

Oman Cement Company

Benefiting from a demand-driven market...

Reuters Code:

OCCO.OM

April, 2007

BUY

Listing:

MSM

CMP:

RO5.921 (As on April 26,2007)

Investment Summary

- In our Oman Cement Sector Report in December 2004, with which we had initiated coverage of the sector, we had arrived at a weighted average share value of RO5.033 per share of Oman Cement Company (OCC), and had recommended a 'Buy' on the stock at the then prevailing price of RO4.55 per share. The stock has since then touched a high/low of RO7.80/RO3.85, justifying our earlier 'Buy' recommendation.
- The consolidated total revenue of the company was RO49.7mn for the year ended December 2006, an increase of 13.1 per cent from RO44.0mn in the previous year. The consolidated net profit of the company increased by 13.3 per cent to RO20.6mn in 2006 from RO18.1mn in reported in the previous year.
- Oman continues to witness investments in real estate/infrastructure projects. According to latest data available, projects currently in various stages of development in the country are estimated to be about US\$25bn. This points towards a high and sustainable cement demand in the country moving forward.
- The company is expected to continue to witness growth in both revenues and profits in the near-medium term, driven by the healthy market demand for cement and helped along by its scaled up cement grinding capacity, thanks to the expected commissioning of the company's new 1.24mtpy cement capacity in the middle of the current year. There are also plans for a clinker capacity expansion.
- While the existing cement mill of the company has been operating at very high capacity utilization rates, the commissioning of the new mill should ease the load on the existing mill. While the new cement mill will enable the company to produce higher volumes of cement, it is constrained by a lack of a suitable clinker capacity at the moment. This has forced the company to import clinker in recent years to be able to meet higher cement demand in the local market. With the commissioning of the new cement unit, the company is expected to continue to import clinker to feed its

Omar M. El-Quqa, CFA
Executive Vice President
omar@global.com.kw
Phone No:(965) 2400551 Ext.104

Faisal Hasan, CFA
Head of Research
fhasan@global.com.kw
Phone No:(965) 2400551 Ext.304

Raghu Sarma
Senior Financial Analyst
rsarma@global.com.kw
Phone No:(965) 2400551 Ext.273

Burhan Ali
Financial Analyst
bali@global.com.kw
Phone No:(965) 2400551 Ext.229

cement mills. This is likely to enable the company to maintain its market share in the Oman market in the medium-term, taking advantage of the firm cement prices during the period.

- The OCC stock closed at RO5.921 at the end of trading on April 26, 2007. The stock, thus, is currently trading at 9.5x its 2006 earnings and 8.9x 2007 (E) earnings. The stock saw a turnover of 20.2 per cent at the Muscat Securities Market (MSM) in 2006. The year 2007 so far has seen a relatively lower turnover of the stock (about 3.8 per cent).
- We have arrived at the share valuation of OCC by two methods : DCF valuation and relative valuation. The weighted average share value of the company by these two valuation methods is RO6.84 per share. This implies that the stock has an upside of 15.6 per cent from its current price level on the MSM. We, therefore, recommend a 'Buy' on the OCC stock, with a medium-term perspective.

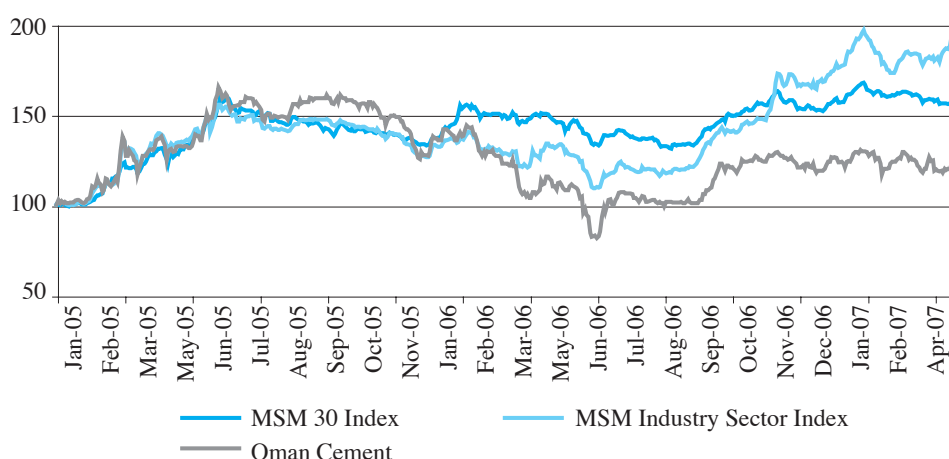
Table 1 : Investment Indicators for Oman Cement

	CMP (RO)	Shares in Issue (mn)	M-Cap (RO mn)	52-Week Hi/Lo (RO)			
	5.92	33.09	195.9	6.15	3.85		
Year	Consolidated Gross Profit (ROmn)	Consolidated Net Profit (ROmn)	EPS (RO)	BVPS (RO)	ROAE (%)	P/E (x)	P/BV (x)
2008 F	27.7	24.6	0.74	3.51	22.3	7.9	1.7
2007 F	24.2	21.9	0.66	3.19	21.8	8.9	1.9
2006 A	23.0	20.6	0.62	2.89	22.8	9.3	2.0
2005 A	20.6	18.1	0.55	2.56	23.3	11.7	2.5

Source : Company's Annual Reports, Reuters & Global Research.

Historical P/E & P/BV multiples based on respective year-end prices, while those for future years are based on current market price in the Muscat Securities Market as on April 26, 2007.

Chart 1 : Relative Performance of Oman Cement vs. MSM Indices



Oman Cement Industry

Cement Capacities, Production and Sale

The cement sector in Oman consists of two listed companies. Both the listed cement companies in Oman – Oman Cement Company and Raysut Cement Company – have integrated plants. The current total capacity for clinker and cement with these two companies is 2.90 million tonnes (mt) and 4.40mt respectively.

