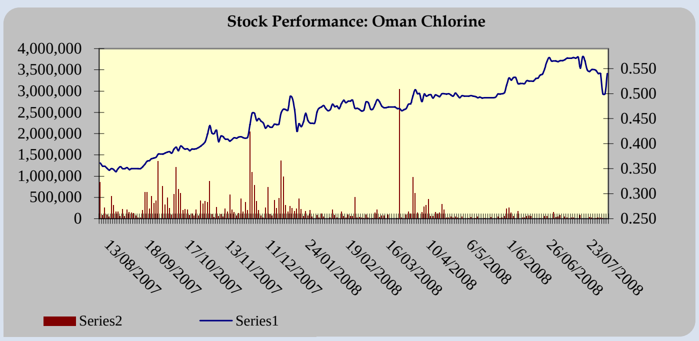
Oman Chlorine: H1 2008

Company	Oman Chlorine
CMP (RO)	0.540
Ticker	OCHL
Exchange	MSM
Established	24-Nov-97
Industry	Chemicals
Shares Outstanding (000)	56,029
Mkt. Cap. (RO 000)	30,256

Price History



Source: Company Financials, Al Madina Research

Financial Summary

RO'000	H1 08	H1 07	% Change
Revenue	3,118	2,591	**20%**
Operating Cost	938	751	**25%**
Gross Profit	2,180	1,840	**18%**
Operating Profit	1,729	1,445	**20%**
Net Profit	1,362	1,082	**26%**
Share capital	5,603	5,603	**0%**
Shareholder's Equity	9,094	7,816	**16%**
Retained Earnings	2,726	1,710	**59%**
Total Assets	13,482	12,538	**8%**
Basic EPS	0.024	0.019	**26%**
Ann. P/E Ratio (X)	11.1	14.0	**-21%**
GPM (%)	69.9%	71.0%	**-2%**
OPM (%)	55.5%	55.8%	**-1%**
NPM (%)	43.7%	41.8%	**5%**

Source: Company Financials, Al Madina Research

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Preview of H1 2008

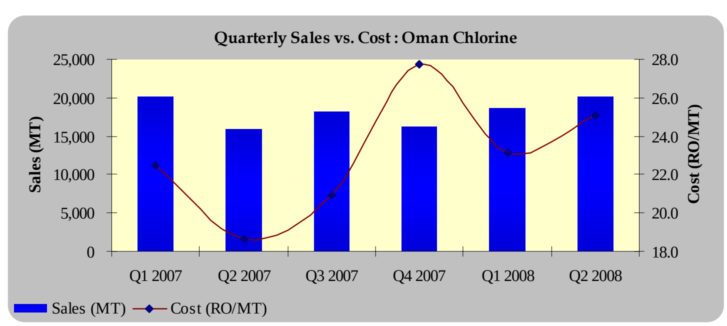
For the six months ending June 2008, Oman Chlorine achieved a **20.3%** increase (y-o-y) in its top line to **RO 3.12 million**. Revenues for the second quarter alone stood at RO. 1.64 million.
The bottom line during the 6-month period was up by **25.9%** (y-o-y), from **RO 1.07 million** to **RO 1.36 million**.

Company & Industry Overview

Oman Chlorine is engaged in the production of four chemical products namely Hydrochloric acid, Caustic Soda Lye, Caustic Soda Flakes, and Sodium Hypochlorite. The company was incorporated in June 1997 and operates a state of the art plant located at the Sohar Industrial Estate.

Oman Chlorine sells its products in the local market as well as regional GCC markets. The company's products target mainly the industrial and manufacturing sectors such as oil & gas companies, power & desalination plants, soap and detergent manufacturers. Its plant is fully computerized and uses advanced cell technology and includes a fully equipped laboratory to maintain the track record of high quality. The company has capitalized strongly out of the ongoing oil boom in the region leading to increased throughput mainly on Hydrochloric acid (the primary product).

The company's business revolves around the GCC countries of mainly Oman, UAE, Qatar and Saudi Arabia. The company's major contracts include the supply of Hydrochloric acid to the major oilfield operator Halliburton in Oman and Qatar until 2010 and 2009 respectively. Judging by the huge potential, the company has entered into a joint venture with a local partner in Qatar for the manufacture of chemicals. Oman Chlorine is likely to hold a 51% stake in the above venture.



