

## Cement

**HOLD: 12M TP @ 0.367**

### Valuation Summary (TTM)

Price (RO)	0.350
PER TTM (x)	19.1
P/Book (x)	0.8
P/Sales (x)	1.7
EV/Sales (x)	1.1
EV/EBITDA (x)	5.8
Dividend Yield (%)	2.9
Free Float (%)	18%
Shares O/S (mn)	331
YTD Return (%)	14%
Beta	0.7

(mn)	OMR	USD	
Market Cap	116	301	
Enterprise Value	72	186	
<b>Price performance (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Oman Cement Co SAOG	-3%	3%	30%
MSX 30 Index	0%	1%	5%
Industry Index	-1%	-3%	7%
<b>Trading liquidity (,000)</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>
Avg daily turnover (RO ,000)	6	13	23
Avg Daily Volume (,000)	25	36	1,685
<b>52 week</b>	<b>High</b>	<b>Low</b>	<b>CTL*</b>
Price (RO)	0.368	0.272	28.7

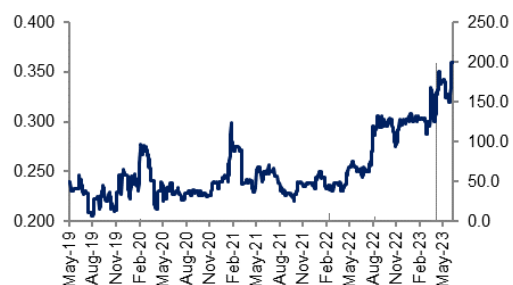
\* CTL is % change in CMP to 52wk low

### Major shareholders

Abra Holdings Ltd	64.7%
Civil Service Pension Fund	9.1%
PASI	8.5%
Others	17.7%

### Other details

Exchange	MSX		
Sector	Building Materials		
Index weight (%)	2.62%		
<b>Key ratios</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
EPS (RO)	0.016	0.013	0.015
BVPS (RO)	0.444	0.447	0.453
DPS (RO)	0.010	0.010	0.010
Payout ratio (%)	63%	77%	67%



## Oman Cement – Result Update

Oman Cement reported 1H23 revenue of RO 33.9mn vs. RO 33.6mn, a +0.9% YoY increase. The minuscule increase in revenue was mainly on account of increase in average realization from RO 19.4/mt to RO 20.8/mt, while the sales volumes decreased by 5.8% from 1.7MT in 1H22 to 1.6MT in 1H23. In terms of production, in 1H23, the company witnessed an increase of 14.2% in clinker production and a degrowth of cement production by 5.4% YoY. The 1H22 clinker production stood at 1.4MT vs. 1.2MT in 1H22, while cement production stood at 1.6MT vs. 1.7MT. The cement production to sales ratio stood at 99.5% in 1H23. The cost of sales/mt increased by 9.6% in 1H23 to RO 18/mt from RO 16.5/mt in 1H22. The key metric retaliation/MT stood out in 1H23, with a 7.2% YoY growth, although on a QoQ basis, it was down by 140bps.

While the 1H23 revenue growth was flat at 0.9%, the QoQ revenue de-grew by 10.3%, mainly due to reduced off take of sales volumes, which de-grew by 9% YoY. Before 1Q22, the company was severely affected due to supply from neighboring countries like UAE, which had excess capacities and were supplying to Oman market at a reduced price, however, post 1Q22, due to change in regulations and higher cost of transportation, the competitive pressure eased and the company has been a primary beneficiary of this. The company touched its peak cement capacity utilization to ~96% in 2022 and in 1H23, the same was at 91%, much higher than its 10-year average capacity utilization of 73%. With the thrust on infrastructure development and reduced competitive pressure, we expect the company to maintain higher utilization levels and high realization levels going forward.

