Al Anwar Ceramics Tiles Co. SAOG

18 December 2013

Purpose of Report
Initiation

Recommendation
Accumulate

Code
(AACT)

Last Closing Price
RO 0.570/share

Fair Value
RO 0.637/share

12-Month Low-High
RO 0.385 – 0.566

Market Capitalization
RO 134.0mn

Market Weighting (MSM 30)
2.19%

Annualized P/E (x)
16.09

P/E TTM (x)
17.12

Price to Book (P/B) (x)
3.80

Ayisha Zia
Research Analyst
a.zia@oabinvest.com
+968 24 754 673

*Al Anwar Ceramic Tiles (AACT) is Oman's largest ceramic tiles manufacturer. AACT is expanding capacity to hold its market leading position in Oman and benefit from the boom in the GCC's construction sector. We initiate coverage on the company with a **ACCUMULATE** rating and a target price of RO 0.637 per share, a 12% upside to the last closing price with a dividend yield of 5 % for 2013 implying a total return of 17% over the next 12 months. The company pays out its full year dividends at the end of March each year. Further, our Target price implies a P/E(x)'13 of 17.9 and a P/B(x) '13 of 4.2.*

*At a present P/E of 17.12x, and P/B of 3.8x, AACTs near term earnings growth driven by the ramp up of its **fifth** production line (c26% of present capacity) expected in 1Q'14 seems well appreciated by investors. However, a possible announcement for the establishment of a **sixth** production line that will further grow capacity over YE 2013 capacity could serve as a trigger for the stock coupled with a low probability of downside risks to near term earnings us to rate the stock as a buy.*

Market leader in Oman; scaling up through further capacity expansion; Low cost advantage to reflect in margins as scale enlarges

AACT is the leading player in Oman's ceramic tiles market. The company has four production lines with a total capacity of 13.5 million square meters (mn.Sqm) and is adding another line with a capacity of 3.5 mn.Sqm, expected to commence trial production in 1Q 2014, bringing total production capacity to 17 mn.Sqm and present average utilization rate at 107% is healthy. The company has also requested the Government of Oman for allocation of natural gas for a ***sixth*** production line which we do not factor into our estimates. The company is in a position to commence work on this immediately on receiving the gas allocation. Based on our assessment of five listed leading ceramic tile manufacturers in the MENA region, Al Anwar is amongst the lowest cost producers in the industry. We believe this advantage emanates from its low cost of raw materials as well as gas and electricity which it shall sustain even though gas prices to industrial users are set to increase over the next 2 years. The management also corroborates the company's low-cost advantage in its Board of Directors' reports.

Improving Construction market in the GCC to spur growth

Over the last five years, the construction sector in the GCC has witnessed a revival with the United Arab Emirates (especially Dubai) being the most recent beneficiary of a recovery in underlying trends. An improvement in the UAEs' sovereign credit perception coupled with enhanced credit quality at banks have resulted in a restoration of credit appetite which has trickled through to the real estate sector. Both Dubai and Abu Dhabi have announced a slew of major real estate initiatives over the last 12 months, which are expected to play out over the next few years. Further, Saudi Arabia's new impetus on Social housing and Qatar's successful bid for the World Cup in 2018 will serve to generate demand for activities AACT is involved in. Historically, Oman's revenue contribution has remained less volatile than that from other GCC states and AACT maintains a commanding presence in the home market with a c69% market share, as per our estimates, and AACT's new capacity is coming on-stream at a time when demand is improving. Consequently, we expect revenue of the company to expand at a CAGR of 10.1% to RO 40.0mn in 2018 from RO 22.5mn in 2012.

Risks to earnings a low near term probability

Key risks to earnings include slower-than-expected growth in the construction, especially the real-estate sector, of Oman as well as the GCC, low-priced imports from China leading to increased competition, volatility in raw material prices, and regulatory issues to address growing environmental concerns.

Year	FY11	FY12	FY13E	FY14E	FY15E	FY16E
Year-end Capacity, mn. Sqm	10.0	13.5	13.5	17.0	17.0	17.0
Revenues, RO mn.	18.6	22.5	27.3	29.9	33.1	35.2
EBIT, RO mn.	6.5	7.4	9.5	10.6	11.9	13.8
Net Income, RO mn.	5.7	6.5	8.3	9.3	10.4	12.1
Net Income Growth, %	8%	13%	28%	11%	12%	16%
EBITDA Margin, %	42%	40%	42%	42%	43%	46%
ROA, %	19%	19%	21%	20%	20%	21%
ROE, %	22%	21%	24%	24%	24%	25%
P/E(x)	9.2	11.3	16.1	15.2	14.3	13.3
P/B(x)	1.8	2.3	3.6	3.4	3.3	3.2
Dividend Yield, %	7%	8%	5%	5%	6%	6%

Source: Company Financials, OABInvest

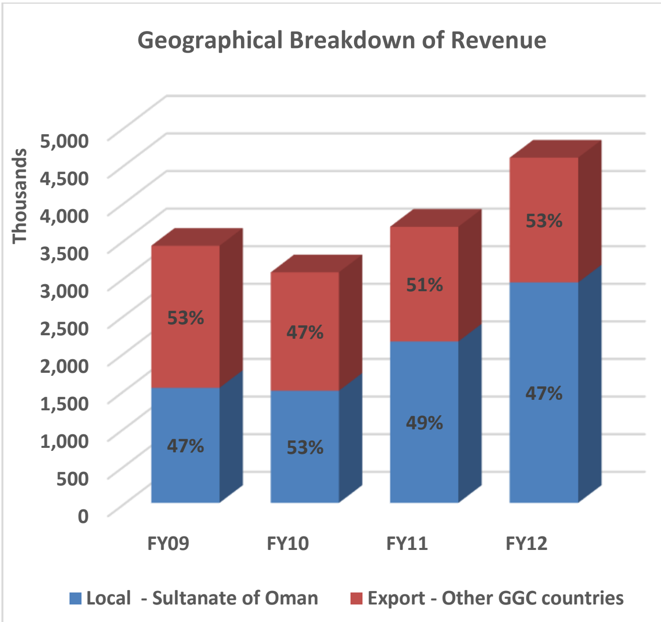
Company Profile

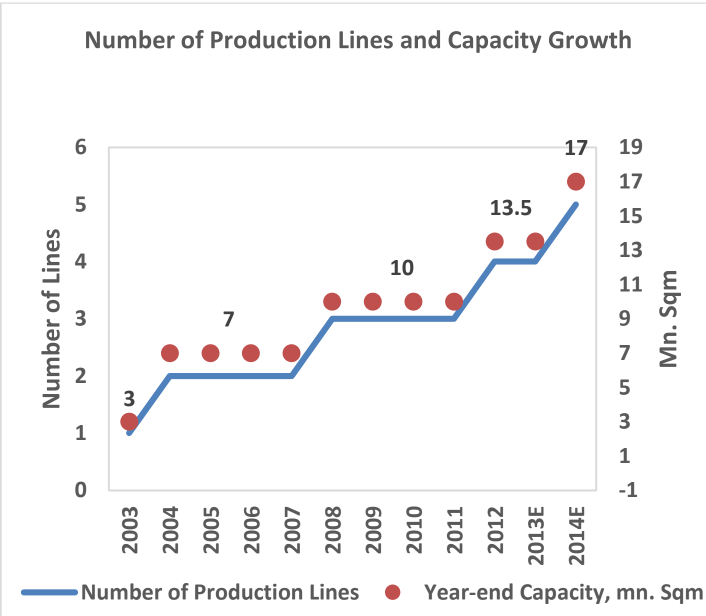
Al Anwar Ceramic Tiles Company SAOG is the first manufacturer of ceramic tiles in the Sultanate of Oman. Established in 1998 with the start of its first manufacturing facility at Nizwa, the company markets its range of glazed wall and floor tiles under the brand names 'Al Shams', 'Al Najim', 'Al Qamr' and 'Al Shams Gold'. The Nizwa plant uses machinery and technical know-how of leading Italian companies. Locally available raw materials, with frits, glazes and pigments imported from leading manufacturers in Italy and Spain are used for production.

A second line with a production capacity of 3 million sq. m. per annum was introduced in 2004. Continuing with its trend of consistent growth, Al Anwar introduced its third production line in the year 2010 and fourth line in the beginning of 2012 taking the total production capacity to more than 13.5 million square meters of tiles per annum.

Al Anwar Ceramic Tiles Co. SAOG has decided to further expand its production capacity in Nizwa. The new capacity expansion will entail the addition of a new production line with an output of about 3.5 million square meters per annum, pushing up the total capacity to about 17 million square meters per annum.

The company has the largest Third Firing unit of its kind in the region producing listelloes, decors and skirtings. The addition of the latest Third Firing facility has started producing newer products like pencils and molded borders. The company manufactures four kinds of products: wall tiles, floor tiles, Third Firing products (e.g. borders and highlighters), and skirting.



