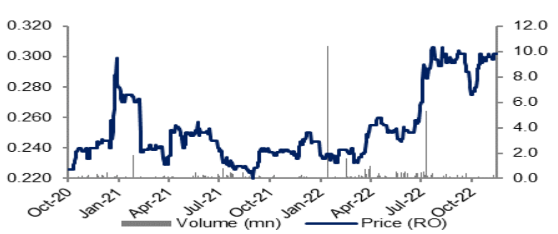
Cement

Oman Cement Company (OCOI)

BUY: 12M TP@0.348

Valuation Summary (TTM)			
Price (RO)			0.302
PER TTM (x)			7.2
P/Book (x)			0.7
P/Sales (x)			1.6
EV/Sales (x)			1.0
EV/EBITDA (x)			4.8
Dividend Yield (%)			3.3
Free Float (%)			26%
Shares O/S (mn)			331
YTD Return (%)			23%
Beta			0.8
(mn)		**OMR**	**USD**
Market Cap		100	260
Total assets		202	524
Price performance (%)	**1M**	**3M**	**12M**
Oman Cement Co SAOG	0%	2%	29%
MSX 30 Index	10%	8%	22%
MSX Industrial Sector Index	4%	0%	5%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (RO ,000)	17	17	41
Avg Daily Volume (,000)	54	56	147
52 week	**High**	**Low**	**CTL***
Price (RO)	0.306	0.230	31.3
* CTL is % change in CMP to 52wk low			
Major shareholders			
Oman Investment Authority			56.3%
Civil Service Employees Pension Fund			9.1%
PASI			8.5%
Others			26.1%
Other details			
Exchange			MSX
Sector			Building Ma
Index weight (%)			2.3%



Oman Cement Company, the first cement producer in Oman has been a critical supplier of cement with an installed capacity of 2.6 mtpa of clinker and 3.6mtpa of cement. The cement sector in Oman is a duopoly, with two major players catering to different geographic segments. OCOI has an integrated plant located at Misfah with adequate availability of limestone which is essential to ensure a steady state of production. The integrated plant produces 6 different varieties of cement, catering to both retail and bulk users. The envisaged expansion will help jump start growth and accordingly we initiate coverage on Oman Cement Company with a BUY recommendation and a 12-month target price of RO 0.348

Capacity addition to bring in next phase of growth: The company is on track to expand its cement capacities 6.2mtpa by 2025. It intends to cash in on the growing demand for cement, arising out of the developmental spending by the Government and the increased contribution from non-oil sectors. Focussed spending on large infrastructure projects will provide the required impetus to the construction sector keeping the demand for cement afloat. The company has been cautious in the past, when it comes to expansion, given the cheaper imports from neighboring countries. However, the recent buoyancy in intrinsic demand and reduction in supply from across the border due to cost differentials, the company is optimistic that the enhanced capacity will be absorbed going forward.

Macro factors and high correlation to GDP augur well: Post the pandemic induced drop in GDP; Oman economy is showing early signs of green shoots. While overall GDP is expected to grow at 4.1% in 2023, non-oil revenue will be bolstered by the impetus provided in the Vision 2040 roadmap. High oil prices have brought the economy back to being fiscally surplus after 6 years. The high correlation between GDP growth and cement demand will augur well for the recovery of the sector. We also draw comfort from the recent performance of OCOI in the markets that it serves. The current revenue of about RO 46.4mn for 9M22 has been the best in its history. OCOI has the natural advantage of being present in the densely populated northern Oman where most of the industrial activities take place. This will ensure stable demand for the company's products.

Change in product mix to help sustain realization: OCOI investment in R&D has borne fruit in the form of value-added products like Al Burj cement. The contribution from Al Burj has increased from 3% when it was launched in 2019 to 26% in 9M2022. The change in mix to higher value-added product provides an upper hand in competition and help in higher realization.

Trading at discount, we recommend BUY with a TP at 0.348: At current prices, the stock is trading at below its book value and 14.5x 2023e earnings, which we feel is attractive. OCOI represents a good investment opportunity considering its stable operations and limited alternatives to ride the current wave in growth of the cement sector in Oman. The change in product mix in favor of value-added products should help sustain revenue growth besides stabilizing margin. We have arrived at 12M blended DCF-Relative valuation target price of RO 0.348 which offers an upside potential of 15% from current levels. We initiate coverage in OCOI with a recommendation to BUY the stock.

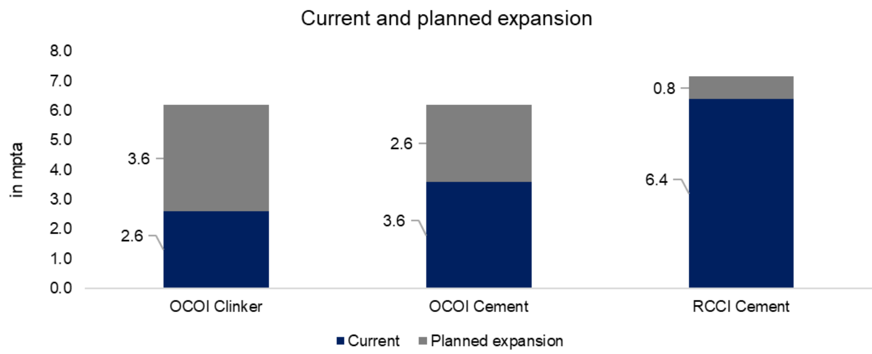
Production deficit domestic market: Oman is a cement deficit market with a demand of ~ 8-11 mtpa that far outstrips the supply of 6.4mtpa making the country a net importer. The country imports an estimated 40-45% in terms of cement volume which implies that there is scope for domestic manufacturers to increase capacity at a reasonable price which can be absorbed by the market. The cement Industry in Oman is unique due to a duopoly play in a commoditized market. It consists of two main players – Raysut Cement (RCCI) and Oman Cement Company (OCOI). OCOI commenced production in 1983, with a single production plant in Misfah Industrial Area, in the Northern Oman near Muscat. RCCI was established in 1984 catering primarily to the southern Oman region with its base plant at Salalah.

Source: https://simplemaps.com/resources/svg-om

OCOI has grown organically over the years, focusing primarily on the domestic market with negligible focus on exports. OCOI commenced production of cement with an initial cement capacity of 0.7mtpa and Clinker capacity of 0.6mtpa. The company undertook two rounds of doubling its capacities, initially in 1998; where it doubled its cement capacity of 1.3mtpa and clinker capacity of 1.2mpta and later in the year 2011, doubling cement and clinker capacity to 2.6mtpa and 2.4mtpa respectively. The current capacity stands at 3.6mtpa of cement and 2.6 mtpa of clinker.

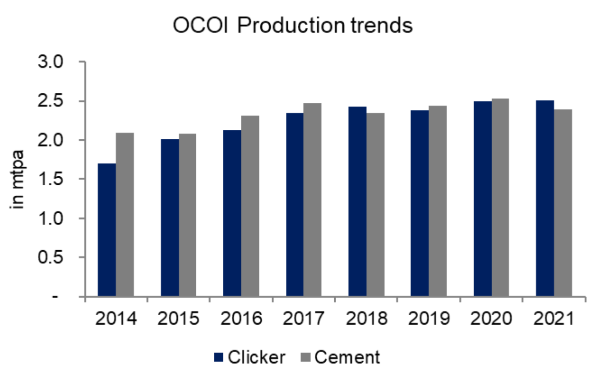
However RCCI's growth has been shaped by its organic and inorganic routes and its focus on exports. RCCI is the larger of the two and has an annual cement grinding capacity of 4.7mtpa. Through the inorganic route, RCCI acquired Pioneer Cement, which has operations in UAE with an annual capacity of 1.7mtpa of cement and 1.25mtpa of clinker. RCCI also acquired Sohar Cement in 2019, which has a grinding capacity of 1.7mtpa taking the total cement grinding capacity to 6.4mtpa. The company also has two storage and packing terminals at Sohar and Duqm. Additionally, it has an offshore presence for sales in Yemen, Maldives and Madagascar as well as a limestone quarry in Georgia.

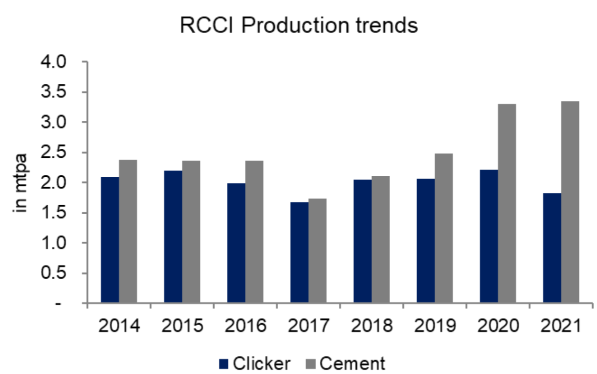
Oman's cement markets has smaller players like Dhofar Cement Company, based out of Dhofar, which set up operations in 2010 and has an installed capacity of around 0.11mtpa (340TPD). Al Madina, which is another small player, which has ventured into the production of cement based products like cement blocks, interlocks tiles etc.