Despite a de-growth of 13.5% in gross profit in 1H23, the company's profit before tax grew by 31.2% YoY, mainly on account of reduction of General and administrative expenses by 23% YoY and increase in interest income by 122%. The decrease in general and administrative expenses was mainly on account of decrease in staff salaries and directors' remuneration, besides reversal of impairment loss on financial assets. The reported net interest income was at RO 1.5mn in 1H23, as compared to RO 0.4mn in 1H22. The increase is mainly due to the company's policy of earning interest through interest rate arbitrage. However, the company has fully repaid its short-term borrowing of RO 35.0mn in 1H23, out of the excess cash balance it held. Going forward, given the need for cash for expanding its capacities, we do not expect the company to continue this treasury operations.

The company saw a change in ownership with the majority stake now being held by Huaxin group, where it initially acquired 59.58% directly from OIA and an additional 5.08% through open offer. This resulted in the company's free float shares shrinking to 35%.

Given the positive momentum in terms of volume growth, reduced competition from neighboring countries, change in management and the intended capacity expansion, we expect the company to maintain its growth momentum going forward. The stock is currently trading at RO 0.350, which is 16.9x our 2023E EPS. We maintain our target price of RO 0.367/Share for the stock. Due to the recent run-up in price on account of Abra's open offer, we are downgrading our rating on the stock to HOLD.

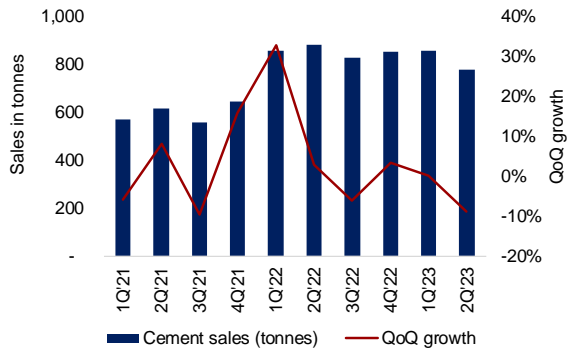
### Summary of key numbers

Volume details	2Q23	1Q23	QoQ (%)	2Q22	YoY (%)	1H23	1H22	YoY (%)
<i>Sales (Volumes)</i>								
Cement (tonnes)	779,116	855,860	-9.0%	880,474	-11.5%	1,634,976	1,736,441	-5.8%
Realisation/mt	20.59	20.89	-1.4%	19.26	6.9%	20.75	19.35	7.2%
<i>Production Volumes)</i>								
Clinker (tonnes)	727,200	688,339	5.6%	702,323	3.5%	1,415,539	1,239,331	14.2%
Cement (tonnes)	776,954	850,039	-8.6%	885,645	-12.3%	1,626,993	1,720,121	-5.4%
Cost of sales/mt	17.91	18.15	-1.3%	14.99	19.5%	18.04	16.46	9.6%
in RO Mn	2Q23	1Q23	QoQ (%)	2Q22	YoY (%)	1H23	1H22	YoY (%)
Sales	16,042	17,881	-10.3%	16,957	-5.4%	33,923	33,607	0.9%
Cost of Sales	-13,914	-15,430	-9.8%	-13,276	4.8%	-29,343	-28,312	3.6%
Gross profit	2,128	2,451	-13.2%	3,681	-42.2%	4,579	5,296	-13.5%
G&A Expenses	-843	-905	-6.8%	-1,389	-39.3%	-1,748	-2,279	-23.3%
Operating Profit	1,285	1,546	-16.9%	2,292	-43.9%	2,831	3,017	-6.1%
Profit before tax	2,081	2,786	-25.3%	2,676	-22.2%	4,867	3,708	31.3%
Profit after tax	1,799	2,392	-24.8%	2,273	-20.9%	4,190	3,174	32.0%
EBIDTA	3,066	3,422	-10.4%	4,178	-26.6%	6,488	6,757	-4.0%
Key Margin ratios	2Q23	1Q23	QoQ bps	2Q22	YoY bps	1H23	1H22	YoY bps
Gross Margin (%)	13.3%	13.7%	-0.4	21.7%	-8.4	13.5%	15.8%	-2.3
Operating Margin (%)	8.0%	8.6%	-0.6	13.5%	-5.5	8.3%	9.0%	-0.6
EBIDTA margin (%)	19.1%	19.1%	-0.0	24.6%	-5.5	19.1%	20.1%	-1.0
PBT margin	13.0%	15.6%	-2.6	15.8%	-2.8	14.3%	11.0%	3.3
NPM (%)	11.2%	13.4%	-2.2	13.4%	-2.2	12.4%	9.4%	2.9

