

OCAI – RO 0.569

MSM – 4876.60

3rd March 2009

Recommendation	Target
Buy	0.988

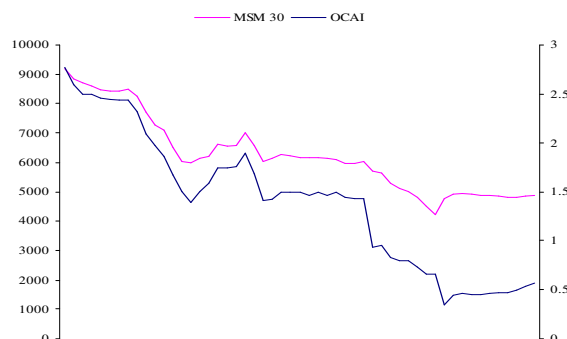
Key Figures	2008A	2009E	2010E	2011E
Net Sales	304,376.0	116,584.9	173,270.5	271,383.7
Operating Profit	9,900.0	12,644.7	16,988.7	26,113.0
EBITDA	11,709.4	14,798.6	19,562.5	26,113.0
Net Income	6,155.6	7,372.2	13,524.0	21,402.8

Key Ratios	2008A	2009E	2010E	2011E
GPM	5.5%	13.0%	12.0%	11.8%
NPM(%)	2.0%	6.3%	7.8%	7.9%
EBITDA Margins	3.8%	12.7%	11.3%	9.6%
ROA	7.2%	10.1%	12.2%	15.7%
ROE	20%	21%	30%	34%

Valuation	2008A	2009E	2010E	2011E
EPS	0.032	0.038	0.043	0.049
P/E(x)	7.5	6.3	5.5	4.9
P/BV(x)	2.0	1.2	0.8	0.6

Basic Details		
Market Price	0.568 52Wk high	4.403
Shares O/S (In,000)	89,070 52Wk low	0.315
Market Cap	50591.76 YTD Change	36.35%
MSM Ticker	OCAI Bloomberg Reuters	OCAI OM OCAI. OM

Stock performance last 6 Months



Investment rationale

Revenue: Sales for the year ended December 2008 increased by 40% touching RO 304.376 million compared to RO 217.445 million. For the first 9 months of the financial year 2008, the company achieved a sales growth of 59.8% as compared to the previous year. The last quarter of 2008 has witnessed a sales degrowth due to slow down in the demand and the decrease in copper price to \$2800/ton, that touched \$8800 in mid of the year..

Net Profit: The Net Profit after tax registered negative growth of 59% during financial year 2008. This decrease was mainly due to the one time adjustment RO 12.9 million for the declining market condition and the reverse trend of copper prices.

We expect the revenue for FY2009 to grow at 19% as compared to FY08. The company, in its reports has stated that it has a healthy order book for the year 2009. However, we estimate the revenue and profit growth to stabilize during FY2009. We assume the ongoing infrastructure projects in the region to continue at a reduced pace owing to lower crude oil prices and the liquidity crisis. However, we do not anticipate any major slowdown in the government's planned spending in the region.

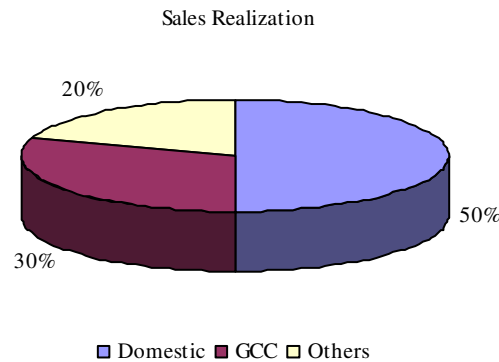
With the commencement of the operation from the aluminum plant from Rusyl, the top line is expected to reach RO 173.27 million for FY2009 and RO 271.383 million for FY2010.

We initiated our updated with a very conservative view, given the worst scenario of copper price at \$3400/ton and capacity utilization at 65% level for 2009. With a projected EPS of RO 0.038 and P/E of 6.3x for FY2009, We are updating our target price of Oman Cables Industry to RO 0.988 for 12 months, which carries an upside of 73% from the present market price.

