based on FY06E and FY07E estimates.

Despite a 328% rise in stock price in 2006, the valuations remain attractive. In addition the liquidity of the stock has improved after the announcement of bonus and split. We initiate coverage on the company with a BUY recommendation and assign a 12-month target price of RO1.56/share.

Key Data

RO '000	2004	2005	2006E	2007E
Revenue	36,002	60,577	118,500	168,934
Gross profit	4,792	7,603	18,676	23,245
PAT	1,369	2,606	10,307	13,448
Gross Margin	13.3%	12.6%	15.8%	13.8%
Operating margin	5.5%	6.3%	11.4%	10.2%
Net margin	3.8%	4.3%	8.7%	8.0%
ROE%	17.57	27.27	68.15	53.57
ROCE%	7.04	9.73	20.24	17.10
Debt Equity (X)	1.02	2.24	1.95	1.38
EPS	0.015	0.029	0.114	0.149
P/E	83.22	43.72	11.05	8.47
EV/EBIDTA	23.17	16.70	7.29	5.93
MCAP/Sales	3.16	1.88	0.96	0.67
Book value	0.094	0.119	0.218	0.342
P/B	13.97	10.89	5.97	3.80

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Investment Banking Division
Equities Research

January 2007

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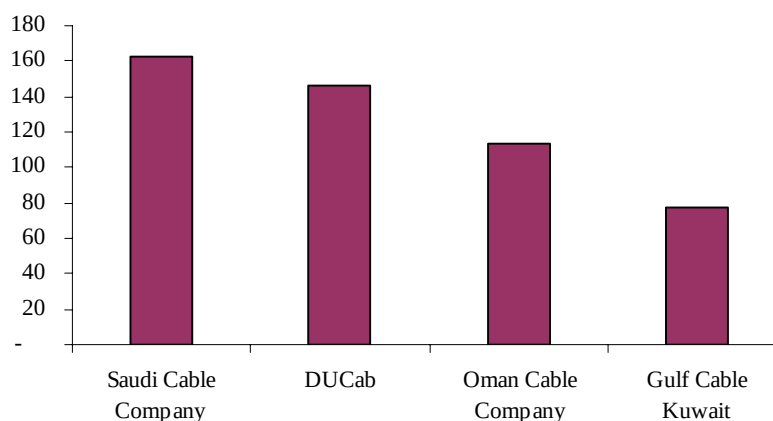
Company background

Oman Cable Industry is the largest and only manufacturer of low and medium voltage copper cables in Oman. The company is among the top five cable manufacturing companies in the GCC and has about 80% market share in the local market. OCI's product portfolio consists of the full spectrum of cables needed for electrical power transmission and distribution. It produces & markets Building wires, Flexible wires, Conductors, Control cables, Instrumentation cables and Low Voltage & Medium Voltage Power cables

Competitive positioning

The GCC cable manufacturing industry is largely in the control four-five major manufactures: Saudi Cable Company and Riyadh Cable Company in KSA, Gulf cable and Electric Company of Kuwait, DuCab of UAE and Oman Cable Industry in Oman. Based on the information available Saudi Cable is the largest among company in terms of annualized FY06 sales, and Oman cable is the 3rd largest.

Turnover of top cable companies in the GCC (FY06 annualized RO 000)

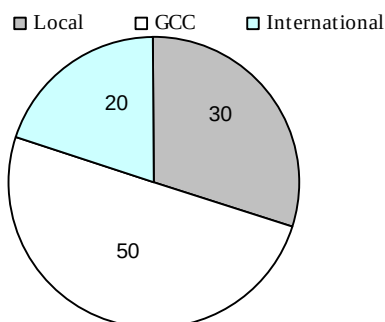


Source: Company reports

Sales Mix

The company is predominately export oriented, with exports constituting 70% of sales. The GCC market accounts for the bulk of the export sales, with 45-50% of the total revenues. The remaining 20% is other international markets like Western Europe and North America.