Overall production levels for the half year ended 30th June 2008 stood at 36,443 MT as against 33,948 MT for the corresponding period last year. Sales have witnessed a 7.4% increase (y-o-y) over the period. Hydrochloric acid and Caustic Soda Lye have received a good response during the year.

The company has made conscious efforts to target the most optimum product/market mix in an effort to improve average realizations in the face of rising costs (raw materials and other inputs). The below table indicates the improving realizations achieved over the current year. Of total sales (in value terms) the local market constituted nearly 39.6% for the first half of the current year.

Quarterly Schedule: Oman Chlorine	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Production (MT)	18,183	15,765	18,990	16,492	17,065	19,378
Sales (MT)	20,200	15,943	18,192	16,163	18,633	20,208
Sales (RO)	1,418,000	1,173,000	1,434,000	1,254,199	1,476,000	1,642,000
Sales (RO/MT)	70.20	73.57	78.83	77.60	79.21	81.25
Cost of Sales (RO)	454,000	297,000	381,000	448,403	431,000	507,000
Cost (RO/MT)	22.48	18.63	20.94	27.74	23.13	25.09

Source: Company Financials, Al Madina research

Ratio Analysis

Oman Chlorine	2009E	2008E	2007	2006	2005
Valuation Ratios					
EPS (RO)	0.053	0.046	0.038	0.023	0.019
BV/S (RO)	0.212	0.184	0.158	0.136	0.129
SP/S (RO)	0.125	0.111	0.094	0.071	0.077
P/E (x)	10.2	11.7	14.3	23.1	28.5
P/BV (x)	2.5	2.9	3.4	4.0	4.2
P/SPS (x)	4.3	4.9	5.7	7.6	7.0
DPS (RO)	0.030	0.025	0.020	0.010	0.005
Dividend. Yield (%)	5.6%	4.6%	3.7%	1.9%	0.9%
Dividend. Payout (%)	56.5%	54.2%	52.9%	42.8%	26.4%
Profitability Ratios					
Gross Margin (%)	60.0%	58.9%	59.3%	57.8%	50.3%
Operating Margin (%)	43.3%	42.5%	41.9%	39.4%	37.2%
Net Margin (%)	42.4%	41.5%	40.1%	33.0%	24.6%
Asset Turnover (x)	0.44	0.42	0.38	0.31	0.30
ROA (%)	18.7%	17.6%	15.3%	10.1%	7.5%
ROE (%)	25.0%	25.0%	23.9%	17.2%	14.7%
ROCE (%)	21.3%	20.1%	17.9%	11.3%	8.6%
Liquidity/Leverage Ratios					
Current ratio (x)	3.36	2.80	1.98	1.84	1.34
Quick Ratio (x)	2.82	2.24	1.52	1.31	1.03
CPS (RO)	0.00	0.00	0.00	0.00	0.01
CFO/Current Liabilities	1.96	1.63	1.72	1.33	1.07
Debt./Equity (x)	0.13	0.21	0.31	0.47	0.65
Debt ratio (x)	0.10	0.30	0.36	0.41	0.49
Activity ratios					
Inventory Turnover (x)	2.8	2.7	2.0	2.8	4.1
A/c Receivable Turnover (x)	3.9	4.0	4.2	3.5	3.7
A/c Payable Turnover (x)	3.1	3.6	4.5	18.7	11.2
Cash Conversion Cycle	108	122	185	213	154

The earning per share has improved by a solid **Bz. 15** to **Bz. 38** in 2007.

The track record of good earnings has steadily improved book value.

The company maintained a reasonable track record of dividends.

Management efforts to improve margins have generally been successful as seen in 2007.

The ROA and ROE, two prominent effectiveness ratios have improved steadily over the year reaching **15.3%** and **23.9%** respectively in 2007.

Liquidity levels have been solid at the company with the high current ratio and strong coverage from operational cash flows. The level of overall debt also remains at very manageable levels at the company.

Improved operational efficiency has ensured a reduction in the cash conversion cycle at the company.

Outlook & Recommendations

We envisage good demand for the company's products from industrial and manufacturing sectors in the near future. The region is seeing significant government/private investments in oil & gas as well as power and desalination projects which augur well for the company's prospects. Better realization combined with good sales volume (market penetration) is what the company would be using as a shield against the increasing costs. The 51% joint venture in Qatar is likely to add more value and provide regional penetration to Oman Chlorine in the long run. The company's stake in the venture would be funded by debt and internal accruals and the plant is set to be operational only by late 2010.