Source: Company reports and US Research

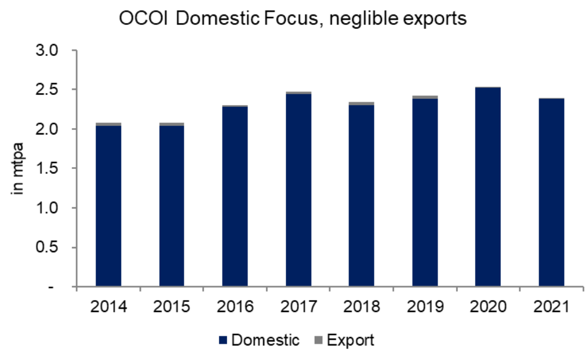
The primary reason for low investments in this sector is due to continuous supply of UAE Cement in northern Oman over the years at competitive prices. UAE cement industry has a combined capacity of 42-44 mtpa, whereas the local demand is around 18-24 mpta, leaving them with a surplus of 20-24 mtpa. In order to stay profitable, the UAE players have been supplying to the Oman market at a competitive price over the years. However, the market scenario has changed drastically in the recent past. UAE cement producers have plants that are coal based, and coal prices have shot up from $170 in January to $450/mt and currently trading around $400/mt. The escalated cost has deterred the competitive advantage of the UAE players; in the current scenario the Oman based players are advantageously poised as their production is based on natural gas. The Omani companies, specifically OCOI, have utilized the opportunity to their advantage. OCOI has returned back to peak production levels and have reported record revenues. The usage of natural gas also enables OCOI to produce green cement which is in accordance with emission norms and hence more sustainable environmentally.

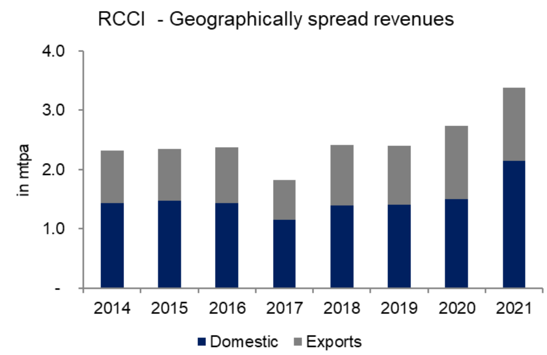




Source: Company reports and US Research

Both players have different strategies for growth and since they share minimal overlapping markets, competition between the two is low. The geographical location of the companies plays a key role in determining the extent of exports and the target market. While OCOI has limited its exports due to its focus on the domestic market, RCCI, due to its proximity to Africa and Yemen, caters to both domestic and international markets. Both the players have integrated plants; however, RCCI has additional grinding units in UAE, Sohar, and a prospective unit in Duqm.



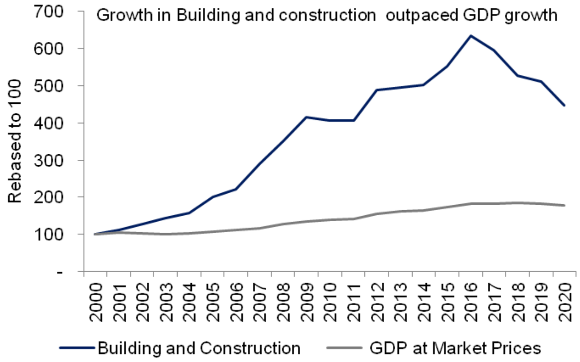


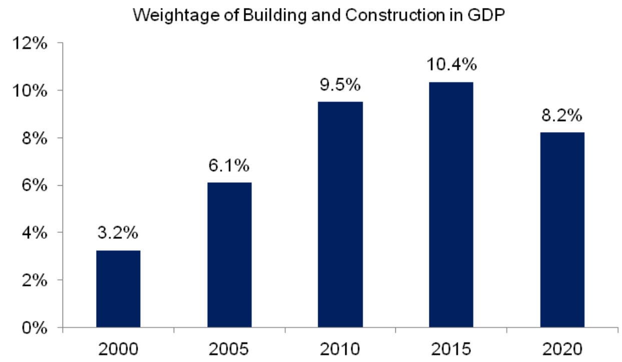
Source: Company reports and US Research

OCOI and RCCI have sufficient backward linkages in terms of limestone and gypsum availability. This reduces profit volatility and keeps the costs stable. Another key element is the freight cost. Given the high freight cost experienced in road transportation, both the players have a limited catchment area. By its virtue of being located in the north OCOI is advantageously exposed to the industrial hubs of Sohar and Batinah regions and enjoys a steady market share of 40%. A significant percentage of OCOI's production is sold as bulk. In 2019 the top 5 customers contributed to 61% of the company's sales.

GDP Growth and consequent demand for industrial, residential and commercial space: A good proxy for demand in cement is GDP growth as these two are intrinsically linked and are strongly correlated. A positive growth in GDP at 3.2% in 2021, after two consequent negative growth years in 2019 and 2020 at -1.1%, -3.2% respectively, points to quick resurgence of cement demand. As per IMF estimates, Oman GDP is projected to grow at 4.4% and 4.1% in 2022 and 2023 respectively. We believe the buoyancy in economic growth will be on account of increased hydrocarbon production as well as recovery of the diversified non-hydrocarbon economic activities. The higher liquidity in the system due to higher oil prices renews the thrust on spending in construction, which in turn will push demand for cement.

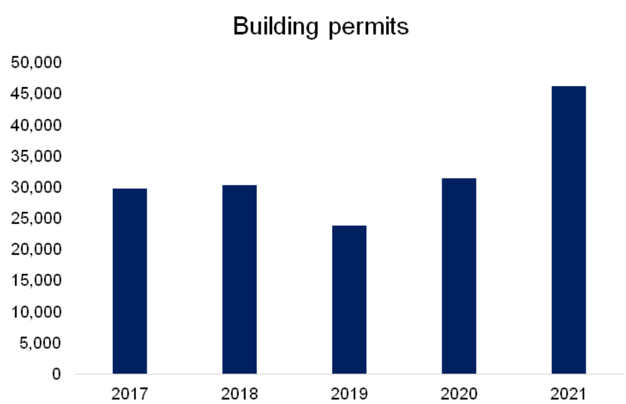
A key demand driver for cement is the share of overall contribution of building and construction segment to the overall GDP. Historically, the contribution of building and construction segment to the GDP has risen from 3.2% in 2000 to 8.2% in 2020. Over a 23-year period, the building and construction sector has grown at CAGR 4.5%, while the GDP growth has been at 2.8%, indicating the faster pace of growth compared to the GDP. We believe that building and construction segment will continue to contribute significantly to overall GDP growth with demand for cement will sustain going forward.

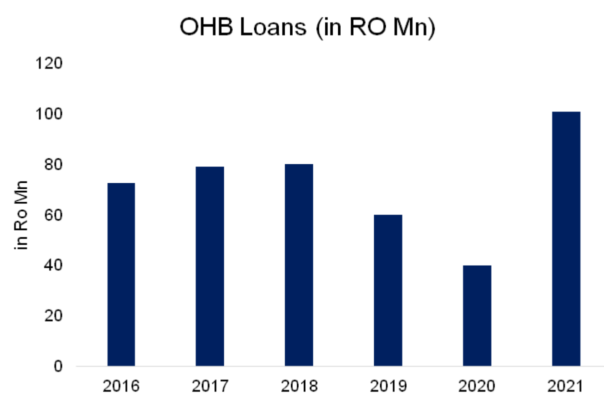


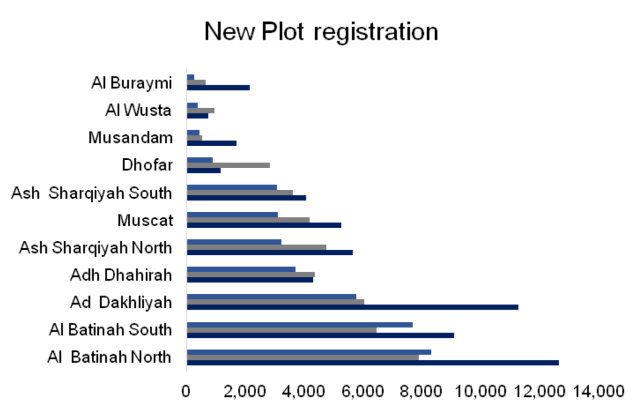


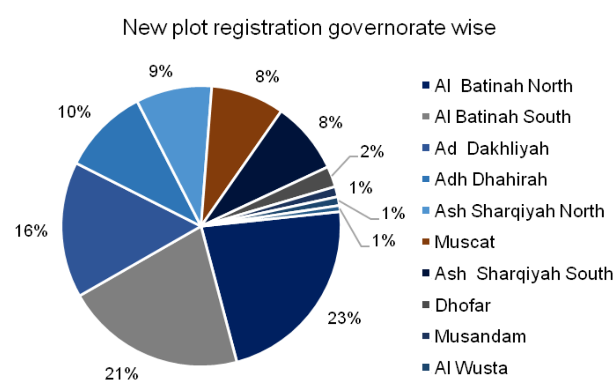
Source: Company reports and US Research

The demand from industrial, residential and commercial space is expected to go up as can be seen from the recent trend in the growth in the issuance of building permits (5yr CAGR growth 9.2%) and loans approved by Oman Housing Bank (5yr CAGR 5%). There was a pandemic induced dip in 2019 and 2020 and the housing sector recovered very well in 2021. The increase in new plot registrations specifically in the Batinah region augurs well for OCOI which is nearer to the high demand markets.