Regional sales distribution (%)



Source: Company

It is widely believed in the industry that the local market in each country (especially in the GCC) is dominated by the state run utilities, this business is a source of assured offtake, but is at lower margins, and local companies dominate these sales. As a result, exporters mainly cater to the EPC contractors who execute major projects and retail clients that are business segments with relatively better margins as compared to utility business. For Oman Cables the major customer base in the GCC are the EPC contractors and retail housing projects that are witnessing robust growth over the last 2-3 years. The EPC business accounts for 28% of Oman cables sales as of September 06.

Global Cable Industry

World Copper and cable Consumption (000 tons)

	2,004	YOY %	2,005	YOY %	*2,006	YOY %
Europe	2,550	4.4	2,506	(1.7)	2,594	3.5
North America	2,252	7.7	2,297	2.0	2,430	5.8
NE Asia	1,600	4.7	1,603	0.2	1,675	4.5
ROW	4,426	7.9	4,701	6.2	5,011	6.6
Total	10,828	6.5	11,107	2.6	11,710	5.4

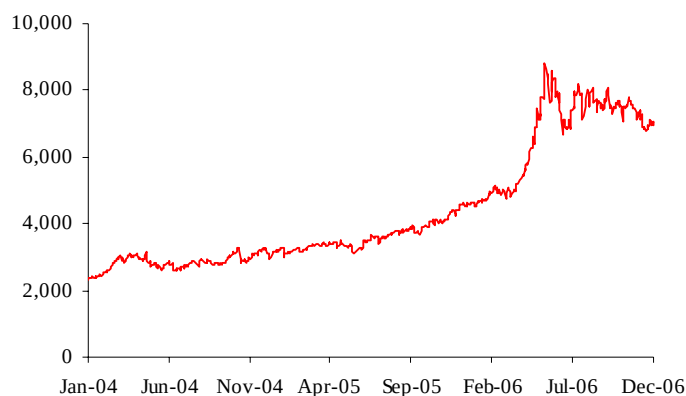
Source: CRU, *: Estimates

According to the data compiled by CRU (A leading global commodity think tank) the global cable consumption is estimated to have grown by 8.3% between 2004-06, and the major driver of the growth have been China and the Middle East (especially the GCC). Both these markets have witnessed major economic expansion during this period and copper-cables have been a beneficiary of this boom. In 2006, even North America and Europe have shown improvements in growth. Oman Cable Company, which has exposure to the GCC markets, has been a major beneficiary of this consumption growth.

Copper prices a key factor

Copper accounts for almost of 80% of the cost for cable manufacturers. On account of increased demand for end products like cables and wires, copper demand has increased substantially over the last 3 years, thereby putting pressure on global copper prices. Global copper prices have gone up 3 fold since 2004 from US\$2300/ton to US\$7000/ton, in 2006. Companies that have been able to pass on the increase in copper prices to the end consumer have been able to increase their turnover and maintain their margins.

Global Copper Prices (US\$/ton)



Source: Bloomberg

2006 exceptional performance

Sales growth

In order to cater to the increase in demand OCI expanded its capacity in 2006, which involved setting up of a new line that is estimated to have doubled the total capacity, at an investment of RO13mn. It can be seen from the graph above a substantial part of the rise in copper prices was witnessed in 2006 as prices went up from US\$4000/ton to US\$8600/ton, before ending the year at US\$7000/ton. The capacity expansion and copper price increase has led to a 100%yoy growth in sales in 9MY06.

Quarterly performance 2005-06 (RO 000)