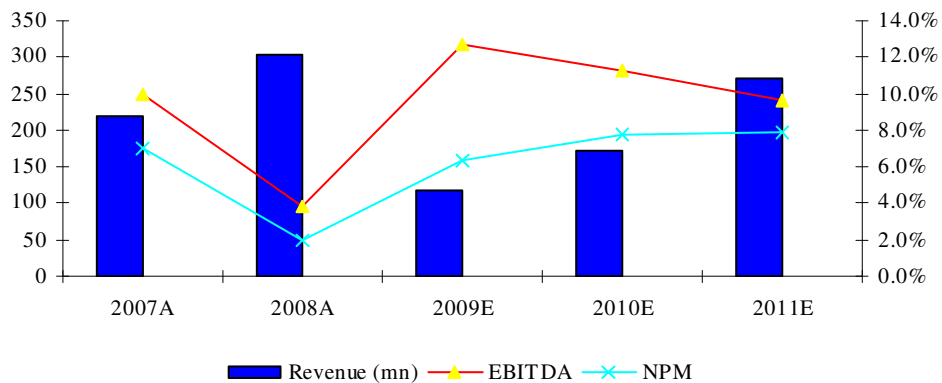
The company management has a policy of communicating with the investing community as a whole and not to provide information to outsiders. This report is based only on the basis of publicly available information and does not include any contribution from the company management.

Market and Oman Cable Growth

Oman cable operates in three broad regions. The domestic market, the GCC and the international market for export. The sales mix for the company is as following;

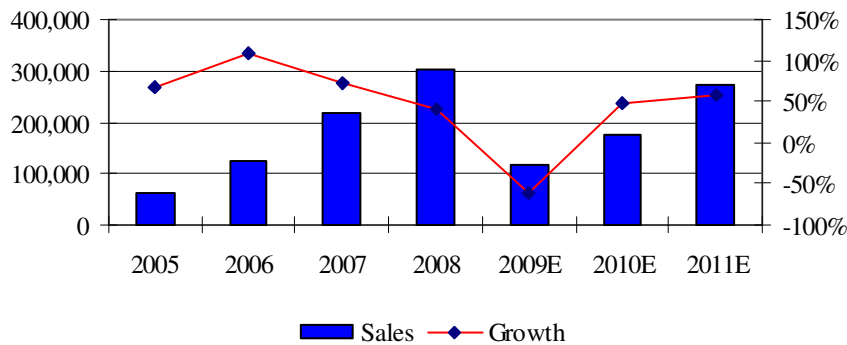


Predominantly, the company is an export oriented unit with export contributing nearly 70% of the revenue. The GCC market contributes to the total of 40-45% of the total export volume. For Oman Cables the major customer base in the GCC are the EPC contractors and retail housing projects that are witnessing robust growth over the last 2-3 years. The EPC customers make around 25% of the total portfolio.



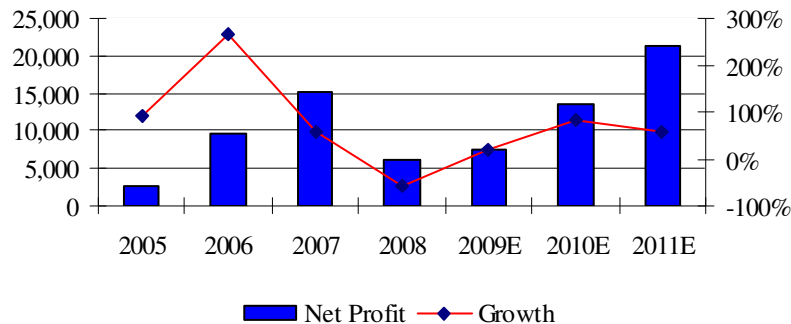
Financial Analysis

The historical performance of the company is quite attractive. In FY06 the revenue increased by more than 108%. The reason primarily due to the increase in the cable price and the stimulating factor from the Govt. side, with increased expenditure in Infrastructure and tourism development. During this period the cable price increased by more than 100%. For financial year 2007 the top line of the company increased by 73% followed by 40% for the year 2008. The first 9 months of 2008 has been remarkable for the company as the top line increased by 59%, where as due to the declining copper price in the last quarter of 2008 followed by the demand slow down, the over all growth for year came down to 40%.