Source: NCSI and US Research

Giga projects to provide mega push: One of the thrust areas to de-risk dependence on oil is the massive investments that the Government has envisaged in the form of huge projects. These projects help construction companies, and in turn the demand for cement sector is expected to rise. Currently it is estimated that projects worth over $200bn are in different stages of planning, design, and execution across various sectors in the country. It is estimated that about $33.5bn worth of projects are under execution, while $95bn are under study and $70bn are in the design and bidding stage.

The huge outlay planned along with the trends in import substitution will help local cement companies, more specifically OCOI. We believe OCOI is in a sweet spot considering the expected industry growth and advantage over its only competitor in the south.

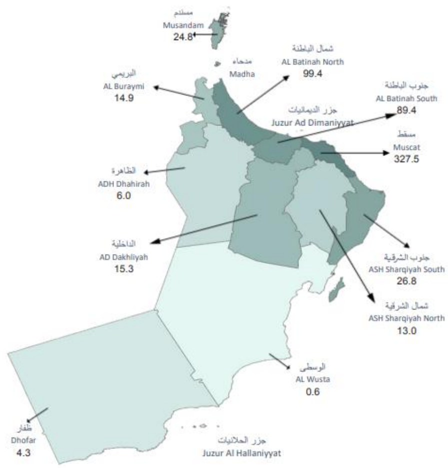
We try to estimate the demand for cement in Oman through a funnel approach below and believe that the demand will sustain for over the next 10 years.

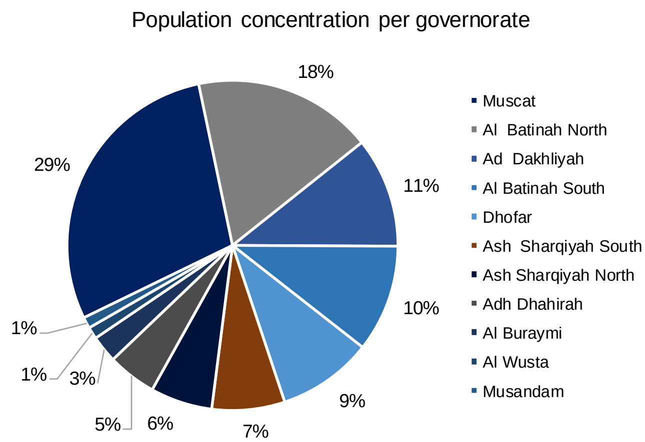
Oman Cement Demand Expectations	in %	USD ($bn)
Estimated projects under implementation	16.9%	33.5
Estimated projects under study	47.9%	95.0
Estimated projects under design & bidding stage	35.3%	70.0
Overall Project Announcments	100.0%	198.5
Of these expected projects likely to be implemented	75.0%	148.9
Addressable Infrastructrue related projects	50.0%	74.4
Of these value of cement utilised	33.0%	24.6
Estimated competion by 2032	33.0%	8.1
Cement Price per ton ($/Ton)		52.0
Resulting Cement Demand (2022-2032) (mtpa)		155.9
Annual Cement Demand (mtpa)		15.6
Expected domestic capacity of OCOI and RCCI by 2027		13.4

Source: US Research estimates

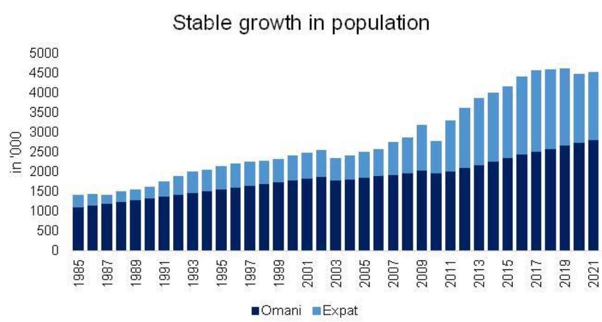
Favourable demographics: Besides the thrust of the government in pushing mega projects, another key long term indicator of sustainability of demand is the trend in demographics. The population of Oman over the years has seen a stable growth at CAGR 3.2% 1985-2021. The growth of expats was at 4.7% during the same period. Density of population has gone up to 14.6/sq.km in 2021 from 11.7/sq.km in 2012; a higher density of population indicates higher demand for housing, the segment which consumes the highest quantity of cement. OCOI, with its plant near Muscat, is exposed to the more densely populated and urban areas hence in a naturally advantageous position.

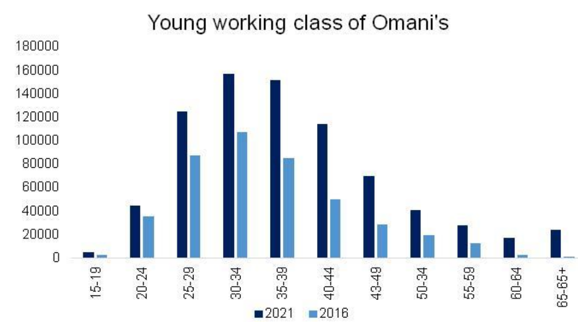
Governorate wise population density per sqkm





Oman boasts of a young population with the maximum number of people in the working age group within the range of 20-54yrs. This segment of the population has witnessed the maximum increase since 2016. Rising population of working group of people will trigger both housing and commercial demand and in turn keep the cement demand buoyant. Oman has over 1800 projects related to urban development aimed at creating a sustainable eco-space for Omanis. These projects include new roads, bridges and public spaces along with refurbishment of existing old infrastructure. We believe that this trend in the near term will help sustain demand for cement. The thrust on Omanisation will also act as a tailwind, since; locals would drive demand for consumption in the form of permanent housing.





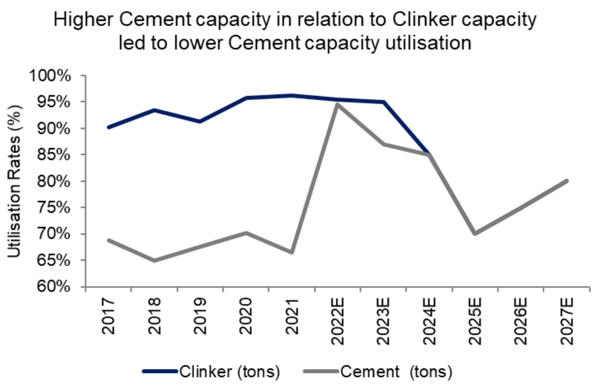
Source: NCSI and US Research

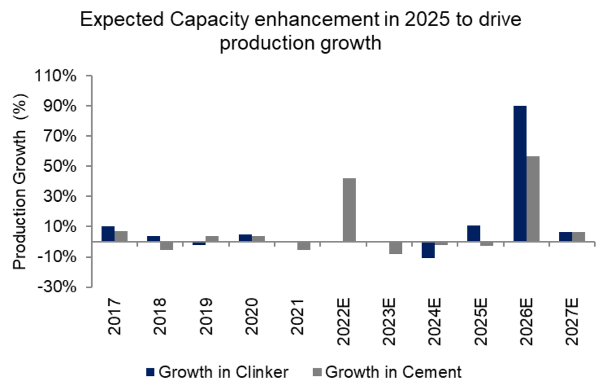
OCOI has followed a measured approach towards expansion: Oman Cement Company started with an initial cement capacity of 0.7mtpa and clinker capacity of 0.6mtpa in 1983. Over the years the company has adopted an orderly yet cautious approach to expansion plans. It has doubled its capacity twice, first in 1998 and then in 2011. The current capacity stands at 3.6mtpa of cement and 2.6mtpa of clinker. In terms of production lines, it has three clinker production lines with a capacity of 8700 TPD and a cement grinding and dispatch unit with a capacity of 10,000 TPD. The company is in the process of upgrading its line 3 besides setting up a new line. Once these expansion plans are in place, the company's cement capacity and clinker capacity will be at 6.2mtpa by early 2025e. Over the years, the company has adopted technologies from Germany, Japan and Switzerland to drive efficiencies.

We expect OCOI to invest around RO 105.8mn in a phased manner to complete the expansion plan. The project is expected to be executed over a period of 3 years with commissioning expected in 2H2025. The project is fully funded through debt and there is no equity infusion envisaged. It is estimated that OCOI would be spending around 30%, 40% and 30% of the projected cost during 2023, 2024 and 2025 respectively. The expanded capacity in 2026 is expected to add significant revenue to top-line with similar current realizations. The company has completed the technical study for the project and the tender for EPC are under evaluation stage. We expect the contract to be awarded in 1Q23 with breaking the ground expected at similar time.

