

Result Update

July 30, 2007

Sector

Industrial

CMP

RO 4.00

Face Value

1.00 RO

Equity Capital

RO 7.52MN

52 Week H/L

4.40/2.0

Market cap

RO 30.08 MN

Bloomberg /Reuters

HECI OM /AHEC.OM

MSM Index

6425



Price change	HECI	MSM30
1 Month return	-7.0	1.5
3 month return	-6.0	9.9
1 Year return	86.6	35.8

Number of shares (in MN)	% Holding	
Hassan Salman	13.42	20.0
Maqbool Salman	13.42	20.0
Al Hassan Electricals	13.42	20.0
Others	26.85	40.0
Total	67.14	100.0

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Al Hassan Engineering - 2QFY07 result update**BUY****Key Highlights**

Q207 revenues are down 7% yoy at RO9.8mn, operating profits are up 28% yoy on account of a margin expansion of 409bps to 14.87% from 10.78% last year. However, higher depreciation and interest charges have led to a 35% yoy decline in profits to RO411k from RO631k last year. Despite the lower growth in revenue and profits in the quarter, we maintain our positive bias on the stock, as we believe, that an order book of RO60mn, should sustain a revenue growth of 25% yoy FY07, an improvement in margins and reduction interest costs (working capital debts are paid off over subsequent quarters) will drive a net profit growth of 22% for FY07E. We maintain our net profit estimate of RO3.5mn, despite the lower than expected performance.

Q207- result analysis**Revenue Growth**

Q207 revenues at RO 9.8mn are down 7% yoy, as compared to RO10.5mn last year. The lower revenue growth in the quarter as seen in the previous quarter, is on account of delay in certain mile stone completion for a large order (BHEL order), which has resulted in lower recognition of revenue. As a result, the H1FY07 revenues of RO20.9mn are well below our full year revenue target of RO56mn. However, the management expects revenue growth to pick up in the subsequent quarters, as RO19mn is currently shown as work in progress, which should be booked over the subsequent quarters.

EBITDA margin expansion

The improvement in EBITDA margins continues as Q2FY07 margins at 14.87% are up 409bps yoy and 249bps qoq. The margin improvement can be attributed to increasing contribution of higher margin orders (that were awarded in 2006) in the current revenue mix. The current margins are much higher than our estimate of 12% for the full year and we expect the margins to come down going forward as the pace of revenue recognition increases. However, we believe that quarterly revenue and margin trends for contracting companies are strictly not true indicators of full year performance, due to timing differences of various orders and their completion schedules.

Lower than expected net profits

Despite the improved operating margins and 28% yoy growth in EBITDA, net profits are down 35% yoy and 32% qoq. Higher depreciation expenses (up 105% yoy) and interest costs (up 680% yoy) are the main reasons for the decline.

Depreciation expenses

The company has made heavy investment in plant & equipment, to take advantage of the future business growth. Which is reflected in the fixed assets that have gone up to RO 9.1 million in H1FY07 from RO 5.1mn in H1FY06, an increase of 102%. This has resulted in higher depreciation expenses. However, we believe that is a positive sign, as it is an indication of the future potential in the business.

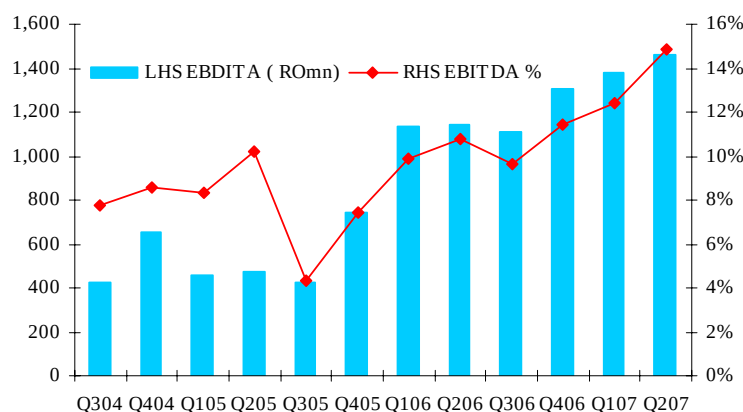
High interest costs

The fact that new contracts have back-ended cash flows increases the finance costs for the company, as it has to fund the working capital requirements through loans. In addition, the term loans have also increased as the company has invested in additional equipment. Borrowings, both current and long-term are at RO22mn in H1FY07, as against RO4mn in H1FY06 and RO19mn in Q1FY07. We expect the borrowing costs to come down as the milestone payments are recovered in the subsequent quarters, and the working capital loans (which account for RO15.7mn of borrowings) will be paid off.

