UNITED SECURITIES LLC

Majan Glass Company SAOG

18th May 2009

MGCI – RO 0.430	MSM – 5386.80	Management Visit Note

Key Figures

Year	2007	2008	2009E
Net Sales	6,716	10,446	12,470
Operating Profit	1,840	2,487	2,928
EBITDA	1,652	2,485	3,574
Net Income	1,532	2,005	2,495

Key Ratios

Year	2007	2008	2009E
NPM	23%	19%	20%
ROA	12%	16%	15%
ROE	19%	32%	21%

Valuation

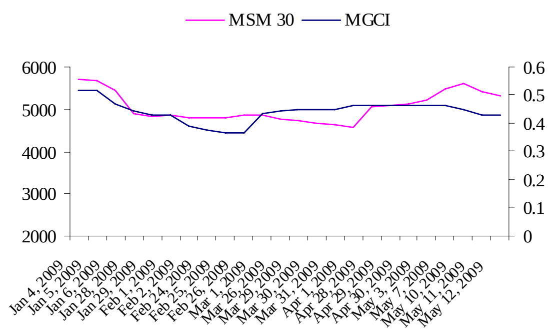
Year	2007	2008	2009E
EPS	0.05	0.06	0.08
PE (x)	9.06	7.16	5.7
BVPS	0.24	0.28	0.36
P / BV	1.79	1.65	1.21

Market Price	RO 0.430
Shares OS	33,220,000
Market cap RO	14,284,600

Relative Price

	Majan	MSM	Industry
1 month	-4.0%	2.4%	14.2%
6 months	-14.2%	-9.1%	+8.9%
12 months	-29.5%	-53.1%	-50.7%

Reuters	MGC.OM
Bloomberg	MGCI OM



We recently visited the management of Majan Glass Company to understand the state of regional bottle manufacturing industry and the strategy of Majan Glass in dealing with the challenges. We believe the company expects to perform better on the back of completion of its furnace rebuild and addition of its fifth production line.

Below are the key takeaways from the meeting:

Overview:

The world market for container glass for food and beverage industry is USD 13 billion and is growing at 12%, the cosmetic and perfume glass market is USD 1.9 billion and growing at 5% while the pharmaceutical glass market is approximately USD 2 billion. The share of the middle eastern market in the total food market is not that very great, but the market has witnessed a vigorous growth in recent years, cheaper energy cost in the region and moderate labour cost (it is higher than India and China, but far less than Europe and the Americas) coupled with the proximity to European and African markets and state of the art port facilities offers the region's container glass industry a significant advantage over its counterparts in the rest of Asia and Europe.

Operations & Expansion: The company had completed a scheduled rebuild of its 150TPD furnace during the first quarter of the year. Along with the furnace rebuild, the company had installed an additional production line with annual capacity of 14,000 MT per annum. The rebuilt furnace and new production line was commissioned during the first week of April. Along with this, the company had installed and commissioned its second ACL Printing facility.

Running at 100% capacity, Addition of new production line

Production: The company has two furnaces, one with 150TPD and the other with 100 TPD capacities. The bigger furnace has three production lines including the newly added one. The company uses this furnace and its production lines for producing flint bottles and jars. The furnace with 100 TPD capacity has two production lines, and is used for producing coloured glass bottles.
The two furnaces are running at 100 percent of its capacities.

Marketing: During the first quarter of 2009, the company started supplying 250ml flint ACL printed glass bottles to Coca Cola International as per the contract.

Raw materials are sourced from other countries, Price surge in Soda Ash

Raw materials: The two major raw materials for manufacturing glass are Silica and Soda Ash. Almost 75% of glass by weight is composed of these two materials only. The company sources Silica from Saudi Arabia while Soda Ash is being sourced from India and Kenya. The only locally available raw material is lime stone. There had been an undue surge in prices of Soda Ash during the last 6 months. However, the company had enough stock of Soda Ash that was kept before the price surge, thereby managing to escape from cost escalation. Off late, the company had been able to negotiate with Soda Ash suppliers and bring down the prices to reasonable levels.