Profitability

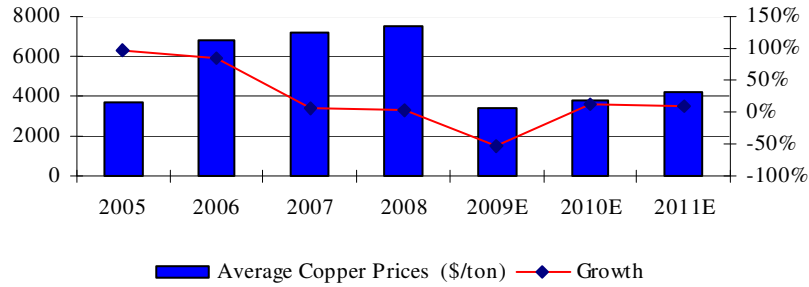
During FY2008, the Net profit of the company witnessed a negative growth compared to the previous year. This was because of one time adjustment of RO 12.9 million for the hedging of the copper price. As the company follows a policy of hedging the copper price to be in safer side from the customer as well as supply side too. Going forward, we expect the company to reverse the trend in FY2009, led by the healthy order book and the favourable market with copper price being stable above the current level of \$3400/ton.



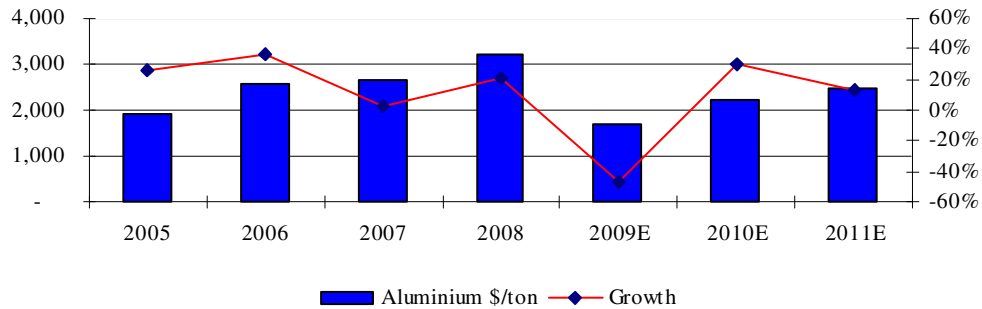


Cost of Good Sold

Copper prices a key factor



Copper accounts for almost of 80-85% of the cost for cable manufacturers. On account of increased demand for end products like cables and wires, copper demand has increased substantially over the last 3 years, thereby putting pressure on global copper prices. Global copper prices have gone up 3 fold since 2004 from 129 cents/lb to 323 cents/lb in 2007. The prices are averaging 306 cents/lb during the current year and are trading currently at 165cents/lb. Companies that have been able to pass on the increase in copper prices to the end consumer have been able to increase their turnover and maintain their margins.



Company overview

Oman Cables Industry was established in 1984 by the current Chairman, Mr. Mustafa bin Mukhtar and Managing Director, Mr. Hussain bin Salman. Located in Rusayl, the company has grown by turnover into one of the top ten industrial companies in Oman and employs well over 300 personnel.

The company is among the top five cable manufacturer in GCC and claims that it enjoys around 80% of market share in the domestic market. OCAI's products comprises of the full spectrum of electric cables used in transmission and distribution of electricity. The company also produces & markets Building wires, Flexible wires, Conductors, Control cables, Instrumentation cables and Low Voltage & Medium Voltage Power cables.