The total production of clinker and cement in Oman in 2006 was 2.86mt and 3.61mt respectively, 32.4 per cent and 34.4 per cent higher, respectively, over 2005. Raysut Cement Company, with clinker production of 1.60mt (56 per cent share of the total) and cement production of 1.81mt (over 50 per cent share) in 2006, dominates the local cement industry.

Table 2 : Current Capacities, Production & Sale of Cement in Oman

Companies	Current Capacity		Production in 2006		Cement Sale in 2006		
	Clinker	Cement	Clinker	Cement	Domestic	Exports	Total
Oman Cement Co.	1.20	2.50	1.26	1.80	1.81	0.10	1.91
Raysut Cement Co.	1.70	1.90	1.60	1.81	0.78	1.11	1.89
Total	2.90	4.40	2.86	3.61	2.59	1.21	3.80

Source: Companies' Annual Reports, *Global Research*.

All figures in million tonnes.

Cement capacity of Oman Cement includes 1.24mtpy grinding capacity likely to be on stream by the middle of 2007.

The total sale of cement by the two Omani cement companies in 2006 was 3.80mt. While 2.59mt of this was sold in the domestic market, the balance 1.21mt were exported. Oman Cement Company, with sale of 1.81mt (70 per cent market share) was the leading cement marketer in the domestic market, while Raysut Cement dominated the export market – its exports of 1.11mt constituted about 92 per cent of the total cement exports out of Oman during the year. In value terms, the combined revenues of the two listed companies were RO97.7mn in 2006, up 34.6 per cent over 2005, with net profits of RO41.2mn, up 49.5 per cent over 2005.

Oman Cement Sector Growth Drivers

Some of the factors driving the high level of investments into the real estate/infrastructure sectors in Oman in recent years are:

- Infrastructure spending a necessity now, especially due to high population growth rates in recent years.
- High liquidity in the system.
- High returns from real estate and attractive real estate valuations.
- Availability of easy and cheap credit.

Sustained construction activity in civil, industrial and infrastructure projects is expected to sustain a strong cement demand in Oman in the near-medium term.

Imports & Exports

The strong domestic demand for cement in Oman has been met by the two cement companies, aided by nominal imports of cement into the country in 2006. Imports were resorted to by Oman Cement, which imported 0.11mt of cement during the year. Clinker imports by Oman Cement, on the other hand, doubled to about 0.38mt during the year. The company imported clinker from, among others, India, China and Indonesia during the year.

Exports of cement from the country, mostly from Raysut Cement, have been on an uptrend in recent years. The company's exports of 1.11mt of cement in 2006 formed about 59 per cent of its total sales and 92 per cent of the total cement exports out of Oman during the year. These were over 52 per cent higher than the exports of about 0.73mt of cement by Raysut in 2005. About 69 per cent of the exports were to Yemen. The company also strengthened its position in the East African markets, including Somalia and Zanzibar, as well as entered Sudan during the year. About 0.34mt of cement were exported by it to these countries during the year. Exports from Oman Cement of about 0.1mt during the year mainly consisted of Oil Well Cement (OWC), which was exported to GCC countries, Yemen, Sudan, Pakistan, Syria, Libya, Iraq, India and Turkmenistan.

Raw Material

The cost of raw materials available domestically, namely limestone, shale and gypsum, increased during 2006 due mainly to the introduction of a royalty on quarried raw materials. Both companies have long-term mining leases with the government. A system of royalty payment on the quarried raw materials was introduced in the country for the first time in 2006. The royalty payment of about RO0.150-0.200 per tonne of cement produced, however, seems to have had a nominal impact on the raw material costs of the two companies.

Energy

Both the companies use natural gas as their kiln-feed. Both of them source the gas from the Oman government through long-term supply contracts. The availability of gas has enabled the two companies to derive cost advantages on energy, an important cost element in cement manufacture. While the energy and water costs of Oman Cement as a percentage of sales were down to 9.3 per cent in 2006, from 10.8 per cent in 2005; the energy costs for Raysut Cement were only marginally down to 11.8 per cent in 2006, from 11.9 per cent in 2005.

In terms of energy costs per tonne of cement produced, Oman Cement stood at RO2.6/tonne in 2006, lower than RO2.9/tonne in 2005. These figures were RO3.1/tonne and RO3.2/tonne, respectively, for Raysut Cement.

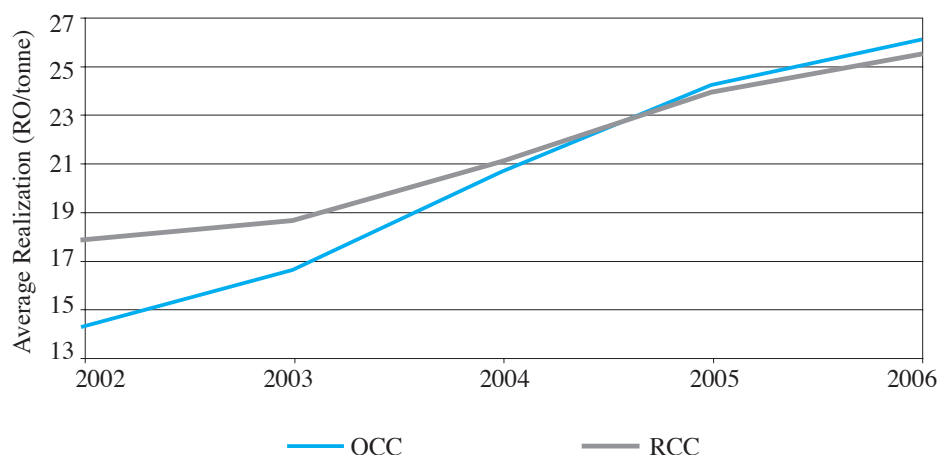
Cement Realizations

On the back of healthy demand, average realizations for both the companies rose during 2006, continuing the uptrend of the previous years. The average realization for both the companies combined was RO25.7/tonne, up 7.0 per cent over RO24.0/tonne in 2005. While the average realization for Oman Cement rose by 7.7 per cent to RO26.0/tonne, that for Raysut cement rose by 6.6 per cent to RO25.4/tonne during the year. The average realization for Raysut Cement continued to trail that of Oman Cement. This was partly

due to the proportion of bulk sales being higher for Raysut than for Oman Cement. Also the relatively higher proportion of oil well cement in the sales of Oman Cement, vis-a-vis for Raysut Cement, could be fetching it higher average realizations per tonne.

