Renaissance Services - *Restructuring Mode, Set for challenging days…*

Closing Price: RO 0.565

Recommendation: *Accumulate (LT); Neutral (ST)* **Fair Value:** *0.665 (12 Month)* **Upside:** *17.7%*

Building up lost credibility…

August 22, 2011

The Management team of **Renaissance Services** (RNSS) conducted an Investor conference in Muscat Securities Market (MSM) on 18th Aug 2011 post the disclosure of the disappointing Q2 2011 results. The report gives a brief investor insight on the conference highlights along with the challenges faced by the company in the coming quarters. We have also revisited our Earnings estimates for the upcoming fiscal years post the management guidance leading to sharper downgrade in our fair valuations of the company. The key discussion points include,

Marine Segment - Growth to remain Intact: Marine business of the company is expected to contribute on a healthy note in the coming quarters led by the presence of robust capex program by Oil exploration majors, the prevailing higher day rates and the company's younger fleet of assets. RNSS has added about 21 vessels over the last two years and the anticipated higher utilization of these vessels would keep up the momentum picking up through H2 2011. This segment would remain the anchor for future growth.

Engineering segment - Margin pressure to persist: Towards restructuring and cost-saving measures in Topaz, the company has accepted resignations of the top management team. The company also plans to close the loss-making operations on an immediate basis or take steps towards faster turnaround. Added, RNSS plans to study the viability of smaller divisions in the coming months, which we believe would be completed by end of 2011E. As of now, the order backlog in this segment too remains low at USD 70 million which is a concerning factor.

Contract Services - Future remains strong: Management sees stronger opportunities emerging in this segment during H2 2011 led by new contract wins, higher utilization levels of existing facilities and extension of contracts, which is on a progressive note. The increase in manpower costs in H1 has hit the margins. However, the company expects about 80% of incremental costs to be passed on in the case of Oil & Gas clients and also about 50% claims on leave cycle costs. This is expected to come into the accounts by end of this current year.

One-off expenses to impact FY11E earnings: RNSS faces non-recurring financial impact to an extent of USD 30 million (c. RO 11.6 million) owing to several operational and business issues in its Engineering segment. The company expects to look for various measures and procedures to mitigate the expenses to a minimum level. However we have factored in the total figure to impact the current year earnings in our valuations.

Financial Fraud - No future Impact: During the process of implementing a new business code of conduct in Topaz during early April 2011, the company has identified a financial fraud in one of its overseas subsidiary. Overall impact of the same is about USD 2.9 million in Cash over the last 6.5 years, which the company claims to have fully provided in its accounts. As per the management, the company does not expect further provisioning in this regard.

Outlook - Set for Challenging days: We believe that the company may face setbacks to its capex plan of USD 1.3 billion over the short term. The company has earlier planned to complete the stated capex program within a period of three years beginning 2011, which might be delayed beyond at the current situations. We also anticipate the future capex program would depend on the improvement of the cash flow situation of the company in the coming quarters. The company is also in the process of starting off refinancing discussions with the short and long term lenders which would effectively improve upon the liquidity moving ahead.

Lacks Trigger over short term: The stock has reacted sharply post Q2 results and we believe that it has priced in for the impending concerns surrounding. At the current levels, the stock trades at P/BV adjusted (c. 0.552 bz) of 1.02X. ***We recommend a Neutral rating on the short term and an Accumulate rating over a long term horizon.***

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Overall Q2 2011 Results Review: *Below our estimates*

(Group topline growth - Marginally below)

Revenue growth continued on a stable pace: Renaissance Services (RNSS) has reported H1 2011 results with total revenues of RO 132.301 million, an increase of 12.8% on a year on year (YoY) basis on back of stronger performance seen in both Marine and Contract services group. This is marginally below our estimates of RO 137.684 million, variation of about -4%. We believe that the lower than expected performance in the Engineering segment has impacted the topline growth of the company for the period. For Q2 2011, the company has reported total revenues of RO 64.017 million, an increase of 4% on a YoY basis and a decline of 6.2% on a sequential basis. On a QoQ basis, the topline growth of Engineering and Contract services group came below our estimates leading to a negative deviation from our estimates.

(Marine Segment growth intact)

Sequential income growth seen: During H1 2011, the total revenue from the marine segment of the company is at RO 54.518 million, reporting an increase of 33.5% on a YoY basis. We believe the stronger growth continued on back of the maintenance of higher day rates and utilization levels in the Offshore Support Vessels (OSV) division. This is in line with our estimates. For Q2 2011, the income from the segment stood at RO 28.352 million, an increase of 31.8% on a YoY basis and 8.4% increase on a QoQ basis. Marine segment contributes about 44% of the total revenues for the quarter.

