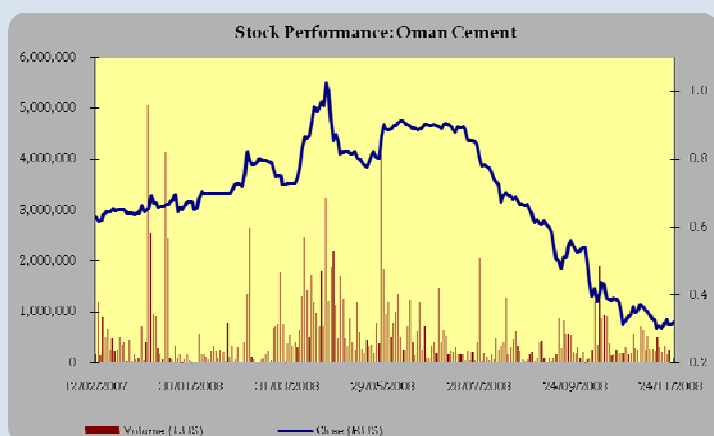


Oman Cement: 9M 2008

| | |
|---------------------------|-------------|
| Company | Oman Cement |
| Ticker | OCO I |
| Exchange | MSM |
| Established | 21-Jul-77 |
| Industry | Cement |
| Current Price (RO) | 0.324 |
| Shares Outstanding ('000) | 330,873 |
| Mkt. Cap. (RO '000) | 107,203 |

Price History



Financial Summary

| (RO '000) | 9M '08 | 9M '07 | % Change |
|-------------------|---------|---------|----------|
| Revenues | 43,972 | 38,512 | 14.2% |
| Cost of Sales | 29,932 | 21,054 | 42.2% |
| Operating Profit | 9,383 | 13,038 | -28.0% |
| Net Profit | 10,737 | 13,681 | -21.5% |
| Share Capital | 33,087 | 33,087 | 0.0% |
| Share Equity | 123,602 | 112,278 | 10.1% |
| Retained Earnings | 42,661 | 38,235 | 11.6% |
| Total Assets | 140,075 | 127,598 | 9.8% |
| Basic EPS (RO) | 0.032 | 0.041 | -21.5% |
| P/E Ratio | 7.5 | 5.9 | - |
| GPM (%) | 25.1% | 37.7% | -33.5% |
| NPM (%) | 24.4% | 35.5% | -31.3% |

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Preview of 9M 2008

During the nine months ended 30th September 2008, sales for the Group has increased by 14.17% to reach at RO 43.97 million as against RO 38.51 million recorded during the same period last year. Operating profit for the nine months has decreased by 24.57% (y-o-y) to reach at RO 9.85 million. The company has earned RO. 10.7 million in profit after tax for the period, which is a 21.5% decline over last year's figure.

Company & Industry Overview

Oman Cement Company SAOG (OCC) is engaged in the manufacture and sale of cement and related products. The Company's products include ordinary Portland cement, sulfate resistant cement, moderate sulphate resistant cement, and oil well cement, with an annual production capacity of 1.26 million tons. The company holds an associate level stake in Oman Mondi Shuaiba Packaging LLC. The Company's main shareholder is the Government of Oman (51%). OCC is listed on the Muscat Securities Market .

In value terms, the company has achieved total sales of **RO. 17.07 million** for the quarter ended 30th September 2008, up **37%** from **RO. 12.45 million** achieved in the corresponding quarter of 2007. Sales have also noticed an increase compared to the previous quarters of 2008. The reason for this has been a combination of increased volume sales as well as a higher realization rate of nearly **RO. 30.32/MT**. The improvement in prices stems from the regulatory changes made by the MOCI allowing for the new factory selling price ceiling to be set at **RO. 30.0 / MT**.

| Operating Indicators | Yr 2007 | Q1 2008 | Q2 2008 | Q3 2008 |
|-------------------------|------------|------------|------------|------------|
| Clinker Production (MT) | 1,154,000 | 275,290 | 301,720 | 285,875 |
| Clinker Imports (MT) | 531,530 | 152,969 | 212,857 | 222,899 |
| Cement Production (MT) | 1,865,000 | 448,025 | 513,538 | 518,199 |
| Cement Sales (MT) | 1,878,000 | 430,751 | 535,114 | 563,007 |
| Sales (RO) | 49,911,000 | 11,739,000 | 15,163,000 | 17,070,000 |
| Realization (RO/MT) | 26.58 | 27.25 | 28.78 | 30.32 |