The retail prices of cement too rose in line with the general strong demand conditions prevailing in the market. Currently, cement is believed to be available in the retail market at about RO28/tonne, up from about RO26.5/tonne at the end of 2005.

Chart 2 : Average Cement Realizations in Oman (2002-'06)



Source : Company Annual Reports, **Global Research**.

New Capacities

A healthy demand for cement, riding on the back of a healthy pipeline of civil, industrial and infrastructure projects in Oman, has spurred both clinker and cement capacity expansions by both the existing companies. New capacities of 1.73 million tonnes per year (mtpy) of clinker and 0.85mtpy of cement are currently at various stages of development in Oman collectively by both the incumbent companies. The new capacities represent a growth of about 60 per cent in the existing clinker capacity and over 19 per cent in the existing cement capacity in the country. The capacity expansion at Raysut Cement is expected to go on stream by July 2007, while the new clinker capacity at Oman Cement is at planning stages at present and is likely to be completed by the end of 2009.

Table 3 : Capacity Expansions in Oman

Companies	Capacity Expansions		Operational By
	Clinker	Cement	
Oman Cement Company	1.00	-	End-2009
Raysut Cement Company	0.73	0.85	July 2007
Total	1.73	0.85	
Percentage of Existing Capacity	59.7%	19.3%	

Source: Companies, **Global Research**.
All figures in million tonnes.

Performance of Oman Cement Companies

The financial performance of both the listed cement companies in Oman in 2005 and 2006 has been tabulated below.

Table 4 : Financial Performance of Listed Cement Companies in Oman

Company	2005				2006			
	Revenues	Net Profit	Y-o-Y % Change		Revenues	Net Profit	Y-o-Y % Change	
			Revenues	Net Profit			Revenues	Net Profit
Oman Cement Co.	44.0	18.1	29.8%	37.8%	49.7	20.6	13.1%	13.3%
Raysut Cement Co.	28.0	10.0	30.1%	45.2%	48.0	20.7	71.4%	105.9%
Total	72.0	28.2	29.9%	40.4%	97.7	41.2	34.6%	49.5%

Source : Company Annual Reports; *Global Research*.
In ROmn.

The combined revenues of both the listed companies were RO72.0mn in 2005, up 29.9 per cent over 2004, with net profits of RO28.2mn, up 40.4 per cent over 2004.

The growth momentum seems to have continued into 2006 as well, as evidenced by the results for the full year, with revenues increasing by 34.6 per cent and net profits by 49.5 per cent over the previous year. Also, a contradiction is observed between the two companies' performance in the period. While the revenue and net profit growth of Oman Cement seem to have tapered in 2006 (with respect to the growth witnessed in 2005), those of its competitor Raysut Cement shot up during the period, on the back of its new clinker and cement grinding capacities of 0.95mtpy and 0.92mtpy, respectively, going on stream in December 2005. This has led to increased sales as well as efficiencies for the company, as reflected in its 2006 results.

Table 5 : Oman Cement Companies in the Stock Markets

Company	CMP	P/E	Variation in Last 1 Year	CAGR in Last 3 Years
Oman Cement Company	5.80	9.3	6.2%	17.1%
Raysut Cement Company	1.21	11.7	10.0%	61.2%

Source : *Zawya.com*, *Global Research*.
Share prices in RO.
P/E based on CMP (as on April 9, 2007) and EPS for 2006.

Oman Cement gained by 6.2 per cent at the Muscat Securities Market (MSM) over the year to April 9, 2007, while Raysut Cement gained 10.0 per cent during the period. Over the last three years too, Oman Cement's performance (a CAGR of 17.1%) has trailed that of Raysut Cement (a CAGR of 61.2%) at the stock market. To put this in perspective, the MSM 30 Index gained 6.2 per cent over the last one year, with a CAGR of 23.8 per cent over the last three years.

Sector Outlook

The upward trend in construction activity witnessed in Oman in the last three years is expected to continue in the near-term due to expectations of sustained high oil prices and abundant liquidity. This liquidity is expected to continue to be directed to development of massive real estate and infrastructure projects to meet the needs of a growing population.

Table 6 : List of Mega Projects in Oman

Project Name	Description	Start Date	Completion Date	Estimated Cost (US\$mn)
Blue City	A mixed-use project, which includes various residential, commercial, business and tourism-related clusters.	Q1 2006	15 years	15,000
The Wave	To include golf course, a nature reserve, beachfront villas, hotels and a conference centre.	2005	2014	1,000
Salam Resort & Spa Yiti	To include two five-star hotels and a deluxe time-share hotel, 1,000 villas, apartments, a retail centre, a marina, an 18-hole golf course, a country club and a marine eco-tourism centre.	2006	Q4 2007	816
Salam Resort & Spa Shinaz	To include four hotels, including two five-star properties, serviced apartments and a retail area, a 150-berth marina and an 18-hole golf course.	-	-	N/A
Total				16,816

Source: Zawya.

This is not a complete list of projects.

The government has announced a slew of projects in its 7th Five-Year plan. Implementation of some of these projects has already begun. Construction projects worth an estimated US\$25bn are said to be at various stages of development at present in the country. These projects are a good mix of residential, commercial, retail and hospitality projects. These projects are expected to positively impact the cement demand in the country in the medium-term. Post 2009-'10, however, the growth in cement demand emanating from the existing pipeline of projects could be expected to taper down. This, in conjunction with the then existing cement capacity in the country could bring cement prices under pressure thereafter. Addition of more projects to the pipeline in the coming years could, however, delay this eventuality.

