

## Industry

### Maintain BUY: 12M TP @ 0.565

#### Valuation Summary (TTM)

Price (RO)	0.480
PER TTM (x)	10.7
P/Book (x)	2.4
P/Sales (x)	2.6
EV/EBITDA (x)	6.5
Dividend Yield (%)	6.8
Free Float (%)	50%
Shares O/S (mn)	55
YTD Return (%)	8%
Beta	0.6

(mn)	OMR	USD
Market Cap	26	69
EV	24	62

Price performance (%)	1M	3M	12M
Al Maha Ceramics Co SAOC	3%	9%	-7%
MSX 30 Index	-4%	-6%	9%
MSX Industry Index	-4%	4%	-2%

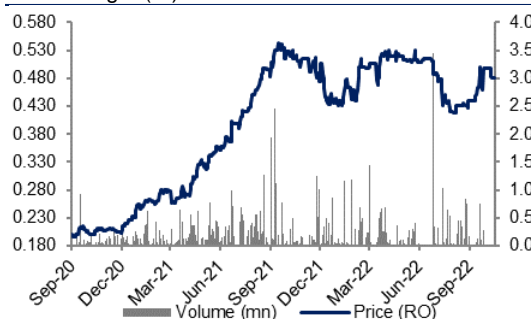
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO ,000)	43	55	57
Avg Daily Volume (,000)	62	124	121

52 week	High	Low	CTL*
Price (RO)	0.530	0.418	14.8

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

Major shareholders	
Al Anwar Investments	23.7%
Masoud Hamid Malik Al Harthy	14.9%
Oman Investment Authority	11.8%
Others	49.6%

Other details	
Exchange	MSX
Sector	Building Ma
Index weight (%)	NA



## Al Maha Ceramics SAOG

Al Maha Ceramics (AMCI) reported its 9M22 revenue at RO 7.61 million, marginally higher by 3% compared to the same period previous year. EBITDA during the nine-month period came in at RO 2.86 million, which indicated a growth of 3%. EBITDA margins witnessed a decline of 40 bps to 29% compared to the same period previous year. Moderate growth in revenues and declining margins left net income flat for the 9M22 at RO 1.86 million which was only 1% higher compared to 9M21. During the quarter Al Maha completed its acquisition of Al Hael Ceramics Company. It currently owns 45% of the company and reports it as an associate investment. Pre-operating expenses due to this acquisition weighed on AMCI this quarter and losses are expected to continue until Al Hael achieves breakeven capacity utilization. This led to our FY22E net income estimates revised downwards by 15%. However, cash rich position allows us to maintain FY23E DPS estimates at RO 0.035. With additional capacities coming into place, on a consolidated level we expect FY22 revenue at RO 10.6 million and net income at RO 2.1 million. At current prices, the company trades at FY23E P/E of 13x and dividend yield of 4%. We cut our 12M target price by 10% to RO 0.565/share while maintaining our BUY rating. The target price offers upside potential of 17.7% from current levels.

**Revenue growth flat:** AMCI's 3Q22 revenue came at RO 2.58 mn as compared to RO 2.48 mn in 3Q21 and RO 2.47 mn in 2Q22. This translates to y/y and q/q growth of about +4.5%. 9M22 revenue came at RO 7.61 mn, as compared to RO 7.36 mn a year ago, registering a tepid growth of 3%. The revenue has been flat on a q/q basis for the last six quarters. Uptrends in housing market, demand growth from GCC along with lessened competition from China and India has helped AMCI maintain topline at current levels. Management has highlighted the buoyancy in business volumes, and we expect current peak capacity utilization to continue. Going forward additional capacities from Al Hael will also add to the growth in revenue.