Looking at operational parameters, the 3 months ended September 2008 have witnessed a decline in plant utilization (compared to Q2 08) for clinker with production at nearly **285.8K MT**. Overall performance for the 9 months stands marginally higher in comparison to last year. To keep up the pace of cement production in line with demand the company procured (imported) an additional 588.7K MT of clinker during the 9M2008.

For the 3 months ended 30th September 2008, the company's sales stood at **563K MT** of cement as against the sales of **465K MT** during the corresponding period of 2007. This increase has been possible partly due to sale of imported cement purchased from abroad. The cost of imported cement during 9M 2008 stood quite high at RO. 39.6/ MT.

The company's decision to import clinker and cement has had an adverse impact on the margins and profitability for the quarter. The gross margin for the current concluded quarter was just 22% as opposed to 33.8% for the corresponding period last year. The clinker/cement imports constituted cost heavy items at RO. 19.5 million or 60% of all direct costs. Profitability in value terms has been hit negatively with the gross profit for the quarter ended 30th September 2008 at RO. 3.75 million down 26.5% (y-o-y). The net profit for the quarter stands at just RO. 3.18 million (lowest for the year so far) down 28.6% over the same period last year.

| Quarterly P&L (Oman Cement) | Q3 '08A | Q2 08A | Q1 08A | Yr 2007 | Q4 07A | Q3 07A | Q2 07A | Q1 07A |
|-------------------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| Turnover | 17,070 | 15,163 | 11,739 | 50,010 | 11,498 | 12,453 | 11,893 | 14,166 |
| Cost of sales | -12,266 | -10,326 | -7,340 | -26,251 | -5,198 | -6,351 | -6,904 | -7,799 |
| Depreciation | -952 | -904 | -869 | -3,486 | -835 | -892 | -881 | -878 |
| Gross profit | 3,852 | 3,933 | 3,530 | 20,273 | 5,466 | 5,210 | 4,108 | 5,489 |
| Administration and general expenses | -607 | -647 | -678 | -2,838 | -1,069 | -483 | -772 | -514 |
| Operating profit | 3,245 | 3,286 | 2,852 | 17,435 | 4,397 | 4,727 | 3,336 | 4,975 |
| Finance charges | -21 | -21 | -19 | -81 | -18 | -21 | -27 | -15 |
| Investment income | 391 | 362 | 499 | 2,258 | 547 | 534 | 565 | 612 |
| Dividend Income | 3 | 9 | 937 | 695 | 3 | 4 | 688 | 0 |
| Other Income | -4 | 390 | 84 | 190 | 165 | 9 | 10 | 6 |
| Profit before taxation | 3,615 | 4,045 | 4,413 | 19,696 | 4,335 | 5,234 | 4,536 | 5,591 |
| Taxation | -434 | -482 | -420 | -2,426 | -631 | -654 | -465 | -676 |
| Profit before Min. Interest | 3,181 | 3,563 | 3,993 | 17,270 | 3,704 | 4,580 | 4,071 | 4,915 |
| Net profit | 3,181 | 3,563 | 3,993 | 17,270 | 3,589 | 4,622 | 4,109 | 4,950 |