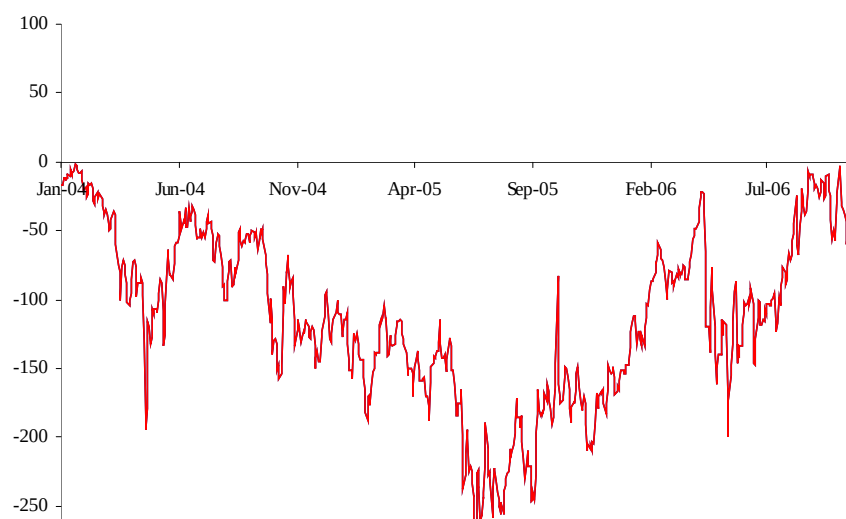
RO 000	Q105	Q205	Q305	Q405	Q106	Q206	Q306
Avg Copper price (RO/ton)	1,257	1,303	1,444	1,657	1,902	2,789	2,953
Sales	12,425	14,798	15,260	18,094	21,224	28,011	35,968
Cost of sales	10,646	13,286	13,241	15,801	18,859	23,734	29,511
Gross profit	1,779	1,512	2,019	2,293	2,365	4,277	6,457
Gross profit margin	14.3%	10.2%	13.2%	12.7%	11.1%	15.3%	18.0%
Net profit	522	379	723	982	910	2,163	3,940

Source: Company, BM Research

Gross Margins

The sharp increase in copper prices had a negative impact on the gross margins in the Q106, however subsequently the company increased its gross profit margin by passing on the high costs through higher realizations and making use of a pricing anomaly in the spot and futures prices of copper on the LME.

Spread between spot and future prices of copper (US\$/ton)



Source: Bloomberg, BM Research

The above graph tracks the historical spreads between the 3-month future prices of copper to the spot price traded on the LME. It is common knowledge that the future prices represent market expectations of the future price of the asset and they should be at a premium to spot prices due to the cost of carry principle. In 2005-2006 although copper prices exhibited a one-way rising trend, the future price was always at a discount to the spot prices. OCI was able to take advantage of this mis-pricing and make gains by buying the copper in future (which was at a discount) and booking the sale at spot (which was at premium to future). We believe that this one of the reasons for the increase in gross margins during the last two years despite the increase in raw material costs. However, this does not account entirely for the margin expansion, as the higher volume sales at higher realization explain a greater proportion of the margin increase. This is a sign of the company's competitive strength as it has been able to pass on the high input costs to customers with out a lag.

Net profits

The high growth in turnover and margin expansion has lead to a 4x growth in net profits for 9MFY06 at RO7mn against RO1.6mn for 9MFY05. For the 4QFY06 the company has guided a net profit of RO3.2mn, which is 19% lower on a QoQ basis and 225% higher on a YoY basis. The drop in copper prices and the fact that future prices were higher than spot prices might have led to a QoQ decline in 4QFY06.

Business outlook and Financial Projections

Capacity addition in the GCC to sustain volume growth

Oman Cables Industry (SAOG) mainly caters to the segment of Cables & Conductors required for transmission & distribution of electric power & transmission of signal for instruments. This industry is directly linked & dependent upon demand & supply of electric power generation, transmission and distribution. The International Energy Agency (IEA) forecasts the need for an additional 269 Giga Watts (GW) in the GCC by 2030 at a cost of \$458 billion and predicts Saudi Arabia and the UAE to have the fastest growth rates in the period to 2010. As seen in the table projects worth US\$22bn are likely to be implemented across the GCC by 2010. In addition, the GCC transmission grid is being set up with an investment of US\$1.2bn. Strategically located in Oman and having access to the GCC and markets beyond, OCI is well placed to cater to the growing demand for its products.

GCC Capacity addition upto 2010

	Installed Capacity (MW)	Power Demand Growth%	Planned Capacity addition MW	Investments (mn)
KSA	28,660	4-4.5	12305	\$8,00
UAE	16131	10	9,850	\$7,540
Kuwait	9,300	7-9	4,000	\$3,000
Oman	2,900	4-5	1,085	\$900
Qatar	3069	8-9	1,085	\$2200
Bahrain	1,840	7	950	\$800

Source: MEED

Copper price to soften

After a dramatic rise in 2006, global copper prices are expected to soften in 2007, as the global economic activity is likely to taper in 2007. As of 4QFY06 copper prices are 20% below the peak of US\$8600 in 3QFY06. Demand for copper is expected to remain buoyant in China and the Middle East; prices are expected to settle around US\$6000/ton in FY07.