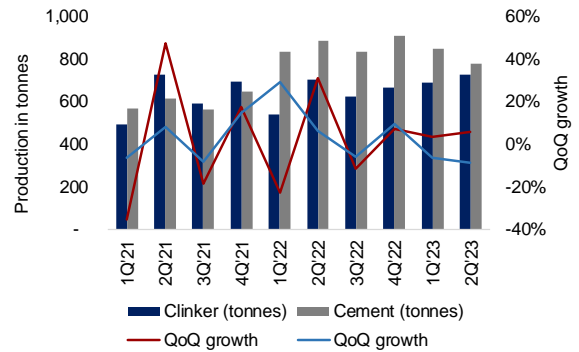
P&L (in RO'000)	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23
<b>Revenues</b>	11,424	12,091	10,898	12,530	16,650	16,957	15,885	17,203	17,881	16,042
Cost of sales	-10,219	-9,836	-9,439	-9,886	-15,036	-13,276	-14,103	-14,997	-15,430	-13,914
Gross Profit	1,205	2,255	1,459	2,644	1,614	3,681	1,782	2,207	2,451	2,128
General and Admin expenses	-710	-1,139	-756	-1,041	-890	-1,389	-737	-2,174	-905	-843
<b>Operating Profit</b>	<b>494</b>	<b>1,116</b>	<b>703</b>	<b>1,603</b>	<b>725</b>	<b>2,292</b>	<b>1,045</b>	<b>33</b>	<b>1,546</b>	<b>1,285</b>
<b>EBIDTA</b>	<b>2,376</b>	<b>2,992</b>	<b>2,596</b>	<b>3,508</b>	<b>2,579</b>	<b>4,178</b>	<b>2,953</b>	<b>1,986</b>	<b>3,422</b>	<b>3,066</b>
Interest expenses	-23	-19	-12	-63	-285	-291	-294	-318	-370	-322
Interest income	305	227	145	313	442	570	619	656	1,220	1,025
Other operating income	11	-3	19	56	10	36	-24	111	237	6
Share of Profit of an associate	84	108	76	44	139	68	316	129	153	87
<b>Profit before tax</b>	<b>872</b>	<b>1,429</b>	<b>931</b>	<b>1,952</b>	<b>1,032</b>	<b>2,676</b>	<b>1,662</b>	<b>611</b>	<b>2,786</b>	<b>2,081</b>
Taxation	-119	-198	-128	-292	-131	-403	-197	-209	-394	-282
<b>Profit for the year</b>	<b>753</b>	<b>1,231</b>	<b>803</b>	<b>1,660</b>	<b>900</b>	<b>2,273</b>	<b>1,465</b>	<b>402</b>	<b>2,392</b>	<b>1,799</b>
Total Depreciation	1,882	1,876	1,893	1,905	1,854	1,886	1,908	1,953	1,876	1,781
Gross Margin (%)	10.5%	18.7%	13.4%	21.1%	9.7%	21.7%	11.2%	12.8%	13.7%	13.3%
Operating Margin (%)	4.3%	9.2%	6.4%	12.8%	4.4%	13.5%	6.6%	0.2%	8.6%	8.0%
EBIDTA margin (%)	20.8%	24.7%	23.8%	28.0%	15.5%	24.6%	18.6%	11.5%	19.1%	19.1%
PBT margin	7.6%	11.8%	8.5%	15.6%	6.2%	15.8%	10.5%	3.6%	15.6%	13.0%
NPM (%)	6.6%	10.2%	7.4%	13.2%	5.4%	13.4%	9.2%	2.3%	13.4%	11.2%
<b>Quantity details</b>										
<b>Production Tonnes</b>										
Clinker	492,194	724,921	590,507	693,881	537,008	702,323	621,580	666,069	688,339	727,200
Cement	568,991	614,695	564,372	645,905	834,476	885,645	832,631	909,694	850,039	776,954
Cost of sales/mt	17.96	16.00	16.73	15.31	18.02	14.99	16.94	16.49	18.15	17.91
<b>Sales Tonnes</b>										
Cement	569,920	616,661	556,569	645,120	855,967	880,474	826,912	854,447	855,860	779,116
% Growth Cement					50.2%	42.8%	48.6%	32.4%	0.0%	-11.5%
Sales Value	11,424	12,091	10,898	12,530	16,650	16,957	15,885	17,203	17,881	16,042
Realisation per mt	20.04	19.61	19.58	19.42	19.45	19.26	19.21	20.13	20.89	20.59