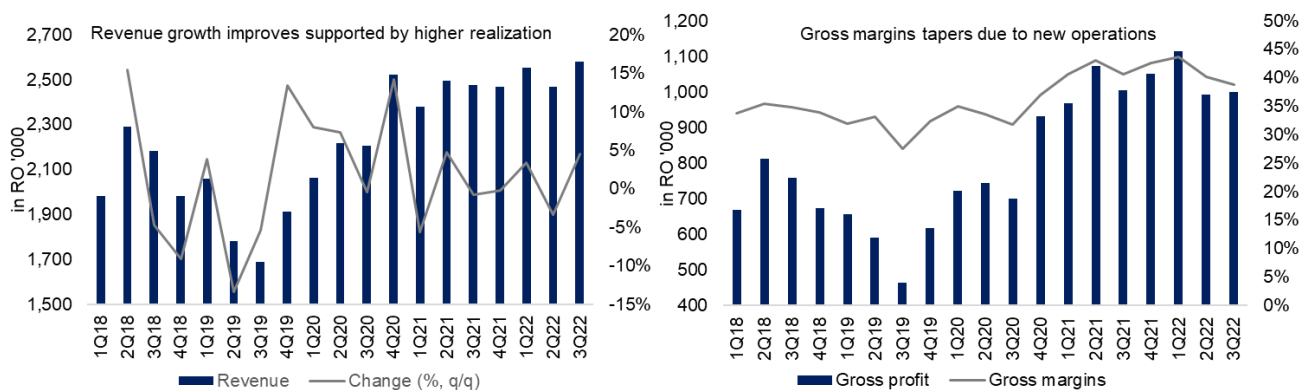
**Al Hael capacities on stream:** AMCI recently acquired 45% stake in Al Hael ceramics at an investment value of RO 2.1 mn. Al Hael has a capacity to produce 18mn sqm of tiles and is the only producer of porcelain in the country. The deal provides AMCI an opportunity to manage the operations of Al Hael for a fee of RO120k, brand products as AMCI own and share 10% of the profits for the next two years. The combined entity is expected to have a capacity of 24mn sqm making it the largest tile manufacturer in Oman. The company completed the first full month acquisition during this quarter. Pre operating expenses of RO 137k was booked as a share of loss from associate for this period, which dragged down the profits for the quarter. The trend in losses is expected to continue till the unit becomes break even. We expect losses to stabilize around RO 200-250k per month over the next six months. Break even capacity utilization would be around 50-60% and we expect this to be achieved within the next 12-15 months. Al Hael's commercial production is expected to start this December and the company plans to proceed with one line at a time. We expect a total of 4 lines will become operational only by late 1H23.

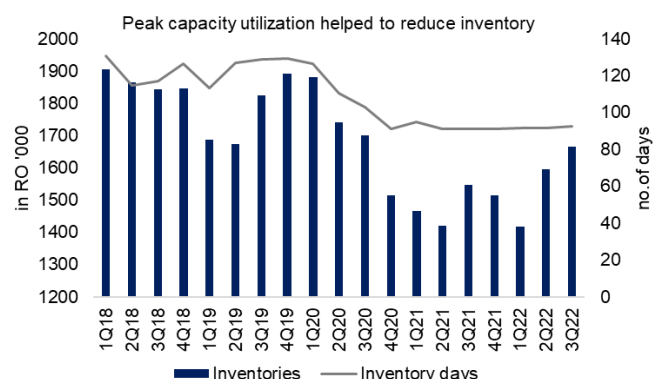
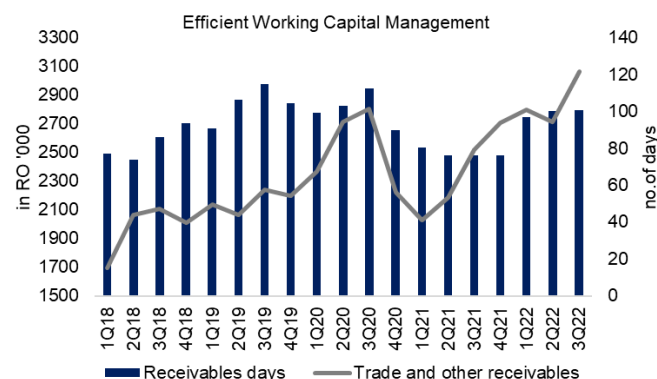
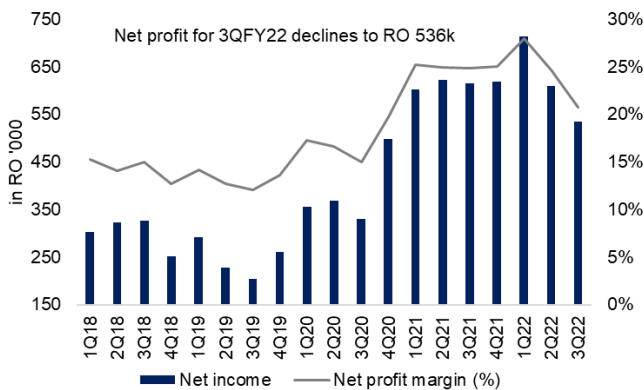
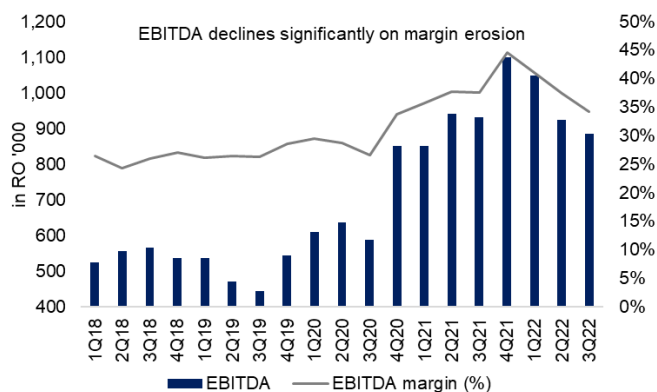
**Operational efficiencies:** AMCI maintains a debt free balance sheet which augers well in terms of return ratios, ROE 16%, and ROA 11%. Inventory levels were a tad higher this quarter, while delay in receipt of payments from dealers caused receivables to also move higher. Management continues to expect slight delays from dealers over the next three months. This quarter indicated a sudden spurt in payables, which was on account of non-payment of the investment value.