Sales outlook

For FY06 we expect a turnover of RO118mn up 96% yoy. For FY07 we expect the full effect of the expanded capacity to come online, as the new capacity came online only in the 3QFY06. Thus higher volumes will drive sales growth in 2007, despite a softer outlook for realizations. For FY07 we forecast a volume growth 40% in FY07 and realization decline of 11%. Turnover is expected to increase by 43% yoy to RO168mn.

Margin outlook

FY06 margins are expected to increase by 321bps to 15.76% from 12.55% in 2005. However 4Q margins are expected to be lower than Q3FY06 margins of 18%, on account of lower realizations as copper prices declined in the quarter. Since we expect realizations to decline by 11% in FY07, we forecast a 200bp reduction margins to 13.76%.

Interest expenses

In order to fund the capacity expansion the company increased its borrowing by 67% to RO36mn in FY06, which has resulted in a 100% in interest expenditure. For FY07 we expect debt to increase by 10% to RO40mn and interest expenses are expected to increase by 11% to RO1.95mn. Despite the increase in loans debt equity ratios is expected to come down to 1.49 in FY06 as compared to 2.29x in FY05. For 2007 we expect the debt equity to further reduce to 1.14x.

Net profit

Since the profit growth of 300% in FY06 was one off, we expect the growth momentum to reduce substantially in FY07. Net profits for FY07 are expected to grow by 30% to RO13.3mn. The net profit margins in FY06 are at an all-time high of 8.7% and they are expected to come down by 100bps in FY07E.

Financial Details (RO 000)

	FY2004	FY2005	YOY%	FY2006E	YOY%	FY2007E	YOY%
Revenue	36,002	60,577	68.3	118,500	95.6	168,934	42.6
Gross profit	4,792	7,603	58.7	18,676	145.6	23,245	24.5
Gross Margin%	13.31	12.55	-5.7	15.76		13.76	
PAT	1,369	2,606	90.4	10,307	295.5	13,448	30.5
EPS (/ share)	0.0153	0.0291	90.4	0.1149	295.5	0.1499	30.5
P/E	85.19	44.75		11.31		8.67	
EV/EBIDTA	23.69	17.03		7.43		6.04	
MCAP/Sales	3.24	1.92		0.98		0.69	
ROE	17.57	27.27		68.15		53.57	
ROCE	7.04	9.73		20.24		17.10	

Source: Company, BM Research

Valuation and Recommendation

On the current market price the stock is trading at a PEx of 10.1x and 7.8x on FY06 and FY07E EPS estimates of RO0.114 and RO.149 respectively. The stock is trading at an EV/EBITDA of 6.8x and 5.5x on FY06E and FY07E estimates respectively. On the basis of MCap to sales the stock is trading at 0.80x and 0.62x FY06E and FY07E sales estimates.

Comparative valuations

On comparative valuations based on annualized FY06 estimates for Saudi Cable and Gulf Cable, Oman Cable has the most attractive valuations. In terms of profitability Gulf Cable has higher gross and net margins as the company has high degree of investment income.