Source: Company Financial, Al Madina Research

Key Ratios

| Ratio Analysis | 2009E | 2008E | 2007 | 2006 | 2005 |
|----------------------------------|-------|-------|-------|-------|-------|
| Valuation Ratios | | | | | |
| EPS (RO) | 0.045 | 0.042 | 0.052 | 0.062 | 0.055 |
| BV/S (RO) | 0.408 | 0.382 | 0.362 | 0.325 | 0.282 |
| P/E (x) | 7.2 | 7.8 | 6.2 | 5.2 | 5.9 |
| P/BV (x) | 0.8 | 0.8 | 0.9 | 1.0 | 1.1 |
| DPS (RO) | 0.02 | 0.02 | 0.03 | 0.04 | 0.03 |
| Dividend. Yield (%) | 7.4% | 6.8% | 8.3% | 10.8% | 7.7% |
| Dividend. Payout (%) | 53.2% | 52.8% | 51.7% | 56.3% | 45.6% |
| Profitability Ratios | | | | | |
| Net Margin (%) | 22.3% | 22.4% | 34.5% | 41.4% | 41.3% |
| ROA (%) | 9.9% | 9.7% | 12.9% | 16.8% | 16.6% |
| ROE (%) | 11.0% | 10.9% | 14.4% | 19.1% | 19.4% |
| Liquidity/Leverage Ratios | | | | | |
| Current ratio (x) | 4.8 | 4.4 | 4.1 | 2.8 | 2.7 |
| Quick Ratio (x) | 4.0 | 3.5 | 3.6 | 2.1 | 1.9 |
| Debt/Equity (x) | 0.11 | 0.12 | 0.12 | 0.14 | 0.17 |
| Activity ratios | | | | | |
| Inventory Turnover (x) | 6.5 | 7.3 | 6.3 | 4.7 | 4.1 |
| A/c Receivable Turnover (| 10.8 | 11.5 | 10.3 | 11.2 | 13.2 |

The sales/per share increased marginally in 2007, rising costs lowered profitability as reflected by the EPS of Bz. 52. Despite the lower profitability the company managed to add value as shown by the higher BV/S of Bz. 362. The company has maintained a fairly consistent flow of dividend payout over the years. The margins in 2007 have suffered a setback with operating and net margins down to 34.9% and 34.5% respectively.

In line with the low profits the ROA and ROE have also reduced considerably. The liquidity scenario has shown some improvement for the company with the current and quick ratios quite high at 4.1 and 3.6 times respectively. The distribution of the cash dividend during 2007 was attractive at Bz. 27. It works out a yield of nearly 8.4%.

Outlook & Recommendations

We foresee the demand for cement in Oman to remain steady at least for the near future due to the ongoing construction boom spanning across arenas such as housing, tourism and infrastructure development. Setting the new ceiling of RO. 30/MT for cement prices is likely to compensate in part for the increased costs of imported clinker.

The company's expansion plans are ongoing and include the addition of a new production line for clinker with a rated capacity of 4,000 MT/day. This project is likely to be completed by the end of year 2009. Post expansion the clinker capacity is likely to reach nearly 2.4 mn MT/annum. The project is to be funded by a combination of internal accruals and external borrowing. In the interim we believe the company is likely to continue importing clinker to keep its cement production in pace with the required demand in the northern part of the country. We believe the company is likely to achieve a topline of around RO. 61.5 million for the year ended 31st December 2008. The company's bottom line is likely to reach RO. 13.8 million, down 20.2% over the previous year. At the current market price, the 2008E forward P/E works out at 7.8 times. We give a **buy** rating to the stock for the midterm.

| Financial Indicators: Oman Cement | 2009E | 2008E | 2007 | 2006 | 2005 |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (RO '000) | 66,750 | 61,552 | 50,010 | 49,710 | 43,969 |
| Operating profit (RO '000) | 13,457 | 12,557 | 17,435 | 20,932 | 18,648 |
| Net Profit (RO '000) | 14,917 | 13,779 | 17,270 | 20,556 | 18,147 |
| Net Margin (%) | 22.35% | 22.39% | 34.53% | 41.35% | 41.27% |
| P/E (x) | 7.2 | 7.8 | 6.2 | 5.2 | 5.9 |
| Total Assets (RO '000) | 150,071 | 141,497 | 134,265 | 122,290 | 109,222 |
| ROA (%) | 10.2% | 10.0% | 13.5% | 17.8% | 18.0% |
| Total Equity (RO '000) | 135,159 | 126,278 | 119,765 | 107,539 | 93,459 |
| ROE (%) | 11.4% | 11.2% | 15.2% | 20.5% | 21.2% |
| P/BV (x) | 0.8 | 0.8 | 0.9 | 1.0 | 1.1 |

Al 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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