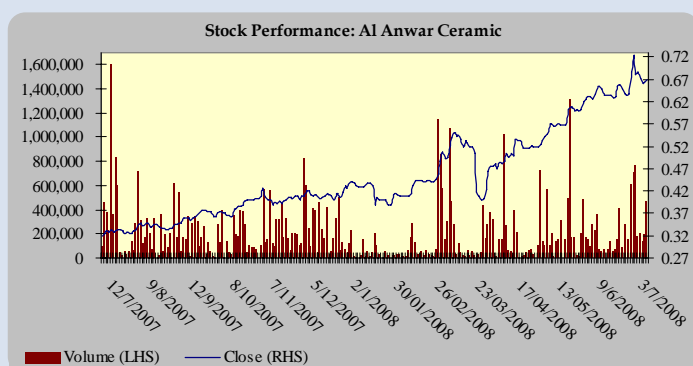


## Al Anwar Ceramic: H1 2008

Name	Al Anwar Ceramic
Ticker	AACT
Exchange	MSM
Established	1-Jun-97
Industry	Ceramic manufac.
CMP (RO)	0.687
Shares outstanding (000)	86,071
Market Capital (RO 000)	59,131

### Price History



Source: Company Financials, Al Madina Research

### Financial Summary

(RO 000)	H2 08	H2 07	% Change
Revenue	5,564	4,420	25.9%
Operating Cost	(2,702)	(2,366)	14.2%
Operating Profit	1,928	1,205	60.0%
Net Profit	1,805	1,196	50.9%
Share Capital	8,607	7,173	20.0%
Shareholder's Equity	10,967	9,336	17.5%
Retained Earnings	1,305	1,395	-6.5%
Total Asset	15,487	12,284	26.1%
Basic EPS	0.021	0.017	25.7%
Ann. P/E Ratio (x)	16.4	20.6	-20.5%
GPM (%)	51.4%	46.5%	10.7%
NPM (%)	32.4%	27.1%	19.9%

Source: Company Financials, Al Madina Research

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### Preview of H1 2008

The company continues to achieve impressive results with a solid 25.9% growth in revenues to RO. 5.5 million. The bottom line witnessed a growth of 51% (y-o-y) to RO. 1.8 mn. For 3m ended 30<sup>th</sup> June 2008, the profit stands at RO. 854K.

### Company & Industry Overview

Al Anwar Ceramic Tiles SAOG (AACI) is an Oman based company engaged in the manufacturing of glazed wall and floor tiles. The plant, setup in Nizwa has technical collaboration from leading Italian companies. Most raw materials are sourced locally and the end product has strong footing in the local and regional GCC markets.

The Demand for Tiles in the GCC region continues to remain robust judging by the scale of developments in arenas of housing and tourism. The demand for ceramic tiles in the local market today stands tall at around 20 million sq. mt. /annum. The region witnesses fierce competition thus making cost competitiveness one of the key factors for success. The year 2008 has witnessed the entry of a new local manufacturer, Al Maha Ceramics which has set up its US\$. 30 million facility at Sohar Industrial Area.

For the second quarter ended 30<sup>th</sup> June 2008, Al Anwar Ceramic has continued to pursue its strategy of improving asset utilization and the product mix to achieve the desired performance. The company's manufacturing facilities have operated at peak capacity throughout the quarter to meet the solid demand. In the GCC region, the company continues to grow its franchise in the markets of Saudi Arabia and the UAE. The company has already built up an adequate order book in the region.

The company's long running pursuit to emerge as the lowest cost producer of ceramic tiles in the region has finally borne fruit during the current quarter. This gives strong positioning to the company in its line of business.

The low cost nature of operations is easily evident from the improving margin achievements. As of 30<sup>th</sup> June 2008, the gross margin stood at 51.4% as opposed to 46.5% recorded during the corresponding period last year. This has rendered better net margins despite a 28.8% increase (y-o-y) in administrative and general expenses over the period.