EBIT margins improved: The growth continued in the segment despite the presence of relatively lower utilization levels in larger size vessels during the previous quarter. The segment's operating profit for H1 2011 is at RO 18.974 million, an increase of 39.3% on a YoY basis, which is in line with our estimates. The EBIT margins for the quarter for Marine business stood at 35.9% levels as compared to 33.6% levels in the same period last year. With the expected delivery of new vessels in its fleet in the upcoming quarters, we believe that the margins to remain at higher levels. RNSS has added about 21 vessels over the last two years and the anticipated higher utilization of these vessels would keep up the momentum picking up through H2 2011. This segment would remain the anchor for future growth.

Table 1: Segmental Revenue Breakup - Quarterly Trend

Revenue (In RO 000' s)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Contract Services	16,025	15,994	16,416	16,474	17,598	19,341	21,421	25,853	23,217	20,679
Marine Group	19,386	20,571	22,280	33,263	19,312	21,512	25,301	27,101	26,166	28,352
Engineering Group	20,705	20,705	18,566	17,615	17,094	18,582	21,395	8,483	19,136	16,532
Others	2,140	2,481	2,247	3,225	2,308	2,584	2,354	6,741	2,605	2,598
Inter-company adjustments	(185)	(1,199)	(39)	920	(366)	(202)	(916)	(2,068)	(2,587)	(3,954)
Total	**58,071**	**58,552**	**59,470**	**71,497**	**55,946**	**61,817**	**69,555**	**66,110**	**68,537**	**64,207**

Source: Company Reports, GBCM Research

(Engineering Segment disappointing performance)

Revenue slumps: The total income from the Engineering segment for H1 2011 is at RO 35.668 million, almost remained flattish as compared to the same period last year. However for Q2 2011, the segmental revenue stood at RO 16.532 million, reporting a decline of 11% on a YoY basis and about 13.6% on a QoQ basis, which is disappointing. As per the company reports, the division has added small to medium sized Engineering projects worth about USD 22 million during the period. On back of higher than expected costs incurred during the quarter, the company has reported operating loss of RO 3.057 million as compared to a profit of RO 800K in the same period last year.

Expenses remained higher; In Restructuring mode: The below than the expected operating performance in the segment has been a major area of concern, which we have stated in our previous report *(Refer: GBCM Research: Q1 Earnings Update on Renaissance Services)*. The company has also mentioned that the Engineering business has been restructured into two divisions from the previous four segments. The management is carrying on various measures to control costs which has increased to about USD 3 million per month, which is a key concern moving ahead. During H1, the company has provided for RO 1.8 million in the provisions related to the cancellation of a shipbuilding contract.

Order Book remains slim: As of now, the order backlog in the Engineering segment remains too low at c. USD 70 million which is a concerning factor. The company expects to see higher order additions in the coming quarters with the anticipated awarding of big ticket projects, which needs to be watched out going forward.

Table 2: Profit from operations

EBIT Margin (%)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Technology Group										
Contract Services	14.7%	12.3%	15.9%	13.2%	13.0%	14.4%	12.8%	18.6%	12.0%	5.0%
Marine Group	25.8%	29.8%	35.7%	37.6%	31.4%	35.1%	41.7%	40.7%	33.6%	35.9%
Engineering Group	7.8%	6.5%	-3.7%	11.5%	2.1%	4.3%	8.4%	1.7%	-5.0%	-18.5%
Others	7.4%	4.7%	3.0%	0.0%	7.3%	6.7%	5.5%	0.0%	6.2%	6.9%
Total	15.7%	16.3%	16.7%	23.4%	15.9%	18.3%	21.9%	24.2%	15.7%	13.0%

Source: Company Reports, GBCM Research

(Contract Services - Margins under pressure)

Topline improves: Overall income from the Contract Services Segment increased by about 18.8% YoY to RO 43.896 million mainly on back of the starting up of operations of new facilities during the period. However for Q2 2011, the total income from the segment stood at RO 20.679 million, reporting an increase of 6.9% and a decline of about 10.9% on a sequential basis. The decline on a QoQ basis is mainly due to the lower occupancy levels at its Marmul and Bahja facilities in Oman. The total revenue contribution from this segment to the overall income of the group increased to about 33% levels.

Margins pressure disappoints: Operating profit of the segment during H1 2011 is at RO 3.822 million, reporting a sharper decline of about 24.6% on a YoY basis, which is disappointing. The numbers came out to be well below our estimates. For Q2 2011, the EBIT of Contract services group is at RO 1.040 million, showing a decline of about 62.6% on a QoQ basis. During the same period, the operating margins have declined to 5.0% levels as compared to the levels of 15% during 2010, clearly missing our estimates.