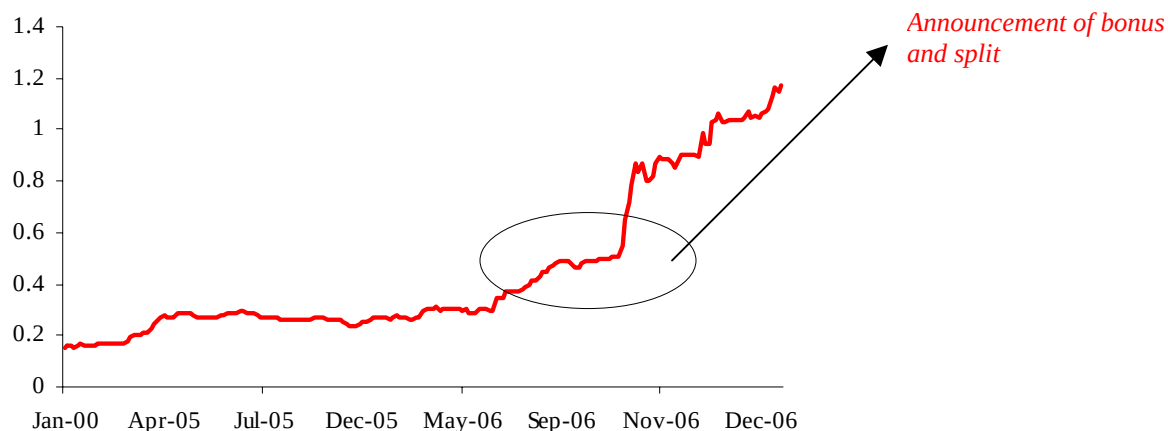
	Saudi Cable Company	Gulf Cable Kuwait	Oman Cable Industry
Sales	162.8	77.20	118.50
Gross profit	24.6	26.53	18.68
Gross profit Margin	15.1%	34%	15.8%
Net profit	6.919	29.10	10.31
EPS	1.232	196.02	0.115
PEX	24.875	12.14	10.18
EV/EBITDA	7.007	9.99	6.84
Mcap/Sales	1.061	3.43	0.89

Source: Company reports, Stock exchanges

Bonus and split increase in liquidity

In the 3QFY06 the company announced a 1:2 bonus issue (which increased the paid up capital from RO2.99mn to RO8.97mn.) and a share split of 1:10. The split and the bonus increased the liquidity of the stock substantially, and also lead to a 138% rally in the stock from August 06 to December 06. We believe that the improvement in liquidity improved the valuations of the stock and created institutional investor interest in the company. But we are of the opinion that despite the strong rally the stock has not run ahead of expectations.

Stock price performance on adjusted basis (RO/share)



Source: MSM

Trading Activity of Oman Cables

	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
OCI traded days	6	7	5	4	9	15	11	13	19	19
Total Trading days	23	20	22	22	21	22	22	17	21	20
% Days traded	26	35	22	18	43	68	50	76	90	95
Monthly Vol No (000's)	146	886	160	17	199	1,255	418	2,140	1,782	1,285

*Source: MSM***Possible upsides***Backward integration efforts*

In 2006, the company commissioned PVC compounding plant (which is the largest of its kind in Asia) and insulation plant. Although these projects are a part of the backward integration policy adopted by the company, their capacity is much higher than internal requirements. In order to utilize the spare capacities in these plants the company is looking to develop these plants as independent profit centers

Associated Cables Pvt Ltd.

The company acquired a 30% stake in an electric cable making company called Associate Cables in India, which was a subsidiary of Draka Holding (OCI associates). Associate Cable is expected to provide OCI access to the burgeoning Indian market apart from additional manufacturing capacities. We believe that this might provide upsides to our estimates, as we have not factored in these benefits in our current estimates.

Recommendation

Despite the run up in prices, the valuation of OCI remains attractive given a robust demand outlook for the electric cable industry in the region. The Indian Associate provides an additional opportunity to tap the Indian market, which is likely to see huge investments in the power sector going forward. This also provides a hedge for OCI if investments in the gulf slow down due to lower oil prices. We initiate coverage on the stock with a **BUY** recommendation and assign a target price of RO1.56/share. Our target price is based on target EV/EBITDA multiple of 7x on our FY07E EBITDA estimates.

Income Statement

RO 000's	FY2004	FY2005	FY2006E	FY2007E
Sales	36,002	60,577	118,500	168,934
YoY growth%	62.4%	68.3%	95.6%	42.6%
Avg Copper price (RO/ton)	1102	1,416	2,590	2,308
Cost of materials consumed	29,841	50,911	95,748	139,877
Employee costs	241	387	735	1,047
Electricity and water	275	316	616	878
Stores, consumables and spares	343	419	830	1,183
Depreciation	436	508	1,067	1,520
Provision for bad debt	74	433	830	1,183
Operating profits	4,792	7,603	18,676	23,245
Other income	48	318	350	300
Administrative expenses	1,764	2,205	3,202	3,500
Selling and distribution expenses	673	1,388	1,800	2,100
Deprecation and Amortization	380	435	500	650
Net financing costs	414	876	1,750	1,950
Profit before income tax	1,555	2,963	11,709	15,277
Income tax expense	186	357	1,401	1,830
Net profit for the year	1,369	2,606	10,307	13,448