More than 75% revenue contribution from GCC markets

Sales: Saudi Arabia alone accounts for almost 65% of the regional beverage consumption, and the UAE remains the second largest market. The company is supplying glass bottles to customers spanning over 17 countries. Serving export markets that are too far away from the region might cause lower price realisations owing to higher transportation costs. Hence the company is looking to strengthen its position in the regional markets. More than 78% of the company's revenue are coming from GCC markets while export to other markets form just 3% of total revenue. The company is able to meet most of the domestic demand which contributes 19% of its revenue.

Although seasonality in demand for soft drinks would be a reasonable concern for a glass manufacturer earning major revenue streams from this segment, Majan Glass has been able to lessen the impact of seasonal demand by diversifying its product segment not only to soft drinks segments but to food, beverages, liquor and others segments as well.

Sales (MT)	2006	2007	2008
Oman	17,713	13,987	14,014
GCC	26,362	35,461	57,434
Others	1,374	701	1,685
Total	**45,449**	**50,149**	**73,133**

Revenue (RO ,000)	2006	2007	2008
Oman	2,181	1,860	1,967
GCC	3,568	4,793	8,220
Others	197	102	259
Total	**5,946**	**6,755**	**10,446**

Long term, but flexible pricing contracts

Pricing: The company has product supply contracts with its customers that range from a year to more than 5 years. The pricing agreements are also of long term nature. However, the pricing terms are reworked with the consent of the customer when there is a considerable change in the raw material prices and hence the margin pressures owing to raw material price escalation has been avoided to an extent.

Other issues:

- The management is currently exploring options for increasing capacity of bigger furnace by another 20TPD by way of applying a boost. This would help in optimal utilisation of the rebuilt furnace. The boosting process is expected to be completed by the end of second quarter of 2009.
- The company had an ongoing recovery suit against a local customer. The appeal court has delivered judgement during March 2009 and instructed the customer to pay an undisputed amount of RO 240K to the company.
- The Company presently is in consultation with Public Establishment of Industrial Estates for a lump-sum settlement of their old outstanding dues. In this regard, the Company has received a proposal from PEIE and the same is under consideration with the Board of Directors

Further expansion possible by way of additional plant

Expansion: The company is fully utilising its two furnaces with five production lines. The only possibility of increasing production is by way of installing further boost to the existing furnace. The company is in the process of installing a boosting to its bigger furnace. However, the addition capacity that can be attained by way of boosting is very minimal. Any further expansion would be by way of installing a separate plant.
The management has indicated that further vacant land is available with the company in case it needs to expand by way of installing a second plant. The management believes that availability of fuel should not be a hindrance for growth for companies like Majan Glass.

Healthy order book and better realizations to drive profitability

Earnings and outlook: Revenue during the first quarter of the year declined by 26% as compared to revenue achieved during the corresponding period in 2008. This was mainly due to the furnace rebuild and maintenance program that was carried out during the quarter. The company had been working with two production lines during the period. With the addition of new production line, the management is trying to catch up for the lost production during the year. The order book of the company is full and demand for glass bottles remains robust according to the company management. During the quarter the company had been able to fetch higher realisations on its products and the management expects this trend to continue for the rest of the year.

The shares are currently trading at 5.7x its FY2009E earnings. Barring the liquidity constrains for its shares, we are maintaining a **positive outlook** on the company.

Financials

Balance Sheet

Period Ending ASSETS (OMR , 000)	Q1 2009	FY 08	FY 07	FY 06	FY 05
Cash & Cash Equivalents	314	1,105	841	3,235	2,286
Receivables	1,331	1,963	2,285	1,528	1,909
Net Inventory	2,328	2,747	1,819	911	912
Advance Payments to Suppliers	0	217	190	217	318
Due from Sister Companies/Associates	360	354	448	379	301
Prepaid Expenses ST	352	13	7	12	0
Total Current Assets	4,685	6,400	5,590	6,281	5,731
Fixed Assets	10,018	9,136	8,786	7,794	6,607
Total Long Term Assets	10,018	9,136	8,786	7,794	6,607
Total Assets	14,703	15,535	14,376	14,075	12,339
LIABILITIES & SHAREHOLDERS EQUITY					
Current Portion of Long Term Debt	545	450	450	285	596
Current Portion of Long Term Lease	0	95	95	95	0
Accounts Payable	1,489	1,434	804	475	246
Total Current Liabilities	2,252	2,789	2,107	1,458	1,386
Long Term Debt	2,317	2,291	2,741	4,389	4,385
Capital Lease	2317	476	688	783	783
Total Long-term Liabilities	0	2,767	3,429	5,172	5,168
Total Liabilities	4,569	5,557	5,536	6,630	6,554
Total Provisions	367	647	849	632	149
Total Liabilities & Provisions	4,936	6,204	6,385	7,262	6,703
Paid-up Capital	3,322	3,322	3,322	3,322	3,322
Legal/Statutory Reserve	909	909	709	551	399
Retained Earnings	5,536	5,100	3,961	2,940	1,915
Total Shareholders' Equity	9,767	9,332	7,992	6,813	5,636
Total Liab. & Shareholders' Equity	14,703	15,535	14,376	14,075	12,339