**Quarterly trends of key parameters**

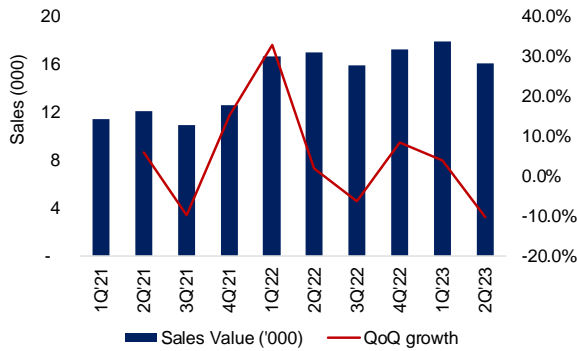
**Sales volumes increased from Q1'22 onwards...**



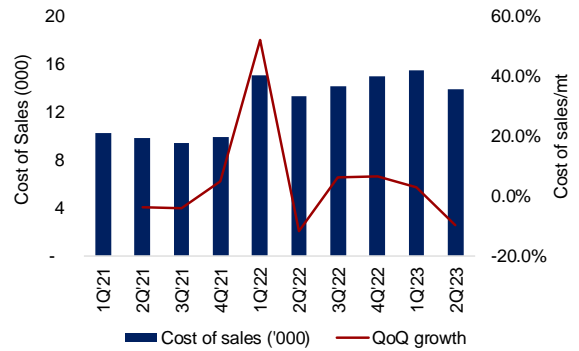
**...Cement production mirrors sales QoQ growth**



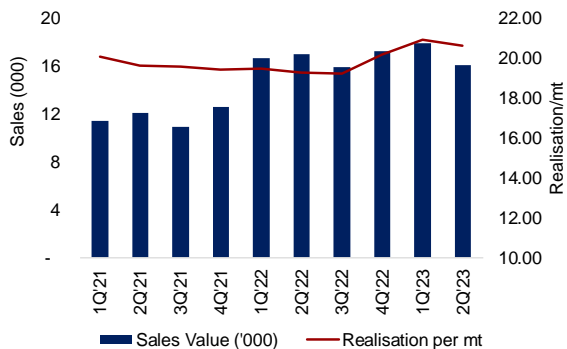
**QoQ Sales growth highest in Q1'22 at 32.9%...**



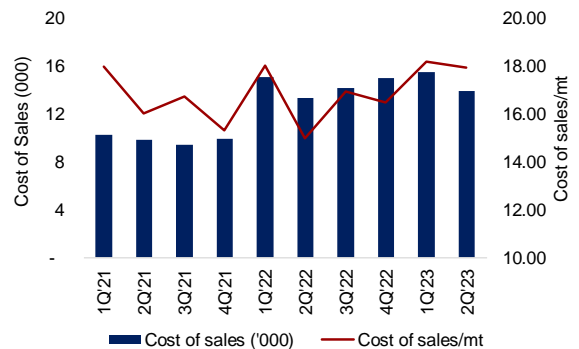
**...QoQ cost of sales highest in Q1'22 at 52.1%**



