

28<sup>th</sup> April, 2009

## Q1 2009 - Update

Table 1: Highlights

Reuters Ticker	AACT.OM
Date Established	Jun-97
Sector	Ceramic Tiles
CMP (RO)	0.296
52 wk high/low (RO)	0.749/0.175
YTD performance	72.6%
Market Cap (RO 000)	33,120
Shares Outstanding (000)	111,892

Figure 1: Price History

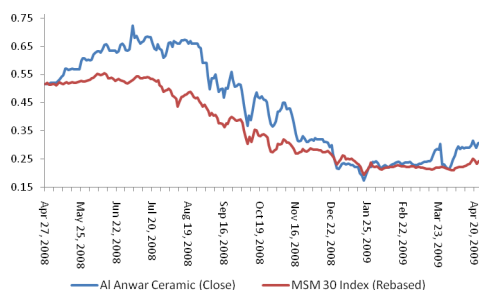


Table 2: Financial Summary

	Q1 09	Q1 08	% Change
Revenue	4,096	2,789	46.8%
Direct Costs	-2,032	-1,345	51.0%
Operating Profit	1,432	955	49.9%
Net Profit	1,261	951	32.6%
Share Capital	11,189	8,607	30.0%
Shareholder's Equity	14,784	10,967	34.8%
Retained Earnings	2,243	1,305	72.0%
Total Asset	18,468	15,487	19.2%
Basic EPS	0.011	0.011	2.0%
P/E Ratio (x)	6.6	6.7	-2.0%
GPM (%)	50.4%	51.8%	-2.7%
NPM (%)	30.8%	34.1%	-9.7%

## Preview of Q1 2009

- Aggregate sales for three months ended 31<sup>st</sup> March 2009 scale higher by 46.8% (y-o-y) at RO. 4.09 million from RO. 2.78 million same time last year.
- New line commences full production allowing for exploitation of increased efficiencies and subsequent volume throughput.
- Gross profit makes 42.9% improvement to RO. 2.06 million over RO. 1.44 million as of Q1 2008 (y-o-y). Margins sit strong at 50.4% for Q1 2009. Margins note improvement on Q-o-Q basis.
- Products receive significant acceptance in the company's key markets (the GCC region) as evident from the improvement in sales.
- The net income for the period stands at RO. 1.26 million, an increase of 32.6% (y-o-y) over RO. 951K recorded in Q1 2008.

## Outlook &amp; Recommendation

- Company likely to pursue aggressive penetration into new/existing markets targeting optimal product/market mix.
- Regional demand/supply gap likely to recede given the slowdown in regional Real Estate sector.
- Competition likely to remain fierce in 2009 given the regional economic slowdown with likely impact on realizations/margins going forward.
- Aggregate sales expected to reach RO. 15.3 million for year 2009, an increase of 29.1%, y-o-y.
- Bottom line likely to achieve 26.4% growth (y-o-y) for year 2009 to RO. 4.51 million.
- 2009E forward P/E & P/BV reflects low at 7.3 times and 1.8 times respectively.
- We assign a **Buy** recommendation to the stock for the short term.

**Operational Overview**

Plant line #3 commences full production

During the first quarter ended 31<sup>st</sup> March 2009, the company benefitted from the full commencement of production from its new plant line #3 (added in August 2008). The resultant annual production capacity at the plant has been augmented to nearly 10 million sq. mt. / annum.

Plant line #3 achieves full commencement.

This improvement in capacity has allowed for substantial increase in production volumes during the period under review.

**Financial Overview**

Expansion brings unprecented increase in Sales

The company reported improved revenues in Q1 2009 to the tune of RO. 4.09 million beating our expectations, a resultant impact of expansion activities unfolding. Sales have made a dramatic 46.8% improvement on a y-o-y basis from Q1 2008 as highlighted in Table 3 below. Moreover a growth of 27.7% is also evident on a q-o-q basis. The company has worked on optimizing its product/market mix in order to maximize sales. The incremental capacity and resultant volume growth has allowed the company increase penetration primarily in its new and existing markets, mainly Saudi Arabia. Product sales currently span across Oman, UAE and Saudi Arabia with the company eyeing newer markets in the GCC.