Income Statement

Period End Date Currency	Q1 09 OMR '000	FY 08 OMR '000	FY 2007 OMR '000	FY 2006 OMR '000	FY 2005 OMR '000
Gross Revenue	10,446	6,755	5,946	5,456	4,236
Cost of Goods Sold	-6,566	-3,909	-3,242	-3,074	-2,655
Gross Margin	3,880	2,846	2,704	2,382	1,580
Net Operating Profit	2,203	1,751	1,847	1,587	831
Interest Expense	-197	-112	-230	-118	-463
Interest Income	26	88	126	0	0
Other Income	330	113	365	24	93
Net Profit Before Taxes	2,286	1,790	1,701	1,295	402
Tax	-283	-213	-174	-84	0
Net Profit After Taxes	2,003	1,577	1,527	1,211	402
Earnings Per Share (units)	0.060	0.047	0.046	1.086	0.134

Quarterly Income Statement

Quarter Ended Currency	31-Mar-09 OMR '000	31-Dec-08 OMR '000	30-Sep-08 OMR '000	30-Jun-08 OMR '000	31-Mar-08 OMR '000
Gross Revenue	1,886	2,149	2,770	2,996	2,531
Cost of Goods Sold	-1,205	-1,199	-1,747	-1,991	-1,629
Gross Margin	681	950	1,023	1,005	902
S.G. & A.	-211	-490	-184	-190	-203
Amortization	0	0	0	0	0
Depreciation Expense	-2	-601	-3	-2	-4
Net Operating Profit	468	-141	836	813	695
Interest Expense	-18	-125	-31	-19	-22
Interest Income	0	26	0	0	0
Provisions	0	-76	0	0	0
Other Income	45	280	30	10	10
Other Expenses	0	240	-120	-120	0
Net Profit Before Taxes	495	204	715	684	683
Tax	-59	-33	-73	-177	0
Net Profit After Taxes	436	171	642	507	683
Net Profit After Unusual Items	436	173	642	507	683
Earnings Per Share (units)	0.013	0.005	0.019	0.015	0.021

Key Financial Ratios

Period End Date	Q1 09	FY 08	FY 07	FY 06	FY 05
Leverage					
Debt/Total Assets (%)	19.47	21.32	27.65	39.45	46.72
Debt/Equity (%)	29.3	35.5	49.73	81.49	102.28
Valuation					
EBITDA Margin (%)	24.81	26.93	25.91	31.06	29.09
EV/EBITDA	8.99	5.86	9.95	8.99	11.19
EV/Revenues	2.23	1.58	2.58	2.79	3.26
P/E	8.19	7.13	9.06	9.36	11.8
Price/Book	1.46	1.53	1.79	2.1	2.53
Per Share Data					
Book Value/ Share	0.294	0.281	0.241	0.205	1.697
EPS	0.052	0.06	0.047	0.046	1.051
Liquidity					
A/R turnover	5.67	5.32	2.96	3.89	2.86
Inventory Turnover	2.07	2.39	2.15	3.56	3.37
Current Ratio	2.08	2.29	2.65	4.31	4.14
Quick ratio	1.05	1.31	1.79	3.68	3.48
Cash Ratio	0.14	0.4	0.4	2.22	1.65
Profitability					
Return on Assets (%)	11.86	12.9	10.97	10.85	28.29
Return on Equity (%)	17.86	21.48	19.73	22.41	61.94
Operating Margin (%)	24.81	21.09	25.91	31.06	29.09
Pretax Margin (%)	26.25	21.88	26.5	28.61	23.73
Net Margin (%)	23.12	19.19	23.34	25.67	63.98

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