Key Ratios

	FY2004	FY2005	FY2006E	FY2007E
Operating Ratios				
EBIDTA%	13.31	12.55	15.76	13.76
EBIDT%	5.47	6.34	11.36	10.20
NPM%	3.80	4.30	8.70	7.96
Per Share data				
EPS	0.015	0.029	0.115	0.150
Cash EPS	0.020	0.035	0.121	0.158
Book Value	0.094	0.119	0.285	0.409
Balance Sheet ratios				
Debtor Days	129	104	120	120
Inventory Days	91	92	110	100
ROE%	17.57	27.27	68.15	53.57
ROCE%	7.04	9.73	20.24	17.10

Balance Sheet

RO 000's	FY2004	FY2005	FY2006E	FY2007E
Net FA	10,035	11,851	16,457	16,786
Intangible asset	102	47	7	10
Long term deposit	2,000	2,000	0	0
Investments	129,267	141,243	148	160
Total non-current assets	12,266	14,040	16,612	16,956
Inventories	7,790	13,315	30,084	39,915
Trade and other receivables	12,684	17,306	38,959	55,540
Due from related parties	348,394	1,126	1580	1,896
Cash and bank balances	224	1,058	6,453	7,539
Total current assets	21,046	32,805	77,076	104,890
Total assets	33,313	46,845	93,688	121,846
Equity and liabilities:				
Share capital	2,990	2,990	8,970	8,970
Share premium	978	978	978	978
Legal reserve	649	910	1,183	1,537
General reserve	118	118	120	130
Retained earnings	3,098	4,844	8,141	18,899
Cumulative changes in fair value	573	869	152	152
Total equity	8,405	10,708	19,543	30,666
Liabilities				
Term loans	3,130	3,261	6,500	7,475
Deferred Government grant	10	102	850	1,020
Deferred tax liabilities	366	356	750	938
Total non-current liabilities	3,506	3,719	8,100	9,433
Bank Borrowings	4,445	19,461	30,168	33,185
Current maturities of term loans	1,029	1,279	1,500	1,750
Trade and other payables	15,771	11,316	33,927	46,283
Taxation	157	362	450	530
Total current liabilities	21,402	32,418	66,045	81,748
Total equity and liabilities	33,313	46,845	93,688	121,846

Fund flow Analysis

<i>RO 000's</i>	FY2004	FY2005	FY2006E	FY2007E
Net profits	1,369	2,606	10,307	13,448
Add depreciation	870	997	1,632	2,238
Gross Cash Accrual	2,239	3,603	11,939	15,686
Less inc in W Cap	1,031	-92	5,250	11,024
Net Cash From Operations	1,208	3,694	6,689	4,662
Uses of Cash				
Increase in Gross FA	505	1,816	4,606	329
Increase in Gross Goodwill	-54	-54	-40	3
Increase in Other assets	2,013	1,785	579	356
Total Uses of Cash	2,463	3,547	5,144	688
Free Cash Flow	-1,256	148	1,545	3,973
Sources of Cash				
Increase in Equity	0	0	5,980	0
Increase in Other Reserves	539	1,066	-4,847	7,982
Increase in Debt	208	131	3,239	975
Increase in Other Liabs.	20	82	1,142	358
Other Sources	-1,548	-592	-1,665	-12,202
Total Sources of Cash	-780	687	3,850	-2,887
Net Cash Flow	-2,036	834	5,395	1,086
Opening Cash	2,260	224	1,058	6,453
Closing Cash	224	1,058	6,453	7,539