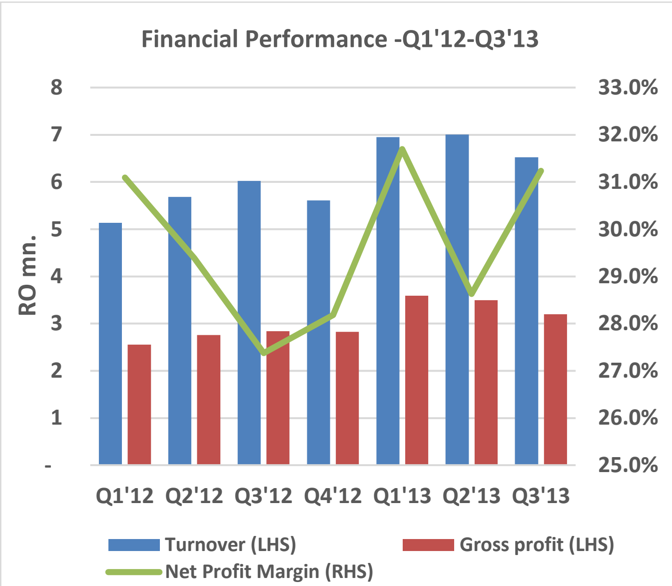


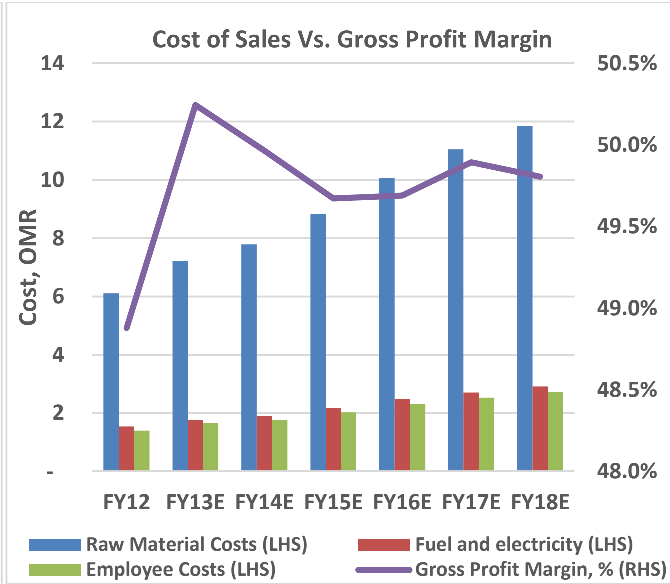
Source: Company Financials, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Earnings Forecasts

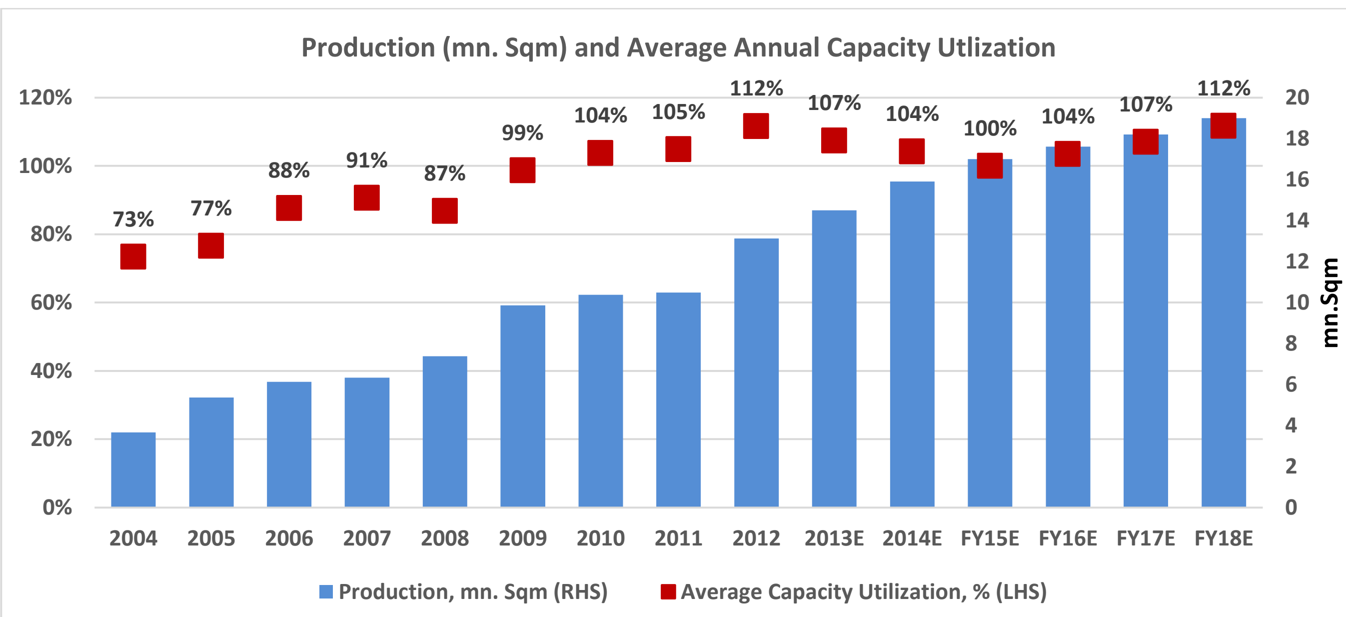
The company's financial performance over the last seven quarters indicates improvement in sales, gross profit, and net profit. The net profit margin realized in FY12 was 29% as compared to an average of 30.5% for the three quarters of FY13. The gross profit margin of the company is expected to increase from 49% in FY12 to 50.2% in FY13E, and subsequently settle around 49.7% by FY18E, as new production line's capex is fully depreciated and only maintenance capex remains.





Source: Company Financials, OABInvest

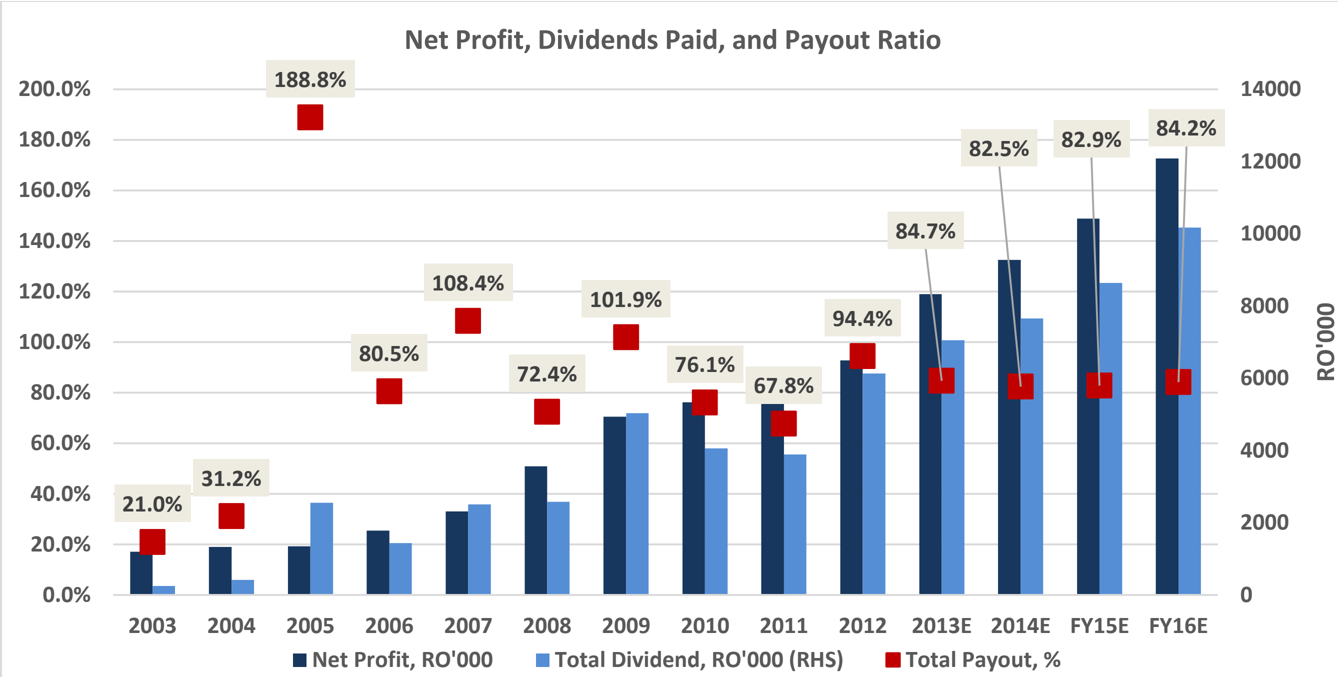
The capacity utilization of the company is expected to stabilize to 100% by FY15E, as the fifth production line ramps up from trial production in Q1'14 onwards. It is expected that only 40% of the newly added capacity (3.5mn.Sqm) will be utilized in FY14, increasing to 80% in 2015.



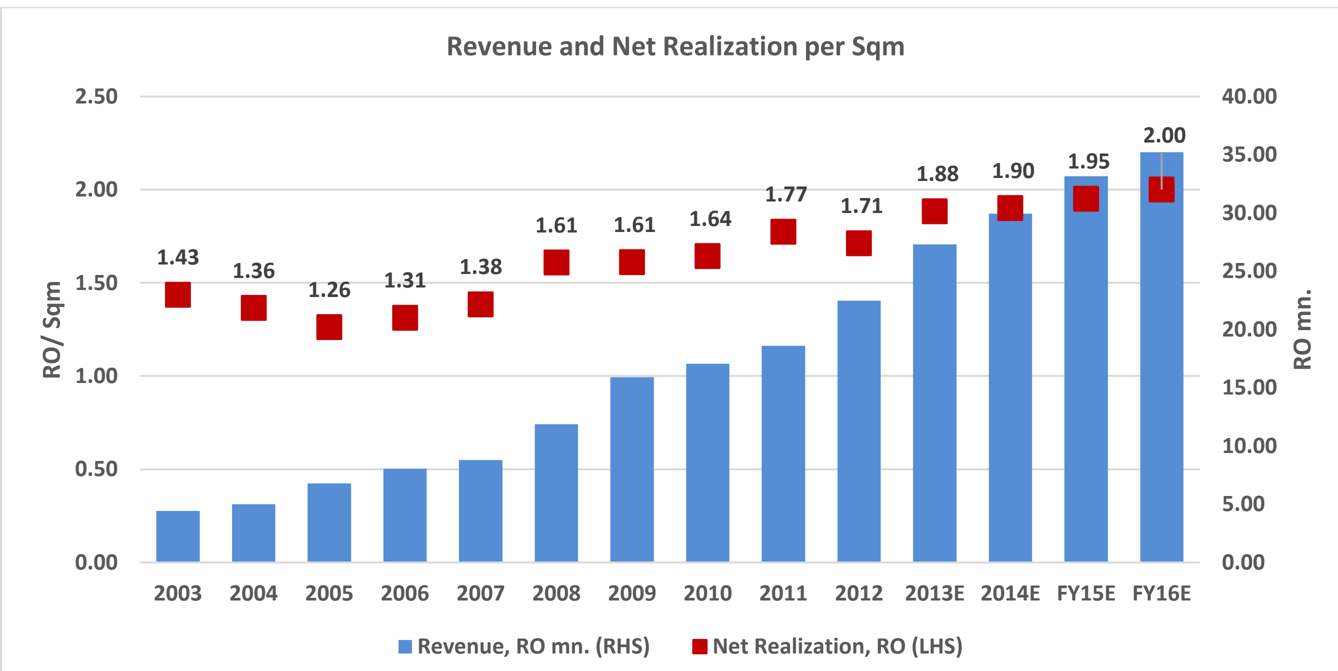
Source: Company Financials, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

The historical net profits and dividend policy of the company is depicted in the following chart, along with the forecasts till FY16E. The company does not expect to raise any debt in the future and expects to grow organically. We have assumed that the payout ratio of earnings is expected to settle around 84% as the company finances its operations as well as future expansions through retained earnings.