New Developments

- In April 2006, the company signed a RO2.3mn contract with Raysut Cement Company, through which Raysut provided Oman Cement with 100,000 tonnes of cement during the period April-August 2006.
- The company announced in May 2006 that the government had cancelled the waiver of royalty on raw materials for cement companies, effective March 1, 2006.
- The new cement mill of the company, with a grinding capacity of 1.24mtpy, is likely to go on stream from the middle of 2007. With this, the total grinding capacity of the company is expected to increase to 2.5mtpy.
- The company recently announced that it will establish a new line of 3,500 tonnes per day (tpd) of clinker which is expected to be operational by 2010.

Financial Performance of OCC

Financial Performance in 2006

Revenue

The consolidated total revenue of the company was RO49.7mn for the year ended December 2006, an increase of 13.1 per cent from RO44.0mn in the previous year. The higher revenue in 2006 was due to both an increase in the quantity of cement sold as well as in the average realization over 2005. The company sold 1.91mt of cement during the year, 5.0 per cent higher than 1.82mt that it sold in the previous year. Simultaneously, the average realizations firmed up to RO26.0/t from RO24.2/t in the previous year. Over 92 per cent of sales were in the domestic market in 2006, the same as in 2005.

Cost of Production

The total cost of production of the company was RO26.8mn during 2006, 14.6 per cent higher than in the previous year.

Gross Profit

The gross profit increased by 11.3 per cent to RO23.0mn in 2006. As a result of a steeper increase in the cost of production as compared to that in the sales revenue, the gross profit margin decreased to 46.2 per cent in 2006 from 46.9 per cent in 2005.

Other Operational Expenses

The salaries and employees' benefits increased by 7.2 per cent during the year. As a percentage of revenue, the staff expenses declined marginally to 1.9 per cent in 2006 from 2.0 per cent in 2005. The number of employees rose to about 365 at the end of 2006 from 350 a year earlier.

General & administrative expenses saw a decrease of 8.9 per cent during the year. As a percentage of the revenue too, these expenses declined to 1.2 per cent in 2006 from 1.5 per cent in 2005.

Operating Profit

The operating profit of the company increased by 12.2 per cent to RO20.9mn in 2006. The operating profit margin, however, declined marginally to 42.1 per cent in 2006 from 42.4 per cent in 2005, as a result of a steeper increase in the total costs as compared to that in the sales revenue.

Non-Operational Income & Expenses

Interest income increased to RO1.7mn during 2006 from RO1.2mn in the previous year, at an average yield of 4.0 per cent in 2006, vis-à-vis 3.5 per cent in the previous year. Dividend income rose by 35.9 per cent during the year, with an increase of 15.6 per cent in the investments available for sale.

The finance cost of the company increased to RO0.07mn during the year, 52.0 per cent higher than that in 2005. Total debt outstanding of the company, on the other hand, was RO2.6mn at the end of 2006, 8.4 per cent lower than that at the end of the previous year. The average cost of debt for 2006 was up at 2.8 per cent from 1.8 per cent during the

previous year. The higher finance cost during the year was due to finance charges incurred by the company's subsidiary Sohar Praton Concrete Products Company (SPCPC) for the full year 2006 getting reflected in the company's financials, unlike in 2005. It is noteworthy that SPCPC, with a shareholding of 25 per cent by Oman Cement till August 7, 2005, was an associate of the latter till that date. Subsequently, post the increase of the shareholding by Oman Cement in SPCPC to 58.4 per cent, the year 2006 saw the financials of SPCPC being consolidated with the parent's.

Net Profit

The consolidated net profit of the company increased by 13.3 per cent to 20.6mn in 2006 from RO18.1mn in 2005. The net profit margin simultaneously increased marginally from 41.3 per cent in 2005 to 41.4 per cent in 2006. As a result, the EPS rose to RO0.62 in 2006 from RO0.55 reported in the previous year.

Dividends

The company proposed a cash dividend of 35 per cent in 2006. In 2005, the company had distributed a 25 per cent cash dividend.

Assets and Liabilities

The total assets of the company rose by 12.0 per cent to RO122.3mn at the end of 2006. While the current assets decreased by 3.7 per cent at the end of the year, account receivables witnessed a rise of 24.6 per cent to RO4.9mn at the end of the year (33 receivable-days in 2006 up from 28 in 2005). Simultaneously, inventories decreased by 18.2 per cent to RO5.2mn at the end of the year (78 inventory-days in 2006 down from 91 in 2005). Short-term deposits amounted to RO6.6mn, 120.6 per cent higher, while long-term deposits amounted to RO34.2mn, 39.1 per cent higher than at the end of the previous year. The net fixed assets increased by 8.0 per cent to RO49.0mn in 2006.

On the liabilities side, the account payables decreased by 37.3 per cent to RO1.8mn at the end of 2006 (32 payable-days in 2006 down from 41 in 2005). Short-term loans declined by 19.0 per cent to RO0.5mn at the end of the year. On the other hand, medium-term loans decreased by 6.7 per cent to RO2.0mn at the end of the year. The paid-up equity capital of the company remained unchanged during the year at RO33.1mn.

Valuation & Recommendation

Earnings Outlook

We have made the following assumptions in our earnings projections for the company till 2010:

1. Average realizations on domestic sales have been projected to grow till 2009, with a decline assumed to in 2010, keeping in mind the projects currently in the pipeline.
2. The revenues and cost of production have been projected based on the expected revenues from the additional cement capacity of the company, which is expected to go on stream by the middle of 2007.
3. Among the operating expenses, expenses under all account heads have been projected for 2007, as also for the subsequent years, keeping in mind the projected growth in the company's business.
4. Capital expenditure has been projected for 2007 to include the cost of RO7.7mn for the new cement capacity. An amount ranging RP0.75-1.00mn has been assumed to be spent on capital expenditure every subsequent year.
5. Further, suitable work-in-progress has been assumed in 2008 and 2009 for the planned clinker capacity expansion project of the company. A total project cost of RO38.5mn has been assumed to be capitalized in 2010, the year the project is likely to go on stream.
6. The company has been projected to maintain minimum cash levels in line with its expanding sales. The surplus cash has been projected to be invested predominantly in short- and long-term deposits, and short-term loans.
7. Other income, and dividend and interest income have been assumed at appropriate levels each year.
8. The company has been assumed to pay a cash dividend of 40 per cent in 2007, going up to 55 per cent in 2010. The corresponding payout ratio moves from 60.3 per cent in 2007 to 62.6 per cent in 2010.
9. Transfers to statutory and voluntary reserves has been assumed at appropriate levels.