Result Highlights (RO 000)

Profit and loss	Q1FY07	Q2FY06	Q2FY07	YOY%	QOQ%
Revenues	11,165	10,573	9,810	-7.2	-12.1
Direct Costs	9,514	9,227	8,069	-12.6	-15.2
Gross Profits	1,651	1,346	1,741	29.3	5.5
Admin & General Exps	269	206	282	36.9	4.8
Total Costs	9,783	9,433	8,351	-11.5	-14.6
EBIDTA	1,382	1,140	1,459	28.0	5.6
EBIDTA margin	12.38	10.78	14.87		
Depreciation	457	295	606	105.4	32.6
EBIT	925	845	853	0.9	-7.8
Interest Costs	274	50	390	680.0	42.3
Operating PBT	651	795	463	-41.8	-28.9
Tax	48	164	52	-68.3	8.3
Net profit	603	631	411	-34.9	-31.8

EBIDTA (RO 000) vs EBIDTA margin%



Major orders under execution

Order Details	Value in RO mn	Expected Completion
Mukahaizna & Qarn Alam	11	2008
Sohar Aluminium Smelter	3	2007
Oman Aromatics	3.5	2007
PDO additional Flow Lines	NA	2007

Expected Order Details

Order
MEI for 2000MW Power plant in Fujairah -2
OPIC Oman, Sohar
MEI for Jabel Ali
Daleel Gas- gas separation facilities

Order received in Q207

Order Details	Value in RO mn	Expected Completion
Salalah Methanol	41	2009
Majis Industrial Services	3	2007
Sohar Aromatics	2	2007

Order book status

The current order book including RO19mn of WIP is estimated to be about RO60mn, which are 1.1x FY07E sales. We expect the order book to increase further over the next 12- 14 months, as the company is pre qualified for a number of major high value orders, that it is currently bidding for. We expect these orders to add to the order book substantially going forward.

Outlook

- ✓ Although the H1FY07 results are below our full year target, both in terms of revenue and net profits, we have not revised our estimates downwards, as we believe that the next two quarters will be much higher than the Q1 and Q2, as the revenue recognition for the BHEL contract kicks in. We maintain our revenue estimate of RO56mn for FY07E.
- ✓ We expect interest expenses come down over the next 2-3 quarters as the work in process is recognized on the P&L, resulting in a reduction of short-term working capital loans.
- ✓ Although the depreciation expenses are largely inline with our estimates, we have increased it marginally, as we anticipate additional investments in equipment going forward.
- ✓ We estimate the EBIDTA margins to come down in the subsequent quarters, as higher income will be recognized in the H2FY07. We maintain our net profit estimate RO3.50mn for FY07E, which represents a 22% yoy growth

Valuation and Recommendation

At the current price of RO4.0 the stock is trading at PE of 8.6x FY07E estimates. On a EV/EBIDTA basis it is trading at 6.9x FY07E estimates. We reiterate our BUY recommendation on the stock, as the valuation is attractive, given the strong growth prospects and possible upward revision of estimates. The stock has lost close to 10% off late on account of the lower than expected performance in the quarter, we believe that this should be used as buying opportunity as the long term fundamentals remain stable.