Source: Company Financials, OABInvest



Source: Company Financials, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Industry Background

The growing construction and infrastructure industry, mainly in emerging economies of Asia Pacific such as China, India and Indonesia, is the main driver of demand in the ceramic tiles industry. Shift towards replacing paints, metal slabs, marble floors, and other home decorative products with ceramic tiles is also expected to boost the market over the forecast period. However, volatility in raw material prices and regulatory issues to address growing environmental concerns are acting as major factors contributing towards the increasing production costs of ceramic tiles.

Floor tiles emerged as the leading type of ceramic tiles used globally and accounted for over 50% of the total market in 2011. Floor tiles are also expected to be the fastest growing ceramic tiles at an estimated CAGR of 9.4% from 2012 to 2018. Wall tiles, the second largest market are expected to lose market share to floor tiles by 2018. Ceramic tiles are majorly consumed in residential replacement market globally. Residential replacement accounted for approximately 54% of the total market in 2011. Along with the biggest market, residential replacement is also expected to be the fastest growing market for ceramic tiles at an estimated CAGR of 8.6% from 2012 to 2018. Commercial application of ceramic tiles followed residential replacement and has a share of over 30% of the market in 2011[1].

Significant rise in construction activities in the Gulf Cooperation Council (GCC) countries has led to substantial expansion of the ceramic and porcelain tiles market. Amongst the GCC countries, the Kingdom of Saudi Arabia (KSA), Dubai and Qatar are experiencing an increase in demand from the Building Materials industry due to their long term growth plans. This growth has witnessed increased participation of foreign players who in-turn have contributed to the overall market maturity.

As per **Frost & Sullivan estimates**, Chinese and European brands supply to more than 50 per cent of the ceramic tiles demand in the GCC, followed by local manufacturers along with small portions from other countries such as Malaysia, India and Egypt. More than 25 per cent of the total production in the GCC is currently being exported to non-GCC countries. It has been observed that demand for ceramic tiles is as high 70 per cent compared to a much lower 30 per cent demand for porcelain tiles.[2]

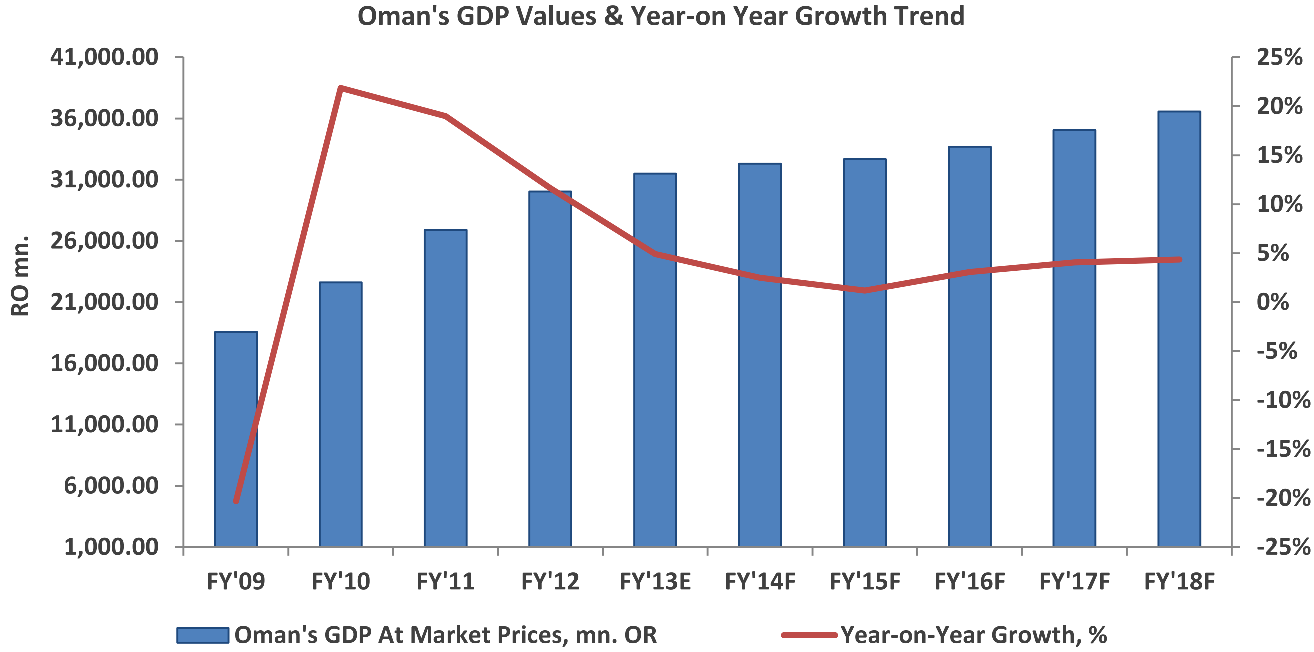
The major challenges for tiles market in the GCC markets are ***high degree of price sensitivity*** and ***emphasis on high quality***. Additionally, availability of alternate products such as vitrified tiles is the key threat challenging the growth of ceramic and porcelain tiles market in the GCC. According to Frost & Sullivan estimates, as high as 60 per cent of new buildings in the UAE opt for vitrified tiles as these are more durable and long lasting compared to ceramic tiles. However, the influx of Chinese products has forced many GCC manufacturers to target only the high-end market, as Chinese products dominate the low-end market. Hence, the Tiles market in the GCC is expected to witness a positive trend and manufacturers are expected to give equal attention to exports and local market.

Oman's Construction & Real-Estate Industry Outlook

- ### Positive Outlook for Construction and Real-Estate Services in Oman
  According to the National Centre for Statistics and Information of Oman, the current estimate for population (As of September 2013) stands at 3.93mn, showing a growth rate of 8.5% compared to 3.62mn in 2012, with almost 50% under 25 years of age, combined with increasing influx of expatriate population in the region (mainly due to shortage of skills among local nationals), is likely to drive demand for housing, energy and the necessary infrastructure. Announcement of expenditures on commercial and residential developments in Oman (RO 2.5mn in 2012) indicates a strengthening construction market.

[1] Transparency Market Research, World Ceramic Report
[2] Transparency Market Research, World Ceramic Report

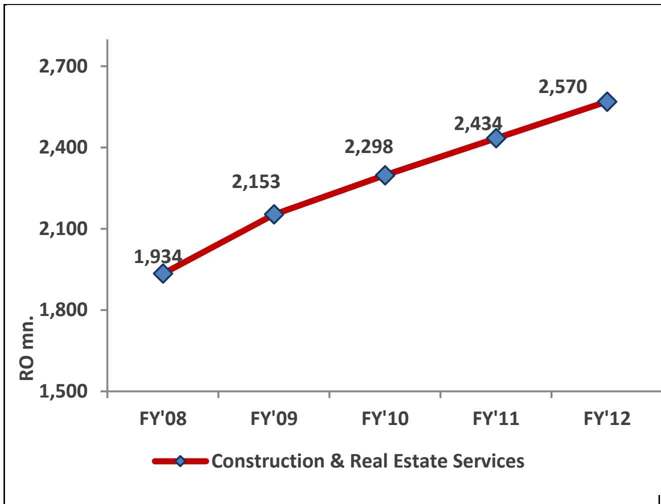
Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

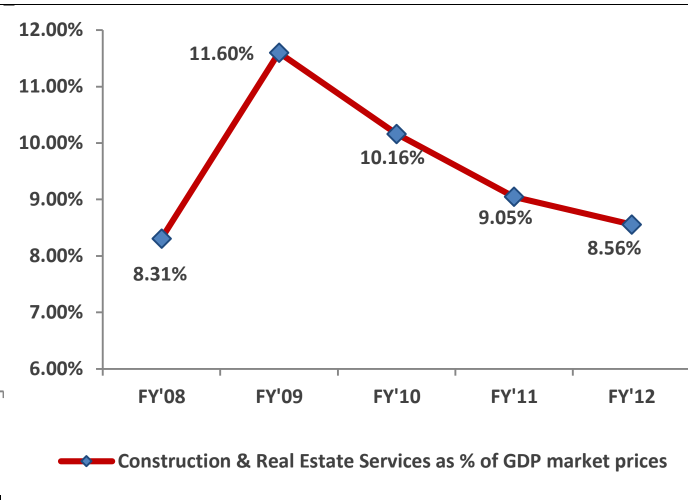


Source: IMF Forecasts, National Centre of Statistics, Oman

Oman reported real GDP growth of 5.0% in 2012, primarily driven by expanding government spending and domestic demand, both boosted by high oil prices. Oil export growth is expected to moderate, as domestic consumption rises. Consequently, GDP growth is estimated to be 5.5% in 2013 on lower oil prices[3].