Company expands presence in export markets.

**Table 3: Quarterly Income Summary (RO 000)**

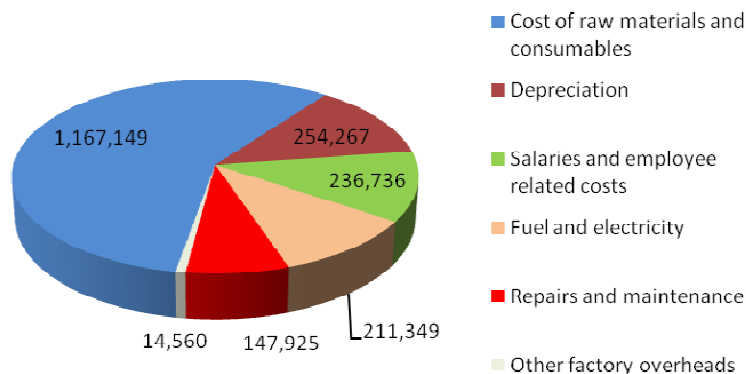
	Q1 09A	Q1 08A	Growth (y-o-y)	Q4 08A	Growth (q-o-q)
Sales	4,096	2,789	46.8%	3,206	27.7%
Gross Profit	2,064	1,444	42.9%	1,548	33.4%
Gross Margin	50.4%	51.8%		48.3%	
Net Income	1,261	951	32.6%	831	51.7%
Net Margin	30.8%	34.1%		25.9%	

(Source: Company Financials, Al Madina Research)

Costs, a key focus area

Direct costs, as reported under Cost of Sales have undergone a 51.0% increase (y-o-y) to RO. 2.03 million as of Q1 2009.

**Figure 2: Classification of Cost of Sales (RO, Q1 2009)**

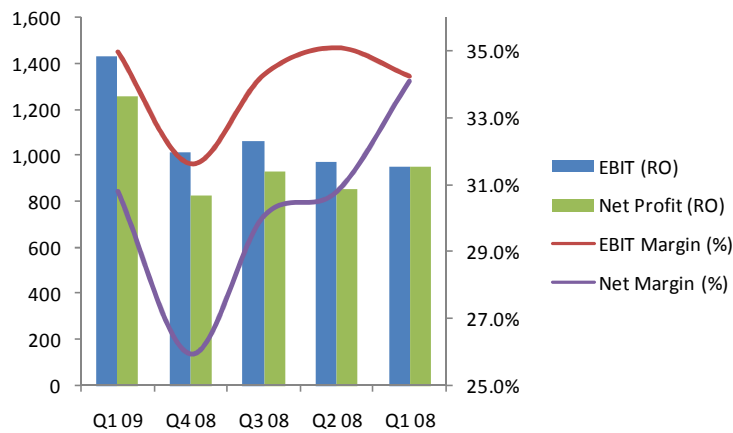


(Source: Company Financials, Al Madina Research)

In part the rise in costs reflects in line with the recent scale up of production capacity and subsequent sales. Among direct costs, the bulk portion amounting to RO. 1.16 million (57.4%) consists of costs of key raw materials both sourced locally and imported. Depreciation expenses have also witnessed a 60.5% increase (y-o-y) reflecting the higher fixed asset base.

Among the other costs, a 31.5% increase (y-o-y) was seen in selling & distribution expenses to RO. 312K arising primarily from the higher freight costs.

**Figure 3: Quarterly Profits (RO) vs. Margins (%)**



(Source: Company Financials, Al Madina Research)

Profits scale up...

**The increased capacity and throughput has allowed the company to continue its focus on enhancing cost efficiency.** This is readily evident in the EBIT margins shown in Figure 3 above. EBIT stood at RO. 1.43 million for Q1 2009 (Q1 08: RO. 955K) at a higher margin of 34.9% (Q1 08: 34.2%). In part this margin improvement indicates the better rate of amortization of the company's fixed costs. Margin improvement is even more notable on Q-o-Q basis. The bottom line for the quarter stands at RO. 1.26 million, up 32.6% (y-o-y). In addition the company continues to optimize its product/market mix in its attempt to maximize margins.

