

## Industry

### Valuation Summary (TTM)

Price (RO)	0.434
PER (x)	14.8
P/Book (x)	3.0
P/Sales (x)	3.7
EV/Sales (x)	3.9
Free Float (%)	50%
Shares O/S (mn)	220
YTD Return (%)	25%
Beta	1.2

(mn)	OMR	USD
Market Cap	95	248
Enterprise value	91	237

Price performance (%)	1M	3M	12M
AACT	0%	-7%	65%
MSM 30 Index	1%	-3%	10%
Services Index	3%	6%	55%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	0.05	0.05	0.10
Avg Daily Volume (,000)	111	118	259

52 week	High	Low	CTL*
Price (RO)	0.641	0.263	65.3

\* CTL is % change in CMP to 52wk low

### Major shareholders

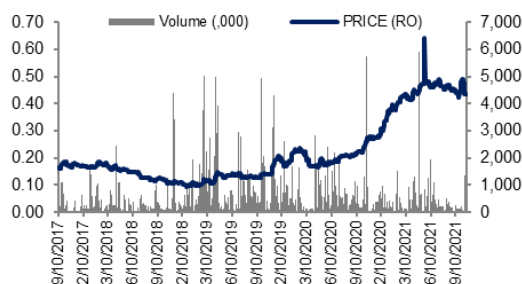
Al Jazeera Services SAOG	37.0%
Tharwa Invest Muscat	7.3%
Public Authority for Social Insurance	6.1%
Others	49.6%

### Other details

Exchange	MSM
Sector	Industry
Index weight (%)	3%

Key ratios	2018	2019	2020
EPS (RO)	0.004	0.009	0.020
BVPS (RO)	0.169	0.171	0.405
DPS (RO)	0.008	0.008	0.020
Payout ratio (%)	200	86	99

Valuation	2020	2021E	2022E
P/E Ratio (x)	7.3	26.3	21.7
Price/Book (x)	1.5	1.5	1.5
Price/Sales (x)	1.6	1.6	1.5
EV/EBITDA (x)	3.4	5.1	5.2
Dividend Yield	4.2%	4.2%	4.2%



## Al Anwar Ceramics SAOG

Al Anwar Ceramics (AACT) has reported 9M21 total revenue of RO 20.49 million as compared to 18.05 million in 9M20, registering a growth of 13.6%. Net income for the period grew by 78.2% to RO 4.75 million as compared to RO 2.67 million a year ago. The company operates in a positive macro and business environment which bodes well for all players in the sector. Higher oil prices, wider acceptance for anti-dumping measures by GCC countries, and full reopening of economic activities are expected to be supporting factors for demand growth in ceramic tile products. AACT, with its capacity expansion program slated to be commissioned in early 2022, is ahead of competition to benefit from the favourable business environment. We increase our 12-Month target price on the stock to RO 0.534/Share, and maintain **STRONG BUY** recommendation.

**Peak capacity utilization and stable performance continues:** AACT reported 9M21 total revenue of RO 20.49 million as compared to 18.05 million in 9M20, registering a growth of 13.6%. Net income for the period grew by 78.2% to RO 4.75 million as compared to RO 2.67 million a year ago. Gross revenue during 3Q21 came at RO 6.30 million as compared to RO 6.90 million in 3Q20 and RO 6.48 million in 2Q21, registering decline of 8.7% and 2.9% y/y and q/q respectively. We assume that the movement restrictions and complete lockdowns that were effective for most part of 3Q21 have resulted in lower activity levels during the quarter, and reflected in the revenue decline. The company registered relatively higher level of investment income of RO 923K during 6M21. We assume that a normalization of investment income also affected revenue growth in 3Q21.