OCOI has been able to maintain its capacity utilization of clinker above 90% since 2017, reaching peak utilization in 2021 at 96.21%. In the earlier years from 2012 - 2016, the company also purchased clinker from outside to improve it cement capacity utilization. The envisaged expansion would come into stream after nine years since its last upgrade. The primary reason the company did not undertake expansion aggressively was due to cheaper alternatives available to consumers in the form of imports from neighboring countries like UAE as well as lower clinker capacity domestically as compared to cement. UAE had built up excess capacities on the back of the Gulf boom that created exponential demand for cement during 2000-08. However post the financial crises in 2008, the UAE cement market witnessed a decline in construction and related activities creating large surpluses for the cement sector. This was eventually dumped in neighboring markets such as Oman at a highly competitive price. In the recent past due to increase in coal prices, the cost arbitrage between UAE and Oman has reduced significantly changing the tide in favor of the local players.

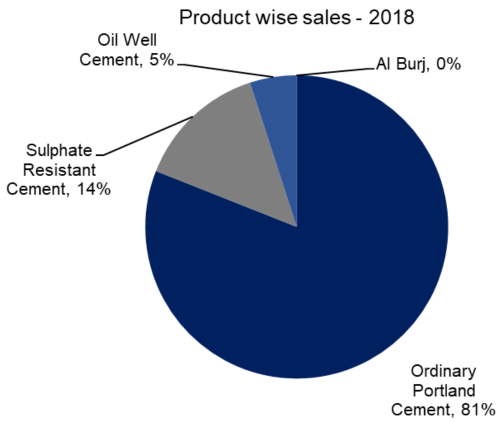
We expect the company to commission its expanded capacities by 2025E and gradually ramp up during the year. We believe that the increase in capacity will aid import substitution and will not result in a excess supply situation.

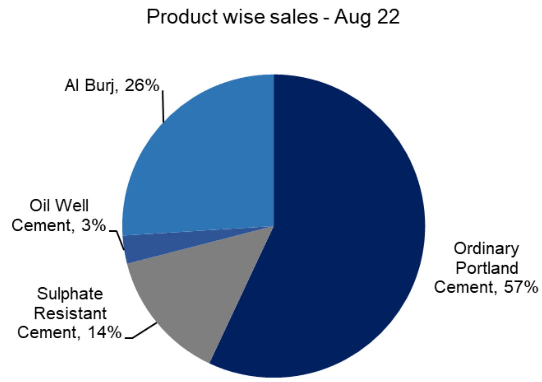




Source: Company reports and US Research

Revenues rebound, while realizations remain steady: Year 2022 was exceptionally good with latent demand pick up and import substitution, resulting in record volume increases. Revenue grew by 47.1% in 9M22 compared to the same period the previous year and we expect the full year topline growth of 43.8%. The spike in sales can be attributed to the fact that the cost structure in the cement industry of the neighboring countries has seen a change due to increase in coal price, closing the cost arbitrage that was hitherto available to these players. With the landing cost almost similar to the local domestic price, the incentive to import has drastically reduced.





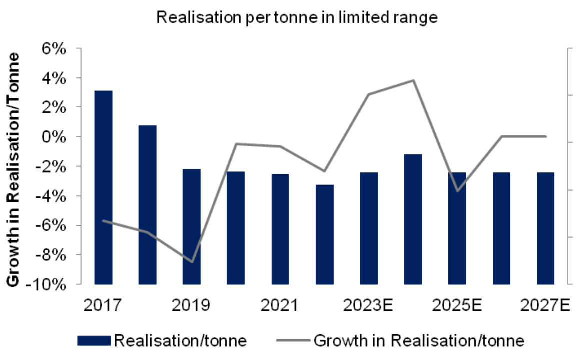
Source: Company reports and US Research

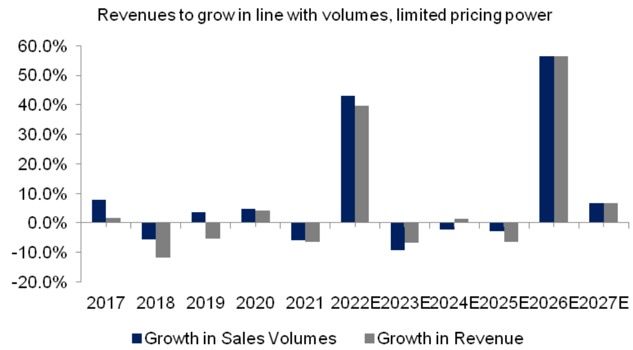
The company's flagship product includes cement such as Ordinary Portland Cement (OPC) – under the brand name of Al-Qalaa, Sulphate Resistant Cement (SRC), and Moderate Sulphate Resistant Cement (MSRC) under the brand name of Al-Hoson SRC, Portland Limestone (PLC) under the brand name of Crystal and Oil Well Cement. The company launched Portland cement since inception and this product takes a lion's share of around 70% in 2021, Oil Well Cement catering to specifically to Oil well exploration and cementing of oil rigs was introduced in 2001 and Al Burj cement, which is ESG compliant, was introduced in the market in 2019. Al Burj is a portland limestone blended cement similar to ordinary cement, but with less CO2 and heat emission. This product has been the most successful, with the share of total revenue going up from 3% in 2019 to around 26% in Aug 2022. We also expect Al Burj to contribute 30% going forward.

The company has miniscule exports of around 0.3% of its sales in 2021. The exports have been deliberately low over the last many years as the company's entire focus is on catering to the domestic market. We believe the company would continue its focus on domestic markets only opportunist exports of certain types of value-added cement.

The realizations has seen a drop from about RO 23.2/mt in 2017 to about RO 19.8/mt in 2019. The trend in drop in realization has however been arrested since 2020. The realizations have been above RO 19.2/mt since 2019, indicating that the pricing power is returning to producers. We expect that the realization would remain steady in the near to medium term, in the range of RO 19- 20/mt

The company has reached maximum capacity utilization; hence we do not foresee any volume growth for the next two years from 2023-25e, till the new capacity commences production. In terms of realization, we do not expect any significant jump as the company has clearly stated its commitment to support domestic communities and not venturing into price hikes. Any price hikes going forward would be in our opinion linked to cost only and would not be demand driven. Our base case forecast for revenue growth is at a CAGR of 6.7% over the period 2027E, primarily driven by volume growth.

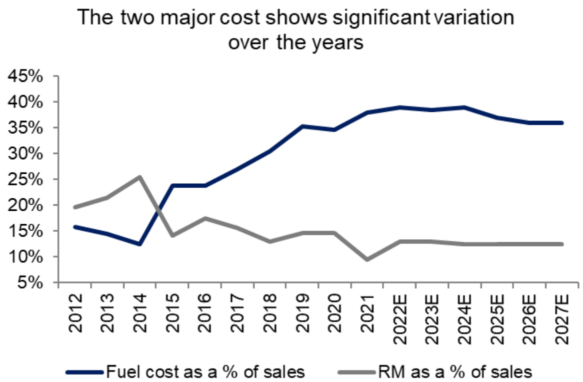


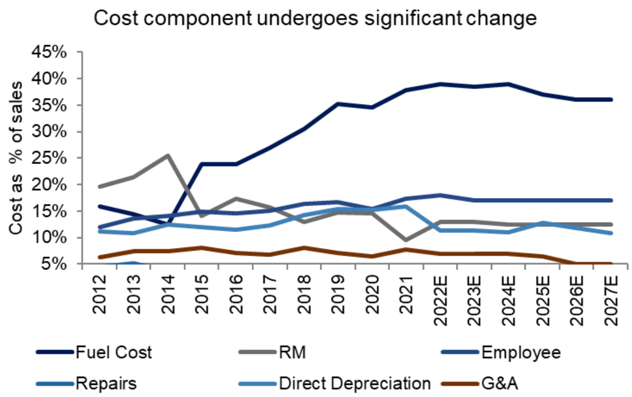


Source: Company reports and US Research

Cost structure undergoes significant change: The cost structure of OCOI over the years has seen a significant change with margins dropping over the years. natural gas, which is the primary fuel cost, has risen due to changes in pricing policy over the years. OCOI used to enjoy a lower cost of fuel till 2015, with the cost of fuel being less 12.5% of its revenues in 2014. This jumped to 23.8% in 2015, due to major hike in gas prices. Effective Jan 2015, the Public Establishment for Industrial Estates (PEIE) announced a policy to hike Natural Gas price with immediate effect as well as rolling out a policy to hike the prices by 3% every year. We expect the cost of natural gas to rise in line with the policy as has been the case in the previous years. However, the increase in natural gas prices will be offset by benefits of economies of scale the increased production once the full expanded capacity is utilized in 2025e. We expect the fuel cost to be in the range of 36% to 37% as a percentage of sales beyond 2025e.