*Company expands presence in export markets.*

Q1 2009 Operating Cash Flows (net) turn 'negative'

**The company's net cash flows from operations stood negative for the 3 months ended 31<sup>st</sup> March 2009 indicating outflows of RO. 110.5K.** This compares to net inflows of RO. 1.78 million achieved in the corresponding period of last year.

The decline in operating cash flows stems primarily from the increase in trade receivables a result of the increase in sales during the quarter. Trade receivables have noted a RO. 993K increase during 3M 2009. In addition the company's 10-year tax exemption expired in year 2008 as result of which it paid out RO. 341.8K in tax expenses pertaining to year 2008 in Q1 2009.

**Table 4: Cash Flow from Operations (RO 000)**

	Q1 2009	Yr 2008	Q1 2008
Cash flow from Operations	234.1	4,372.8	1,788.0
Tax Paid	-341.8		
Finance Cost	-2.8	-23.7	-4.1
<b>Net Cash from Operations</b>	<b>-110.6</b>	<b>4,349.1</b>	<b>1,783.9</b>

(Source: Company Financials, Al Madina Research)

## Balance Sheet gaining strength

**Table 5: Condensed Balance Sheet (RO 000)**

	3M 09	Yr 08	Growth (YTD)	3M 08	Growth (YoY)
<b>Fixed assets</b>	<b>11,148</b>	<b>11,364</b>	-1.9%	<b>8,128</b>	37.2%
% Composition	60.4%	64.3%		52.5%	
Inventory	2,118	2,164	-2.2%	1,302	62.7%
% Composition	11.5%	12.2%		8.4%	
A/c Receivable	4,037	2,767	45.9%	2,886	39.9%
% Composition	21.9%	15.6%		18.6%	
Bank and cash balances	207	1,278	-83.8%	307	-32.6%
% Composition	1.1%	7.2%		2.0%	
<b>Total assets</b>	<b>18,468</b>	<b>17,682</b>	4.4%	<b>15,487</b>	19.2%
Trade & Other Paybles	2,160	2,405	-10.2%	2,991	-27.8%
% Composition	58.6%	57.8%		66.2%	
<b>Total liabilities</b>	<b>3,683</b>	<b>4,162</b>	-11.5%	<b>4,520</b>	-18.5%
Retained Earnings	2,243	3,564	-37.1%	1,305	72.0%
<b>Total shareholders' equity</b>	<b>14,784</b>	<b>13,519</b>	9.4%	<b>10,967</b>	34.8%

(Source: Company Financials, Al Madina Research)

Receivables record notable increase.

For the 3M ended 31<sup>st</sup> March 2009, the company's aggregate assets stand at RO. 18.4 million, up 4.4% over the 2008 year end figure and 19.2% on a Y-o-Y basis. Among assets, fixed assets (comprising P,P &E) account for the bulk at RO. 11.1 million. The increase noted Y-o-Y is on account of capital expenditure in relevance to Plant line #3. Total Receivables have noted a 15.6% increase over year 2008 end to RO. 4.03 million partly on account of the increase in volume of sales. These account for 21.9% of total assets. Inventories comprise 11.5% of assets at RO. 2.11 million.

Total liabilities for the period stand at RO. 3.68 million, down 11.5% compared to the year ending 2008. Trade & other payables have noted a 10.2% decline for the current year upto 31<sup>st</sup> March 2009 to RO. 2.16 million. Total shareholder's equity stands at RO. 14.78 million for the period.

## Outlook

**For the short term we expect the company to witness growth in its operations.** Despite the grim economic scenario, our optimism stems from an adequate order book coupled with the added capacity (from plant line # 3) which has become available to the company during the year. The company is likely to maintain its dominance in the local market alongside achieving greater penetration in the export markets comprising the other GCC countries. The local market, the company's main market of operation is witnessing continuity as far as project activity is concerned. The company is likely to target distribution channels in existing and new markets of the GCC in 2009 as a way to boost revenues. The products continue to receive satisfactory acceptance in its markets, reflecting sound quality standards.

Competition likely to remain severe going forward.