The following charts indicate the growth in construction expenditure, and the trend of construction sector and real estate sector's as a % of GDP at market prices:





Source: IMF Forecasts, National Centre for Statistics & Information, Oman

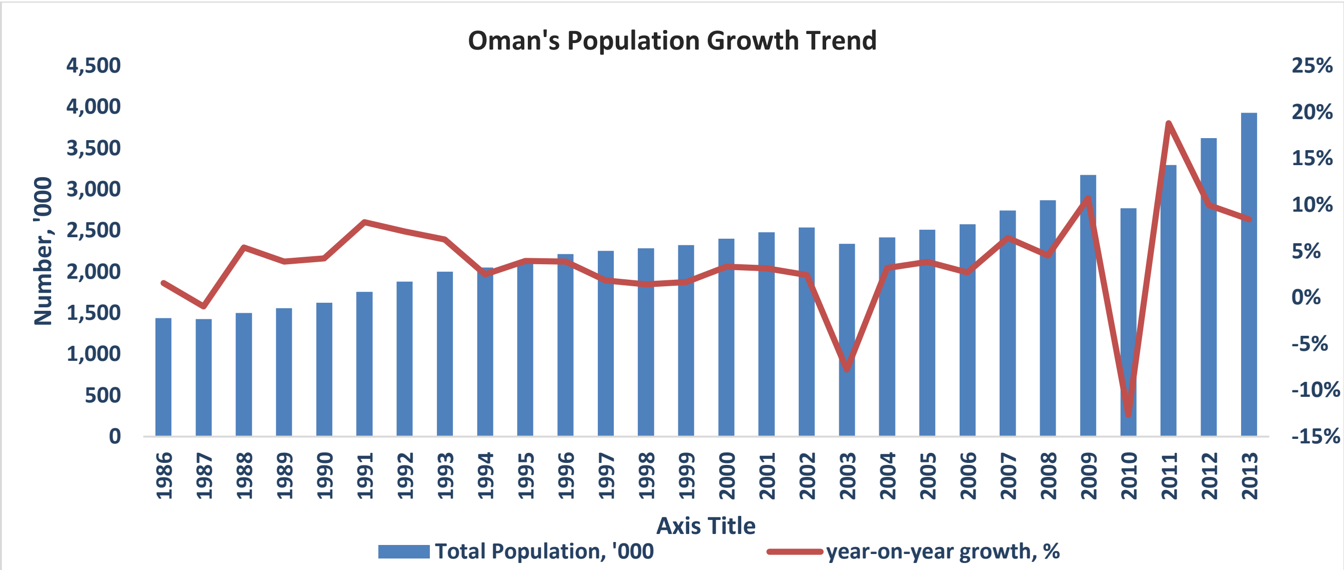
It can be deduced from above that the construction & real estate sectors are set to grow as GDP expands in the coming years, especially due to the Government's Vision 2020 and conscious effort to diversify away from Oil & Gas revenues.

[3] Press Releases

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

- ### Oman's Population on an Uptrend

The chart below depicts a growing trend in the population of Oman. Since the Government is pursuing an expansionary fiscal policy, hence we expect the population to maintain a healthy growth rate, thereby improving outlook for infrastructure, dwelling and retail needs of the people of Oman.



Source: National Centre for Statistics & Information, Oman (2013 Figure is as at the end of September)

GCC's Construction & Real-Estate Industry Outlook

Since 53% of AACT's FY12 revenues came from the GCC, and the trend has been upward, it is important to analyze the industry outlook for GCC.

- ### GCC's GDP Growth Outlook

According to the IMF's report on Regional Economic Outlook for Middle East & Asia (Nov 2013), a recovery in oil production and a further strengthening of the non-oil revenues will likely lift economic growth in 2014. On the upside, increased geopolitical uncertainties may push oil prices higher. Further supply disruptions caused by weak domestic security or a difficult external environment could reduce oil production in some countries, especially outside the GCC, while benefitting growth in oil suppliers with spare capacity (mostly in the GCC) as they compensate for the shortfall. On the downside, slowing global oil demand, for instance caused by lower growth in emerging markets or rising supply from unconventional sources could reduce oil prices and/or induce members of the Organization of the Petroleum Exporting Countries (OPEC), particularly in the GCC, to cut back supply. Apart from oil, a main downside risk for oil exporters in the region is the possibility of slower non-oil private sector growth and higher unemployment and inequality if governments' efforts aimed at diversification do not bear fruit.

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Selected Economic Indicators 2000-2014

(Percent of GDP, unless otherwise stated)

GCC	Average 2000-2007	2008	2009	2010	2011	2012	Projections 2013	2014
Real GDP (annual growth), %	5.9	7.8	0.9	6.4	7.7	5.2	3.7	4.1
Current Account Balance	15.3	21.1	6.6	12.4	23.7	24.4	21.3	19.8
Overall Fiscal Balance	12.0	24.0	-0.7	3.6	11.2	13.9	10.8	9.4

Source: IMF Regional Economic Outlook, MENAP, Nov 2013

- **Other triggers for growth**

  Dubai has recently won the World Expo 2020 bid, and this will reflect positively on the country's overall economy, the most significant reflected in infrastructure, tourism, transport, technology, financial and property sectors. It is expected to lead to implementation of many infrastructure projects in preparation to provide the best to visitors, in addition to those offered by airlines and the airport expansions. The Dubai government is planning to implement several projects, such as the Dubai Expo headquarters, expected to be one of the largest ever used for a World Expo. Projects worth Dh25 billion are expected to be implemented in Dubai over the next six years. Similarly, with the decision to host the Fifa World Cup in 2022, Qatar has been and will be continuing with a very large amount of fiscal spending that needs to be set aside to finance the required infrastructure to host the tournament. A recent estimate by Deloitte suggests that Qatar plans to invest over $200 billion (Dh735 billion) on World Cup-related construction projects.

  The supply of housing in Saudi Arabia is expected to lag demand for at least the next five years, creating opportunities for developers who can benefit from rapid population growth and a new mortgage law. Official numbers refer to a need for 1.25 million units from 2010 through 2014 and the market has not provided these units, which has led to a rise in prices. Supply remains well below demand which is expected to rise to 4 million units in the next 10 years. Saudi Arabia's housing gap is an example of the market distortions that can open up in the wealthy country, where rapid growth of population and income coexist with sometimes inefficient industries and government agencies.

- **GCC's Demographic factors aligned in favor of the sector**

  According to a report by Economist Intelligence Unit, by 2020, the GCC population is forecast to reach 53.5 million, a 30 per cent increase over the level in 2000. A rapidly growing working age population and an increasing expatriate population would likely translate into significant demand for housing in the near future. Favorable demographics are expected to fuel demand for residential units, a major driver of building construction. Significant investments in the tourism sector will also benefit the company given its strong positioning.

Potential Downside Risks

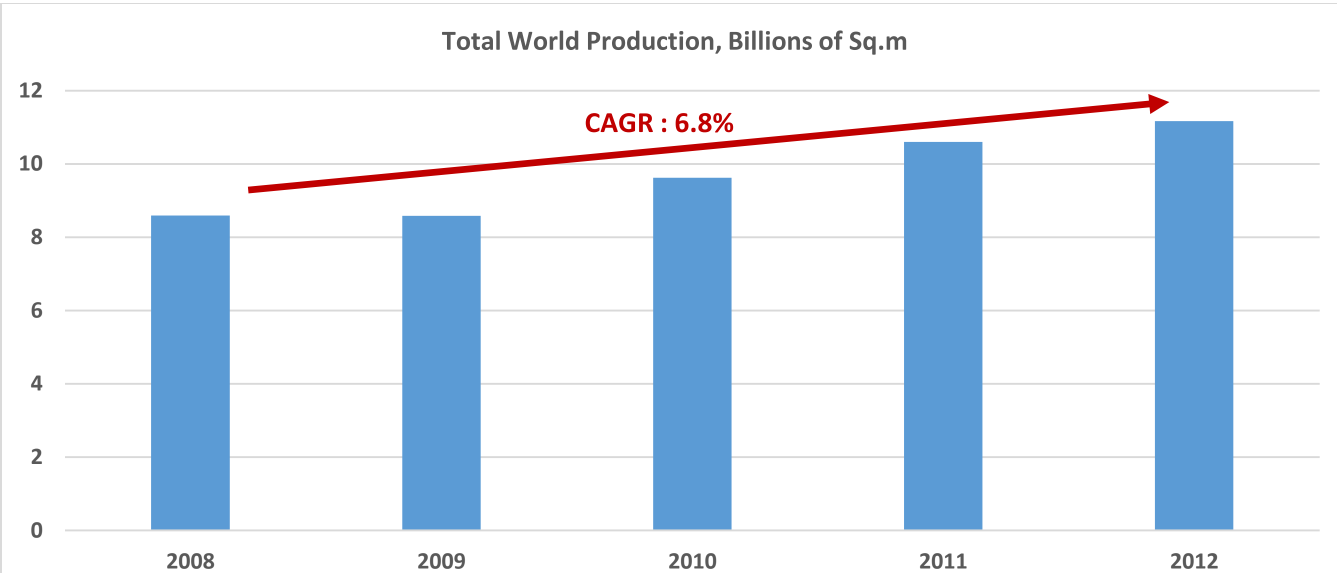
- Low-priced imports from China could lead to increased competition and hence could affect future revenue growth pattern.
- A lower-than-anticipated growth in the construction activity in Oman as well as the rest of the GCC is a major downside to our analysis, as this growth is directly going to affect the growth in AACT's revenues.
- Gas prices in Oman are expected to double by 2015 for industrial consumers, with a 33% rise to USD2.0 per mmbtu in 2013 from USD1.5 per mmbtu in 2012. Furthermore, prices will rise to USD2.5 per mmbtu in 2014 and USD3.0 per mmbtu in 2015, as announced by the Omani government. This could impact gas-fired manufacturing companies' margins, as energy costs would increase. For AACT, the fuel and electricity costs are about 13% of the total cost of sales, of which gas is only about 5%. Hence, any increases in gas prices could possibly affect gross profit margins in the long run.