**Realisation/mt between 19.21/mt to 20.89/mt...**



**...while cost of sales/mt has relatively wide span**



Source: Company reports, US Research

Income statement (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Total Revenue</b>	<b>48,685</b>	<b>50,144</b>	<b>46,944</b>	<b>66,695</b>	<b>61,238</b>	<b>62,103</b>	<b>58,169</b>	<b>90,919</b>	<b>96,980</b>
Cost of Sales	(41,773)	(41,539)	(39,381)	(57,411)	(51,333)	(51,809)	(48,396)	(73,912)	(77,825)
<b>Gross profit</b>	<b>6,912</b>	<b>8,604</b>	<b>7,562</b>	<b>9,284</b>	<b>9,906</b>	<b>10,294</b>	<b>9,773</b>	<b>17,007</b>	<b>19,155</b>
General Admin expenses	(3,479)	(3,218)	(3,646)	(5,189)	(4,412)	(4,472)	(3,033)	(4,671)	(4,974)
<b>Operating profit</b>	<b>3,434</b>	<b>5,386</b>	<b>3,916</b>	<b>4,095</b>	<b>5,494</b>	<b>5,821</b>	<b>6,739</b>	<b>12,336</b>	<b>14,181</b>
<b>EBIDTA</b>	<b>11,032</b>	<b>13,078</b>	<b>11,471</b>	<b>11,727</b>	<b>12,554</b>	<b>12,731</b>	<b>14,251</b>	<b>23,184</b>	<b>24,730</b>
Other Income	757	271	395	786	583	583	583	583	583
Net Finance Income	499	794	873	1,100	1,962	1,586	119	(4,006)	(3,836)
<b>Profit/Loss Before Tax</b>	<b>4,689</b>	<b>6,451</b>	<b>5,184</b>	<b>5,981</b>	<b>8,039</b>	<b>7,990</b>	<b>7,441</b>	<b>8,913</b>	<b>10,928</b>
Taxation	(676)	(1,268)	(738)	(940)	(1,206)	(1,199)	(1,116)	(1,337)	(1,639)
<b>Net Profit/Loss</b>	<b>4,013</b>	<b>5,183</b>	<b>4,447</b>	<b>5,040</b>	<b>6,833</b>	<b>6,792</b>	<b>6,325</b>	<b>7,576</b>	<b>9,289</b>