The margins continue to remain under pressure on back of higher manpower costs incurred post the carrying out of policy related changes. As per the company, the investment continues to remain higher towards the increase of Omanization levels in this segment. Added, the management clarifies that the clients in Oil and Gas sector allows claiming about 80% of incremental staff costs and 50% of higher leave cycle costs. This is expected to be moderate moving ahead with the client claims and re-contracting.

Table 3: Segmental Revenue Contribution - Quarterly Trend

as % of total revenues	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Contract Services	27.6%	27.3%	27.6%	23.0%	31.5%	31.3%	30.8%	39.1%	33.9%	32.2%
Marine Group	33.4%	35.1%	37.5%	46.5%	34.5%	34.8%	36.4%	41.0%	38.2%	44.2%
Engineering Group	35.7%	35.4%	31.2%	24.6%	30.6%	30.1%	30.8%	12.8%	27.9%	25.7%

Source: Company Reports, GBCM Research

(Q2 Earnings - Well below our estimates)

Operational loss in Engineering cum higher Interest and tax expenses impacts Q2 Earnings

EBIT declines sharply: The group level operating profit for H1 2011 stood at RO 17.162 million, reporting a decline of about 7.2% on a YoY basis. While the company's EBIT for Q2 2011 is at RO 7.444 million, a sharper decline of 26% on a YoY basis and a 23.4% decline on a QoQ basis, which is well below our estimates. The lower EBIT is on the back of the prevailing operational loss in its Engineering segment along with the margin pressure seen in Contract services group.

Finance charges higher than expectations: With the delivery of more new vessels, the interest burden of the company increased by 8.5% on a sequential basis for Q2 2011. This is higher than our estimates. During H1 2011, the interest costs of the company increased by 88.8% YoY to RO 8.357 million. We believe that the higher interest expenses to continue in the coming quarters. PBT for H1 2011 stood at RO 6.959 million, a decline of 50.6% on a YoY basis. Added, the company has also made full provisions to an extent of RO 1.846 million in H1 2011 towards the cancellation of a shipbuilding contract.

Q2 PAT - Well Below our estimates: On the back of operating losses seen in the Engineering Segment along with the prevailing higher interest and tax expenses, the company has reported lower than expect earnings for the quarter under review. RNSS has reported Q2 2011 PAT *(before Minority Interest)* of RO 1.658 million, a decline of 74.1% on a YoY basis, which is below par as compared to our estimates and also the consensus one. The company has continued to report higher tax expenses during the quarter with the tax rate of about 52.5% as against 50.8% levels in Q1. With this, Q2 2011 PAT after minority interest of the company stood at RO 1.321 million well below our estimates of RO 5.552 million.

Further One-off expenses to impact FY11E Earnings…

Earnings to remain under pressure: RNSS has clarified in their management report that the company faces non-recurring financial impact to an extent of USD 30 million (c. RO 11.6 million) owing to several operational and business issues, which is a key concern area. The company has also clarified that the efforts would be taken towards the resolution of the same and does require additional provisioning during the current year.

As mentioned by the company, the key operational issues remain in the form of,

- The insurance claims made by the company towards the damage in its projects in Fujairah due to the storm. The company has said that they are progressing well in this issue with the Insurance company and expects a minimal impact.
- Expenses related to the pulling out from the loss-making MOBY venture (Marine repair JV) in Kazakhstan.
- Claim of a Client against the alleged poor welding testing work carried out by a sub-contractor on a major project finished during 2010 and they have also dragged the performance bond worth USD 1.75 million (c. RO 676K). The company expects to offset this by counter claiming against the sub-contractor.

Worst case to be assumed in our FY11E Earnings: On a conservative note, we have estimated the worst case provisioning impact of about RO 11.6 million in our Earnings model towards the estimation of current year earnings. The higher proportion of non recurring expenses would have a major impact on the FY2011 Earnings, which lead to major downward revision in our Earnings and thereby the valuations of the company.