The increase in natural gas prices has however been compensated by the decrease in raw material cost, which was as high as 25% in 2014 to 14.6% in 2021. The higher raw material cost earlier was due to import of clinker, from 2012-16. The company however, stopped importing clinker from 2018, thus bringing the raw material cost under control. With abundant availability of critical limestone as well as gypsum reserves, we do not see any supply issues post capacity expansion. We expect the raw material cost to be in the range of 12.5% - 13% going forward. Within the raw material, cost of packaging cost has been one of the key components. Packing cost as a percentage of raw materials cost as been in a wide range of 17% in 2015 to about 32% in 2021. The packaging costs depend on the company's mix of sales in terms of bulk and retail packing. Freight costs is another important component, since transportation is via road the higher costs limits sales in areas that are at a distant from the production unit.

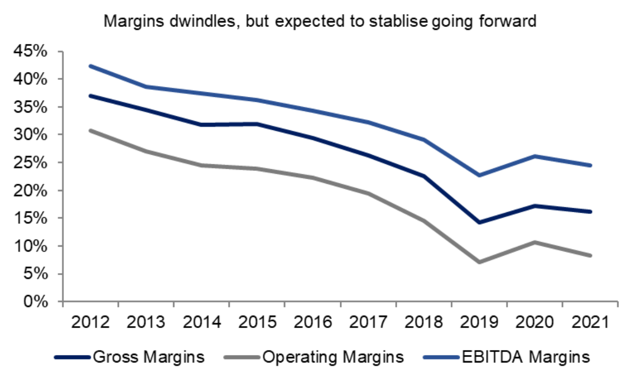


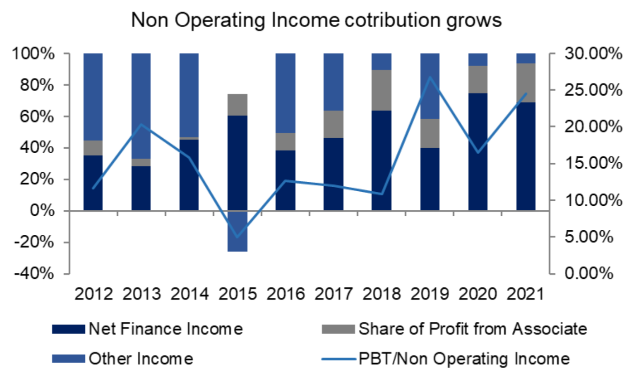


Source: Company reports and US Research

Due the significant changes that have occurred in the past with relation to the fuel and feedstock cost, the company's gross margin as well as operating margins have seen a decline. Gross margins declined from 36% in 2012 to 16% in 2021 and operating margins reduced from 30% in 2012 to 8.3% in 2021. EBIDTA margins, on the other hand have dropped from a high of 42% in 2012 to around 24% in 2021.

The company is taking several measures to keep the costs under control by introducing cheaper ways of heat generation by using used tire chips which is expected to be deployed in Q422. In order to rein in on fuel costs, the company is investing in several R&D projects like usage of hydrogen, municipal waste and installation of solar panels. We expect the operating margins to be up from current 8.3% in 2021 to about 9.4% by 2024e, before the benefits of higher scale of operations kick in from 2025e onwards, where we see margins move from low double digits to 14% in 2027e.



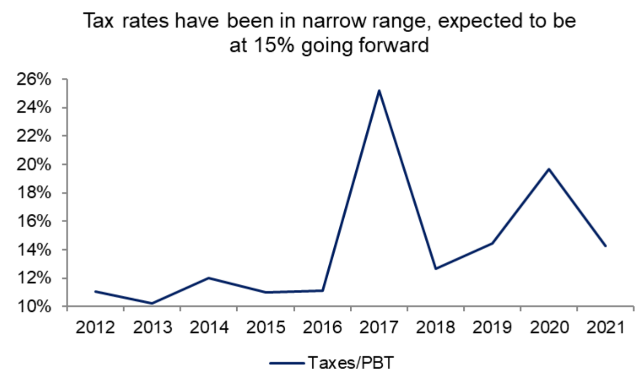


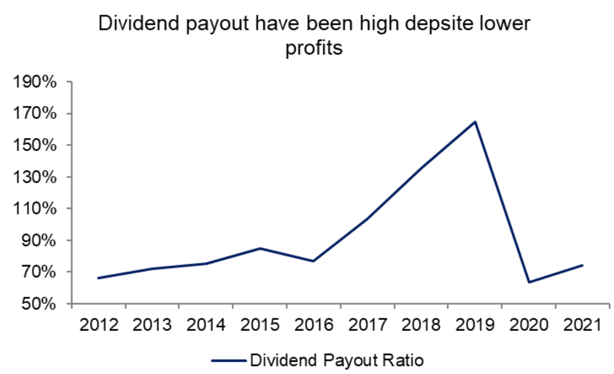
Source: Company reports and US Research

Depreciation cost has remained in a stable range of RO 6.0mn in 2012 to RO 7.5mn in 2021 with an intermittent increase in 2016 owing to expansion. We expect depreciation costs to increase post 2025e on the recent planned expansion which will be commissioned then.

OCOI has over the years seen a positive net finance income due to efficient treasury operations. In each of the last 10 years, their interest income has been more than RO 1.0mn. The company is debt free as on date and the net finance income is positive. The company also receives share of profit from its associate Mondi Oman LLC, in which it holds around 30%. The non operating income (net finance income, share of profit from associate and other income) as a percentage of profit before tax has been substantial for the company. In 2021, this has been around 24% and we expect the same to be around 25% in 2022e. We believe the high non operating income acts as a good cushion to the overall earnings of the company.

The cash rich, low leverage status has helped the company in rewarding its shareholders with a good dividend payout over past several years. The dividend payout ratio has been as high as 165% in 2019 and we expect the same to be around 70%-90% in the years 2021-2027E. The company has declared dividend of 10 baiza to 35 baiza over the years.





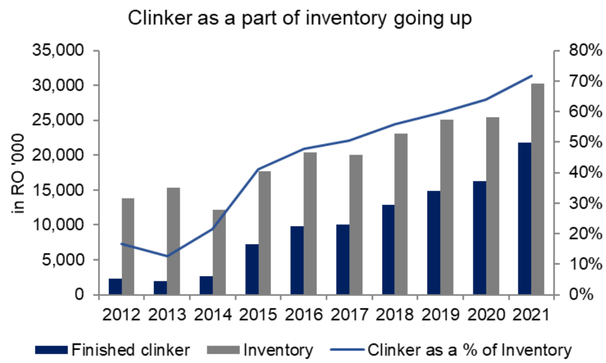
Source: Company reports and US Research

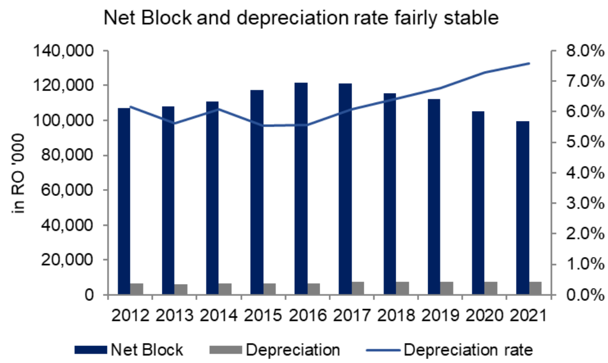
Robust Balance Sheet to support expansion: OCOI has a robust Balance Sheet, as can be evidenced from the fact the company did not raise any capital to support its growth expansion in the past. It has been profitable in every year despite the intense competition locally as well as from neighbors. The company has repaid all its long term debt during 2020. It has short term debt of RO 35mn as of 2021, which it has raised to benefit from interest rate arbitrage between the short-term loans and call money deposits. The company intends to take long term loan from 2023e onwards to expand it capacities. Repayment of these loans being from 2026 onwards in 7 equal installments. We expect the peak net debt/equity to be at 0.71 in 2025, which will eventually reduce to 0.51 in 2027.

We see routine capital expenditure of around RO 5.0mn going forward apart from the intended capital expenditure of plan of RO 105.8mn. The replacement value of assets would be higher than the book value as the capital expenditure has been made over the years and the book value represents assets at a depreciated value. The effective depreciation rate has been between 5.4%-7.5% over the years. We expect the deprecation to be in the similar range, except for the new capital expenditure, which we believe would have a 25 years life expectancy and accordingly this has been projected a rate of 4%.

OCOI has invested around 30% in Mondi Oman LLC, which is a profitable venture. Mondi has a topline of RO 9.0mn for 9M22, with a net profit of RO 1.7mn; it has been regularly declaring dividends. The company has an efficient treasury team which invests surplus cash in short term and long term investments. The company has made investments (~RO 1.0 mn as on 9M22) in subordinated debt issued by commercial banks, which carry an interest rate in the range of 5-7%. The company also makes investments in listed securities, and bank deposits. Besides bank deposits, the company also have around ~RO 69.0mn in call deposits which fetches interest ranging up to 4%.

OCOI had inventory days of around 130-180 days in the past; however, the same has gone up to 200 days in the last three years, mainly due to its policy of having higher clinker stock levels. Finished clinker as a percentage of total inventory was at 21% in 2014, this has gone up beyond 50% since 2017. It stood at 71% of the total inventory as on 2021. Finished cement as a percentage of inventory continue to be low, it was at 2 days of annual sales as on 9M22 compared to 4 days of annual sales as on 9M21. We expect the inventory days to moderate to around 150 days going forward.





