

Cement

NETURAL: 12M TP @ 0.334

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)	0.9
EV/EBITDA (x)	4.9
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	
Price performance (%)	1M	3M	12M
Oman Cement	-3%	3%	22%
MSX 30 Index	0%	3%	3%
Industry Index	-1%	4%	5%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (RO)	6	12	23
Avg Daily Volume (,000)	15	35	1,685
52 week	High	Low	CTL*
Price (RO)	0.368	0.275	27.3

* CTL is % change in CMP to 52wk low

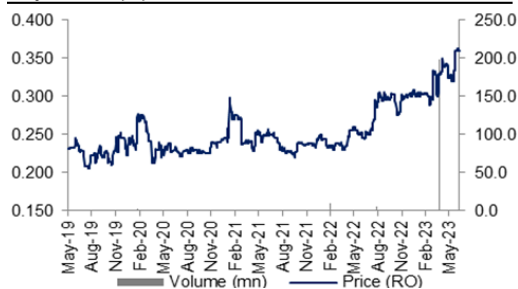
Major shareholders

Abra Holdings Ltd	64.7%
Civil Services Pension Fund	9.1%
General Authority for Social Insurance	8.5%
Others	17.8%

Other details

Exchange	MSX
Sector	Building Materials
Index weight (%)	2.59%

Key ratios	2020	2021	2022
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%	66%



Oman Cement – Cut TP to RO 0.334

Oman Cement outlined the vision of new management in their analyst call. Despite a 5.8% decline in sales volume, Oman Cement reported stable revenue on account of higher realization, which improved from RO 19.4/mt in 1H22 to RO 20.8/mt. 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%. Under the new ownership, the company is reviewing its earlier announced expansion plan, has considerably deleveraged its balance sheet, and does not intend to undertake short term treasury operations which added interest income arising out of gain from interest rate arbitrage. Going forward management's primary focus would be on its core operations. Given these critical updates in the earnings call, we have revised our estimates to reflect the revised plans of the company. Factoring in for these changes, we have revised our target price downwards to RO 0.334 and rate the stock NEUTRAL.

Capacity expansion and debt plans on hold: OCOI saw a major change in ownership with the majority stake now being held by Huaxin group. Last year OCOI had planned to increase its cement and clinker capacity to 6.2mtpa by 2025. Under the new ownership, the management has indicated that they may review the earlier announced clinker capacity expansion plans. Our earlier estimates had factored in revenue from the incremental capacity to kick in from 4Q25. We had also factored in a debt funded capex of RO 105.8mn. With the expansion plans on hold, we revise our revenue estimates to reflect new scenario. We also factor in annual maintenance capex of RO 5mn and expect the company to be debt free going forward.

Treasury income to reduce from 3Q23: In 2Q23, OCOI had significant net interest income of RO 1.1mn which is ca.20% of net income. The high level of finance income was on account of short-term interest rate arbitrage that the company used as a strategy to increase profitability. However, we notice that by 2Q23, the company has repaid the short-term debt as well as reduced short-term deposits, thus reducing potential addition to profits. We have revised the interest income and the potential higher interest costs due to debt.

Pricing and demand outlook: The company in its earning call has indicated that it is not planning to aggressively increase the sales price and take advantage of the current situation in demand, despite reduced competition. Hence, we do not expect any major improvement in realization despite high demand outlook in near term.

Valuations: The changes in management strategy led us to cut our earnings estimates for FY23 and beyond, leading to lower DCF value and reduced targets for relative valuation. We have revised our target price downwards by 8.9% to RO 0.334 and assign a NETRUAL rating. At CMP, The stock is trading at FY23 P/E of 16.5x, 2023E EV/EBITDA of 5.7x, which we feel is on the higher side given the absence of volume growth.

Valuations

We have 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 revised target price of RO 0.334, which implies a downside of 4.5% from current market price of RO 0.350 and accordingly we reduce our rating from BUY to NEUTRAL.

DCF Valuation	2022	2023E	2024E	2025E	2026E	2027E	Valuation parameters	
NOPLAT	3,451	5,006	4,359	3,747	5,726	6,068	Risk free rate	6%
Add: Depreciation	7,632	7,112	6,958	6,815	6,684	6,550	Equity risk premium	8%
Less: capex	(1,143)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	Beta	0.89
Less: change in WC	12,370	(4,791)	415	(893)	523	(170)	Cost of equity	13.1%
FCFF	22,310	2,327	6,732	4,669	7,933	7,447	Cost of debt	5.5%
PV of FCFF	20,882	2,230	5,790	3,604	5,495	4,630	Corporate tax rate	15.0%
PV of Terminal Value						50,075	After tax cost of debt	4.7%
Enterprise Value (,000)						92,706	Target debt	20.0%
Less net debt (,000)						(21,062)	Target equity	80.0%
Less minorities & Pension liabilities (,000)						922	WACC	11.4%
Value of equity (,000)						112,846	Terminal growth rate	2%
No of shares (,000)						330,873		
DCF Value per share (RO)						0.341		
CMP						0.35		
Upside/downside (%)						-2.6%		