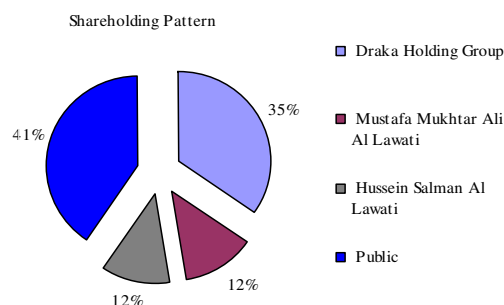
Strategic ventures

In September 1997, Oman Cables became an associate of Draka Holding group (based-in Netherlands) after the latter acquired 34% stake in OCAI. Draka presently has 67 operating companies in 25 countries in Europe, America and Asia and is the fifth largest cable manufacturer in the world. As an affiliate of the Draka Holding organization, which has operations in Europe, the United States and the Far East, OCAI is well positioned to service customers, both at the national and global level. To gain a foothold into the growing Indian market, OCAI recently acquired a 35% stake in Associated Cables Private Limited, a company based near Mumbai. OCAI's strength lies in power cabling, while the Indian affiliate is a specialized producer of instrumentation cables, complementing OCAI's range of products.

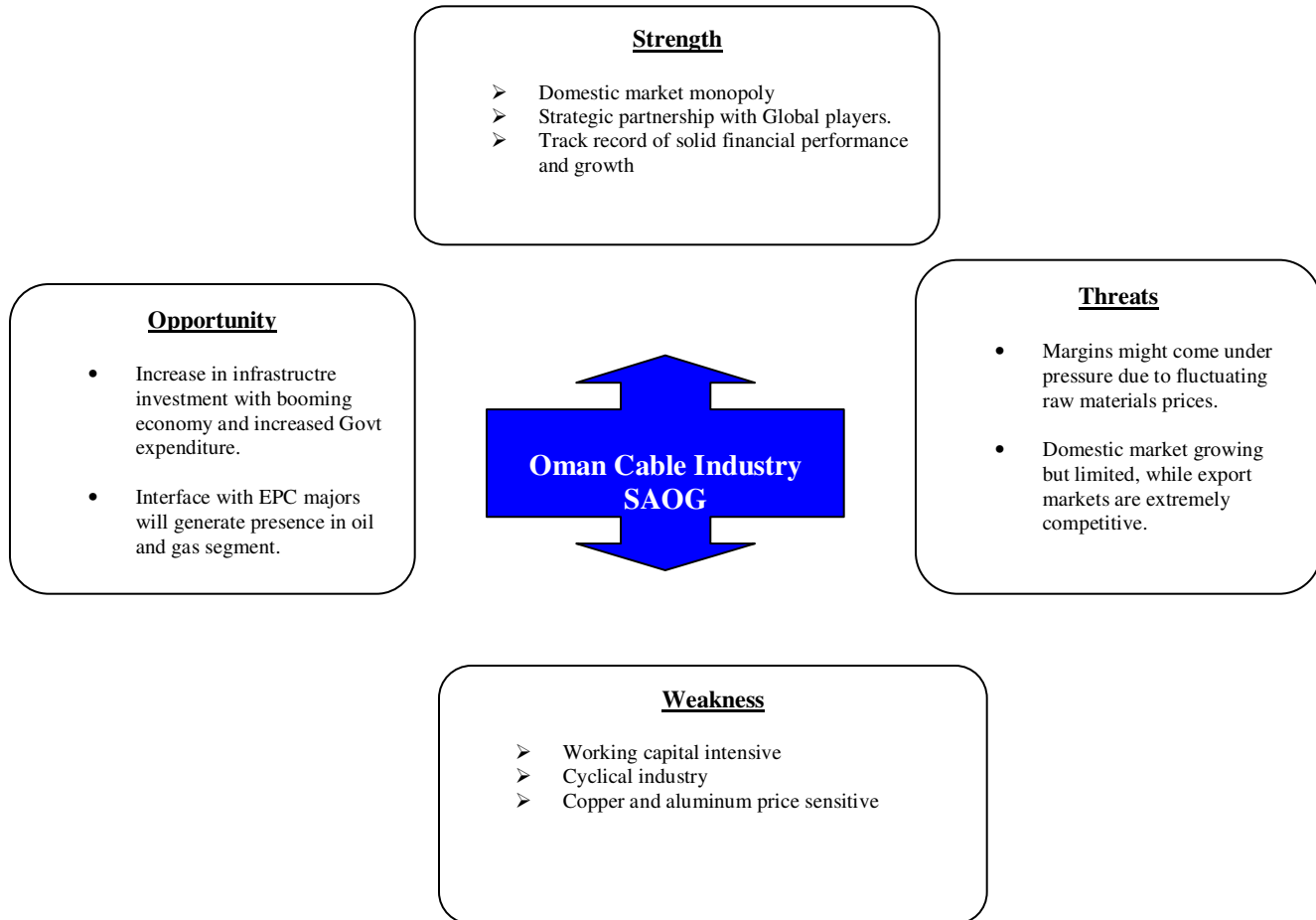
During November 2007, Takamul Investment Company and Oman Cables Industry have entered into an agreement to put up a 48,000 MT pa capacity aluminum rod and electrical conductor manufacturing plant in Soar. This facility will produce overhead line conductors for demands of the power utilities in the region and select international markets. The plant will utilize liquid metal from the Soar Aluminum smelter as its main feedstock. The project will be owned 51% by OCAI and 49% by Takamul. The project is expected to be operational in the first quarter of 2009.