For the full year ended 30th December 2008 the company is expected to deliver moderate growth compared to 2007. The recent softening in crude prices globally may partly dampen the demand for acid for the remaining year. The total revenues are estimated to increase by **17.9%** to reach **RO 6.2 million**. Similarly, the bottom line is likely to reach **RO. 2.58 million**, up by **21.9%** (y-o-y). The 2008E forward P/E works out to **11.7 times**. We recommend investors to **accumulate** the stock for the short/mid term.

Income Statement: Oman Chlorine (RO 000)	2009 E	2008E	2007	2006	2005
Revenue	**7,018**	**6,227**	**5,279**	**3,783**	**3,731**
Cost of sales (excl. depr)	(2,167)	(1,959)	(1,580)	(1,039)	(1,430)
Depreciation	(640)	(602)	(570)	(559)	(424)
Gross profit	**4,212**	**3,665**	**3,129**	**2,185**	**1,878**
Margin (%)	*60.0%*	*58.9%*	*59.3%*	*57.8%*	*50.3%*
Selling and distribution expenses	(477)	(414)	(355)	(248)	(168)
General and administrative expenses	(694)	(604)	(563)	(447)	(321)
Profit from operations	**3,041**	**2,647**	**2,211**	**1,490**	**1,389**
Margin (%)	*43.3%*	*42.5%*	*41.9%*	*39.4%*	*37.2%*
Finance charges	(145)	(186)	(255)	(302)	(316)
Government grant income	86	99	114	127	140
Other income	85	95	112	56	11
Profit before tax	**3,067**	**2,655**	**2,181**	**1,371**	**1,223**
Deferred tax	(91)	(71)	(62)	(124)	(304)
Profit for the year	**2,976**	**2,584**	**2,119**	**1,247**	**919**

Balance Sheet: Oman Chlorine (RO)	2009E	2008E	2007	2006	2005
Property, plant and equipment	9,384,960	9,672,831	9,949,267	9,958,570	10,163,996
Non-current assets	**9,384,960**	**9,672,831**	**9,949,267**	**9,958,570**	**10,163,996**
Inventories	1,039,857	1,001,183	896,005	672,053	476,010
Trade receivables	1,881,901	1,764,046	1,349,238	1,157,105	998,350
Other receivables	63,310	63,310	68,443	82,868	99,532
Term deposits	3,400,000	2,000,000	1,477,127	392,206	200,000
Bank balances and cash	117,519	174,618	65,658	37,934	299,816
Total current assets	**6,502,587**	**5,003,157**	**3,856,471**	**2,342,166**	**2,073,708**
Total assets	**15,887,547**	**14,675,987**	**13,805,738**	**12,300,736**	**12,237,704**
Capital and reserves					
Share capital	5,602,905	5,602,905	5,602,905	5,336,100	4,851,000
Statutory reserve	1,170,824	873,188	614,781	402,878	278,171
General reserve	250,000	200,000	150,000	100,000	50,000
Retained earnings	4,867,936	3,639,939	2,484,853	1,428,141	1,083,428
Total equity	**11,891,665**	**10,316,033**	**8,852,539**	**7,267,119**	**6,262,599**
Non-current liabilities					
Provision for employees' end of service indemnity	82,783	71,986	59,988	66,688	52,412
Term loans – long term portion	189,537	351,044	414,154	778,561	1,137,375
Government soft loan	771,837	1,135,431	1,486,293	1,822,775	2,145,340
Deferred government grant	128,163	214,569	313,707	427,225	554,660
Deferred tax liability	888,879	797,755	726,881	665,381	541,053
Total non-current liabilities	**2,061,200**	**2,570,784**	**3,001,023**	**3,760,630**	**4,430,840**
Current liabilities					
Term loans– current portion	161,507	180,110	374,487	362,670	362,670
Government soft loan – current portion	450,000	450,000	450,000	450,000	450,000
Due to Banks			25,721	241,055	396,746
Trade payables	1,016,851	818,700	622,587	72,199	99,095
Other payables	306,324	340,361	479,381	147,063	235,754
Total current liabilities	**1,934,683**	**1,789,171**	**1,952,176**	**1,272,987**	**1,544,265**
Total equity and liabilities	**15,887,547**	**14,675,987**	**13,805,738**	**12,300,736**	**12,237,704**

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.