Balance Sheet (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PPE	112,023	105,384	99,665	94,026	123,096	163,596	192,906	187,118	181,616
Intangibles an Right to Use	828	765	775	890	656	596	537	477	429
Investment in associates	1,020	1,004	1,143	1,497	1,143	1,143	1,143	1,143	1,143
Other Investments	7,982	977	1,000	-	1,000	1,000	1,000	1,000	1,000
Bank Deposits	8,467	975	998	-	1,000	1,000	1,000	1,000	1,000
<b>Total Non-Current Assets</b>	<b>130,320</b>	<b>109,104</b>	<b>103,581</b>	<b>96,413</b>	<b>126,895</b>	<b>167,335</b>	<b>196,585</b>	<b>190,737</b>	<b>185,188</b>
Current Inventories	25,031	25,425	30,300	22,228	22,909	23,129	21,135	32,294	34,027
Trade and current receivables	9,770	9,962	10,762	10,403	10,114	10,233	9,694	14,180	15,011
Investments	3,394	7,113	109	102	109	109	109	109	109
Cash and Bank Balances	5,057	14,326	56,835	83,930	37,468	37,822	41,079	15,562	2,020
<b>Total current assets</b>	<b>43,251</b>	<b>56,827</b>	<b>98,005</b>	<b>116,664</b>	<b>70,600</b>	<b>71,292</b>	<b>72,017</b>	<b>62,145</b>	<b>51,166</b>
<b>Total Assets</b>	<b>173,571</b>	<b>165,931</b>	<b>201,586</b>	<b>213,077</b>	<b>197,495</b>	<b>238,627</b>	<b>268,602</b>	<b>252,883</b>	<b>236,355</b>
Share capital	33,087	33,087	33,087	33,087	33,087	33,087	33,087	33,087	33,087
Share premium	6,724	6,724	6,724	6,724	6,724	6,724	6,724	6,724	6,724
Other Reserves	26,880	26,880	26,880	26,880	26,880	26,880	26,880	26,880	26,880
Retained earnings	81,628	80,193	81,331	83,063	83,201	83,160	82,693	82,290	82,348
<b>Total equity</b>	<b>148,319</b>	<b>146,885</b>	<b>148,022</b>	<b>149,754</b>	<b>149,892</b>	<b>149,851</b>	<b>149,384</b>	<b>148,981</b>	<b>149,040</b>
Borrowings	2,866	775	745	712	31,791	74,141	105,903	90,778	75,653
Other Liabilities	8,752	8,693	8,681	8,377	8,681	8,681	8,681	8,681	8,681
<b>Total non-current liabilities</b>	<b>11,618</b>	<b>9,468</b>	<b>9,426</b>	<b>9,089</b>	<b>40,472</b>	<b>82,822</b>	<b>114,584</b>	<b>99,459</b>	<b>84,334</b>
Borrowings	5,344	2,091	35,028	40,428	28	28	28	28	28
Trade and other current payables	7,808	6,515	8,283	12,579	8,605	8,628	8,423	9,569	9,747
Other current liabilities	482	973	826	1,226	-1,504	-2,702	-3,818	-5,155	-6,795
<b>Total current liabilities</b>	<b>13,634</b>	<b>9,579</b>	<b>44,138</b>	<b>54,234</b>	<b>7,130</b>	<b>5,954</b>	<b>4,634</b>	<b>4,442</b>	<b>2,981</b>
<b>Total liabilities</b>	<b>25,252</b>	<b>19,046</b>	<b>53,563</b>	<b>63,323</b>	<b>47,602</b>	<b>88,776</b>	<b>119,218</b>	<b>103,901</b>	<b>87,315</b>
<b>Total equity and liabilities</b>	<b>173,571</b>	<b>165,931</b>	<b>201,586</b>	<b>213,077</b>	<b>197,495</b>	<b>238,627</b>	<b>268,602</b>	<b>252,883</b>	<b>236,355</b>

Cash Flow (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	7,430	11,305	7,625	24,145	27,209	13,622	15,087	12,897	19,113
Investing cash flow	6,918	4,425	12,785	-30,982	-23,176	-50,655	-38,629	3,328	5,741
Financing cash flow	-15,284	-11,962	29,599	2,015	-8,172	37,387	26,799	-21,742	-23,397
Change in cash	-936	3,769	50,009	-4,822	-4,139	354	3,258	-5,517	1,458
Beginning cash	3,993	3,057	6,826	56,835	6,607	2,468	2,822	6,080	563
Ending cash	3,057	6,826	56,835	52,013	2,468	2,822	6,080	563	2,020