Shareholding

Draka Holding is the largest shareholder with 34.78% stake in the company. The two other major shareholders are Mr. Mustafa Mukhtar and Mr. Hussain Salman. The remaining shares are held by various institutions, pension funds and the general public.



SWOT Analysis



The industry

GCC and MENA region

The total power cable consumption in the GCC accounts for around 6% of global consumption. Globally, the industry has been consolidating through mergers and acquisitions. Demand is driven by Govt's encouragement to large investments in infrastructure projects, which has been growing at steady pace in the past 3-4 years. OCAI ranks as one of the top 5 ranking cable manufacturers in the GCC region.

Saudi is the largest market in the GCC, represented by three large cable producers, Riyadh Cables, Saudi Cable Co. and Jeddah Cable Co. Riyadh Cables is the largest of these, while Saudi Cable Co. is the oldest. Jeddah Cable Co. is part of the Egyptian El Sewady group. The second largest market in the region is the UAE, which has a number of cable producers but the Dubai Cable Co is fairly large. Kuwait has a single large cable-manufacturer, Gulf Cable and Electrical Industries, whilst Bahrain's Midal Cables is more focused on bare aluminum conductors and is a subsidiary of Saudi Cable Co.

Domestic

The domestic market is mainly served by Oman Cables, which has a commanding market share of 80% in the Sultanate. The remaining 20% of the market is served by imports. OCAI's advantage is that, the company is primarily in the low and medium voltage power cable segment. Currently, a significant portion of cables is constituted for power transmission, thus offering tremendous opportunities to the company. Besides, the industrialization at Sohar, tourism and real estate development will boost the demand for power cables and OCAI is well positioned to tap this growing cable market.

DCF Assumptions:

- We initiated our update with assuming that the company is going to operate with 65% capacity utilization for the year FY2009, followed by 75% and 85% for the year 2010 and 2011 respectively.
- We assume the copper price at \$3400/ton, that is prevailing at the current market scenario and, carried the valuation for FY2009, with the same price, considering the average price to be at the current level.
- Aluminum price is assumed at \$1700/ton; where as the new aluminum plant at Rusyal is expected to start production in FY2009. The management expects the production to start in the 2nd quarter of 2009, but we have assumed the production to hit the top line in the last quarter of 2009.
- Free cash flow assumptions

FCFE DCF Assumptions	
RFR (10 year Govt bond rate)	4.1%
Beta	1.0
Market Risk Premium	7.0%
Cost of Equity	10.8%
Terminal Growth Rate	1.0%

