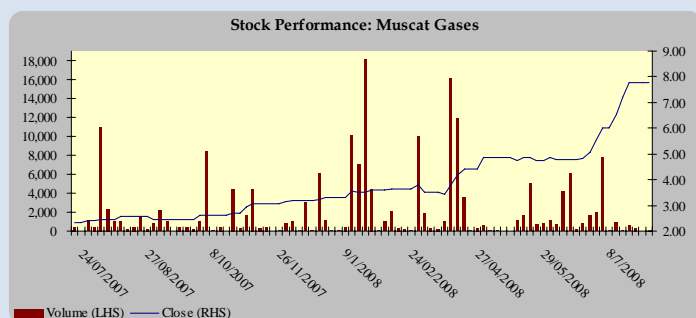


Muscat Gases: H1 2008

Name	Muscat Gases
Ticker	MGMC
Exchange	MSM
Established	Aug. 1989
Industry	Industrial Gases
CMP (RO)	7.759
Shares outstanding (000)	2,415
Market Capital (RO 000)	18,738

Price History



Source: Company Financials, Al Madina Research

Financial Summary

RO'000	H1 08	H1 07	% Change
Revenue	3,146	2,210	42%
Operating Cost	(2,211)	(1,660)	33%
Operating Profit	780	424	84%
Net Profit	858	445	93%
Share capital	2,415	2,415	0%
Shareholder's Equity	4,474	3,897	15%
Retained Earnings	1,015	518	96%
Total Assets	5,598	4,704	19%
Basic EPS	0.355	0.184	93%
P/E Ratio (X)	10.9	21.1	-48%
GPM (%)	29.7%	24.9%	19%
OPM (%)	24.8%	19.2%	29%
NPM (%)	27.3%	20.1%	35%

Source: Company Financials, Al Madina Research

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Preview of H1 2008

Muscat Gases achieves solid growth in its topline by 42.4% (y-o-y) to RO. 3.15 mn. The operating profit also soared by 83.9% (y-o-y) from RO. 424K to RO. 780K. The bottom line improved to RO. 858K against RO. 445K registered in the first half of 2007.

Company & Industry Overview

Muscat Gases Company (MGC) is an Oman-based company engaged in the manufacture and distribution of various types of industrial and cooking gases. It was established as a partnership in the year 1983. The company's activities include LPG (for cooking) and Propane (for heat treatment, refrigeration) filling at its four plants, the sale and manufacture of industrial gases such as nitrogen (to companies engaged in the oil and gas industry), filling argon & refrigerants, oxygen and acetylene gases (to the welding industry). Some of the company's products also serve the medical industry. The company also trades in the various industrial gases. MGC also provides nitrogen purging services, helium leak testing (for pipelines, pressure vessels) and cylinder re-qualification. The Company operates a plant in Rusayl industrial area, in addition to three plants for gas filling in Sur, Izki and Musannah. The company's first production facility was established at the Industrial Estate in Rusayl in 1985. The company went public in 1989.

Muscat Gases provides has a vast clientele in the country for industrial gases namely Petroleum Development Oman (PDO), Oman LNG, Oman Refineries & Petrochemicals (ORPC) and other Oil & Gas contractors. The company has adopted state of the art techniques in all its operations.

The company has capitalized on the growth primarily in the Industrial gases especially due to the high demand prevalent from the local industries. Demand for LPG for purposes of cooking has also been high. The sector has been characterized by severe competition in the recent past which has lead to reduction in selling prices. The company has also faced problems such as inadequate availability of LPG in the recent past (due to low quota) and measures are being put to rectify this. During the quarter ended 30th June 2008 the concerned authorities have increased the company's LPG allocations.

For the six months ended 30th June 2008 the topline has registered solid growth of nearly 42.4% (y-o-y) to RO. 3.15. We see improved efficiencies in the company's performance as shown by the improved gross profit margin at 29.8% (H1 2007: 24.9%). The company has also earned RO. 179.6K in other income primarily from its investment portfolio in the securities market.

Key Ratios

	2008E	2007	2006	2005	2004
EPS	0.623	0.368	0.270	0.282	0.189
P/E	12.4	21.1	28.8	27.5	41.1
P/BV	3.7	4.3	4.6	4.6	4.6
P/Sales	3.0	3.9	4.5	4.5	4.0
BV/Share	2.121	1.797	1.679	1.676	1.703
Sales/Share	2.604	1.983	1.707	1.725	1.961
Dividend/Share (Cash)	45%	30%	25%	20%	10%
Dividend/Share (Stock)	-	-	-	5%	15%
Dividend Yield (%)	5.8%	3.9%	3.2%	2.6%	1.3%
Payout (Cash) %	72%	81%	93%	71%	53%
Share Capital (M)	2,415	2,415	2,415	2,300	2,000

The company's performance has improved consistently over the past few years. In 2007 the company witnessed improved efficiency with high margins. The Net Margin advanced to 21.6% from 13.6% recorded in 2006. Muscat Gases reported solid EPS for the year at Bz.368. The dividend yield stood at 3.9% for the year 2007.