Source: Company reports and US Research

The company's average credit period has been around 30-60 days. The company's receivables are fairly concentrated with around 71.3% of the receivable due from four customers as compared to 65.1% in 9M21. The company's receivables are secure, with 99.85% of the receivables backed by bank guarantees. We expect the receivables to be around 50 days going forward. The company's payable days are in the range of 14-20 days, and we forecast the same to be around 15 days going forward.

9M22 results, all round growth: During the 9M22, the company saw a phenomenal turnaround in the business, with sales volumes of cement growing by 47.1% to 2.56 million mt as compared to 1.74 million mt during the previous year. In the first three quarters of 2022, the sales jumped by 50.2%, 42.8% and 48.6% YoY. While cement production grew by 46% to 2.55 million mt in 9M22 as compared to 1.75 million mt in 9M21, the clinker production was up by 2.9%. The jump in volumes was accompanied by a marginal decline of 2.2% in the average realization to RO 19.74/mt.

The company was able to maintain a good control over the cost and gross margin remained stable at 14.3% 9M22 YoY, this despite the drop in realization. The operating profit was up by 75.6% due to lower increase in general administrative expenses. At EBIDTA level the margins saw a dip from 23.1% in 9M21 to 19.6% 9M22. PAT for 9MFY22 came in at RO 4.6mn and was higher by 66.5% in 9M22 as compared to 9M21. The company continued to build its cash reserve with deposits and cash at around RO 68.9 mn as on 9M22.

P&L (in '000 OMR)	1HFY21	1HFY22	1H YoY	9MFY21	9MFY22	9M YoY
Revenues	23,516	33,607	42.9%	34,414	49,492	43.8%
Cost of sales	-20,055	-28,312	41.2%	-29,495	-42,415	43.8%
Gross Profit	3,460	5,296	53.0%	4,919	7,077	43.9%
General and Admin expenses	-1,850	-2,279	23.2%	-2,605	-3,016	15.7%
Operating Profit	**1,610**	**3,017**	87.3%	**2,313**	**4,062**	75.6%
EBIDTA	**5,368**	**6,757**	25.9%	**7,963**	**9,710**	21.9%
Profit before tax	**2,301**	**3,708**	61.1%	**3,232**	**5,370**	66.1%
Taxation	-317	-534	68.4%	-446	-731	64.1%
Profit for the year	**1,984**	**3,174**	60.0%	**2,787**	**4,638**	66.5%
Gross Margin (%)	14.7%	15.8%		14.3%	14.3%	
Operating Margin (%)	6.8%	9.0%		6.7%	8.2%	
EBIDTA margin (%)	22.8%	20.1%		23.1%	19.6%	
PBT margin	9.8%	11.0%		9.4%	10.8%	
NPM (%)	8.4%	9.4%		8.1%	9.4%	

Financial performance shows significant divergence between players: The performance of both the players manifests significant divergence, mainly on account of their growth paths. While OCOI has enjoyed a steady profitability and stable revenue, RCCI has experienced volatile performance over the last five years.

This variation can be attributed to RCCI's focus on exports and inorganic route. RCCI's acquisition of Pioneer Cement in UAE and subsequent expansion in Sohar to capture the northern Oman market has misfired. RCCI expanded in UAE, trying to replicate the strategy of local production for foreign export at low cost. However, the recent doubling of coal prices destabilized the pricing power as the cost structure which the players enjoyed vanished. Thus, RCCI has had to deal with double whammy of increase in cost as well as excess supply in UAE. The expansion in Sohar plant will mean intensity in completion locally. OCOI is better placed to tackle the regional competition due to its long-standing presence and high product quality.

RCCI has been able to achieve a top-line growth of CAGR 5.4% over 2017-21. The growth for RCCI has come at a cost since its gross margins declined from a high of 22.3% in 2017 to 5.7% in 2021. While there was a drop in OCOI gross margins as well, it was relatively lower from 26.2% in 2017 to 16.1% in 2021. The PAT margins too have seen similar trend in which OCOI experienced a lower slide from 16.5% in 2017 to around 9.5% in 2021. RCCI's PAT margins were half of OCOIs in 2017 which has further declined over the years.

In 000's	2017	2018	2019	2020	2021
RCCI Sales	71,870	90,980	84,056	90,383	93,598
OCOI Sales	57,964	51,283	48,685	50,144	46,944
RCCI Gross Margin %	22.31%	17.17%	22.68%	3.89%	5.70%
OCOI Gross Margin %	26.26%	22.55%	14.20%	17.16%	16.11%
RCCI PAT	5,815	344	2,260	-18,281	-13,586
OCOI PAT	9,592	7,315	4,013	5,183	4,447
RCCI PAT Margin	8.09%	0.38%	2.69%	-20.23%	-14.52%
OCOI PAT Margin	16.55%	14.26%	8.24%	10.34%	9.47%

Valuations: We believe that OCOI would ride the current demand wave driven by increase in construction activities and thrust from Oman government on mega projects. The increased spending will have a rub-off benefits for players like OCOI, besides this OCOI is expected to benefit from the operational issues with its competitor RCCI in the near term. We have arrived at a valuation of RO 0.358 per share based on DCF till 2027. We have also applied relative blended valuation method, by assigning a weightage of 50% based on DCF, 25% weight age each on EV/EBITDA and PE Valuation to arrive at a target price of 0.348, which implies an upside of 15%. Based on the potential and current valuation we recommend the stock with a BUY rating.

DCF Valuation	2022E	2023E	2024E	2025E	2026E	2027E
NOPLAT	4,751	4,670	4,948	5,728	10,486	12,054
Add: Depreciation	7,535	7,060	6,910	7,512	10,848	10,549
Less: capex	(1,143)	(36,763)	(47,350)	(36,763)	(5,000)	(5,000)
Less: change in WC	(6,249)	13,316	(80)	1,250	(5,527)	(725)
FCFF	4,894	(11,717)	(35,572)	(22,272)	10,807	16,878
PV of FCFF	4,868	(10,516)	(28,805)	(16,271)	7,123	10,037
PV of Terminal Value						131,856
Enterprise Value (,000)						98,291
Less net debt (,000)						(21,062)
Less minorities & Pension liabilities (,000)						922
Value of equity (,000)						118,430
No of shares (,000)						330,873
DCF Value per share (RO)						**0.358**

Valuation parameters	
Risk free rate	6%
Equity risk premium	8%
Beta	0.811
Cost of equity	12.5%
Cost of debt	5.0%
Corporate tax rate	15.0%
After tax cost of debt	4.3%
Target debt	20.0%
Target equity	80.0%
WACC	10.8%
Terminal growth rate	3%

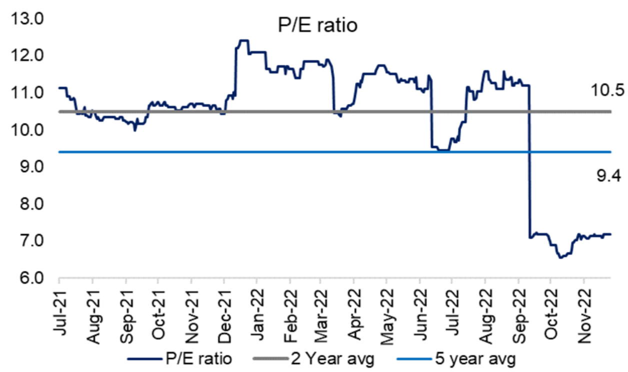
EV/EBITDA Valuation	
Industry Average Multiple (x)	8
EBITDA FY23e	12,554
Enterprise Value	100,431
Less: Net Debt	-21,062
Equity Value	121,493
Value per share (RO)	**0.367**
CMP	0.302
Upside/downside (%)	21.6%

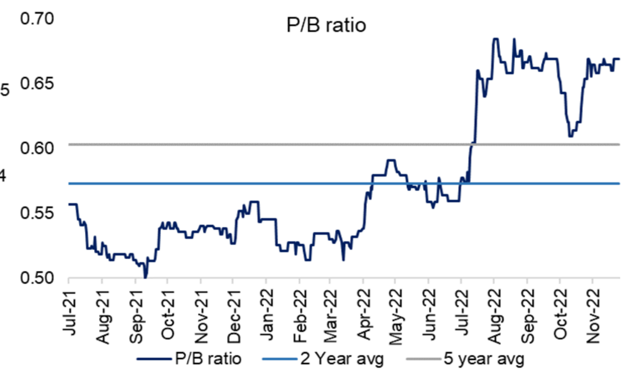
PE Valuation	
Industry Average Multiple (x)	15
PAT FY23e	6,833
Equity Value	102,494
Value per share (RO)	**0.310**
CMP	0.302
Upside/downside (%)	2.6%