The corresponding movements in the net profit, ratios, earnings per share and book value per share have been shown in the Table below.

Table 7 : Oman Cement - Earnings and Valuation Ratios

	2005	2006	2007 (P)	2008 (P)	2009 (P)	2010 (P)
Net profit (ROmn)	18.1	20.6	21.9	24.6	27.0	28.9
GPM (%)	46.9	46.2	45.6	48.9	51.4	53.0
OPM (%)	42.4	42.1	41.5	44.7	47.3	48.4
NPM (%)	41.3	41.4	41.4	43.5	45.2	45.9
ROAA (%)	18.0	17.8	17.2	17.8	18.0	17.7
ROAE (%)	23.3	22.8	21.8	22.3	22.2	21.7
EPS (RO)	0.55	0.62	0.66	0.74	0.82	0.87
BVPS (RO)	2.56	2.89	3.19	3.51	3.85	4.20

Source : Company Annual Reports and *Global Research*.

Valuation

DCF Method

In order to compute the cost of equity for the Discounted Cash Flow (DCF) method, we have used the Capital Asset Pricing Model (CAPM).

The following assumptions have been made in order to arrive at the DCF value of Oman Cement.

1. A risk-free rate of 6.63 per cent has been assumed. We have arrived at this rate by applying the differential in the total risk premium between Oman and Kuwait to the current CBK discount rate of 6.25 per cent. The total risk premiums have been sourced from the data provided by Prof. A Damodaran on the website of the NYU – Stern School of Business.
2. A market risk premium of 7.0% has been assumed, to factor in the increased riskiness of the cement market going forward.
3. The beta for the stock, based on the monthly returns over 5 years to end-March 2007, was less than 1.00. Hence, a beta of 1.00 has been taken for the WACC computations.
4. The cost of equity derived from the above assumptions using the Capital Asset Pricing Model (CAPM) is 13.6 per cent.
5. The cost of debt has been assumed at 6.0 per cent.
6. Based on the above assumptions, and a target debt/equity ratio of 0.25, the Weighted Average Cost of Capital (WACC) works out to 12.1 per cent.
7. Terminal growth rate of 3.25% has been assumed, as it is expected to follow the long-term GDP growth in the region. Besides, the terminal growth rate has also been assumed to capture the upside from the likely expansion in the clinker capacity of the company from 2010.

Based on our future earnings projections and the above assumptions for DCF computations, the DCF value of Oman Cement is RO6.99 per share.

Table 8 : Oman Cement - Equity Valuation by DCF

		2007 (F)	2008 (F)	2009 (F)	2010 (F)
Free Cash Flow		12.4	11.7	12.8	17.2
Discounted Cash Flow		11.4	9.6	9.4	11.2
Terminal Value	200.1				
WACC	12.1%				
Terminal Growth Rate	3.25%				
Primary Value	41.6				
Discounted Terminal Value	130.9				
Value of Investments	60.3	<i>(As at end of Dec 2006)</i>			
Cash	1.1	<i>(As at end of Dec 2006)</i>			
Debt	2.6	<i>(As at end of Dec 2006)</i>			
Equity Value	231.3				
No. of Equity Shares	33.1				
Outstanding (mn)					
Per Share Value (RO)	6.99				

Source : *Global Research.*

All figures in ROmn, except where otherwise indicated.

Sensitivity Analysis

A sensitivity analysis for different estimated long-run future growth rates and cost of capital is provided as below. The table provides estimated fair values for Oman Cement's shares based on a range of varying inputs. The shaded area at the center shows the most probable range of alternatives.

Table 9 : Oman Cement - Sensitivity Analysis

		Terminal Growth Rate				
		1.3%	2.3%	3.3%	4.3%	5.3%
WACC	10.1%	7.23	7.81	8.55	9.54	10.95
	11.1%	6.66	7.11	7.67	8.39	9.36
	12.1%	6.20	6.55	6.99	7.54	8.24
	13.1%	5.81	6.10	6.45	6.87	7.41
	14.1%	5.49	5.73	6.01	6.35	6.76

Source: *Global Research*

Relative Valuation Method

The peer group valuation is performed to compare the intrinsic value of Raysut Cement arrived at using the DCF calculation. In order to value Raysut using this method, we have used the weighted average price-to-earnings (P/E) multiple for the Oman cement industry, comprising Oman Cement Company and Raysut Cement Company. The price-earnings multiple of a stock is a reflection of various factors, such as the expected profitability of the company, its growth potential as perceived by the market, predictability and sustainability of its revenues, the quality of its earnings and the quality of its management, among others.

To arrive at the peer-set P/E multiple, we have computed the average industry P/E of the two listed cement companies in Oman, based on their current market prices and projected earnings for 2007. The weighted average P/E for the Oman cement industry, thus arrived at, is 9.45x.

On the basis of the weighted average P/E for the industry and Oman Cement's projected 2007 earnings, the company's stock valuation comes to RO6.26 per share.

However, as the price-earnings multiple varies with time and is dependent on several factors, such as market sentiment and other qualitative factors, we have provided a lower weightage of 20% to the peer valuation method, and 80% weightage to the value arrived at using the DCF method.

Weighted Average Share Value

The value of Oman Cement's shares derived from the weighted average of the DCF and relative valuation methods is RO6.84 per share. The stock closed at RO5.921 on the MSM at the end of trading on April 26, 2007, which implies that Oman Cement's shares have an upside of 15.6 per cent from the share's current market price. At their current price, Oman Cement's shares are trading at a P/E multiple of 9.5x the 2006 earnings, and forward multiples of 8.9x and 7.9x the projected 2007 and 2008 earnings respectively. We, therefore, recommend a 'Buy' on the Oman Cement stock with a medium-term perspective.