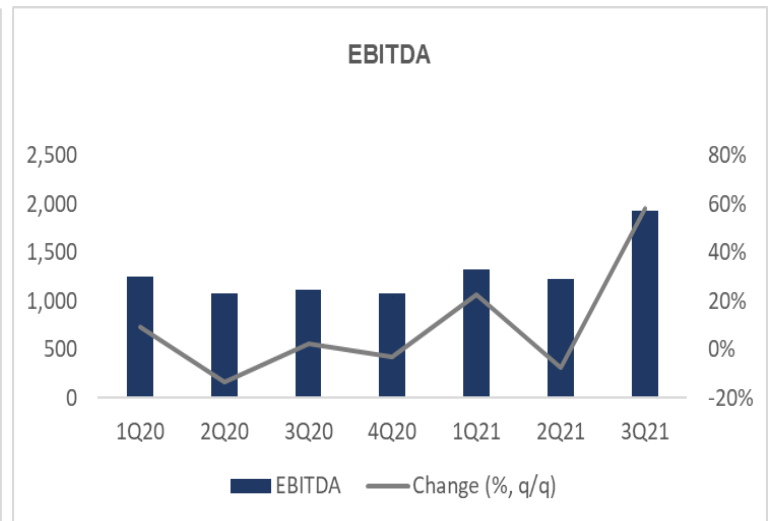
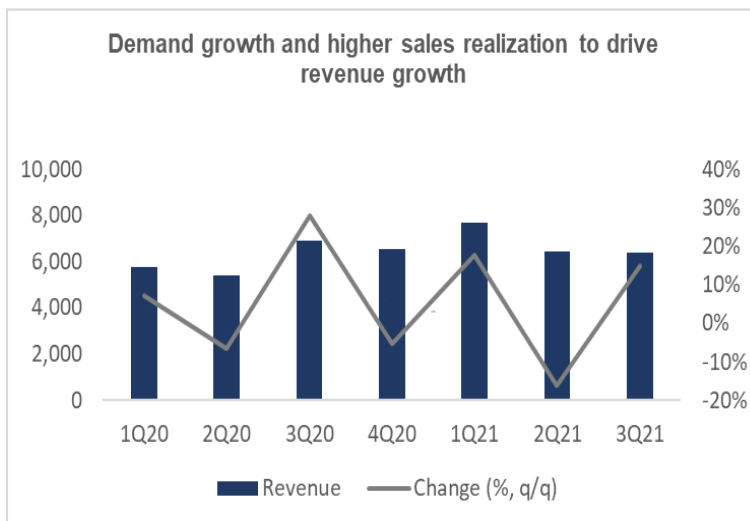
AACT's 3Q21 net income of RO 1.25 is the lowest in last 5 quarters, and is down 2.8% and 15.6% on y/y and q/q basis respectively. We attribute the profit decline to lower level of economic activities experienced in Oman and a q/q decline in investment income. Despite challenging operating environment on account of Covid-19 related lockdowns and reduced construction activities in the region, AACT managed to maintain its 3Q21 net margin at 19.9% which is +121 bps and -301 bps on y/y and q/q respectively.

**Positive macro and business environment bodes well for continued sector growth:** We expect the buoyancy in regional housing market to remain at higher levels in 4Q21 and extend into 2022 as well. We see the reopening of economies after prolonged lockdowns are gathering pace across regional markets. The higher oil prices and forecasts of oil prices remaining at elevated levels over the short to medium term are likely to give governments much needed confidence for increased budgetary allocations to capital spending in 2022. We expect the competition from Indian and Chinese imported ceramic tiles to remain at low levels after UAE's decision to implement the anti-dumping duty starting from July 2021. Saudi Arabia's imposition of anti-dumping duties on products imported from China and India has helped the regional ceramic manufacturers in registering growth in both volume and realization over the last two years. UAE adopting similar measures should help the regional ceramic producers to achieve further growth in unit sales realization as the market remains as net importer of ceramic tiles. The fundamental shift in region's ceramic tiles sector should help the company to serve the supply deficient market in a better manner while increasing revenue and profit margins. The renewed optimism in Saudi housing sector and lower competition from Indian and Chinese importers also bodes well for higher realization levels and profit margins through 2021-23.