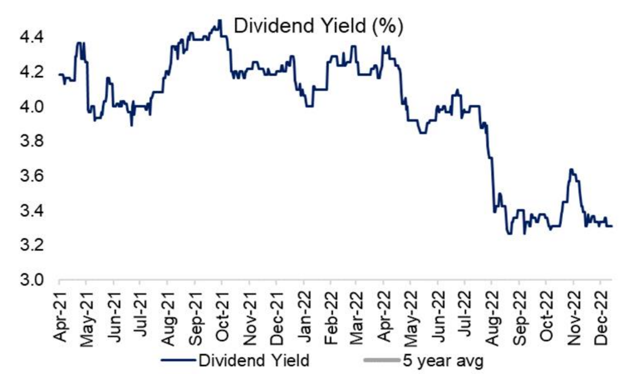
Summary of Valuations	Wtg (%)	Tgt share price	Wtd Price
DCF	50%	0.358	0.179
EV/EBITDA	25%	0.367	0.092
PE	25%	0.310	0.077
Weighted average target price			**0.348**
CMP			**0.302**
% Appreciation expected			15.3%

Key downside risks:

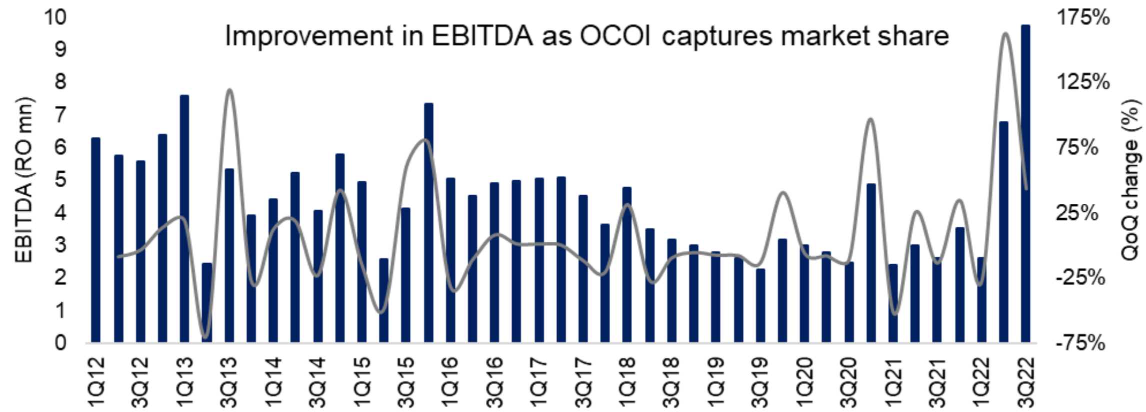
- Delay in execution of capacity expansion project and increase in interest rates resulting in cost overruns.
- Coal prices reducing substantially enabling UAE players to become cost competitive and resumption of supply from UAE
- Price of natural gas going up substantially resulting in escalation of production cost
- High receivables concentration of about 73% from top 4 customers.

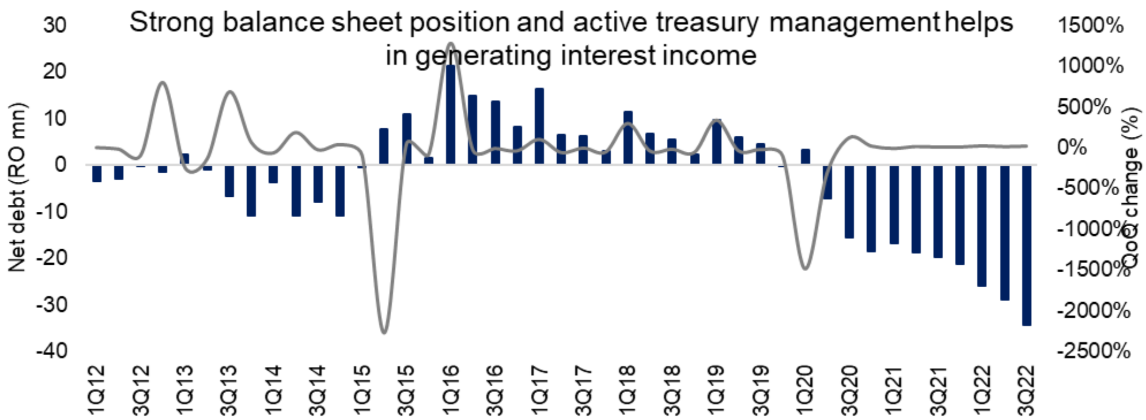







Quarterly revenue trend
35
30
25
20
15
10
5
120%
100%
80%
60%
40%
20%
0%
-20%
-40%
1Q12
3Q12
1Q13
3Q13
1Q14
3Q14
1Q15
3Q15
1Q16
3Q16
1Q17
3Q17
1Q18
3Q18
1Q19
3Q19
1Q20
3Q20
1Q21
3Q21
1Q22
3Q22


Improvement in EBITDA as OCOI captures market share
EBITDA (RO mn)
QoQ change (%)
10
9
8
7
6
5
4
3
2
1
0
175%
125%
75%
25%
-25%
-75%
1Q12
3Q12
1Q13
3Q13
1Q14
3Q14
1Q15
3Q15
1Q16
3Q16
1Q17
3Q17
1Q18
3Q18
1Q19
3Q19
1Q20
3Q20
1Q21
3Q21
1Q22
3Q22


Strong balance sheet position and active treasury management helps in generating interest income
Net debt (RO mn)
QoQ change (%)
30
20
10
0
-10
-20
-30
-40
1500%
1000%
500%
0%
-500%
-1000%
-1500%
-2000%
-2500%
1Q12
3Q12
1Q13
3Q13
1Q14
3Q14
1Q15
3Q15
1Q16
3Q16
1Q17
3Q17
1Q18
3Q18
1Q19
3Q19
1Q20
3Q20
1Q21
3Q21
1Q22
3Q22

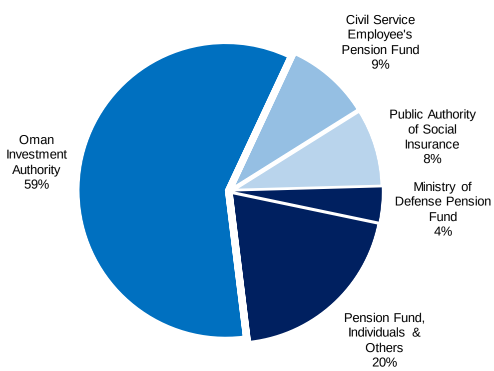

Quarterly profit trend
8
7
6
5
4
3
2
1
0
1Q12
3Q12
1Q13
3Q13
1Q14
3Q14
1Q15
3Q15
1Q16
3Q16
1Q17
3Q17
1Q18
3Q18
1Q19
3Q19
1Q20
3Q20
1Q21
3Q21
1Q22
3Q22

About Oman Cement Company

Oman Cement Company SAOG (OCOI) was established in the year 1978 and is Oman's first cement producer. It commenced production of cement in 1983 with an initial cement capacity of 0.7mtpa and Clinker capacity of 0.6mtpa, and gradually expanded over the years. The current capacity stands at 3.6mtpa of cement and 2.6 mtpa of clinker. From 2012-16, the company imported clinker and converted it into cement in order to cater to the increased demand during the period. The company supplies its product both in bulk to industrial consumers and in 50kg bags to retail consumers. Oman Cement Company has a 30% stake in Mondi Oman LLC, which is engaged in the manufacture of industrial paper bags.

The company was listed on Muscat Stock Exchange 1994, as part of privatisation drive. The government and government related entities hold 80.22% of the shares. The company has been rewarding its shareholder by paying dividends consistently over the years and has not made any losses despite the multiple crises in the form of glut in oil prices, pandemic driven slowdown and threat of competition from neighbouring countries. This stands testimony to the management efficiency and capabilities.

Shareholding pattern of Oman Cement



BOARD OF DIRECTORS

S.NO	NAME	POSITION	CATEGORY
1	Dr. Abdullah Abbas Ahmed	Chairman	Independent
2	Mr. Rashid Sultan Al Hashmi	Vice Chairman	Non Independent
3	Mr. Kumail Majid Al Moosawi	Member	Independent
4	Dr Faisal Al Farsi	Member	Independent
5	Mrs. Taiba Mohamed Al Zarafi	Member	Independent
6	Mr. Talal Issa Al Harrasi	Member	Non Independent
7	Mr. Sami Abdullah Al Sinani	Member	Non Independent

MANAGEMENT TEAM

S.NO	NAME	ROLE
1	Mr. Salim Abdullah Al Hajry	Chief Executive Officer
2	Mr. Fatick Al Balushi	Chief Financial Officer
3	Mr. Hilal Saif Rashid Al Dhamri	GM- Manufacturing
4	Mr. Zaid Al Siyabi General	GM- Engineering
5	Mr. Arif Kalam	Commercial Director