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Global Industry Outlook

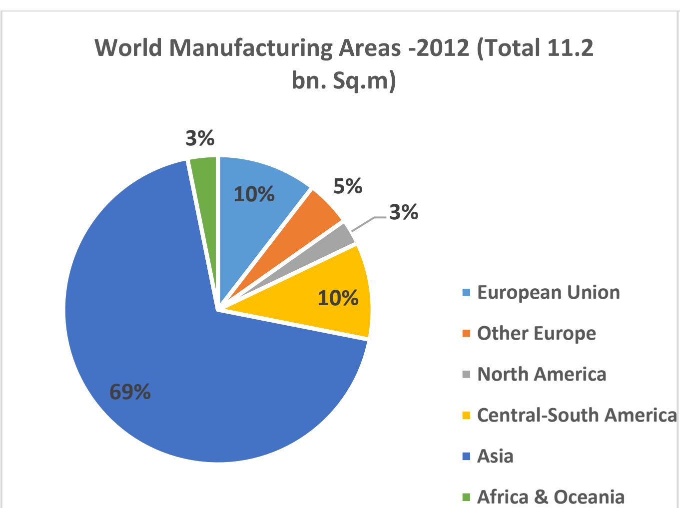
World Ceramic Tiles Industry has risen at a CAGR of 6.8% during 2008–12

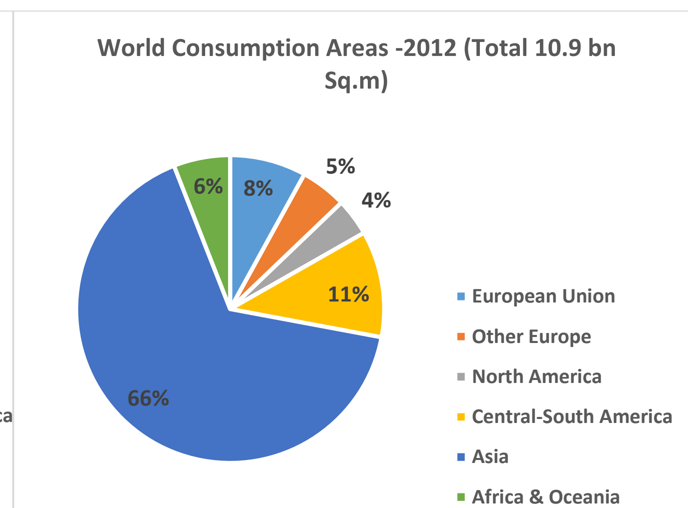
Ceramic tiles consumption has grown from 8.6 billion square meters (bn.Sqm) in 2008 to 11.2 bn.Sqm in 2012 at an annual rate of 6.8%.



Source: Ceramic World Review, OABInvest

Asia is the biggest producer as well as consumer of ceramic tiles. The continent accounts for more than 66% of tiles consumed and produced. It is also the fastest growing region for ceramic tile manufacturers, after Africa and Other Europe (excluding EU and including Turkey).





Source: Ceramic World Review, OABInvest

Published exclusively in the Cersaie issue of Ceramic World Review, the 2012 figures for world production and consumption of ceramic tiles reveal a positive overall situation, albeit with lower growth than the double-figure increases of 2011.

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

In 2012 **world tile production** reached 11,166 million square meters, 5.4% up on 2011. Growth was reported in almost all areas globally and in all the leading producer countries. **Asia** produced 7,674 mn.Sqm (+6.4% y-o-y), bringing its share of world production to 68.7%. Europe saw a slight rise in production, up from 1,667 to 1,700 mn.Sqm (+2% y-o-y) and equivalent to 15.3% of world production. In greater detail, the **European Union** (EU-27) remained stable at 1,168 mn.Sqm (-0.8% y-o-y), while **non-EU Europe** reached 532 mn.Sqm (+8.6%y-o-y). In the American continent, total production reached 1,438 mn.Sqm (12.9% of world production). **Central and South America** produced 1,138 mn.Sqm (+3.6%), while **North America** reached 300 mn.Sqm (+4.2%). **Africa** also showed recovery following the downturn in 2011 with production reaching 349 mn.Sqm (+7.1%).

World tile consumption also rose by 4.6% y-o-y to reach 10,912 mn.Sqm. The European Union was the only region to see a fall in demand, caused by a contraction in almost all countries in the area with the exception of Poland. This contrasted with the strong demand in non-EU Europe (+10.7%), in Africa (+18.7%), driven in particular by the recovery in Libya, in Asia (+4.4%), in Central and South America (+5.3%) and in North America (+5.7%).

Import-export flows were more buoyant in 2012, expanding to 2,358 mn.Sqm (+8.4%) and accounting for 21.6% of world consumption. Half of world exports originated from Asian countries (1,221 mn.Sqm, +10.8%), followed by the **European Union** at 32% (745 mn.Sqm, +4.9%).

China, Spain and Italy, the three largest exporter countries, accounted for 64% of world exports. **China, Brazil and India** have remained the top three tile producer and consumer countries.

World Ceramic Tiles Production, Consumption & Export in 2012						
Areas	Production (2012/2011 Chg, %)	Production as % of Total World Production	Consumption (2012/2011 Chg, %)	Consumption as % of Total World Consumption	Exports (2012/2011 Chg, %)	Exports as % of Total World Exports
European Union	-0.8	10.5	-5.9	8.0	4.9	6.8
Other Europe	8.6	4.8	10.7	4.8	6.5	1.3
North America	4.2	2.7	5.7	3.9	7.5	0.6
Central-South America	3.6	10.2	5.3	11.2	-2.5	1.1
Asia	6.4	68.7	4.4	66.1	10.8	11.2
Africa	7.1	3.1	18.7	5.6	45	0.5
Total	5.4	100.0	4.6	100.0	8.4	21.6

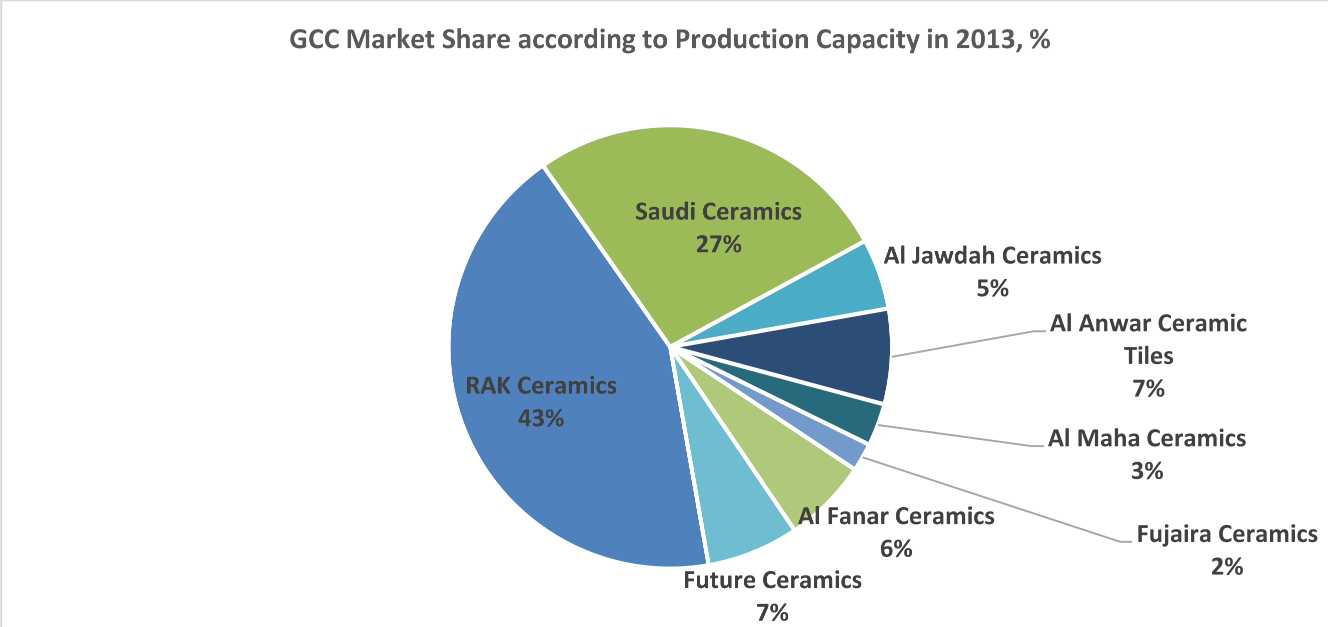
Source: Ceramic World Review, OABInvest

GCC Ceramic Tiles Industry Structure

The GCC ceramic tile industry is concentrated, with the top two players accounting for 70% of total installed production capacity. The UAE is the biggest ceramic tile manufacturer, producing 90 mn.Sqm, or 0.8% of the world's production, in 2012. Saudi Arabia is the second largest manufacturer of ceramic tiles in GCC. Drivers for the ceramic tile industry in GCC are government policies fuelling strong growth in the housing sector, a young population, growing number of expatriates, investors favoring property in GCC, and expansion of leisure and tourism sectors. These drivers are likely to support long-term growth in the construction industry, which would translate into higher demand for ceramic tiles.