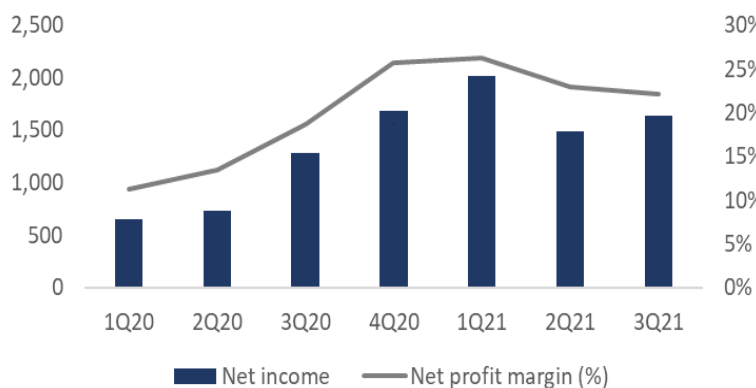
**AACT's capacity expansion to become live in 1Q22, a first mover advantage:** AACT is in the process of expanding its capacity by more than 20% from existing 16 million square meters per annum to 19.5 million square meters per annum. The company expects new line to be commissioned by early 1Q22, and is aimed at addressing the demand from Saudi Arabia. The management has a history of achieving peak capacity utilization from new lines very quickly, and we estimate the company to achieve peak utilization within a few months from commissioning. The management expects higher unit realizations from the new line, which should help in maintaining margins at elevated levels. We also note that barring the exception of Al Hael Ceramic, there are no new capacities in the region that are expected to be added during FY2022. We believe that AACT is at a sweet spot to capitalize on this opportunity, and achieve higher market share from FY22E.

**Strong balance sheet and efficient working capital management:** The company had announced plans for further expansion of capacity to 23 million square meters in 2023 subject to favourable market conditions. Post capital reduction in 2Q21, AACT has cash and investments of RO 11 million. This amount along with FCFF should be sufficient to fund the new expansion and for maintaining high dividend payout in excess of 80% over 2021-23E. Higher demand for products from local marketeers helped companies to gain control over their receivables and effectively manage working capital. AACT managed to maintain its collections days which is showing a decline from average of 173 days in FY18 and FY19 to an average of 118 days in last two years. Nevertheless, inventory days seen some upside downs yet it had a stable trend with average of 116 days in the last 2 years. Payable's days observed slight increase since 2Q20 of 91 days.

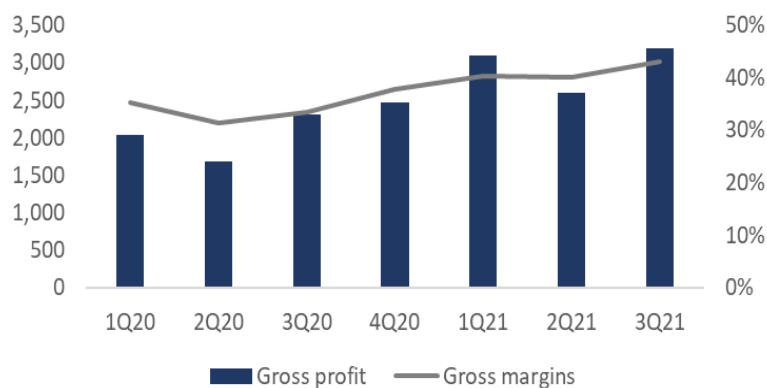
**Premium valuations justified on growth outlook:** AACT shares are currently trading at FY21E and FY22E P/E of 15.4x and 13.8x respectively. We feel that the higher FY22E P/E commanded by AACT over its regional peers are justified when we consider the earnings growth potential for the company through 2021-23E. The company's FY22E EV/EBITDA of 8.9x is in line with the regional average and undermines the earnings growth potential the company possesses in the short term. On a P/B basis, the shares are trading at 2.6x while offering ROE of 19%. Additionally, we estimate the company to maintain dividend payout ratio of 80%, which results in potential dividend yield of 5.2% which is superior as compared to its regional peers. We believe that AACT shares should warrant premium valuations as compared to regional peers due to the higher quality of earnings stemming from cost competitiveness and timely expansions. We increase our target price on the stock to RO 0.534, offering upside potential of 23% from current levels. At the target price, the shares would trade at 11.0x FY22E EBITDA. We maintain our STRONG BUY rating on the stock.