Among visible concerns in the short term remains the downturn in the real estate market in the region. The resultant impact could be visible narrowing of the demand-supply gap for ceramic tiles going forward. We believe going forward the company would be eyeing to broaden its market mix by increasing penetration in existing markets such as Saudi Arabia to negate against the impact of the downturn which may have affected more severely its market in the UAE. Also penetration to new markets (such as Qatar, Kuwait) cannot be ruled out. Going forward in the short term (2009) we also envisage an increase in the level of competition in the home and export markets of the company which may curtail realization

levels (and possibly margins). Going forward the company may also need to exercise further prudence on the working capital front, primarily the buildup of receivables.

*Cost effectiveness to prove key in 2009.*

On a positive note, as always the focus on cost competitiveness will continue to hold going forward. We uphold some degree of optimism which is much rooted to the already cost efficient nature of the company's operations. Cost efficiency would be one of the decisive factors/determinants of performance in the near term. Any additional throughput possible in 2009 could further work to enhance cost efficiencies (due to economies of scale). The company claims to be in a better position going forward due to better buying power post expansion.

For the year 2009, we expect Al Anwar Ceramic Tiles Co. (SAOG) to achieve revenues to the tune of RO. 15.33 million, a 29.1% increase over RO. 11.87 million achieved in year 2008. Despite the likely prospects of growth in 2009, we take a conservative stance for the coming quarters assuming some sales moderation (volume/realization) keeping in mind the economic (and real estate) slowdown in the region. We envisage a mild improvement in margins going forward (as measured by EBIT), taking into account greater costs efficiencies as well as possible decline in raw materials costs. We envisage the company to post a bottom line of RO. 4.51 million in year 2009 (Yr 2008: RO. 3.56 million), a 26.4% improvement y-o-y. This works out a 2009E forward P/E of 7.3 times at the current market price.

### **Recommendation**

Based on our expectations of the company's performance in year 2009, the stock is currently trading at a fairly low forward P/E and P/BV of 7.3 times and 1.8 times respectively. We anticipate modest upside potential for the stock in the short term given the growth scenario. We assign a **Buy** recommendation on the stock for the short term.

## Appendix: Financials/Company Profile

### Table 6: Income Statement

(RO 000)	2009E	Q1 09A	2008A	Q4 08A	Q3 08A	Q2 08 A	Q1 08 A	2007A
Turnover	15,330	4,096	11,870	3,206	3,100	2,774	2,789	8,774
Cost of sales	-7,866	-2,032	-5,935	-1,659	-1,575	-1,357	-1,345	-4,747
<b>Gross profit</b>	<b>7,464</b>	<b>2,064</b>	<b>5,935</b>	<b>1,548</b>	<b>1,525</b>	<b>1,418</b>	<b>1,444</b>	<b>4,026</b>
Other income	76	11	80	14	18	16	32	96
<b>Total Income</b>	<b>7,540</b>	<b>2,075</b>	<b>6,015</b>	<b>1,562</b>	<b>1,543</b>	<b>1,434</b>	<b>1,476</b>	<b>4,123</b>
<b>Expenses</b>								
Administrative and general expenses	-1,317	-332	-1,135	-297	-291	-263	-284	-832
Selling and distribution expenses	-1,009	-312	-848	-225	-189	-197	-237	-888
Net finance costs	-16	-3	-24	-7	-4	-9	-4	-13
<b>Total Expenses</b>	<b>-2,382</b>	<b>-646</b>	<b>-2,033</b>	<b>-554</b>	<b>-485</b>	<b>-469</b>	<b>-525</b>	<b>-1,774</b>
<b>Profit before income tax</b>	<b>5,159</b>	<b>1,429</b>	<b>3,981</b>	<b>1,008</b>	<b>1,058</b>	<b>964</b>	<b>951</b>	<b>2,349</b>
Tax	-647	-168	-414	-176	-127	-111		-33
<b>Net profit</b>	<b>4,511</b>	<b>1,261</b>	<b>3,567</b>	<b>831</b>	<b>931</b>	<b>854</b>	<b>951</b>	<b>2,316</b>

(Source: Company Financials, Al Madina Research)