- Copper price to P/E sensitivity

2009 P/E	Copper price/Capacity				2010 P/E	Copper price/Capacity			
6.9	22.0	26.0	30.0	35.0	3.8	22.0	26.0	30.0	35.0
3,000	19.8	13.9	10.7	8.3	3,400	7.8	6.6	5.7	4.8
3,400	15.1	11.1	8.7	6.9	3,800	7.0	5.9	5.1	4.3
3,800	12.2	9.2	7.4	5.9	4,200	6.3	5.3	4.6	3.9
4,200	10.3	7.9	6.4	5.1	4,800	5.5	4.6	4.0	3.4
4,800	8.3	6.5	5.3	4.3	5,200	5.0	4.2	3.7	3.1

2009 P/E	Markups/Capacity				2010 P/E	Markups/Capacity			
6.9	30.0	35.0	40.0	45.0	3.8	35.0	40.0	45.0	50.0
11.0%	17.5	12.9	10.2	8.4	11.0%	5.9	5.1	4.5	4.1
12.0%	14.0	10.6	8.5	7.1	12.0%	5.2	4.6	4.0	3.6
13.0%	11.7	9.0	7.3	6.2	13.0%	4.7	4.1	3.7	3.3
14.0%	10.0	7.8	6.4	5.4	14.0%	4.3	3.8	3.3	3.0
15.0%	8.7	6.9	5.7	4.9	15.0%	4.0	3.5	3.1	2.8

We expect the Cable industry to witness growth in demand due to focus on infrastructure development and major Capital Projects. The Company has a very healthy order book and we expect the current volume to continue in the next quarter. The Company has been expanding and establishing its presence in different regions and at the same time is well positioned in the Middle East region too.

As far as domestic market is concerned, The Company has adequate capacity to meet the increasing demand for Cables in the Sultanate of Oman. Overall the prospect looks attractive and we believe the company is fairly undervalued at this level.

Selected Financials Statements

Income Statement	2005	2006	2007	2008	2009E	2010E	2011E
Sales	60,577	125,718	217,445	304,376	116,585	173,270	271,384
COGS	52,974	109,153	192,457	287,734	101,479	152,517	239,249
Gross Profit	7,603	16,565	24,989	16,642	15,106	20,754	32,135
Other income	318	276	445	269	220	220	220
SG&A expenses	4,083	4,357	5,351	7,011	2,681	3,985	6,242
Operating Profit	3,838	12,484	20,083	9,900	12,645	16,989	26,113
Net financing costs	876	2,009	2,926	3,048	4,417	1,771	1,942
Shares investment in associates	0	342	0	0	0	0	0
Share of results associate	0	17	43	143	150	150	150
Profit before tax	2,962	10,834	17,200	6,995	8,378	15,368	24,321
Income tax	357	1,296	2,066	839	1,005	1,844	2,919
Net Profit	2,605	9,537	15,134	6,156	7,372	13,524	21,403
EPS	0.029	0.106	0.169	0.069	0.082	0.151	0.239
Shares O/S	89,700	89,700	89,700	89,700	89,700	89,700	89,700

Income Statement Ratios

Margins	2005	2006	2007	2008	2009E	2010E	2011E
Gross Margins	12.6%	13.2%	11.5%	5.5%	13.0%	12.0%	11.8%
Other income/total income	0.5%	0.2%	0.2%	0.1%	0.2%	0.1%	0.1%
EBITDA margins	7.9%	10.9%	9.9%	3.8%	12.7%	11.3%	9.6%
Operating Margins	6.3%	9.9%	9.2%	3.3%	10.8%	9.8%	9.6%
Tax rate	12.1%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Net Margin	4.3%	7.6%	7.0%	2.0%	6.3%	7.8%	7.9%

Growth Rate	2005	2006	2007	2008	2009E	2010E	2011E
Sales	68.3%	107.5%	73.0%	40.0%	-62%	49%	57%
Gross Profit	58.7%	117.9%	50.9%	-33.4%	-9%	37%	55%
Operating Profit	94.9%	225.3%	60.9%	-50.7%	28%	34%	54%
Profit before tax	90.5%	265.8%	58.8%	-59.3%	20%	83%	58%
Net Profit	90.4%	266.1%	58.7%	-59.3%	20%	83%	58%