Income statement (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Total Revenue	**48,685**	**50,144**	**46,944**	**65,622**	**61,238**	**62,103**	**58,169**	**90,919**	**96,980**
Cost of Sales	-41,773	-41,539	-39,381	-55,970	-51,333	-51,809	-48,396	-73,912	-77,825
Gross profit	**6,912**	**8,604**	**7,562**	**9,652**	**9,906**	**10,294**	**9,773**	**17,007**	**19,155**
General Admin expenses	-3,479	-3,218	-3,646	-4,062	-4,412	-4,472	-3,033	-4,671	-4,974
Operating profit	**3,434**	**5,386**	**3,916**	**5,590**	**5,494**	**5,821**	**6,739**	**12,336**	**14,181**
EBIDTA	**11,032**	**13,078**	**11,471**	**13,124**	**12,554**	**12,731**	**14,251**	**23,184**	**24,730**
Other Income	757	271	395	783	583	583	583	583	583
Net Finance Income	499	794	873	1,123	1,962	1,586	119	-4,006	-3,836
Profit/Loss Before Tax	4,689	6,451	5,184	7,496	8,039	7,990	7,441	8,913	10,928
Taxation	-676	-1,268	-738	-1,124	-1,206	-1,199	-1,116	-1,337	-1,639
Net Profit/Loss	**4,013**	**5,183**	**4,447**	**6,371**	**6,833**	**6,792**	**6,325**	**7,576**	**9,289**

Balance Sheet (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
PPE	112,023	105,384	99,665	93,333	123,096	163,596	192,906	187,118	181,616
Intangibles an Right to Use	828	765	775	716	656	596	537	477	429
Investment in associates	1,020	1,004	1,143	1,143	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	1,000
Bank Deposits	8,467	975	998	1,000	1,000	1,000	1,000	1,000	1,000
Total Non-Current Assets	**130,320**	**109,104**	**103,581**	**97,192**	**126,895**	**167,335**	**196,585**	**190,737**	**185,188**
Current Inventories	25,031	25,425	30,300	37,006	22,909	23,129	21,135	32,294	34,027
Trade and current receivables	9,770	9,962	10,762	10,715	10,114	10,233	9,694	14,180	15,011
Investments	3,394	7,113	109	109	109	109	109	109	109
Cash and Bank Balances	5,057	14,326	56,835	56,607	37,468	37,822	41,079	15,562	2,020
Total current assets	**43,251**	**56,827**	**98,005**	**104,437**	**70,600**	**71,292**	**72,017**	**62,145**	**51,166**
Total Assets	**173,571**	**165,931**	**201,586**	**201,629**	**197,495**	**238,627**	**268,602**	**252,883**	**236,355**
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	82,739	83,201	83,160	82,693	82,290	82,348
Total equity	148,319	146,885	148,022	149,431	149,892	149,851	149,384	148,981	149,040
Borrowings	2,866	775	745	-	31,791	74,141	105,903	90,778	75,653
Other Liabilities	8,752	8,693	8,681	8,681	8,681	8,681	8,681	8,681	8,681
Total non-current liabilities	11,618	9,468	9,426	8,681	40,472	82,822	114,584	99,459	84,334
Borrowings	5,344	2,091	35,028	35,028	28	28	28	28	28
Trade and other current payables	7,808	6,515	8,283	8,786	8,605	8,628	8,423	9,569	9,747
Other current liabilities	482	973	826	-298	-1,504	-2,702	-3,818	-5,155	-6,795
Total current liabilities	13,634	9,579	44,138	43,517	7,130	5,954	4,634	4,442	2,981
Total liabilities	**25,252**	**19,046**	**53,563**	**52,198**	**47,602**	**88,776**	**119,218**	**103,901**	**87,315**
Total equity and liabilities	**173,571**	**165,931**	**201,586**	**201,629**	**197,495**	**238,627**	**268,602**	**252,883**	**236,355**

Cash Flow (RO '000)	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Cash from operations	7,430	11,305	7,625	7,657	27,209	13,622	15,087	12,897	19,113
Investing cash flow	6,918	4,425	12,785	-52,177	-23,176	-50,655	-38,629	3,328	5,741
Financing cash flow	-15,284	-11,962	29,599	-5,708	-8,172	37,387	26,799	-21,742	-23,397
Change in cash	-936	3,769	50,009	-50,228	-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	6,607	2,468	2,822	6,080	563	2,020

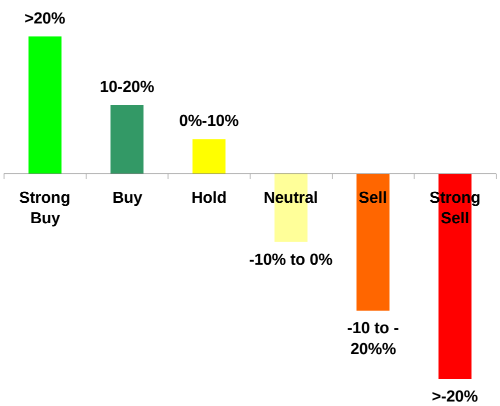
Ratio Analysis	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Per share									
EPS (RO)	0.012	0.016	0.013	0.019	0.021	0.021	0.019	0.023	0.028
BVPS (RO)	0.448	0.444	0.447	0.452	0.453	0.453	0.451	0.450	0.450
DPS (RO)	0.020	0.010	0.010	0.015	0.015	0.015	0.015	0.020	0.025
FCF per share (RO)	0.043	0.048	0.062	(0.135)	0.012	(0.112)	(0.071)	0.049	0.075
Valuation Ratios									
Market Cap (RO ,000)	75,439	81,395	81,726	99,924	99,924	99,924	99,924	99,924	99,924
EV (RO,000)	78,592	69,934	60,664	78,345	94,275	136,271	164,777	175,168	173,585
P/E (x)	18.80	15.70	18.38	15.68	14.62	14.71	15.80	13.19	10.76
EV/EBITDA (x)	7.12	5.35	5.29	5.97	7.51	10.70	11.56	7.56	7.02
Price/Book (x)	0.51	0.55	0.55	0.67	0.67	0.67	0.67	0.67	0.67
Dividend Yield (%)	8.8%	4.1%	4.0%	5.0%	5.0%	5.0%	5.0%	6.6%	8.3%
Price to sales (x)	1.55	1.62	1.74	1.52	1.63	1.61	1.72	1.10	1.03
EV to sales (x)	1.61	1.39	1.29	1.19	1.54	2.19	2.83	1.93	1.79
Liqiudity									
Cash Ratio (x)	0.37	1.50	1.29	1.30	5.25	6.35	8.87	3.50	0.68
Current Ratio (x)	3.17	5.93	2.22	2.40	9.90	11.97	15.54	13.99	17.17
Quick Ratio (x)	1.34	3.28	1.53	1.55	6.69	8.09	10.98	6.72	5.75
Return Ratios									
ROA (%)	2.3%	3.1%	2.2%	3.2%	3.5%	2.8%	2.4%	3.0%	3.9%
ROE (%)	2.7%	3.5%	3.0%	4.3%	4.6%	4.5%	4.2%	5.1%	6.2%
ROCE (%)	2.9%	3.6%	2.5%	4.1%	3.8%	3.0%	2.9%	5.2%	6.0%
Cash Cycle									
Inventory turnover (x)	1.88	1.77	1.54	1.62	2.43	2.43	2.43	2.43	2.43
Receivables turnover (x)	7.81	7.28	5.85	7.30	7.30	7.30	7.30	7.30	7.30
Accounts Payable turnover (x)	28.25	22.96	19.43	23.71	23.71	23.71	23.71	23.71	23.71
Inventory days	194	206	236	225	150	150	150	150	150
Receivables days	47	50	62	50	50	50	50	50	50
Payable Days	13	16	19	15	15	15	15	15	15
Cash Cycle	228	240	280	260	185	185	185	185	185
Profitability Ratio									
Gross Margins (%)	14.20%	17.16%	16.11%	14.71%	16.18%	16.58%	16.80%	18.71%	19.75%
EBITDA Margins (%)	22.66%	26.08%	24.44%	20.00%	20.50%	20.50%	24.50%	25.50%	25.50%
PBT Margins (%)	9.63%	12.86%	11.04%	11.42%	13.13%	12.87%	12.79%	9.80%	11.27%
Net Margins (%)	8.24%	10.34%	9.47%	9.71%	11.16%	10.94%	10.87%	8.33%	9.58%
Effective Tax Rate (%)	14.41%	19.66%	14.23%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Leverage									
Total Debt (RO ,000)	8,210	2,866	35,773	35,028	31,819	74,169	105,932	90,807	75,682
Net Debt (RO ,000)	3,153	(11,461)	(21,062)	(21,579)	(5,649)	36,348	64,853	75,245	73,662
Debt/Capital (x)	0.25	0.09	1.08	1.06	0.96	2.24	3.20	2.74	2.29
Debt/Total Assets (x)	0.05	0.02	0.18	0.17	0.16	0.31	0.39	0.36	0.32
Debt/Equity (x)	0.06	0.02	0.24	0.23	0.21	0.49	0.71	0.61	0.51

Key contacts

Research Team		
Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

Rating Criteria and Definitions

Rating



Rating Definitions	
Strong Buy	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%
Buy	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%
Hold	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%
Neutral	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%
Sell	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%
Strong Sell	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%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

Disclaimer