### Table 7: Balance Sheet

(RO 000)	2009E	2008	2007	2006	2005	2004	2003
<b>Non-Current assets</b>							
Property, plant and equipment	10,680	11,341	6,233	6,615	7,029	7,566	4,198
Financial assets available for sale	44	23	74				
<b>Sub-Total</b>	<b>10,725</b>	<b>11,364</b>	<b>6,308</b>	<b>6,615</b>	<b>7,029</b>	<b>7,566</b>	<b>4,198</b>
<b>Current assets</b>							
Financial assets available held-to maturity	4,845	108	3,425				
Inventories	2,463	2,164	1,415	1,615	1,803	1,086	846
Trade receivables	3,545	2,587	1,848	2,405	2,068	1,572	1,015
Other receivables	155	180	347	103	82	84	190
Cash and bank balances	690	1,278	589	812	64	201	9
<b>Sub-Total</b>	<b>11,697</b>	<b>6,318</b>	<b>7,623</b>	<b>4,936</b>	<b>4,018</b>	<b>2,943</b>	<b>850</b>
<b>Total Assets</b>	<b>22,422</b>	<b>17,682</b>	<b>13,931</b>	<b>11,550</b>	<b>11,047</b>	<b>10,509</b>	<b>5,048</b>
<b>Current Liabilities</b>							
Current maturities of term loans	308	308	308	308	725	725	225
Bank borrowings	0		-	-	298	279	843
Trade and other payables	2,558	2,405	1,256	1,000	1,097	1,370	895
Taxation	600	342					
<b>Sub-Total</b>	<b>3,467</b>	<b>3,055</b>	<b>1,564</b>	<b>1,309</b>	<b>2,120</b>	<b>2,374</b>	<b>1,068</b>
<b>Non-Current Liabilities</b>							
Term loans, excluding current maturities	249	486	715	1,023	1,444	2,030	-1,161
Deferred Government grant	59	131	210	210	305	319	-414
Staff terminal benefits	259	202	145	103	90	75	-52
Deferred tax liability	336	289	217	184	149	123	-123
<b>Sub-Total</b>	<b>903</b>	<b>1,107</b>	<b>1,287</b>	<b>1,520</b>	<b>1,988</b>	<b>2,546</b>	<b>-1,750</b>
<b>Total Liabilities</b>	<b>4,370</b>	<b>4,162</b>	<b>2,851</b>	<b>2,829</b>	<b>4,108</b>	<b>4,920</b>	<b>-681</b>
<b>Shareholder's Equity</b>							
Share capital	11,189	8,607	7,173	5,738	3,188	2,772	2,520
Legal reserve	1,808	1,357	1,000	769	590	453	319
Retained earnings	5,042	3,564	2,864	2,215	3,161	2,364	
Cum. chg in fair value of AFS investments	13	-9	42				
<b>Total Shareholder's Equity</b>	<b>18,052</b>	<b>13,519</b>	<b>11,079</b>	<b>8,721</b>	<b>6,939</b>	<b>5,589</b>	<b>2,839</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>22,422</b>	<b>17,682</b>	<b>13,930</b>	<b>11,550</b>	<b>11,047</b>	<b>10,509</b>	<b>2,158</b>

(Source: Company Financials, Al Madina Research)