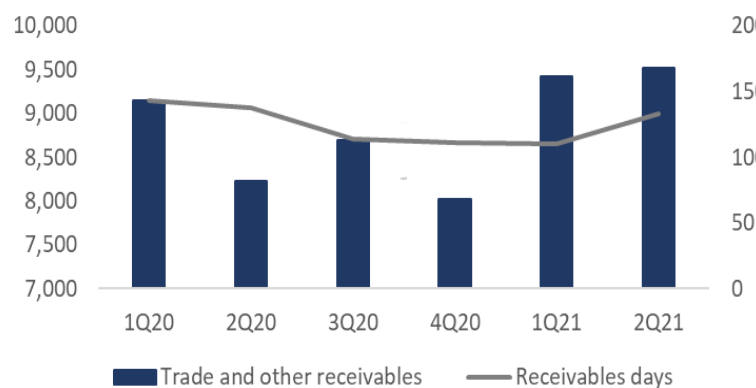
**Estimated Net Profit of RO**



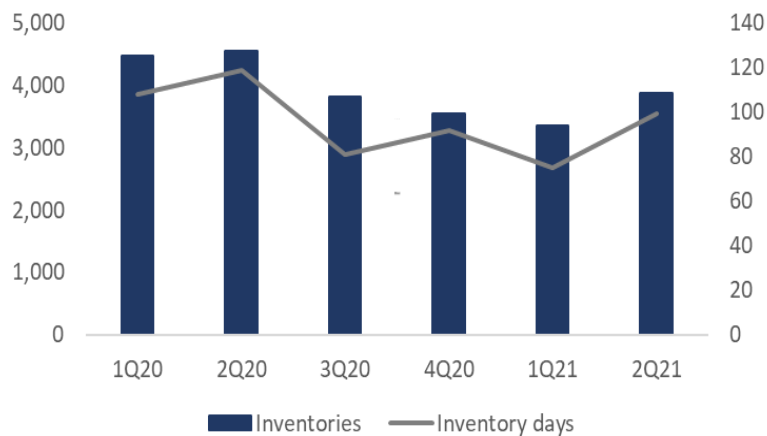
**Gross Margins to reach 44%**



**Efficient Working Capital Management**



**Capacity Utilization helped reducing Inventory**



Income Statement	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	5,753	5,380	6,885	6,524	7,683	6,448	6,360
Cost of sales	3,722	3,449	4,257	3,487	4,016	3,514	
<b>Gross profit</b>	<b>2,032</b>	<b>1,683</b>	<b>2,303</b>	<b>2,464</b>	<b>3,089</b>	<b>2,589</b>	
Other income	9	4	15	3	30	33	
Salaries & other employee related costs	0	0	0	1,644	0	0	
General & Administrative expenses	550	580	510	-1,266	575	601	
Selling & distribution expenses	699	502	599	699	745	619	
<b>Operating Profit</b>	<b>791</b>	<b>605</b>	<b>1,209</b>	<b>3,035</b>	<b>1,800</b>	<b>1,402</b>	
<b>Total Expenses</b>	<b>1,250</b>	<b>1,082</b>	<b>1,109</b>	<b>1,077</b>	<b>1,320</b>	<b>1,220</b>	<b>4,888</b>
Profit from operations for the year	791	605	1,209	1,391	1,800	1,402	
Net gains from FV through profit & loss	0	0	0	0	0	0	
Investment Income	0	248	324	574	578	346	
Finance income	0	0	0	0	0	0	
Finance costs	4	3	3	22	3	3	
<b>Profit before tax</b>	<b>787</b>	<b>850</b>	<b>1,530</b>	<b>1,942</b>	<b>2,374</b>	<b>1,745</b>	<b>1,472</b>
Taxation	136	124	243	264	359	262	221
<b>Profit after tax</b>	<b>651</b>	<b>727</b>	<b>1,287</b>	<b>1,678</b>	<b>2,015</b>	<b>1,483</b>	<b>1,251</b>