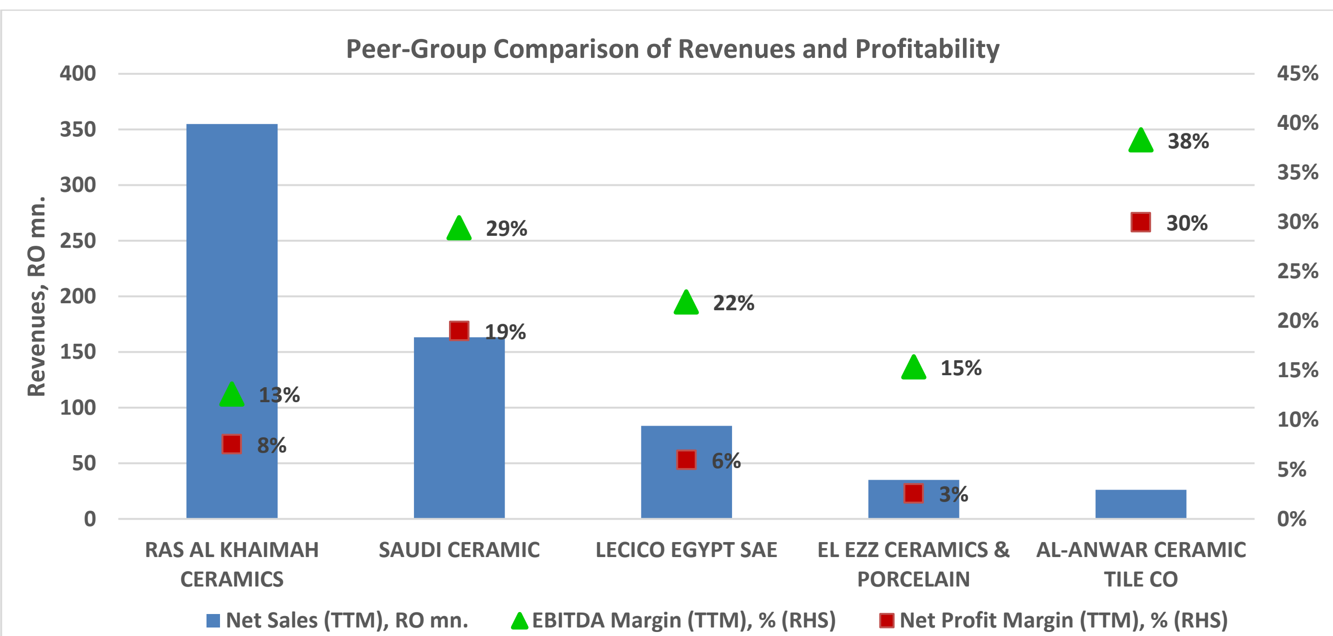
With demand outstripping supply, ceramic tile players in GCC cater to about 50% of the region's demand, while the rest is met by imports. GCC remains a net importer of tiles, and, therefore, presents an opportunity for local manufacturers. The lower-end segment is mostly catered by cheap imports from China and a few regional producers; the middle segment is the target market for companies like Al Anwar Ceramic Tiles, while the high-end segment is dominated by European manufacturers. The UAE-based global producer RAK Ceramics and Saudi Arabia's largest ceramics company Saudi Ceramics Company are major players in the GCC market.

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM



Source: Press Releases, Company Financials, OABInvest, 2013

RAK Ceramics is the largest multi-product ceramic producer in GCC. The company has a global production capacity of 117 mn.Sqm of tiles, with largest facilities in the UAE (83.5 mn.Sqm), and the rest spread out in Bangladesh, Sudan, China, India and Iran. Saudi Ceramics is Saudi Arabia's largest ceramic tile manufacturer, with production capacity of 52 mn.Sqm of tiles per annum and 3.5 million pieces of sanitary ware per annum. Other Saudi Arabia-based players include Al Fanar Ceramics, Future Ceramics and Al Jawdah Ceramics. AACT and Al Maha Ceramics are key ceramics players in Oman. Al Maha Ceramics has a capacity of 6 mn.Sqm (according to press releases) and has applied for natural gas allocation to increase capacity to 9.5 mn.Sqm. AACT's core advantage remains in its low cost of sales.



Source: Bloomberg, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Valuation

We arrived at AACT's per share blended fair value using DCF valuation and relative valuation multiples (P/E and EV/EBITDA). We assigned 60% weight to DCF valuation and 20% weight to each of the two relative valuation methods, and arrived at a fair value of RO 0.637 per share, indicating a potential upside of 12% from the closing price of RO 0.570.

- **DCF valuation yields fair value of RO 0.779 per share based on fundamentals**

DCF valuation indicated a 36.8% upside on the closing price of RO 0.570 as of December 17, 2013. The table below shows the DCF calculation.

DCF Analysis: EBITDA Multiple Method

Total Enterprise Value

		Terminal EBITDA Multiple		
		9.5x	11.0x	12.5x
Discount	15.0%	175,686,952	190,423,677	205,160,402
Rate	16.0%	168,892,569	182,883,290	196,874,010
(WACC)	17.0%	162,456,123	175,744,527	189,032,932

Total Equity Value

		Terminal EBITDA Multiple		
		9.5x	11.0x	12.5x
Discount	15.0%	183,194,346	197,931,070	212,667,795
Rate	16.0%	176,399,963	190,390,683	204,381,404
(WACC)	17.0%	169,963,516	183,251,921	196,540,325

Implied Perpetuity Growth Rate

		Terminal EBITDA Multiple		
		9.5x	11.0x	12.5x
Discount	15.0%	(3.0%)	(0.9%)	0.8%
Rate	16.0%	(2.2%)	(0.1%)	1.6%
(WACC)	17.0%	(1.3%)	0.8%	2.5%

Total Price Per Share

		Terminal EBITDA Multiple		
		9.5x	11.0x	12.5x
Discount	15.0%	0.779	0.842	0.905
Rate	16.0%	0.750	0.810	0.869
(WACC)	17.0%	0.723	0.779	0.836

DCF Analysis: Perpetuity Growth Method

Total Enterprise Value

		Terminal Perpetuity Growth Rate		
		(1.3%)	0.8%	2.5%
Discount	15.0%	187,106,815	205,655,268	224,828,388
Rate	16.0%	174,000,931	189,637,574	205,517,997
(WACC)	17.0%	162,456,123	175,744,527	189,032,932

Total Equity Value

		Terminal Perpetuity Growth Rate		
		(1.3%)	0.8%	2.5%
Discount	15.0%	194,614,208	213,162,661	232,335,781
Rate	16.0%	181,508,324	197,144,967	213,025,391
(WACC)	17.0%	169,963,516	183,251,921	196,540,325

Implied Terminal EBITDA Multiple

		Terminal Perpetuity Growth Rate		
		(1.3%)	0.8%	2.5%
Discount	15.0%	10.7x	12.6x	14.5x
Rate	16.0%	10.0x	11.7x	13.4x
(WACC)	17.0%	9.5x	11.0x	12.5x

Total Price Per Share

		Terminal Perpetuity Growth Rate		
		(1.3%)	0.8%	2.5%
Discount	15.0%	0.828	0.907	0.988
Rate	16.0%	0.772	0.839	0.906
(WACC)	17.0%	0.723	0.779	0.836

(1) Assumes net debt of -RO 7.5 as of 31/12/2013E.

(2) Assumes outstanding shares of 235.09 million.

Source: Company Financials, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

- **Peer-group P/E Relative Valuation yields fair value of RO 0.420 per share**

P/E Multiples valuation indicated a 26% downside on the closing price of RO 0.570 as of December 17, 2013. The table below shows the P/E Relative Valuation calculation.

Peer Group Average P/E Ratio	11.85
Net Profit'13 of AACT, RO mn.	8.33
No of Shares oustanding, mn.	235.1
EPS'13, RO	0.04
Price Per Share, RO	**0.420**
Current Price	0.570
Upside/(downside), %	-26%

Source: Bloomberg, OABInvest

- **Peer-group EV/EBITDA Valuation yields fair value of RO 0.429 per share**

EV/EBITDA valuation indicated a 25% downside on the closing price of RO 0.570 as of December 17, 2013. The table below shows the EV/EBITDA Multiple Valuation.

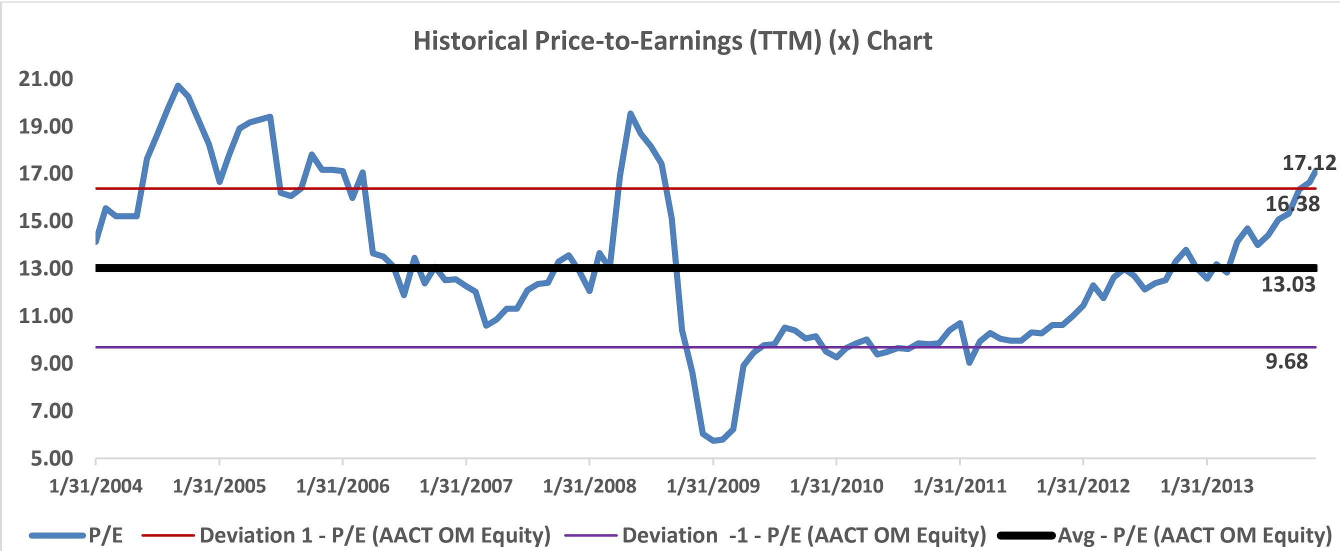
Peer Group Average EV/BEITDA Multiple	8.23
EBITDA'13 of AACT, RO mn.	11.33
No of Shares oustanding, mn.	235.1
Enterprise Value (EV), RO mn.	93.29
Net Debt '13E, RO mn.	(7.51)
Total Equity Value, RO mn.	100.79
Value Per Share, RO	**0.429**
Current Price, RO	0.570
Upside/(downside), %	-25%