Valuation (RO 000)

	FY2004	FY2005	FY2006	FY2007E
Revenue	21,576	29,900	43,353	56,216
Operating profit	1,764	2,102	4,690	6,726
Operating margin	8.18	7.03	10.43	11.97
PAT	334	808	2,866	3,502
EPS	0.045	0.107	0.381	0.466
P/E	80.32	37.1	10.49	8.59
EV/EBIDTA	26.1	21.9	9.80	6.85

Income Statement

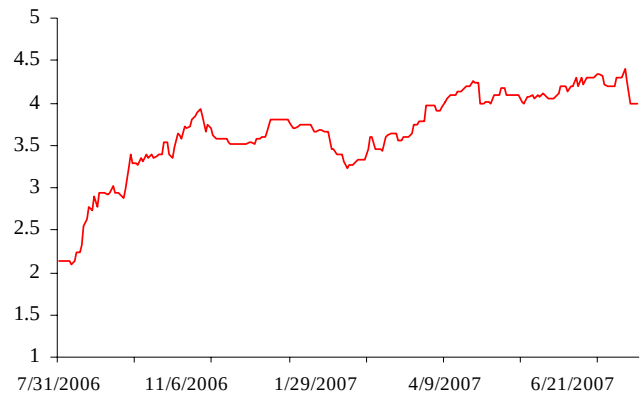
RO '000	FY2004	FY2005	FY2006	FY2007E
Sales	21,576	29,900	44,973	56,216
Material Costs	8,945	12,336	20,552	24,229
Other Costs	10,867	15,463	19,731	25,260
Total Opt. Costs	19,812	27,798	40,283	49,490
Gross profit	1,764	2,102	4,690	6,726
Depreciation	1,038	1,044	1,420	2,000
Operating profits	492	1,058	3,269	4,726
Interest costs	327	359	522	800
Operating PBT	164	699	2,748	3,926
Other Income	173	120	453	50
PBT	337	819	3,201	3,976
Tax	3	10	334	475
PAT	334	809	2,867	3,502

Balance Sheet

RO '000	FY2004	FY2005	FY2006	FY2007E
Equity Capital	6,715	6,715	6,715	7,521
Reserves	(1,701)	(1,118)	1,881	4,577
Net worth	5,014	5,597	8,596	12,098
Total debt	5,445	1,529	14,949	18,414
Total Liabilities	10,459	7,126	23,545	31,289
NFA & intangibles	4,500	4,956	8,579	10,579
Current Assets	13,283	19,248	26,227	34,270
Less Cur.Liabilities	7,323	17,079	11,261	13,560
Total Assets	10,459	7,126	23,546	31,289

Cash Flow Statement

RO '000	FY 2004	FY 2005	FY 2006	FY 2007E
Net profits	334	809	2,867	3,502
Depreciation	306	465	692	2000
Gross Cash	641	1,274	3,559	5,502
Less inc in W Cap	510	(7,211)	14,613	4,979
Net Op Cash	131	8,485	(11,054)	523
Inc. in Assets	411	921	4,315	4,000
Free cash Flow	(280)	7,563	(15,369)	(3477)
Inc in Equity	-	-	-	806
Inc in Reserves	(222)	(227)	133	(806)
Inc in Debt	310	(3,982)	13,210	4,172
Inc in Other Liabs.	43	67	210	71
Total Sources	131	(4,142)	13,553	4,243
Change in cash	(150)	3,421	(1,816)	766
Beg. cash balance	200	51	3,472	1,655
End cash balance	51	3,472	1,655	2,421



Growth%

	2004	2005	2006	2007E
Sales	30.4	38.6	50.4	25.0
EBIDTA	3.7	19.2	123.1	43.4
Operating profit	-14.4	115.2	209.1	44.6
PBT	-9.9	143.1	290.7	24.2
PAT	-5.2	141.9	254.4	22.1
Gross FA	4.0	8.6	37.1	25.1

Financial Ratios

	2004	2005	2006	2007E
EBIDTA Margin	8.2%	7.0%	10.4%	12.0%
Operating margin	2.3%	3.5%	7.3%	8.4%
Net margin	1.6%	2.7%	6.4%	6.2%
Debtor Days	69.0	103.3	47.2	44.5
Inventory Days	154.8	89.3	152.3	162.3
Receivable days	123.3	208.5	91.4	88.0

	2004	2005	2006	2007E
EPS	0.044	0.108	0.381	0.466
Cash EPS	0.214	0.246	0.570	0.732
Book vale	0.667	0.744	1.143	1.609
ROE%	6.74	15.25	40.40	33.84
ROCE%	4.45	8.19	12.34	8.95
PEX	89.96	37.19	10.49	8.59
EV/EBIDTA	26.12	21.92	9.83	6.85
EV/Orderbook	1.84	0.90	0.74	0.76

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