**Net income impact from new business:** Net margins came in at 24% for the quarter. This is about 200bps lower than the first two quarters of current year, but considering the impact of inflation and losses from Al Hael we believe the management has done a good job in maintaining the net margins at the current levels. Net income came in at RO 536k after accounting for RO 137K share of loss from associates. Adjusting for the loss the net income would have been higher by 9% y/y and 10% q/q.

**Cheap valuations; maintain BUY with reduced target price:** The company has a solid cash balance of RO 4.1 million and retained earnings of RO 4.2 million. This provides adequate cushion to investors with regards to dividend payout. The board proposed interim cash dividend of 20bz/Share to shareholders as on 15 November 2022, and we expect additional 15 bz in March. This will result in an attractive dividend yield of 7.3% at current market price. The cushion of cash, debt free status and high internal accrual make AMCI a safe bet despite slight erosion in net income. The high dividend yield and scope of significant appreciation in profits based on expanded capacities provide a dual opportunity for investors to participate in capital appreciation as well as receive regular income from dividends.

Based on the recent results and developments with regards to expansion, we cut our target price by 10% to RO 0.565/Share. We maintain our buy rating on the stock, offering upside potential of 17.7% from current market price in addition to immediate dividend yield of 4.2%. AMCI shares are trading at FY22E EV/EBITDA of 6.23x, P/E of 13.04x, and P/B of 2.34x. Multiple triggers will work favorably for the stock going forward, which will include revenue from expanded capacities, high cash flow accumulation and significant dividend payouts. We see that AMCI shares are trading at discounted valuations compared to its peers and believe it would warrant a major rerating once Al Hael turns break even.