Table 10 : Weighted Average Share Value of Oman Cement

	Weightage	Fair Value
As per DCF Method	80%	6.99
As per Relative Valuation	20%	6.26
Weighted Average Share Value		6.84

Source: *Global Research*
Fair Value in RO.

Recommendation

The company's new cement unit is expected to go on stream by the middle of the current year. While the existing mill of the company has been operating at very high capacity utilization rates, the commissioning of the new mill will ease the load on the existing mill. While the new cement mill will enable the company to produce higher volumes of cement, it is constrained by a lack of a suitable clinker capacity at the moment. This has forced the company to import clinker in recent years to be able to meet higher cement demand in the local market. With the commissioning of the new cement unit, the company is expected to continue to import clinker to feed its cement mills. This is likely to enable the company to maintain its market share in the Oman market in the medium-term, benefiting from the demand-driven market and likely firm cement prices during the period.

The likely commissioning of its planned new clinker kiln in 2010 should enable it to meet its clinker needs without resorting to imports. However, the likely commissioning of the new kiln in 2010 could also be expected to coincide with a likely softening of the cement prices as demand from the currently announced projects starts tapering. Thus, the company may not be able to take full benefit of the new clinker line going forward, even though it should benefit from an evenly balanced clinker and cement capacities under its fold. We, therefore, recommend a 'Buy' on the Oman Cement stock with a medium-term perspective.

BALANCE SHEET

	OMAN CEMENT CO. SAOG						
Amounts in Rials Omani	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
Assets							
Cash & cash equivalents	1,097,225	1,002,186	1,062,128	1,108,935	1,348,786	1,648,576	2,130,504
Bank borrowings	-	56,220	77,579	79,131	80,713	83,135	85,629
Trade receivables	2,703,986	3,964,107	4,938,447	5,813,539	6,982,388	7,869,678	8,723,348
Other Receivables	541,643	2,465,085	1,681,087	1,744,062	1,939,552	2,131,371	2,418,354
Inventories	5,283,717	6,304,703	5,159,343	6,162,197	7,139,759	8,040,592	9,021,260
Short term Deposits (< 3 months)	7,800,000	3,001,500	6,620,000	10,000,000	10,000,000	7,500,000	7,500,000
Short-term loans	4,270,000	4,664,981	1,131,965	3,000,000	-	-	-
Investments in associates	187,418	-	-	-	-	-	-
Investment Portfolios for trading	47,739	44,992	32,080	4,032,080	6,032,080	8,032,080	10,032,080
Total Current Assets	21,931,728	21,503,774	20,702,629	31,939,942	33,523,279	35,305,432	39,911,175
Long-term loans	7,331,400	5,784,811	4,654,936	4,654,936	4,654,936	4,654,936	4,654,936
Long-term deposits	10,458,000	24,582,341	34,199,661	28,000,000	29,200,000	29,200,000	29,200,000
Employee loans	146,085	93,733	54,012	56,172	58,419	60,756	63,186
Investments in associates	232,733	257,855	283,953	256,910	232,442	210,305	190,276
Investments available-for-sale	6,488,359	11,591,755	13,402,009	14,518,843	15,416,916	16,207,527	17,038,682
Work in progress	-	-	-	-	11,550,000	25,025,000	-
Gross fixed assets	96,028,112	99,292,373	106,606,515	115,056,515	115,806,515	116,656,515	156,156,515
less: accumulated depreciation	49,970,778	53,884,759	57,573,788	61,801,925	66,147,833	70,465,744	77,458,142
Net fixed assets	46,057,334	45,407,614	49,032,727	53,254,590	49,658,682	46,190,771	78,698,373
Total Assets	92,645,639	109,221,883	122,329,927	132,681,394	144,294,674	156,854,726	169,756,628
Liabilities							
Short-term loan	877,650	589,586	477,429	520,941	520,941	520,941	480,490
Bank borrowings	-	56,220	77,579	77,579	77,579	77,579	77,579
Accounts payable	2,300,215	2,928,199	1,836,064	1,975,063	2,379,920	2,786,344	3,250,904
Other payables	1,496,564	1,650,464	1,990,150	2,054,066	2,221,258	2,467,905	2,600,724
Taxation	2,208,649	2,745,845	3,092,798	2,783,518	2,505,166	2,254,650	2,029,185
Total Current Liabilities	6,883,078	7,970,314	7,474,020	7,411,166	7,704,864	8,107,418	8,438,882
Deferred income	-	-	-	-	-	-	-
Deferred taxation	5,028,471	4,745,331	4,395,296	3,955,766	3,560,190	3,204,171	2,883,754
Medium-term loan	1,800,000	2,190,705	2,043,312	1,522,371	1,001,431	480,490	-
Employee Indemnity Provision	811,793	856,637	878,286	913,417	949,954	987,952	1,057,109
Proposed Dividend	6,948,327	8,271,818	11,580,545	13,234,908	14,889,272	16,543,636	18,197,999
Minority interest	-	406,515	348,309	215,918	104,389	165,969	231,912
Owner's Equity:							
Paid-up equity capital	33,087,271	33,087,271	33,087,271	33,087,271	33,087,271	33,087,271	33,087,271
Share premium	6,724,145	6,724,145	6,724,145	6,724,145	6,724,145	6,724,145	6,724,145
Statutory reserve	11,029,090	11,029,090	11,029,090	11,029,090	11,029,090	11,029,090	11,029,090
Voluntary reserve	9,762,943	11,577,611	13,633,203	15,826,779	16,543,636	16,543,636	16,543,636
Fair value reserve	996,912	4,728,650	6,528,991	7,645,825	8,543,898	9,334,509	10,165,664
Retained earnings	9,573,609	17,633,797	24,553,580	31,060,855	40,102,654	50,592,560	61,343,287
Revaluation surplus	-	-	53,880	53,880	53,880	53,880	53,880
Total Shareholder's Equity	71,173,970	84,780,563	95,610,159	105,427,845	116,084,574	127,365,091	138,946,973
Total Liabilities	92,645,639	109,221,883	122,329,927	132,681,394	144,294,674	156,854,726	169,756,628