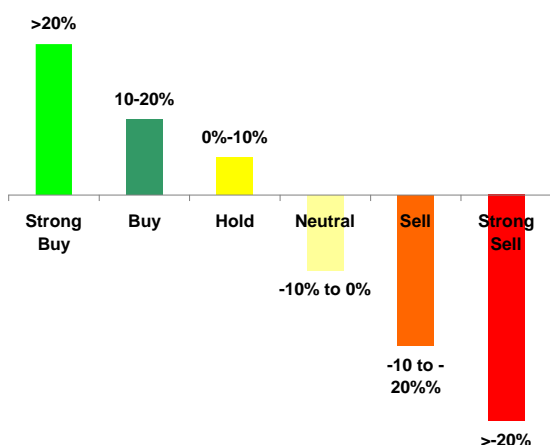
Balance Sheet (Quarterly)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
PPE	13,996	13,640	13,207	13,392	13,084	13,493
RoU Assets	601	601	601	529	529	529
FVOCI	1,889	2,119	2,339	2,167	6,881	2,252
Investments	0	3,852	7,321	0	0	4,237
Non-current portion of debt instruments at	0	0	0	0	0	0
<b>Total non-current assets</b>	<b>16,486</b>	<b>20,212</b>	<b>23,468</b>	<b>16,088</b>	<b>20,494</b>	<b>20,511</b>
FV through profit or loss investments	0	0	0	7,321	0	0
Debt instruments at amortised costs	10,034	8,008	7,289	10,300	10,886	3,964
Financial assets at amortised costs	0	0	221	0	0	0
Inventories	4,467	4,550	3,820	3,555	3,356	3,883
Trade and other receivables	9,151	8,225	8,690	8,023	9,421	9,524
Cash & Cash balance	1,461	1,949	1,087	789	979	833
<b>Total current assets</b>	<b>25,114</b>	<b>22,732</b>	<b>21,107</b>	<b>29,988</b>	<b>24,642</b>	<b>18,203</b>
<b>Total assets</b>	<b>41,600</b>	<b>42,944</b>	<b>44,575</b>	<b>46,077</b>	<b>45,137</b>	<b>38,714</b>
Non current portion of lease liabilities	490	490	490	462	462	462
Employees EOSB	786	803	809	870	889	909
Deferred tax liability	399	399	399	326	326	326
<b>Total non current liabilities</b>	<b>1,675</b>	<b>1,693</b>	<b>1,699</b>	<b>1,658</b>	<b>1,678</b>	<b>1,697</b>
Current portion of lease liabilities	125	125	125	93	93	93
Trade and other payables	3,294	3,657	3,532	3,311	3,885	4,171
Dividend	0	0	0	0	0	0
Income tax payable	136	260	503	824	1,183	627
<b>Total current liabilities</b>	<b>3,555</b>	<b>4,042</b>	<b>4,160</b>	<b>4,228</b>	<b>5,161</b>	<b>4,891</b>
<b>Total liabilities</b>	<b>5,231</b>	<b>5,735</b>	<b>5,859</b>	<b>5,885</b>	<b>6,838</b>	<b>6,588</b>
Share capital	29,621	29,621	29,621	29,621	29,621	22,000
Equity Investment reserve	-962	-732	-512	-714	-624	-657
Legal reserve	6,666	6,666	6,666	7,100	7,100	7,100
Retained earnings	1,045	1,653	2,941	4,184	2,200	3,683
<b>Total equity</b>	<b>36,370</b>	<b>37,209</b>	<b>38,716</b>	<b>40,191</b>	<b>38,298</b>	<b>32,127</b>
<b>Total equity &amp; liabilities</b>	<b>41,600</b>	<b>42,944</b>	<b>44,575</b>	<b>46,077</b>	<b>45,137</b>	<b>38,714</b>

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### Rating Criteria and Definitions

Rating	Rating Definitions
<b>Strong Buy</b>	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
<b>Buy</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
<b>Hold</b>	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
<b>Neutral</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
<b>Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
<b>Strong Sell</b>	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe



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