EV/EBITDA Valuation	
Industry Average Multiple (x)	7.5
EBITDA FY23e (,000)	13,001
Enterprise Value (,000)	97,507
Less: Net Debt (,000)	-21,062
Equity Value (,000)	118,569
Value per share (RO)	0.358
CMP	0.350
Upside/downside (%)	2.4%

PE Valuation	
Industry Average Multiple	14
PAT FY23e (,000)	7,021
Equity Value (,000)	98,298
Value per share (RO)	0.297
CMP	0.350
Upside/downside (%)	-15.1%

Summary of Valuations	Wtg (%)	share price	Wtd Price
DCF	50%	0.341	0.171
EV/EBITDA	25%	0.358	0.090
PE	25%	0.297	0.074
Weighted average target price (RO)			0.334
CMP (RO)			0.350
% Appreciation expected			-4.5%

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

Key Quarterly Quantitative details

Quantity details	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23
<i>Production Tonnes</i>										
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
<i>Sales Tonnes</i>										
Cement	569,920	616,661	556,569	645,120	855,967	880,474	826,912	854,447	855,860	779,116
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

Income statement (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Total Revenue	48,685	50,144	46,944	66,695	69,471	66,380	69,247	70,632	72,044
Cost of Sales	(41,773)	(41,539)	(39,381)	(57,411)	(58,594)	(56,480)	(61,251)	(60,239)	(61,178)
Gross profit	6,912	8,604	7,562	9,284	10,877	9,900	7,995	10,393	10,866
General Admin expenses	(3,479)	(3,218)	(3,646)	(5,189)	(4,988)	(4,772)	(3,587)	(3,657)	(3,727)
Operating profit	3,434	5,386	3,916	4,095	5,889	5,128	4,408	6,736	7,138
EBIDTA	11,032	13,078	11,471	11,727	13,001	12,086	11,223	13,420	13,688
Other Income	757	271	395	786	800	800	800	800	800
Net Finance Income	499	794	873	1,100	1,571	1,057	1,053	1,067	1,099
Profit/Loss Before Tax	4,689	6,451	5,184	5,981	8,260	6,986	6,261	8,604	9,038
Taxation	(676)	(1,268)	(738)	(940)	(1,239)	(1,048)	(939)	(1,291)	(1,356)
Net Profit/Loss	4,013	5,183	4,447	5,040	7,021	5,938	5,322	7,313	7,682

Balance Sheet (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PPE	112,023	105,384	99,665	94,026	91,974	90,076	88,320	86,696	85,194
Intangibles an Right to Use	828	765	775	890	830	771	711	651	604
Investment in associates	1,020	1,004	1,143	1,497	1,497	1,497	1,497	1,497	1,497
Other Investments	7,982	977	1,000	-	-	-	-	-	-
Bank Deposits	8,467	975	998	-	-	-	-	-	-
Total Non-Current Assets	130,320	109,104	103,581	96,413	94,301	92,344	90,528	88,845	87,295
Current Inventories	25,031	25,425	30,300	22,228	26,129	25,172	26,646	26,258	26,674
Trade and current receivables	9,770	9,962	10,762	10,403	10,831	10,414	10,801	10,987	11,177
Investments	3,394	7,113	109	102	102	102	102	102	102
Cash and Bank Balances	5,057	14,326	56,835	83,930	41,757	42,831	41,425	43,960	43,972
Total current assets	43,251	56,827	98,005	116,664	78,819	78,519	78,974	81,307	81,925
Total Assets	173,571	165,931	201,586	213,077	173,121	170,863	169,503	170,152	169,220
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	86,775	85,692	85,076	87,067	87,436
Total equity	148,319	146,885	148,022	149,754	153,467	152,383	151,767	153,758	154,127
Borrowings	2,866	775	745	712	-	-	-	-	-
Other Liabilities	8,752	8,693	8,681	8,377	8,377	8,377	8,377	8,377	8,377
Total non-current liabilities	11,618	9,468	9,426	9,089	8,377	8,377	8,377	8,377	8,377
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	11,262	11,136	11,330	11,279	11,334
Other current liabilities	482	973	826	1,226	-13	-1,061	-2,000	-3,291	-4,647
Total current liabilities	13,634	9,579	44,138	54,234	11,277	10,103	9,358	8,017	6,716
Total liabilities	25,252	19,046	53,563	63,323	19,654	18,480	17,735	16,394	15,093
Total equity and liabilities	173,571	165,931	201,586	213,077	173,121	170,863	169,503	170,152	169,220

Cash Flow (RO '000)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	7,430	11,305	7,625	24,145	9,342	13,310	11,244	14,520	14,062
Investing cash flow	6,918	4,425	12,785	-30,982	-5,000	-5,000	-5,000	-5,000	-5,000
Financing cash flow	-15,284	-11,962	29,599	2,015	-44,421	-3,309	-3,309	-3,309	-3,309
Change in cash	-936	3,769	50,009	-4,822	-40,079	5,002	2,935	6,211	5,753
Beginning cash	3,993	3,057	6,826	56,835	52,013	11,934	16,936	19,871	26,082
Ending cash	3,057	6,826	56,835	52,013	11,934	16,936	19,871	26,082	31,835