Selected Balance Sheet	2005	2006	2007	2008	2009E	2010E	2011E
Property, plant and equipment	11,851	16,763	20,885	21,838	29,851	35,739	35,384
Investment in an associate	0	359	478	650	800	800	150
Investments available for sale	141	152	165	125	125	125	125
Non current assets	11,992	17,274	21,528	23,379	30,776	36,665	35,660
Inventories	13,315	33,337	35,994	56,219	19,732	29,656	46,521
Trade and other receivables	17,306	33,775	50,792	49,997	17,812	24,065	37,692
Due from related parties	1,126	2,021	1,690	1,086	1,086	1,086	1,086
Cash and bank balances	1,058	3,201	3,455	6,120	56,324	47,935	45,272
Total current assets	32,805	72,334	91,930	113,423	94,954	102,743	130,571
Total Assets	44,797	89,608	113,458	136,802	125,731	139,408	166,231

EQUITY AND LIABILITIES

Share capital	2,990	8,970	8,970	8,970	8,970	8,970	8,970
Share premium	978	978	978	978	978	978	978
Legal reserve	910	1,863	2,990	2,990	2,990	2,990	2,990
General reserve	118	118	504	1,122	1,122	1,122	1,122
Retained earnings	4,844	6,850	19,573	21,541	25,325	35,261	53,076
Fair value reserve	869	(4,989)	(5,102)	-4,063	-4,063	-4,063	-4,063
Net Worth	10,708	13,789	27,914	31,537	35,321	45,257	63,072
Term loans	3,261	6,675	4,478	2,956	1,408	1,408	1,408
Deferred government grant	102	106	71	43	43	43	43
Deferred tax	356	460	583	669	669	669	669
Non current liabilities	3,719	7,241	5,132	3,668	2,120	2,120	2,120
Bank borrowings	19,461	39,268	50,231	78,401	70,561	67,033	63,681
Current maturities of term loan	1,279	1,634	2,050	1,550	1,550	1,550	1,550
Trade and other payables	11,275	26,012	25,800	19,934	14,467	21,736	34,096
Due to related parties	41	464	351	939	939	939	939
Taxation	362	1,200	1,980	773	773	773	773
Total current liabilities	32,418	68,578	80,412	101,597	88,290	92,031	101,039
Total liabilities	36,137	75,819	85,544	105,265	90,409	94,151	103,159
Shareholders' equity and Liabilities	46,845	89,608	113,458	136,802	125,731	139,408	166,231

Balance Sheet Ratios	2005	2006	2007	2008	2009E	2010E	2011E
Asset Turnover Ratio	1.29	1.40	1.92	2.22	0.93	1.24	1.63
Fixed Asset Turnover Ratio	5.11	7.50	10.41	13.94	3.91	4.85	7.67
Inventory turnover	3.98	3.27	5.35	5.12	5.14	5.14	5.14
Receivables turnover	3.50	3.72	4.28	6.09	6.55	7.20	7.20
Payables turnover	5.06	4.36	7.67	14.79	7.20	7.20	7.20
Current Ratio	1.0	1.1	1.1	1.1	1.1	1.1	1.3
Quick Ratio	0.6	0.6	0.7	0.6	0.9	0.8	0.8
Cash Ratio	0.1	0.1	0.1	0.3	3.3	2.0	1.2
Debt/Equity	224.1%	345.0%	203.3%	262.9%	208.1%	154.6%	105.7%
Net Debt/Equity	214.3%	321.8%	191.0%	243.5%	48.7%	48.7%	33.9%
Interest Coverage	3.9	5.1	4.8	2.4	2.7	3.9	6.4
Debt/TTM EBITDA	502.0%	348.4%	263.6%	708.0%	496.8%	357.8%	255.2%

Research team	Tel	E mail
Joice Mathew	+968 2476 3311	joice@usoman.com
Ghadeer Hassan	+968 2476 3320	ghadeer@usoman.com
Partha Sarathi Swain	+968 2476 3318	partha@usoman.com
Said Hassan Al Lawati	+968 2476 3318	said@usoman.com
United Securities LLC P.O Box 2566 PC 112 Ruwi, Sultanate of Oman	+968 2476 3300	info@usoman.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to companies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.