Income Statement (in RO '000)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Revenue	2,065	2,217	2,207	2,521	2,381	2,495	2,476	2,470	2,555	2,469	2,582
Cost of sales	1,344	1,473	1,507	1,589	1,414	1,423	1,471	1,420	1,441	1,477	1,582
<b>Gross profit</b>	<b>721</b>	<b>744</b>	<b>700</b>	<b>932</b>	<b>967</b>	<b>1,072</b>	<b>1,006</b>	<b>1,050</b>	<b>1,114</b>	<b>992</b>	<b>1,000</b>
Admin & General expenses	137	157	126	138	137	165	138	171	143	145	117
Selling & distribution expenses	192	154	193	150	192	164	129	87	146	148	155
Other income	21	9	14	16	21	7	1	24	32	36	-81
<b>Operating profit</b>	<b>414</b>	<b>443</b>	<b>394</b>	<b>660</b>	<b>660</b>	<b>749</b>	<b>740</b>	<b>816</b>	<b>858</b>	<b>735</b>	<b>647</b>
Investment income	4	0	0	-46	4	0	0	0	0	0	0
Finance cost	2	9	5	26	2	18	10	9	8	10	9
<b>Profit before tax</b>	<b>417</b>	<b>434</b>	<b>389</b>	<b>588</b>	<b>662</b>	<b>732</b>	<b>730</b>	<b>807</b>	<b>850</b>	<b>726</b>	<b>638</b>
Taxation	61	65	58	89	61	110	115	188	136	116	102
<b>Profit after tax</b>	<b>356</b>	<b>369</b>	<b>331</b>	<b>498</b>	<b>602</b>	<b>622</b>	<b>615</b>	<b>619</b>	<b>714</b>	<b>610</b>	<b>536</b>

Balance Sheet (in RO '000)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
PPE	7,467	7,278	7,086	6,907	6,720	6,537	6,361	6,173	5,983	5,821	5,838
Investment in property	225	225	225	225	225	225	225	225	225	225	225
RoU Assets	492	467	454	464	464	656	637	598	579	559	538
											1,988
<b>Total non-current assets</b>	<b>8,183</b>	<b>7,970</b>	<b>7,765</b>	<b>7,596</b>	<b>7,409</b>	<b>7,418</b>	<b>7,222</b>	<b>6,995</b>	<b>6,786</b>	<b>6,606</b>	<b>8,588</b>
Inventories	1,881	1,741	1,701	1,515	1,467	1,419	1,547	1,514	1,418	1,595	1,664
Trade and other receivables	2,365	2,712	2,804	2,221	2,026	2,184	2,519	2,706	2,797	2,712	3,062
Investments	0	0	0	0	0	0	0	0	0	0	0
Cash and equivalents	242	482	335	1,752	1,454	2,038	2,688	3,390	2,057	3,218	4,150
<b>Total current assets</b>	<b>4,488</b>	<b>4,935</b>	<b>4,840</b>	<b>5,488</b>	<b>4,947</b>	<b>5,641</b>	<b>6,754</b>	<b>7,610</b>	<b>6,272</b>	<b>7,525</b>	<b>8,876</b>
<b>Total assets</b>	<b>12,671</b>	<b>12,905</b>	<b>12,605</b>	<b>13,084</b>	<b>12,357</b>	<b>13,059</b>	<b>13,977</b>	<b>14,605</b>	<b>13,058</b>	<b>14,131</b>	<b>17,465</b>
									0	0	0
Non current portion of lease liabilities	416	396	385	424	424	614	605	556	539	522	502
Employees EOSB	246	257	262	261	259	267	261	260	251	255	260
Deferred tax liability	349	349	349	320	320	320	326	284	284	284	284
<b>Total non current liabilities</b>	<b>1,011</b>	<b>1,001</b>	<b>996</b>	<b>1,004</b>	<b>1,002</b>	<b>1,200</b>	<b>1,191</b>	<b>1,099</b>	<b>1,073</b>	<b>1,060</b>	<b>1,045</b>
Current portion of lease liabilities	86	86	86	60	60	67	60	72	72	72	72
Bank borrowings	0	600	0	0	0	0	0	0	0	0	0
Trade and other payables	1,459	1,559	1,722	1,421	1,357	1,315	1,850	1,437	1,187	1,585	4,005
											250
Income tax payable	188	188	0	300	300	216	0	509	175	252	396
<b>Total current liabilities</b>	<b>1,733</b>	<b>2,433</b>	<b>1,808</b>	<b>1,780</b>	<b>1,716</b>	<b>1,598</b>	<b>1,910</b>	<b>2,018</b>	<b>1,433</b>	<b>1,910</b>	<b>4,723</b>
<b>Total liabilities</b>	<b>2,744</b>	<b>3,435</b>	<b>2,804</b>	<b>2,784</b>	<b>2,718</b>	<b>2,799</b>	<b>3,101</b>	<b>3,117</b>	<b>2,507</b>	<b>2,969</b>	<b>5,768</b>
Share capital	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Share premium	88	88	88	88	88	88	88	88	88	88	88
Legal reserve	1,698	1,698	1,698	1,833	1,833	1,833	1,833	1,833	1,833	1,833	1,833
Retained earnings	2,641	2,185	2,516	2,878	2,217	2,839	3,454	4,066	3,130	3,740	4,276
<b>Total equity</b>	<b>9,927</b>	<b>9,471</b>	<b>9,801</b>	<b>10,300</b>	<b>9,639</b>	<b>10,261</b>	<b>10,876</b>	<b>11,488</b>	<b>10,552</b>	<b>11,161</b>	<b>11,697</b>
<b>Total equity &amp; liabilities</b>	<b>12,671</b>	<b>12,905</b>	<b>12,605</b>	<b>13,084</b>	<b>12,357</b>	<b>13,059</b>	<b>13,976</b>	<b>14,605</b>	<b>13,058</b>	<b>14,131</b>	<b>17,465</b>