OPERATING STATEMENT

	OMAN CEMENT CO. SAOG						
<i>Amounts in Rials Omani</i>	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
Sales Revenue	33,878,854	43,969,393	49,710,230	53,048,541	56,634,922	59,842,341	63,049,940
Cost of Production	(18,337,199)	(23,340,418)	(26,757,379)	(28,835,921)	(28,955,691)	(29,057,586)	(29,664,503)
Gross Profit	15,541,655	20,628,975	22,952,851	24,212,620	27,679,231	30,784,755	33,385,436
General & Administrative Expenses	(600,162)	(654,435)	(596,401)	(626,221)	(655,027)	(683,193)	(710,521)
Staff Costs	(785,625)	(859,160)	(920,776)	(1,049,432)	(1,135,066)	(1,215,883)	(1,485,856)
Board of Directors Remuneration	-	(105,370)	(139,550)	(150,000)	(150,000)	(175,000)	(175,000)
Depreciation	(342,047)	(362,038)	(364,139)	(392,018)	(408,289)	(411,119)	(482,479)
Operating Profit	13,813,821	18,647,972	20,931,985	21,994,948	25,330,849	28,299,561	30,531,581
Finance charges	(38,852)	(49,203)	(74,778)	(56,109)	(46,898)	(33,798)	(20,698)
Other Income	146,915	163,742	38,067	37,994	43,010	52,454	66,134
Interest income	922,175	1,179,848	1,682,953	2,107,104	1,779,780	1,694,280	1,644,571
Dividend income	460,551	459,555	624,406	719,663	799,998	799,551	769,656
Profit on disposal of plant & equipment	164,206	-	-	-	-	-	-
Income from associates	(146,652)	(240,296)	(27,782)	(27,043)	(24,468)	(22,137)	(20,029)
Provision for corporate guarantee invoked by an associate's bankers	(391,250)	391,250	-	-	-	-	-
Impairment loss in an associate	-	(41,353)	-	-	-	-	-
Realised gains on AFS investments	-	5,500	-	-	-	-	-
Profit Before Taxation	14,930,914	20,517,015	23,174,851	24,776,556	27,882,271	30,789,910	32,971,214
Tax	(1,758,873)	(2,462,705)	(2,742,763)	(2,973,187)	(3,345,873)	(3,694,789)	(3,956,546)
Minority interest	-	92,362	123,832	132,391	111,529	(61,580)	(65,942)
Net Profit	13,172,041	18,146,672	20,555,920	21,935,760	24,647,928	27,033,541	28,948,726
P&L Appropriation Account:							
<i>Op Balance of Retained Earnings</i>	4,145,177	9,573,610	17,633,797	24,553,580	31,060,856	40,102,655	50,592,560
Adjustments	616,994	-	-	-	-	-	-
Net Profit for the year	13,066,406	18,146,672	20,555,920	21,935,760	24,647,928	27,033,541	28,948,726
Trfr to Voluntary Reserve	1,306,641	1,814,667	2,055,592	2,193,576	716,857	-	-
Proposed Dividend	6,948,327	8,271,818	11,580,545	13,234,908	14,889,272	16,543,636	18,197,999
<i>Cl Balance of Retained Earnings</i>	9,573,610	17,633,797	24,553,580	31,060,856	40,102,655	50,592,560	61,343,288