Source: Bloomberg, OABInvest

Rationale for taking weighted-average of three different methodologies

- **Historical P/E Chart of AACT reveals standard deviation of +/-3.35**

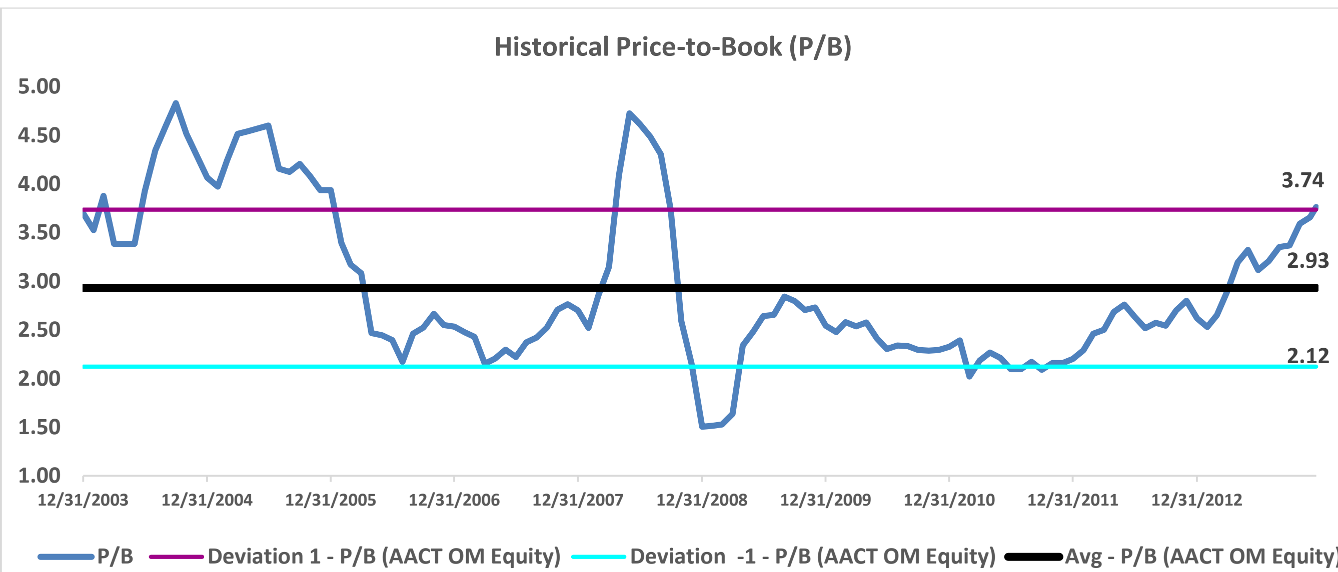
Currently, the stock is trading at a Trailing-Twelve-Month (TTM) P/E(x) of 17.12, indicating that it is above one standard deviation of the average P/E(x) of 13.03 over the last ten years. Hence, we believe that the stock is currently over-valued, and hence the DCF fair value needs to be discounted.



Source: Bloomberg, OABInvest

- **Historical P/B Chart of AACT reveals that currently the stock is trading at Average-Plus-One Standard Deviation**

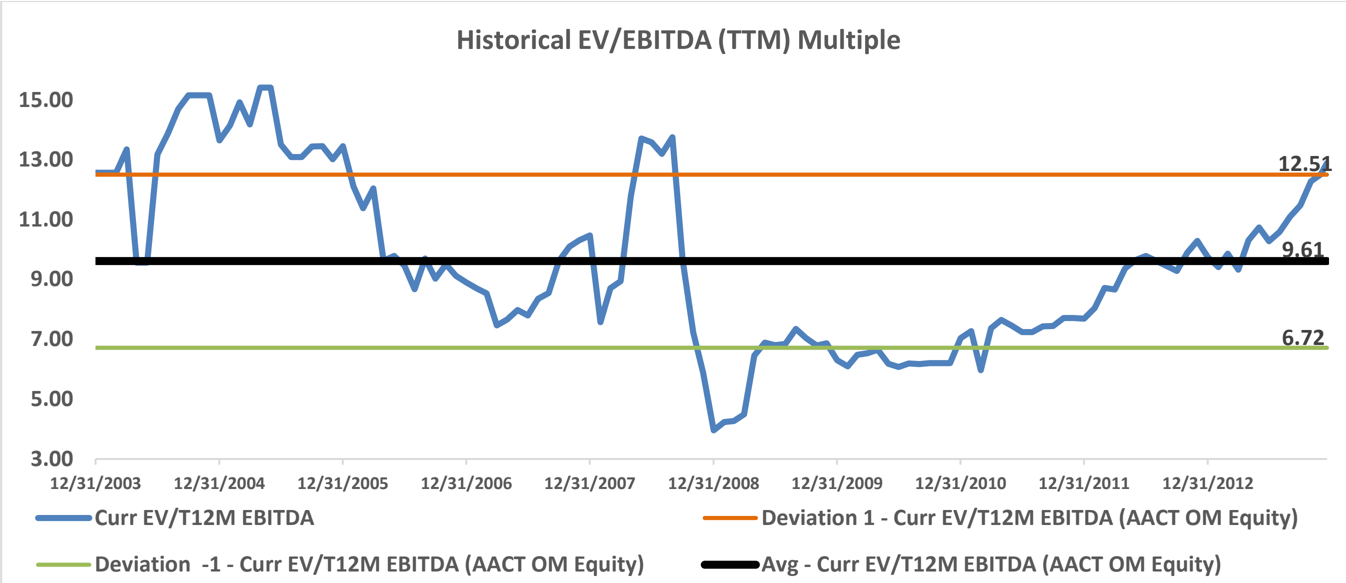
Currently, the stock is trading at a Trailing-Twelve-Month (TTM) P/B(x) of 3.76, indicating that it is at one standard deviation of the average P/B(x) of 2.93 over the last ten years. Hence, we believe that the stock is currently over-valued, and hence the DCF fair value needs to be discounted.



Source: Bloomberg, OABInvest

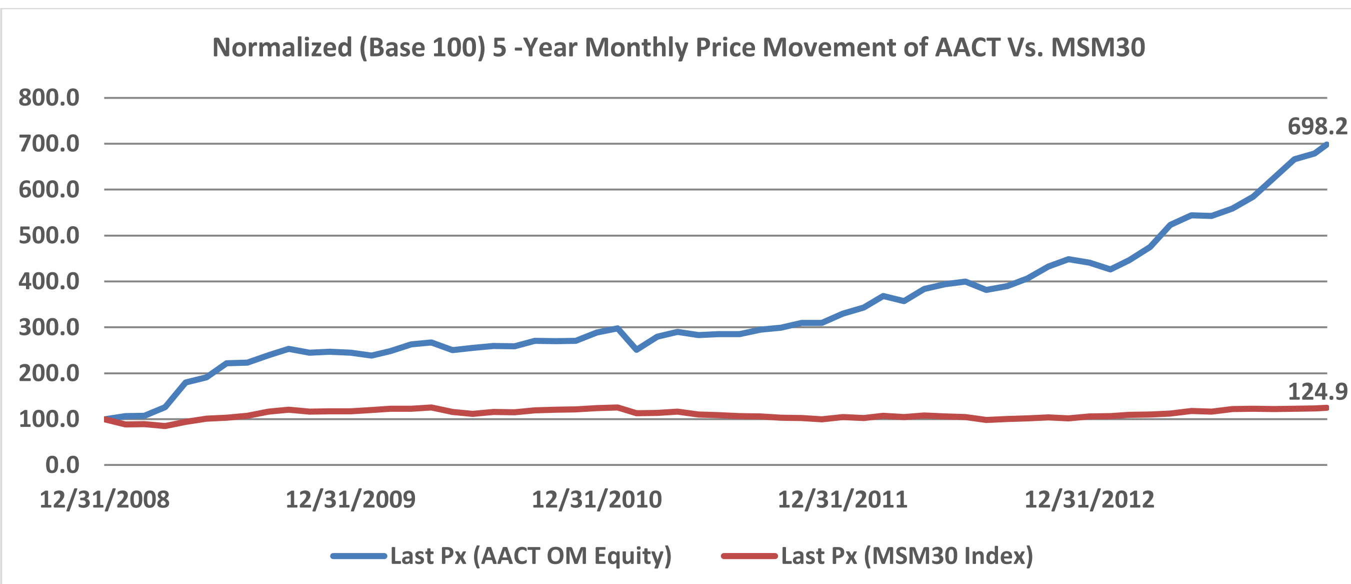
Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

- **Historical EV/EBITDA Multiple reveals that the stock is currently trading over one standard deviation of last ten year's average EV/EBITDA multiple**