Ratio Analysis	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b><u>Per share</u></b>									
EPS (RO)	0.012	0.016	0.013	0.015	0.021	0.021	0.019	0.023	0.028
BVPS (RO)	0.448	0.444	0.447	0.453	0.453	0.453	0.451	0.450	0.450
DPS (RO)	0.020	0.010	0.010	0.010	0.015	0.015	0.015	0.020	0.025
FCF per share (RO)	0.043	0.048	0.062	(0.021)	0.012	(0.112)	(0.071)	0.049	0.075
<b><u>Valuation Ratios</u></b>									
Market Cap (RO ,000)	75,439	81,395	81,726	100,585	99,924	99,924	99,924	99,924	99,924
EV (RO,000)	78,592	69,934	60,664	57,796	94,275	136,271	164,777	175,168	173,585
P/E (x)	18.80	15.70	18.38	19.96	16.95	17.05	18.31	15.28	12.47
EV/EBITDA (x)	7.12	5.35	5.29	4.93	7.51	10.70	11.56	7.56	7.02
Price/Book (x)	0.51	0.55	0.55	0.67	0.77	0.77	0.78	0.78	0.78
Dividend Yield (%)	8.8%	4.1%	4.0%	3.3%	4.3%	4.3%	4.3%	5.7%	7.1%
Price to sales (x)	1.55	1.62	1.74	1.51	1.63	1.61	1.72	1.10	1.03
EV to sales (x)	1.61	1.39	1.29	0.87	1.54	2.19	2.83	1.93	1.79
<b><u>Liquidity</u></b>									
Cash Ratio (x)	0.37	1.50	1.29	1.55	5.25	6.35	8.87	3.50	0.68
Current Ratio (x)	3.17	5.93	2.22	2.15	9.90	11.97	15.54	13.99	17.17
Quick Ratio (x)	1.34	3.28	1.53	1.74	6.69	8.09	10.98	6.72	5.75
<b><u>Return Ratios</u></b>									
ROA (%)	2.3%	3.1%	2.2%	2.4%	3.5%	2.8%	2.4%	3.0%	3.9%
ROE (%)	2.7%	3.5%	3.0%	3.4%	4.6%	4.5%	4.2%	5.1%	6.2%
ROCE (%)	2.9%	3.6%	2.5%	3.3%	3.8%	3.0%	2.9%	5.2%	6.0%
<b><u>Cash Cycle</u></b>									
Inventory turnover (x)	1.88	1.77	1.54	2.38	2.43	2.43	2.43	2.43	2.43
Receivables turnover (x)	7.81	7.28	5.85	7.43	7.30	7.30	7.30	7.30	7.30
Accounts Payable turnover (x)	28.25	22.96	19.43	18.42	23.71	23.71	23.71	23.71	23.71
Inventory days	194	206	236	153	150	150	150	150	150
Receivables days	47	50	62	49	50	50	50	50	50
Payable Days	13	16	19	20	15	15	15	15	15
Cash Cycle	228	240	280	182	185	185	185	185	185
<b><u>Profitability Ratio</u></b>									
Gross Margins (%)	14.20%	17.16%	16.11%	13.92%	16.18%	16.58%	16.80%	18.71%	19.75%
EBITDA Margins (%)	22.66%	26.08%	24.44%	17.58%	20.50%	20.50%	24.50%	25.50%	25.50%
PBT Margins (%)	9.63%	12.86%	11.04%	8.97%	13.13%	12.87%	12.79%	9.80%	11.27%
Net Margins (%)	8.24%	10.34%	9.47%	7.56%	11.16%	10.94%	10.87%	8.33%	9.58%
Effective Tax Rate (%)	14.41%	19.66%	14.23%	15.72%	15.00%	15.00%	15.00%	15.00%	15.00%
<b><u>Leverage</u></b>									
Total Debt (RO ,000)	8,210	2,866	35,773	41,141	31,819	74,169	105,932	90,807	75,682
Net Debt (RO ,000)	3,153	(11,461)	(21,062)	(42,790)	(5,649)	36,348	64,853	75,245	73,662
Debt/Capital (x)	0.25	0.09	1.08	1.24	0.96	2.24	3.20	2.74	2.29
Debt/Total Assets (x)	0.05	0.02	0.18	0.19	0.16	0.31	0.39	0.36	0.32
Debt/Equity (x)	0.06	0.02	0.24	0.27	0.21	0.49	0.71	0.61	0.51

## Key contacts

### Research Team

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### Rating Criteria and Definitions

Rating	Rating Definitions
	<p><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%</p> <p><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%</p> <p><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%</p> <p><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%</p> <p><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%</p> <p><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%</p> <p><b>Not rated</b> This recommendation used for stocks which does not form part of Coverage Universe</p>

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