CASH FLOW STATEMENT

	OMAN CEMENT CO. SAOG						
<i>Amounts in Rials Omani</i>	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
Operating							
Operating Activities	18,163,891	22,381,490	25,280,514	22,574,214	25,736,502	28,406,599	33,156,840
Net Profit	13,172,041	18,146,672	20,555,920	21,935,760	24,647,928	27,033,541	28,948,726
Deferred tax liability	1,758,873	2,462,705	2,742,763	(439,530)	(395,577)	(356,019)	(320,417)
Tax paid	-	-	-	(309,280)	(278,352)	(250,517)	(225,465)
Depreciation	3,356,805	3,517,611	3,689,029	4,228,137	4,345,908	4,317,911	6,992,397
Interest income	(922,175)	(1,179,848)	(1,682,953)	(2,107,104)	(1,779,780)	(1,694,280)	,571
Dividend income	(460,551)	(459,555)	(624,406)	(719,663)	(799,998)	(799,551)	(769,656)
Finance charges	38,852	18,535	12,271	56,109	46,898	33,798	20,698
Proposed remuneration to Directors	77,500	88,000	110,000	-	-	-	-
Amortization of bond premium	6,687	(1,392)	(2,090)	-	-	-	-
Share of results of associate cos.	146,652	281,649	27,782	27,043	24,468	22,137	20,029
Gain on sale of PPE	(4,206)	-	-	-	-	-	-
Gain from Sale of Investments	-	(5,500)	-	-	-	-	-
Provisions for stores, etc.	512,589	(86,547)	486,389	-	-	-	-
Minority interest	-	(92,362)	(123,832)	(132,391)	(111,529)	61,580	65,942
Indemnity	89,574	82,772	89,641	35,131	36,537	37,998	69,157
Provision for corporate guarantee	391,250	(391,250)	-	-	-	-	-
Working Capital	(1,958,421)	(1,379,074)	537,122	(1,739,557)	(1,771,435)	(1,329,293)	(1,526,435)
Dec/(inc.) in receivables	(1,293,273)	(1,256,640)	640,132	(938,066)	(1,364,339)	(1,079,109)	(1,140,653)
Dec / (inc) in Inventories	(1,355,347)	(907,182)	658,969	(1,002,854)	(977,563)	(900,833)	(980,668)
Inc/(dec) in accounts payable	692,860	391,708	(1,153,875)	138,999	404,857	406,424	464,561
Inc/(dec) other current liabilities	(2,661)	393,040	391,896	63,916	167,193	246,646	132,819
Inc/(dec) other current assets	-	-	-	(1,552)	(1,583)	(2,421)	(2,494)
Income tax paid	(723,305)	(2,208,649)	(2,745,845)	-	-	-	-
Directors' remuneration paid	(50,000)	(77,500)	(88,000)	-	-	-	-
Employees' benefits paid	(52,591)	(40,746)	(67,990)	-	-	-	-
Total Operating	15,379,574	18,675,521	22,915,801	20,834,657	23,965,067	27,077,306	31,630,405
Investing							
Capex	(464,428)	(709,091)	(236,105)	(8,450,000)	(750,000)	(850,000)	(39,500,000)
Advance for purchase of PPE	-	(1,491,166)	(7,078,035)	-	(11,550,000)	(13,475,000)	25,025,000
Dividend income	756,460	929,905	1,405,834	719,663	799,998	799,551	769,656
Maturity of long-term loans	2,850,000	4,270,000	4,664,981	-	-	-	-
Purchase of loans	(2,814,694)	(3,117,000)	-	-	-	-	-
Interest income	-	-	-	2,107,104	1,779,780	1,694,280	1,644,571
Dividend received	460,551	459,555	622,306	-	-	-	-
Compensation for plant & equipment	308,080	-	-	-	-	-	-
Loans	-	-	-	(1,870,195)	2,997,753	(2,337)	(2,430)
Recall of short-term deposits	4,493,180	7,800,000	17,196,500	-	-	-	-
Long-term deposits	(4,558,000)	(14,124,341)	(9,617,320)	6,199,661	(1,200,000)	-	-
Proceeds from disposal of Investments	-	107,500	-	-	-	-	-
Proceeds from disposal of property	4,457	-	-	-	-	-	-
Short-term deposits	(7,800,000)	(3,001,500)	(20,815,000)	(3,380,000)	-	2,500,000	-
Investment Portfolios for trading	-	-	-	(4,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
Investments in associates/subsidiaries	(234,000)	(78,000)	(115,624)	-	-	-	-
Investments available for sale	(646,077)	(1,470,911)	-	-	-	-	-
IPOs & rights issue subscriptions	-	-	(523,007)	-	-	-	-
Capital reduction in AFS investments	-	-	2,000	-	-	-	-
Total Investing	(7,644,471)	(10,425,049)	(14,493,470)	(8,673,768)	(9,922,469)	(11,333,506)	(14,063,204)
Financing							
Rights issue of shares	-	75,000	181,250	-	-	-	-
Dividend	(5,955,709)	(6,948,326)	(8,271,818)	(11,580,545)	(13,234,908)	(14,889,272)	(16,543,636)
Term-loan repayments	(1,455,300)	(1,125,289)	(259,550)	(477,429)	(520,941)	(520,941)	(520,941)
Finance charges	(41,757)	(18,535)	(12,271)	(56,109)	(46,898)	(33,798)	(20,698)
Total Financing	(7,452,766)	(8,017,150)	(8,362,389)	(12,114,083)	(13,802,747)	(15,444,010)	(17,085,274)
Net Change in Cash	282,337	233,322	59,942	46,806	239,852	299,790	481,928
Net Cash at beginning	814,888	768,864	1,002,186	1,062,128	1,108,935	1,348,786	1,648,576
Net Cash at end	1,097,225	1,002,186	1,062,128	1,108,935	1,348,786	1,648,576	2,130,504

RATIO ANALYSIS

	OMAN CEMENT CO. SAOG						
	2004	2005	2006	2007 (F)	2008 (F)	2009 (F)	2010 (F)
Liquidity Ratios							
Current Ratio (x)	3.2	2.7	2.8	4.3	4.4	4.4	4.7
Quick Ratio (x)	2.4	1.9	2.1	3.5	3.4	3.4	3.7
Inventory stock (days)	97	91	78	72	84	95	105
Receivables outstanding (days)	23	28	33	37	41	45	48
Length of operating cycle (days)	120	118	111	109	125	141	153
Payables outstanding (days)	39	41	32	24	27	32	37
Length of cash cycle (days)	81	77	78	85	98	108	116
Profitability Ratios							
Total Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total Net Fixed Asset Turnover (x)	0.7	1.0	1.0	1.0	1.1	1.3	0.8
Equity Turnover (x)	0.5	0.6	0.6	0.5	0.5	0.5	0.5
Gross Profit Margin (%)	45.9	46.9	46.2	45.6	48.9	51.4	53.0
Operating Margin (%)	40.8	42.4	42.1	41.5	44.7	47.3	48.4
Net Profit Margin (%)	38.9	41.3	41.4	41.4	43.5	45.2	45.9
Return on Average Assets (%)	14.9	18.0	17.8	17.2	17.8	18.0	17.7
Return on Average Equity (%)	19.5	23.3	22.8	21.8	22.3	22.2	21.7
Return on Common Capital (%)	39.8	54.8	62.1	66.3	74.5	81.7	87.5
Activity Ratios							
Inventory Turnover Ratio (x)	3.8	4.0	4.7	5.1	4.4	3.8	3.5
Debtor Turnover Ratio (x)	15.9	13.2	11.2	9.9	8.9	8.1	7.6
Creditors Turnover Ratio (x)	9.4	8.9	11.2	15.1	13.3	11.2	9.8
Leverage Ratios							
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities / Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Liabilities / Total Assets (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Ratios Used for Valuation							
EPS (RO)	0.40	0.55	0.62	0.66	0.74	0.82	0.87
Book Value Per Share (RO)	2.15	2.56	2.89	3.19	3.51	3.85	4.20
Dividend Payout (%)	52.8	45.6	56.3	60.3	60.4	61.2	62.9
Market Price (RO) *	4.62	6.40	5.80	5.92	5.92	5.92	5.92
Dividend yield	4.5%	3.9%	6.0%	6.8%	7.6%	8.4%	9.3%
P/E Ratio (x)	11.6	11.7	9.3	8.9	7.9	7.2	6.8
P/BV Ratio (x)	2.1	2.5	2.0	1.9	1.7	1.5	1.4

* Market price for 2007 and subsequent years as per closing price on MSM on April 26, 2007.

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Disclosure Checklist				
Company	Recommendation	Ticker	Price	Disclosure
Oman Cement Company	BUY	OCCO.OM	5.921	1, 10
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Global rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

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