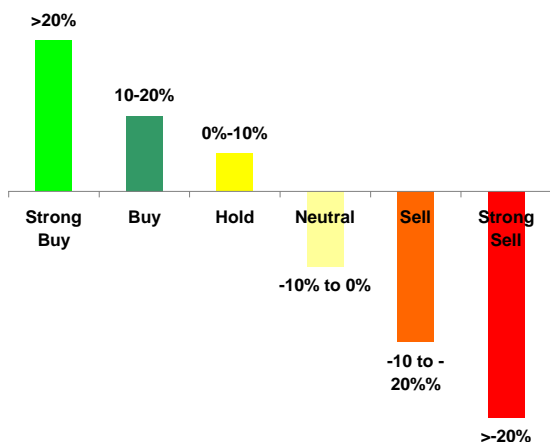
Ratio Analysis	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
<b>Valuation</b>											
Price	0.196	0.174	0.201	0.205	0.258	0.368	0.486	0.500	0.490	0.514	0.480
Price change (q/q)	9%	-11%	16%	2%	26%	43%	32%	3%	-2%	5%	-7%
PE	8.26	6.88	8.08	7.40	5.87	8.26	7.26	5.61	9.44	10.68	7.10
Price/Book	1.086	1.010	1.128	1.095	1.472	1.973	2.458	2.394	2.554	2.533	2.257
Dividend Yield	7.7%	8.6%	7.5%	11.2%	8.9%	6.3%	4.7%	6.0%	6.1%	5.8%	0.0%
EV/EBITDA	17.5	15.4	18.4	11.3	15.0	19.4	25.9	22.0	23.8	27.2	25.2
EV	10,624	9,774	10,806	9,583	12,795	18,269	24,102	24,182	24,965	25,124	22,322
EBITDA	609	636	587	851	851	941	931	1,099	1,048	925	885
Market Cap	10,780	9,570	11,055	11,275	14,190	20,240	26,730	27,500	26,950	28,270	26,400
<b>Per share</b>											
EPS	0.006	0.013	0.019	0.028	0.011	0.022	0.033	0.045	0.013	0.024	0.034
DPS				0.023				0.030			
BVPS	0.18	0.17	0.18	0.19	0.18	0.19	0.20	0.21	0.19	0.20	0.21
<b>Liquidity</b>											
Cash Ratio	0.14	0.20	0.19	0.98	0.85	1.28	1.41	1.68	1.44	1.69	0.88
Current Ratio	2.59	2.03	2.68	3.08	2.88	3.53	3.54	3.77	4.38	3.94	1.88
Quick Ratio	1.50	1.31	1.74	2.23	2.03	2.64	2.73	3.02	3.39	3.11	1.53
<b>Cash Cycle</b>											
Inventory Turnover	1.40	1.23	1.14	1.01	1.05	1.01	1.01	1.01	1.02	1.02	1.03
Accounts Payable Turnover	1.07	1.02	1.09	0.99	0.98	0.94	0.94	0.94	0.91	0.94	1.77
Receivables Turnover	1.10	1.15	1.25	1.00	0.89	0.84	0.84	0.84	1.08	1.12	1.12
Inventory Days	126	111	103	91	95	91	91	91	92	92	93
Payable Days	96	92	98	89	88	84	84	84	82	84	159
Receivable Days	99	103	112	90	80	76	76	76	97	100	101
Cash Cycle	130	122	117	92	87	83	83	83	107	108	34
<b>Returns Ratio</b>											
ROA	3%	5%	8%	12%	5%	9%	13%	17%	5%	9%	11%
ROE	3%	7%	10%	15%	6%	12%	17%	21%	7%	12%	16%
<b>DUPONT Analysis</b>											
Total Asset to Equity	1.28	1.36	1.29	1.27	1.28	1.27	1.29	1.27	1.24	1.27	1.49
Net Income/Sales	0.158	0.162	0.158	0.169	0.254	0.251	0.250	0.250	0.279	0.263	0.244
Sales/Total Assets	0.16	0.33	0.51	0.69	0.19	0.37	0.53	0.67	0.20	0.36	0.44