## Expansion Plans: A Key Thrust

The company's production capacity expansion plan continues to progress smoothly with the new facility likely to commence operations by August 2008 as planned. The new project, an investment worth nearly RO. 5.0 million will augment the production capacity by nearly 3.5 million sq. mt. / annum thus retaining the company's position as the country's largest manufacturer of ceramic tiles. Total capacity post expansion will be at 10 million sq. mt. / annum.

### Key Ratios

	<u>2009E</u>	<u>2008E</u>	<u>2007A</u>	<u>2006A</u>	<u>2005A</u>
EPS	0.054	0.043	0.032	0.031	0.024
P/E	12.5	15.6	20.7	21.5	28.4
P/BV	3.9	4.2	4.3	4.4	3.1
P/Sales	4.0	4.9	2.9	4.8	3.1
BV/Share	0.17	0.16	0.15	0.15	0.22
Sales/Share	0.17	0.14	0.23	0.14	0.21
Dividend/Share (Cash)	30%	25%	20%	-	-
Dividend/Share (Stock)	15%	15%	20%	25%	80%
Div. Yld (%)	4.5%	3.7%	3.0%	-	-
Share Capital (M)	9,898	8,607	7,173	5,738	3,188
<b>Other Ratios</b>					
Current Ratio	4.5	3.6	4.9	3.8	1.9
Debt/Equity	0.03	0.06	0.10	0.15	0.31
ROE (%)	31.5%	26.9%	20.9%	20.4%	19.5%
OPM (%)	36.9%	34.8%	26.9%	23.4%	53.0%
NPM (%)	32.5%	31.5%	26.4%	22.1%	20.0%
Receivable turnover	5.6	5.4	4.1	3.6	3.7
Inventory turnover	4.2	3.8	3.1	2.6	2.8
Payable turnover	3.7	3.8	4.2	4.2	3.3
CCC	53	67	117	154	116

Source: Company Financials, Al Madina Research.

### Outlook & Recommendations

We believe the company's expansion plans are likely to give the key thrust to its operations in the second half of the current year and the near future.

The high demand for ceramic tiles in the local and GCC markets especially in the mid term is likely to work largely in favour of Al Anwar Ceramic. The flurry of construction activities in the sphere of housing and tourism have been and will continue to be primary drivers for the company's business. As stated above the company has already built up a strong order book for its products big enough to accommodate the new capacity coming on stream shortly. Competition is likely to remain fierce which would mean that the company is set to continue its pursuits of efficiency to maintain its positioning as the lowest cost producer (of tiles) in the region. The company may be in a better position to exploit the economies of scale post expansion.

For the year 2008 we expect the company to attain revenues to the tune of nearly **RO. 11.7 million**. Solid thrust in revenues is expected in the second half of 2008 given the increased capacity prevalent at that time. The bottom line is expected to reach **RO. 3.7 million**. The company is liable to pay income taxes from 1<sup>st</sup> April 2008 onwards after a 5-year tax exemption. At the current market price, the 2008E P/E works out to be **15.6 times**. The dividend payout is expected to be solid for year 2008. Moreover we expect the solid performance to continue into year 2009. We give a **buy** rating for the stock for the mid term.

The performance for year 2007 was quite encouraging. The company achieved an EPS of Bz. 32/share at its new capital base of RO. 7.1 mn. Sales /share was solid for the year. At the same the company noted improvement in liquidity as shown by the higher current ratio. Return on shareholder funds have also improved. Further improvements are expected in the coming years as revealed by the ratios.