Source: Bloomberg, OABInvest

Historical Normalized Price Movement of AACT relative to MSM 30



Source: Bloomberg

Balance Sheet	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E	FY16E

Non-current assets								
Property, plant and equipment	10,792,740	10,255,968	15,170,457	17,252,084	16,661,508	18,827,504	20,333,704	21,960,401
Total non-current assets	**10,827,170**	**13,942,471**	**18,582,777**	**26,830,212**	**26,239,636**	**29,650,789**	**32,022,852**	**34,584,680**
Current assets								
Cash and bank balances	1,212,009	1,365,266	2,261,120	1,370,468	7,507,393	6,885,115	7,763,032	10,608,876
Total current assets	**11,648,012**	**13,646,525**	**14,581,815**	**9,936,201**	**17,612,530**	**18,028,113**	**20,169,318**	**23,782,111**
Total assets	**22,475,182**	**27,588,996**	**33,164,592**	**36,766,413**	**43,852,166**	**47,678,902**	**52,192,170**	**58,366,791**
Share capital	11,189,178	16,224,308	19,469,169	20,442,628	23,509,023	24,684,474	26,165,542	28,258,786
Legal reserve	1,850,907	2,384,060	2,958,774	3,608,498	4,441,278	5,369,283	6,411,425	7,620,081
Retained earnings	5,428,746	5,191,995	6,308,349	8,262,032	9,624,264	10,923,604	12,650,693	14,893,966
Total shareholders' equity	**18,471,576**	**23,869,285**	**28,726,574**	**32,305,070**	**37,566,477**	**40,969,273**	**45,219,572**	**50,764,745**
Total non-current liabilities	**906,278**	**634,375**	**649,730**	**897,822**	**897,822**	**897,822**	**897,822**	**897,822**
Trade and other payables	2,171,704	2,042,026	2,975,689	2,734,492	4,250,657	4,626,475	4,796,178	5,367,773
Total current liabilities	**3,097,328**	**3,085,336**	**3,788,288**	**3,563,521**	**5,387,867**	**5,811,806**	**6,074,776**	**6,704,224**
Total Liabilities	**4,003,606**	**3,719,711**	**4,438,018**	**4,461,343**	**6,285,689**	**6,709,628**	**6,972,598**	**7,602,046**
Total shareholders' equity and liabilities	**22,475,182**	**27,588,996**	**33,164,592**	**36,766,413**	**43,852,166**	**47,678,902**	**52,192,170**	**58,366,791**

Source: Company Financials, OABInvest

Income Statement	FY09	FY10	FY11	FY12	FY13E	FY14E	FY15E	FY16E
Turnover	15,886,991	17,055,703	18,601,595	22,454,235	27,303,815	29,940,045	33,139,800	35,201,485
Cost of Sale	(7,937,161)	(8,333,380)	(9,375,749)	(11,478,824)	(13,585,163)	(14,980,445)	(16,678,786)	(17,709,859)
Gross profit	**7,949,830**	**8,722,323**	**9,225,846**	**10,975,411**	**13,718,652**	**14,959,600**	**16,461,014**	**17,491,627**
Total Income	**8,059,407**	**9,090,689**	**9,796,674**	**11,459,787**	**14,717,223**	**16,444,053**	**18,636,573**	**21,127,494**
Expenses	2,447,282	3,062,013	3,287,122	4,066,494	5,253,497	5,898,189	6,793,659	7,392,312
Profit for the period before income tax	**5,612,125**	**6,028,676**	**6,509,552**	**7,393,293**	**9,463,725**	**10,545,864**	**11,842,914**	**13,735,182**
Taxation	(671,320)	(697,144)	(762,408)	(896,051)	(1,135,924)	(1,265,812)	(1,421,496)	(1,648,624)
Net profit	**4,940,805**	**5,331,532**	**5,747,144**	**6,497,242**	**8,327,801**	**9,280,052**	**10,421,417**	**12,086,558**

Source: Company Financials, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Cash Flow Statement	FY10	FY11	FY12	FY13E
Net Income	**5,331,532**	**5,747,144**	**6,497,242**	**8,327,801**
Add: Depreciation	1,043,248	1,219,913	1,561,801	1,847,433
Inventories	(29,372)	(68,127)	(966,700)	(642,970)
Trade and other receivables	(4,350)	(703,509)	(863,449)	(961,324)
Trade and other payables	(129,678)	933,663	(241,197)	1,516,166
Taxation	117,684	77,624	16,430	308,180
Cash flow from operations	**6,329,066**	**6,898,373**	**5,939,237**	**10,460,177**
Property, plant and equipment	506,476	6,134,402	3,643,428	1,256,858
Cash from Investment	**5,970,083**	**5,128,019**	**4,159,236**	**1,256,858**
Cash from Financing	**(205,726)**	**(874,500)**	**(2,670,654)**	**(3,066,394)**
Changes in Cash	**153,257**	**895,854**	**(890,652)**	**6,136,926**
Beginning Cash	1,212,009	1,365,266	2,261,120	1,370,468
Ending Cash	**1,365,266**	**2,261,120**	**1,370,468**	**7,507,393**

Source: Company Financials, OABInvest

Key Ratios	FY10	FY11	FY12	FY13E	FY14E	FY15E
Du Pont Analysis						
Return on Average Assets, **A**	21.3%	18.9%	18.6%	20.7%	20.3%	20.9%
Leverage Ratio (Avg Assets/Avg Equity), **B**	1.2	1.2	1.1	1.2	1.2	1.2
ROaE, **A*B**	25.2%	21.9%	21.3%	23.8%	23.6%	24.2%
Du Pont Analysis						
Net Income / Pretax income **(1)**	0.884	0.883	0.879	0.880	0.880	0.880
Pretax income / EBIT **(2)**	0.997	0.998	0.998	0.998	0.997	0.997
EBIT / Sales **(3)**	35%	35%	33%	35%	35%	36%
Sales / Assets **(4)**	0.68	0.61	0.64	0.68	0.65	0.66
Assets / Equity **(5)**	1.18	1.16	1.15	1.15	1.17	1.16
ROaE (1)*(2)*(3)*(4)*(5)	25.2%	21.9%	21.3%	23.8%	23.6%	24.2%
Profitablity Ratios						
Gross Margin %	51%	50%	49%	50%	50%	50%
EBITDA Margin %	42%	42%	40%	42%	42%	43%
EBIT Margin %	35%	35%	33%	35%	35%	36%
PBT Margin %	35%	35%	33%	35%	35%	36%
Net Profit Margin %	31%	31%	29%	31%	31%	31%
Return on Equity %	25.2%	21.9%	21.3%	23.8%	23.6%	24.2%
Return on Assets %	21.3%	18.9%	18.6%	20.7%	20.3%	20.9%

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Key Ratios	FY10	FY11	FY12	FY13E	FY14E	FY15E
Efficiency measurements						
Current Ratio	4.42	3.85	2.79	3.27	3.10	3.32
Quick Ratio	2.84	3.24	1.85	2.54	2.36	2.53
Asset turnover ratio (x)	0.68	0.61	0.64	0.68	0.65	0.66
Inventory Turnover (x)	7.71	8.23	8.08	7.62	7.29	7.28
Receivables turnover	2.27	2.33	2.39	2.38	2.30	2.31
Payables / Creditor turnover	8.10	7.41	7.86	7.82	6.75	7.03
Inventory days	47	44	45	48	50	50
Account receivables days / Collection period	161	157	153	154	159	158
Account payable days	45	49	46	47	54	52
Cash Conversion Cycle	163	152	152	155	155	156
Per share measurement						
EPS Basic (RO)	0.033	0.029	0.032	0.0354	0.0376	0.0398
YoY growth (%)	-25%	-12%	9%	11%	6%	6%
DPS (RO)	0.025	0.020	0.030	0.030	0.031	0.033
YoY growth (%)	-44.4%	-20.0%	50.0%	0.0%	3.3%	6.5%
BV per share	0.147	0.148	0.158	0.160	0.166	0.173
Leverage measurements						
Gross debt/equity (x)	0.01	0.00	0.00	0.00	0.00	0.00
Leverage (x)	1.18	1.16	1.15	1.15	1.17	1.16
Debt/assets (%)	1%	0%	0%	0%	0%	0%
Cash/assets (%)	4.95%	6.82%	3.73%	17.12%	14.44%	14.87%
Net debt / equity	-0.05	-0.09	-0.04	-0.21	-0.18	-0.18
Dividend cover (x)	1.31	1.48	1.06	1.18	1.21	1.21
Dividend yield (%)	11%	7%	8%	5%	5%	6%
Dividend pay-out ratio (%)	76%	68%	94%	85%	82%	83%

Source: Company Financials, OABInvest

Oman Arab Bank (Investment Management Group) P.O Box 2010 P.C 112 Ruwi Sultanate of Oman
E-mail: Research@oabinvest.com. Web-site: WWW.OABINVEST.COM

Recommendation Based on the range for the upside/downside offered by the 12-month target price of a stock versus the current market price	
Strong Buy	Greater than 20%
Accumulate	Between +10% and +20%
Hold	Between +10% and -10%
Reduce	Between -10% and -20%
Sell	Lower than -20%

Oman Arab Bank - Investment Management Group (IMG)

Oman Al Arabi Fund
Benefit from our expertise


OAB - IMG Winner of the 'Best Brokerage Award' from MSM for 6 Consecutive Years


39th International Trophy for Quality
Awarded to Oman Arab Bank SAOC
By Trade Leaders' Club

PO Box 2010, Ruwi, 112, Muscat-Oman. Tel: +96824827399 Fax: +96824827367
Web site http://www.oabinvest.com
e-mail:research@oabinvest. com


Oman Arab Bank
2013 BIZZ Award for Excellence in Business Practices

Best Investment Bank in Oman


Oman Arab Bank SAOC
Platinum Technology Award for Quality and Best Trade Name 2013