## Appendix: Financials/Company Profile

**Table 8: Ratio Analysis**

	2009E	2008	2007	2006	2005
<b>Valuation ratios</b>					
EPS	0.040	0.041	0.032	0.031	0.042
BVS	0.161	0.157	0.154	0.152	0.218
SPS	0.137	0.138	0.122	0.14	0.212
P/E (x)	7.3	7.1	9.2	9.5	7.0
P/BV (x)	1.8	1.9	1.9	1.9	1.4
P/SPS (x)	2.2	2.1	2.4	2.1	1.4
Div. (Cash)	10.0%	-	15.0%	-	-
Div. Stock)	20.0%	30.0%	20.0%	25.0%	80.0%
Div. Yld (%)	3.4%	-	5.1%	-	-
<b>Return/Profitability Ratios</b>					
Gross Margin (%)	48.7%	50.0%	45.9%	44.9%	40.5%
Net Margin (%)	29.4%	30.1%	26.4%	22.1%	20.0%
EBITDA margin (%)	40.6%	40.3%	34.8%	31.7%	31.4%
Return on Beginning Equity (% ROBE)	33.4%	32.2%	26.6%	25.7%	24.2%
Return on Average Equity (% ROAE)	28.6%	29.0%	23.4%	22.8%	21.6%
Return on Beginning Assets (% ROBA)	25.5%	25.6%	20.0%	16.1%	12.9%
Return on Average Assets (% ROAA)	22.5%	22.6%	18.2%	15.8%	12.5%
Return on Capital (% ROC)	24.2%	24.2%	16.7%	15.9%	12.9%
<b>Turnover ratios</b>					
Asset Turnover (x)	0.68	0.85	0.76	0.73	0.64
PPE Turnover (x)	1.44	1.05	1.41	1.22	0.96
A/c Recv. Turnover (x)	4.32	4.59	4.75	3.35	3.27
Inventory Turnover (x)	3.19	2.77	3.35	2.74	2.23
A/c Payb. Turnover (x)	3.07	2.49	3.78	4.43	3.67
Days in Receivables	84.4	79.5	76.8	109.1	111.5
Days in Inventories	114.3	131.8	108.8	133.0	163.4
Days in Payables	118.7	146.5	96.6	82.4	99.4
Cash Conversion Cycle	80.0	64.9	89.1	159.7	175.5
<b>Liquidity/Leverage Ratios</b>					
Current Ratio (x)	3.37	2.07	4.87	3.77	1.90
Quick Ratio (x)	2.66	1.36	3.97	2.54	1.04
Liabilities/Equity (x)	0.24	0.31	0.26	0.32	0.59
Debt/Equity (x)	0.03	0.07	0.11	0.18	0.36
Debt/Capital (x)	0.03	0.06	0.10	0.15	0.26
Interest Coverage	331.0	169.2	177.4	30.0	19.1
CFO/Total Liabilities (x)	1.11	1.00	1.35	0.79	0.14
NI/CFO	0.93	0.82	0.60	0.80	2.32
<b>Value Drivers</b>					
Net margin	29.4%	30.1%	26.4%	22.1%	20.0%
*Asset Turnover (Beg)	0.87	0.85	0.76	0.73	0.64
= Return on Beginning Assets	25.5%	25.6%	20.0%	16.1%	12.9%
* Financial leverage	1.31	1.26	1.32	1.592	1.88
= Return on Beginning Equity	33.4%	32.2%	26.6%	25.7%	24.2%

(Source: Company Financials, Al Madina Research)

## Appendix: Financials/Company Profile

Al Anwar Ceramic Tiles Co. (SAOG) came into existence in the year 1998 as the country's first local manufacturer of Ceramic tiles. The company's plant was setup in the town of Nizwa with key technical collaboration from Italian manufacturers.

For the production process the plant sources most raw materials such shale, limestone and silica sand locally via its mining rights. At the same time other important items such as pigments, glaze and frits are imported from leading Italian and Spanish manufacturers.

Today the company's product range under the brand name of 'Al Shams' is fairly diverse incorporating glazed wall, floor, border and decorative tiles manufactured in accordance to International standards. The quality standards of the company's products are in compliance with the British Standard B.S. 6431/1984 and European Standard EN87: 1991. The company's annual production capacity today stands at nearly 10 million sq. mt. In a short span of time the company's products have received a warm response from the local and regional GCC markets. The company has also established a fine reputation for efficiency and productivity.

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### **AI Madina Research: Rating Methodology**

Rating	Explanation
Buy	Capital gain of >20% to the CMP.
Accumulate	Capital gain in the range of 10%-20% to the CMP.
Hold	Capital gain in the range of 0%-10% to the CMP.
Reduce	Capital depreciation in the range of 0%-10% to the CMP.
Sell	Capital depreciation of >10% to the CMP.
Time Horizon	Explanation
Short Term	Period of upto one (1) year from date of recommendation.
Mid Term	Period of 1-3 years from date of recommendation.
Long Term	Period of >3 years from date of recommendation.

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