Other Ratios

Current Ratio	3.3	3.5	3.9	3.9	2.4
CPS	0.645	0.620	0.554	0.526	0.4
ROE	29.4%	20.5%	16.1%	16.9%	11.1%
ROA	22.7%	16.3%	13.1%	14.1%	8.5%
GPM	29.6%	29.0%	18.9%	24.1%	22.6%
NPM	23.9%	21.6%	13.6%	16.4%	9.6%
Inventory turnover	5.4	5.5	6.1	6.1	8.6
Receivable turnover	5.1	5.1	5.9	6.4	6.2
Payable turnover	4.5	4.8	5.7	5.0	4.4
Cash Conversion Cycle (CCC)	57.9	61.4	57.3	43.9	18.3

Liquidity ratios continue to remain solid with the current ratio at 3.5 times and CPS at Bz. 620. The Cash Conversion Cycle (CCC) for the company stands at 58 days.

Management effectiveness has improved significantly as revealed by the higher ROE and ROA ratios at 20.5% and 16.3% respectively.

Source: Company Financials, Al Madina Research

Outlook & Recommendations

In the near future the company is planning to expand the scope of its operations in the Industrial Gases division by way of new plants/products. We believe Industrial gases will be a key growth area for the company judging by developments in the various industries and the company is putting efforts to diversify its product line. The demand for LPG is slated to increase inline with growing population. The past issues facing this segment (low quota) are starting to get rectified this year which unfolds as a positive development. The sector is likely to continue facing strong competition in this segment.

We expect the company to achieve revenues of nearly **RO. 6.29 mn** for the year ending 2008, an upline of **31.3%** (y-o-y). We expect the company to sustain its current margins levels for the remaining of the current year. The bottom line is expected to improve to **RO. 1.50 mn**, a growth of **69.1%** (y-o-y). At the current price the 2008 forward P/E works out to **12.5 times**.

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.

Income statement: Muscat Gases (RO 000)	2008E	2007	2006	2005	2004
Revenue	6,288	4,789	4,123	3,967	3,922
cost of goods sold	(4,426)	(3,592)	(3,217)	(3,011)	(3,036)
Gross Profit	1,861	1,197	906	956	887
General and administrative expenses	(387)	(307)	(266)	(268)	(303)
Other income	241	116	76	36	27
Profit before tax	1,716	1,005	716	724	611
Provision for income tax	(216)	(124)	(93)	(97)	(82)
Deferred tax release	6	8	28	26	14
Prior year income tax	-	-	-	(3)	-
Profit after tax before prior year adjustment	1,505	889	651	650	543
Prior year adjustment		-	-	-	(165)
Profit for the year	1,505	889	651	650	378
Earnings per share	0.623	0.368	0.270	0.282	0.189

Balance Sheet: Muscat Gases (RO 000)	2008E	2007	2006	2005	2004
Non-current assets					
Property, plant and equipment	2,089	1,925	1,992	2,165	2,307
Investments	165	165	90	200	205
Total non-current assets	2,254	2,090	2,082	2,366	2,511
Current assets					
Inventories	892	763	548	504	490
Trade and other receivables	1,453	1,012	881	526	719
Bank deposits		0	0	800	570
Bank balances and cash	1,559	1,497	1,338	410	139
Investment at fair value through profit or loss	474	108	113	0	0
Total current assets	4,377	3,380	2,880	2,239	1,918
Total assets	6,631	5,471	4,962	4,605	4,429

EQUITY AND LIABILITIES**Capital and reserves**

Share capital	2,415	2,415	2,415	2,300	2,000
Statutory reserve	805	805	725	659	594
General reserve	211	211	211	211	211
Special reserve	29	29	29	29	29
Retained earnings	1,662	881	676	82	72
Proposed stock dividend		-	-	115	300
Proposed cash dividend		-	-	460	200
Total equity	5,122	4,341	4,055	3,855	3,406

Non-current liabilities

Provision for employees' end of service indemnity	93	66	61	56	56
Deferred tax liabilities	83	89	98	126	152
Total non-current liabilities	176	155	159	182	208

Current liabilities:

Trade and other payables	1,117	850	655	470	735
Provision for income tax	216	124	93	97	82
Total current liabilities	1,333	975	748	568	816

Total Liabilities

	1,510	1,130	907	750	1,024
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Total equity and liabilities

	6,631	5,471	4,962	4,605	4,429
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