# OMAN CABLES INDUSTRY (SAOG)

# MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

## Industry Structure and Development

The Cable Industry is a part of Electrical Sector which caters to projects related to basic Infrastructure of commercial or residential nature, various Industries, and Government utilities and so on. These projects tend to be capital intensive and thus are dependent long term strategy, growth of economy and resultant financial resources

Oman Cables Industry (SAOG) (OCI) develops, manufactures and markets variety of electrical cables and conductors. OCI product portfolio includes Medium voltage power cables, Low voltage power and control cables, Fire Resistant Cables, Instrumentation cables, Pilot cables, Overhead power transmission line conductors and Building wires.

In the markets OCI operates, Copper is the main material used in electrical cables. Recently there is a trend towards using aluminum in some market sectors. OCI is carefully monitoring the situation. OCI is capable of processing both materials.

Cable Industry is characterized by many players in a region. Emerging trend is towards consolidation. Prysmian, the largest cable company in world, owns a majority stake in OCI.

## Opportunities and Threats

In the GCC markets where OCI operates, cables supply is linked to large projects and in turn are linked to Oil Prices and Govt. revenue. These market having favorable demography and growing population present a long term opportunity for Cable Industry

Oil prices which has seen the bottom in end 2015 have since, been on steady increase during 2018, however since October 2018 the upward trend has been reversed and the GCC economies which were looking up are now under pressure again.

Oman Cables and the Prysmian Group, are poised to build on mutually beneficial synergies and can tap into each other strengths and to have a successful commercial approach regionally and globally.

The demand for cables in the region continue to attract many regional and international cable suppliers creating a very competitive environment.

Oman Cables has plans and strategies in place to counter this thru market development and product diversification and cost control. The capabilities and positioning can be leveraged swiftly to seize the growth opportunities that may emerge for large projects or for an increase in the demand for power cables within its markets.

## Segment Performance

The approach of Oman Cables of catering to diverse markets with a varied product range serving a wide spectrum of consumers has served well for the company.

Oman Cables has performed well across all geographical segments and product categories in first half of 2018. The slow rise in Oil price and its effect on not re starting shelved projects manifested fully in the third quarter of 2018. In the fourth quarter the slump in oil prices has further added to the pressure.

The margin erosion which was witnessed during 2017, is continuing 2018 and is a serious challenge facing the company

OCI subsidiary, OAPIL, which has reported loss in 2017 due to disruption caused as effect of declaration of Force Majeure in August 2017 by Sohar Aluminum, the only supplier of input materials to OAPIL, has recovered. However the market for Aluminum rods continues to be remunerative.

## Outlook

The lower oil prices and copper price and the geo-political situation is effecting the overall economic situation in the markets where Oman Cables operates. However it is hoped that this situation may reverse slowly.

Oman Cables expects to maintain its presence in the market and is well equipped to face the challenges based on operational excellence executed by a customer focused performance, efficient resource utilization, managing the cost structure, perform a market driven expansion, and sound financial discipline.

The outlook for Oman Aluminum Industries LLC (OAPIL) is challenging

## Risk and Concerns

Oman Cables main markets were heavily influenced by the declining oil price. This may impact capital spend on major projects in the current year affecting the local economies and GDP. This may have a cascading effect on the demand for power cables. This coupled with the established capacity in the region may result in pressure on pricing.

The domestic market may remain active based on the government‘s spend as indicated in the State Budget for 2019. Oman Cables Industry will remain vigilant and ensure that supplying a superior product with competitive pricing is maintained.

Oman Cables Industry works carefully to monitor the developments in the potential countries for future business. The company strives to find the balance between the business opportunities and the potential risks involved and cautiously builds market confidence.

## Internal Control Systems and their adequacy

The company has sound internal control systems and operating procedures in place. The operations are audited by a professional internal audit team, external statutory financial auditors and ISO auditors. Oman Cables is routinely audited in depth by multinational corporations as a part of their stringent pre-qualification processes and product approvals.

These audits include the compliance of the operational activities and Health, Safety and Environmental (HSE) aspects. Oman Cables Industry is driven by Corporate Governance through its strict ethical policies and emphasis on customer satisfaction.

## Sales and Profitability

The operational performance of the Group for the last 5 years is as below:

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Sales (RO' 000) | 303,146 | 283,470 | 228,639 | 242,258 | 247,011 |
| Profit after Tax (RO' 000) | 17,718 | 18,507 | 15,254 | 6,851 | 9,214 |
| Equity (RO' 000) | 83,498 | 92,738 | 101,908 | 99,978 | 102,723 |
| Dividend (%) | 90% | 90% | 85% | 45% | *45% |

*recommended by the Board of Directors

## Conclusion

During 2018, the company and group has reported improved profitability mainly due to vigorous cost control efforts, working capital management, OCI has well planned long term marketing efforts for utilization of production capacity and overall emphasis on operational excellence, with synergies from Prysmian Group.

Oman Cables performance is possible due to its excellent relationship and support of the prestigious customer base, other stakeholders and dedicated employees.

The Executive Management with the guidance of the Board of Directors is confident that the company is on a sound footing and will strive to improve its market position and stakeholder's value.

**Mr. Ali Habaj**

**Chief Executive Officer**

**Oman Cables Industry (SAOG)**

**Date: 23 January 2019**