Dupont ROE	3%	7%	10%	15%	6%	12%	17%	21%	7%	12%	16%
<b>Profitability Ratio</b>											
Gross Margins	34.9%	34.2%	33.4%	34.4%	40.6%	41.8%	41.4%	41.7%	43.6%	41.9%	40.8%
Gross Margins QoQ	31.9%	33.1%	27.5%	32.3%	34.9%	33.6%	31.7%	37.0%	40.6%	43.0%	40.6%
EBITDA Margins	18.8%	19.4%	18.9%	20.9%	29.9%	30.0%	29.9%	30.2%	33.6%	31.7%	29.5%
EBIT Margins	18.8%	19.4%	18.9%	20.9%	29.9%	30.0%	29.9%	30.2%	33.6%	31.7%	29.5%
PBT Margins	18.6%	19.1%	18.6%	19.9%	29.8%	29.6%	29.5%	29.8%	33.3%	31.4%	29.1%
Net Margins	15.8%	16.2%	15.8%	16.9%	25.4%	25.1%	25.0%	25.0%	27.9%	26.3%	24.4%
Effective Tax Rate	15.0%	15.0%	15.0%	15.1%	15.0%	15.0%	15.2%	16.2%	16.0%	16.0%	16.0%
<b>Leverage</b>											
Total Debt	86	686	86	60	60	67	60	72	72	72	72
Net Debt	(156)	204	(249)	(1,692)	(1,395)	(1,971)	(2,628)	(3,318)	(1,985)	(3,146)	(4,078)
Total Capital	9,771	9,674	9,552	8,608	8,244	8,290	8,247	8,170	8,566	8,015	7,619
Debt/total Capital	1%	7%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Debt to Total Assets ratio	1%	5%	1%	0%	0%	1%	0%	0%	1%	1%	0%
Debt/Equity	0%	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Avg.Accounts Payable	2,918	1,559	1,148	947	2,713	1,315	1,233	958	2,373	1,585	4,005
Avg Inventory	3,762	1,741	1,134	1,010	2,933	1,419	1,031	1,009	2,835	1,595	1,664
Avg recivables	4,731	2,712	1,869	1,481	4,052	2,184	1,680	1,804	5,594	2,712	3,062
Asset Turnover	0.16	0.33	0.51	0.69	0.19	0.37	0.53	0.67	0.20	0.36	0.44
Working Capital to Sales	133%	58%	47%	41%	136%	83%	66%	57%	189%	112%	55%
Shares Outstanding ('000)	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000

## Key Contacts

Research Team	Contact Address
Joice Mathew	Majid Mohammed Redha Lawati
Sr. Manager - Research	Associate - Research
Email: joice@usoman.com	Email: majid@usoman.com
Tel: +968 2476 3311	Tel: +968 2476 3335
	PB 2566, PC 112
	Ruwi, Muscat
	Tel: +968 2476 3300

## 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



## Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.