Ratio Analysis	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per share									
EPS (RO)	0.012	0.016	0.013	0.015	0.021	0.018	0.016	0.022	0.023
BVPS (RO)	0.448	0.444	0.447	0.453	0.464	0.461	0.459	0.465	0.466
DPS (RO)	0.020	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010
FCF per share (RO)	0.043	0.048	0.062	(0.021)	0.013	0.025	0.019	0.029	0.027
Valuation Ratios									
Market Cap (RO ,000)	75,439	81,395	81,726	100,585	115,805	115,805	115,805	115,805	115,805
EV (RO,000)	78,592	69,934	60,664	57,796	74,077	73,003	74,409	71,874	71,862
P/E (x)	18.80	15.70	18.38	19.96	16.49	19.50	21.76	15.84	15.07
EV/EBITDA (x)	7.1	5.3	5.3	4.9	5.7	6.0	6.6	5.4	5.2
Price/Book (x)	0.5	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Dividend Yield (%)	8.8%	4.1%	4.0%	3.3%	2.9%	2.9%	2.9%	2.9%	2.9%
Price to sales (x)	1.5	1.6	1.7	1.5	1.7	1.7	1.7	1.6	1.6
EV to sales (x)	1.6	1.4	1.3	0.9	1.1	1.1	1.1	1.0	1.0
Liquidity									
Cash Ratio (x)	0.4	1.5	1.3	1.5	3.7	4.2	4.4	5.5	6.5
Current Ratio (x)	3.2	5.9	2.2	2.2	7.0	7.8	8.4	10.1	12.2
Quick Ratio (x)	1.3	3.3	1.5	1.7	4.7	5.3	5.6	6.9	8.2
Return Ratios									
ROA (%)	2.3%	3.1%	2.2%	2.4%	4.1%	3.5%	3.1%	4.3%	4.5%
ROE (%)	2.7%	3.5%	3.0%	3.4%	4.6%	3.9%	3.5%	4.8%	5.0%
ROCE (%)	2.9%	3.6%	2.5%	3.3%	4.6%	3.9%	3.5%	4.8%	5.0%
Cash Cycle									
Inventory turnover (x)	1.9	1.8	1.5	2.4	2.4	2.4	2.4	2.4	2.4
Receivables turnover (x)	7.8	7.3	5.8	7.4	7.4	7.4	7.4	7.4	7.4
Accounts Payable turnover (x)	28.3	23.0	19.4	18.4	18.4	18.4	18.4	18.4	18.4
Inventory days	194	206	236	153	150	150	150	150	150
Receivables days	47	50	62	49	49	49	49	49	49
Payable Days	13	16	19	20	20	20	20	20	20
Cash Cycle	228	240	280	182	179	179	179	179	179
Profitability Ratio									
Gross Margins (%)	14.2%	17.2%	16.1%	13.9%	15.7%	14.9%	11.5%	14.7%	15.1%
EBITDA Margins (%)	22.7%	26.1%	24.4%	17.6%	18.7%	18.2%	16.2%	19.0%	19.0%
PBT Margins (%)	9.6%	12.9%	11.0%	9.0%	11.9%	10.5%	9.0%	12.2%	12.5%
Net Margins (%)	8.2%	10.3%	9.5%	7.6%	10.1%	8.9%	7.7%	10.4%	10.7%
Effective Tax Rate (%)	14.4%	19.7%	14.2%	15.7%	15.0%	15.0%	15.0%	15.0%	15.0%
Leverage									
Total Debt (RO ,000)	8,210	2,866	35,773	41,141	28	28	28	28	28
Net Debt (RO ,000)	3,153	(11,461)	(21,062)	(42,790)	(41,728)	(42,802)	(41,397)	(43,931)	(43,944)
Debt/Capital (x)	0.2	0.1	1.1	1.2	0.0	0.0	0.0	0.0	0.0
Debt/Total Assets (x)	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.1	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0

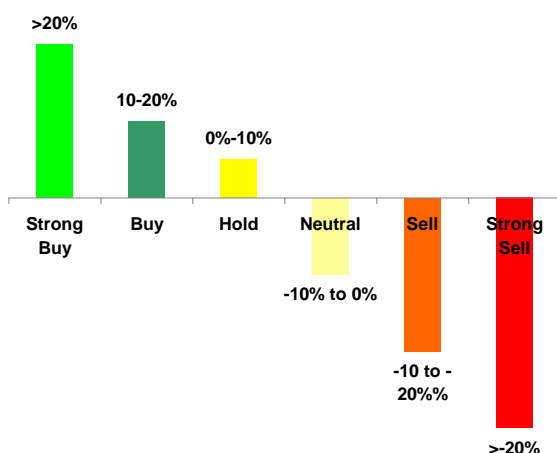
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Rating Criteria and Definitions

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



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