Income Statement

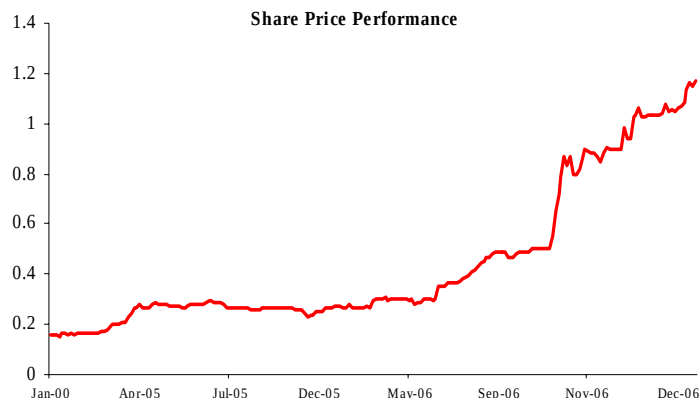
RO '000	FY2004	FY2005	FY2006E	FY2007E
Sales	36,002	60,577	118,500	168,934
Total Opg. Costs	30,700	52,033	97,928	142,986
EBIDTA	5,302	8,544	20,572	25,948
Depreciation	436	508	1,067	1,520
Bad debt Prov	74	433	830	1,183
Operating profits	4,792	7,603	18,676	23,245
Other income	48	318	350	300
Others costs	2,871	4,082	5,567	6,318
EBIT	1,969	3,839	13,459	17,227
Interest	414	876	1,750	1,950
PBT	1,555	2,963	11,709	15,277
Tax	186	357	1,401	1,830
PAT	1,369	2,606	10,307	13,448

Balance Sheet

RO '000	FY2004	FY2005	FY2006E	FY2007E
Equity Capital	2,990	2,990	8,970	8,970
Reserves	5,415	7,718	10,573	21,696
Net worth	8,405	10,708	19,543	30,666
Total debt	3,506	3,719	8,100	9,433
Current Liabilities	21,402	32,418	66,045	81,748
Total Liabilities	33,313	46,845	93,688	121,846
NFA & intangibles	12,266	14,040	16,612	16,956
Current Assets	21,046	32,805	77,076	104,890
Current Liabilities	16,231	33,172	32,917	33,915
Total Assets	33,313	46,845	93,688	121,846

Cash Flow Statement

RO '000	FY 2004	FY 2005	FY 2006E	FY 2007E
Net profits	1,369	2,606	10,307	13,448
Depreciation	870	997	1,632	2,238
Gross Cash	2,239	3,603	11,939	15,686
Less inc in W Cap	1,031	-92	5,250	11,024
Net Op Cash	1,208	3,694	6,689	4,662
Inc. in Assets	2,463	3,547	5,144	688
Free cash Flow	-1,256	148	1,545	3,973
Inc in Equity	0	0	5,980	0
Inc in Reserves	539	1,066	-4,847	7,982
Inc in Debt	208	131	3,239	975
Inc in Other Liabs.	-1,528	-510	-523	-11,845
Total Sources	-780	687	3,850	-2,887
Change in cash	-2,036	834	5,395	1,086
Beg. cash balance	2,260	224	1,058	6,453
End cash balance	224	1,058	6,453	7,539



Price change	OCAI	MSM30
1 month return	26%	6%
3 month return	137%	7%
1 Year return	379%	15%

Key Ratios

	2004	2005	2006E	2007E
EBIDTA%	13.31	12.55	15.76	13.76
EBIDT%	5.47	6.34	11.36	10.20
NPM%	3.80	4.30	8.70	7.96
ROE%	17.57	27.27	68.15	53.57
ROCE%	7.04	9.73	20.24	17.10
Debt Equity (X)	1.02	2.24	1.95	1.38

Valuation

	2004	2005	2006E	2007E
EPS	0.015	0.029	0.114	0.149
P/E	83.22	43.72	11.05	8.47
EV/EBIDTA	23.17	16.70	7.29	5.93
MCAP/Sales	3.16	1.88	0.96	0.67
Book value	0.094	0.119	0.218	0.342
P/B	13.97	10.89	5.97	3.80

Share Holding Pattern	MN Shares	% Holding
Draka Holding	30.95	34.7
Mustafa Muktar	11.21	12.5
Husain Salman	9.74	12.0
Others	32.90	40.7
Total	80.90	100.0

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