Income statement: Al Anwar Ceramic (RO 000)	2009E	2008E	Q2 2008 A	Q1 2008 A	2007A	Q4 2007	Q3 2007	Q2 2007	Q1 2007A	2006A
Turnover	16,351	11,704	2,774	2,789	8,774	2,023	2,330	2,147	2,273	8,050
Cost of turnover	(7,772)	(5,735)	(1,357)	(1,345)	(4,747)	(1,135)	(1,175)	(1,205)	(1,161)	(4,433)
<b>Gross profit</b>	<b>8,579</b>	<b>5,969</b>	<b>1,418</b>	<b>1,444</b>	<b>4,026</b>	<b>889</b>	<b>1,156</b>	<b>942</b>	<b>1,112</b>	<b>3,616</b>
Other income	125	115	16	32	96	33	32	19	13	10
	<b>8,704</b>	<b>6,084</b>	<b>1,434</b>	<b>1,476</b>	<b>4,123</b>	<b>922</b>	<b>1,188</b>	<b>961</b>	<b>1,125</b>	<b>3,626</b>
<b>Expenses</b>										
Director's remuneration	(60)	(45)			(36)					(28)
Administrative and general expenses	(1,569)	(1,112)	(263)	(284)	(837)	(217)	(116)	(211)	(214)	(742)
Selling and distribution expenses	(1,038)	(854)	(197)	(237)	(888)	(198)	(689)	(165)	(290)	(976)
Net finance costs	(19)	(17)	(9)	(4)	(13)	2	(6)	(3)	(6)	(63)
	<b>(2,686)</b>	<b>(2,028)</b>	<b>(469)</b>	<b>(525)</b>	<b>(1,774)</b>	<b>(413)</b>	<b>(812)</b>	<b>(380)</b>	<b>(510)</b>	<b>(1,809)</b>
<b>Profit for the year before income tax</b>	<b>6,018</b>	<b>4,056</b>	<b>964</b>	<b>951</b>	<b>2,349</b>	<b>509</b>	<b>376</b>	<b>581</b>	<b>615</b>	<b>1,817</b>
Deferred tax	(711)	(365)	(111)		(33)	(33)	0	0	0	(35)
<b>Net profit for the year</b>	<b>5,306</b>	<b>3,691</b>	<b>854</b>	<b>951</b>	<b>2,316</b>	<b>476</b>	<b>376</b>	<b>581</b>	<b>615</b>	<b>1,782</b>

Balance Sheet: Al Anwar Ceramic (RO 000)	2009E	2008E	2007	2006
<b>Non-current assets</b>				
Property, plant and equipment	9,204	9,593	6,233	6,615
financial assets available for sale	157	107	74	
	<b>9,361</b>	<b>9,700</b>	<b>6,308</b>	<b>6,615</b>
<b>Current assets</b>				
Financial assets available held-to maturity	4,500	2,000	3,425	
Inventories	2,057	1,644	1,415	1,615
Trade receivables	3,352	2,488	1,848	2,405
Other receivables	874	728	347	103
Cash and bank balances	1,266	666	589	812
	<b>12,049</b>	<b>7,526</b>	<b>7,623</b>	<b>4,936</b>
<b>Current liabilities</b>				
Current maturities of term loans	308	308	308	308
Bank borrowings		-	-	-
Trade and other payables	2,398	1,803	1,256	1,000
	<b>2,706</b>	<b>2,111</b>	<b>1,564</b>	<b>1,309</b>
<b>Non-current liabilities</b>				
Term loans, excluding current maturities	276	551	794	1,023
Deferred Government grant	33	66	131	210
Staff terminal benefits	245	188	145	103
Deferred tax liability	1,293	582	217	184
	<b>1,847</b>	<b>1,387</b>	<b>1,287</b>	<b>1,520</b>
<b>Shareholders' funds</b>				
Share capital	9,898	8,607	7,173	5,738
Legal reserve	1,900	1,369	1,000	769
Proposed dividend	4,454	3,443	2,510	1,435
Retained earnings	555	233	354	780
Cum. chg in fair value of AFS investments	50	75	42	
	<b>16,857</b>	<b>13,727</b>	<b>11,079</b>	<b>8,721</b>

## Al Madina Research: Rating Methodology

Rating	Explanation
Buy	Capital gain of >20% to the CMP over the year.
Accumulate	Capital gain in the range of 10%-20% to the CMP over the year.
Hold	Capital gain in the range of 0%-10% to the CMP over the year.
Reduce	Capital likely to depreciate in the range of 0%-10% to the CMP over the year.
Sell	Capital likely to depreciate >10% to the CMP over the year.

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