Emergence of Risk in Topaz Group…

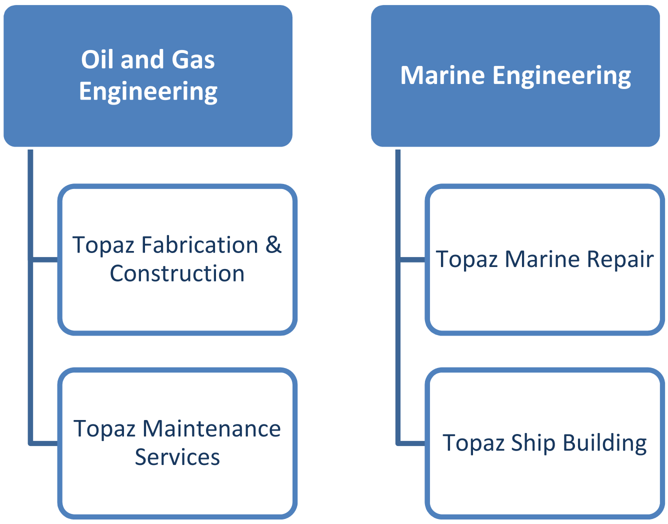
Fraud in subsidiary: During Q2 2011, the company started off on the implementation of new code of Business Conduct in Topaz (during early April 2011) and has found out financial misconduct in one of the Topaz subsidiaries overseas (found during mid May 2011), which is a concern factor for the investors. The company has clarified that a thorough investigation was made on the same and found cash misappropriations of about USD 2.9 million (c. RO 1.1 million) over the last six and half years, which has been fully provided for in the accounts. In this process, the company also dismissed the Finance Manager of the subsidiary company. As per the management, the company does not expect further provisioning in this regard.

Investigation in Topaz: As a cautionary measure, the company has also extended the investigation across all Topaz businesses. As per the company, the investigation is at early stages and has also seen further concerns in the process, which is disturbing one. The current investigation is based on the fact that the company has identified all the potential issues, which may now be ruled in or out of the process, as they want to close the issues administratively.

Topaz - In Restructuring Mode…

Streamlining business to focus on Cost Savings: The Engineering segment of the company has been restructured into two major divisions as compared to the prevailing four segments. The Topaz Fabrication & Construction (TFC) and Topaz Maintenance Services (TMS) would be combined to form Oil & Gas Engineering. Meanwhile Topaz Marine Repair (TMR) and Topaz Ship Building (TSB) have been combined to form as Marine Engineering.

Chart 1: Topaz Engineering - Restructuring plan



Source: *Company Reports, GBCM Research*

Topaz to come under direct supervision of RNSS: The Company has stated that the former CEO of Topaz has stepped down effective end of May 2011. Added, RNSS has taken over the management of Topaz as compared to its previous holding company nature. Till the problems are resolved, the company would continue to have direct control and expects to stabilize the company under a new leadership team. As of 30 May 2011, the Group CEO has taken over as an interim CEO of Topaz.

Reformation of team: Towards its restructuring and cost-saving measures, the company has accepted resignations of the top management team of Topaz which includes the Finance Director and the COO. Added, the entire Corporate HR team has also been removed. The company has stated that the savings of the above measures is expected to be about USD 3 million on an annual basis and also a reduction in planned expenditure of USD 2 million every year. Further, about 100 staff members are removed from the Engineering segment which is expected to make the company leaner, which is a much needed step at this moment.

To follow turnaround strategy: As part of its reformation process, the company plans to close the loss-making operations on an immediate basis or take steps towards faster turnaround. In this, the Doosan Babcock JV has been discontinued and the company is also planning to withdraw from the MOBY Boat yard operation in Kazakhstan. Added, RNSS plans to study the viability of smaller business units in the coming months.

The Topaz IPO - Damage control

IPO Postponement: During Q1 2011, the company had planned to raise about USD 500 million by means of listing of its subsidiary company in London exchange. This was cancelled due to the negative market sentiments in MENA, the Japan Earth quake and the economic bailout issues in Euro Zone. During AGM in March 2011, the company has got shareholder approval for a one-year mandate for the Board to take decision on the pricing and timing of a listing, which might be shelved off.

Listing Cancellation to cost RO 3 million: As per the company, If the IPO does not take place during the mandate's term, the total IPO costs of about USD 8 million (c. RO 3.1 million) needs to written off. This is expected to have additional pressure on the Earnings of the company in the coming quarters. On a worst case scenario, we have considered the company to provide for the expenses in the current year, which would be a further dragger to the Earnings of the current fiscal year. Post the delay in IPO plans, the company has started discussions with its lead bankers towards its future path of refinancing plan aiming at improving the liquidity and also providing the required funding for growth, which needs to be watched out.

Possible Trigger - Value unlocking from Marine Division…

Demarcation necessary one: As per the company, the new organization structure of the Topaz would create separation between the Topaz Marine and Topaz Engineering as separate independent business units, which would be a good move in the longer term. The company can also look for more feasible re-financing options post the demarcation between the two group entities. With the Engineering division under severe operational pressure post the issues, the company may look for listing of the two separate entities in the coming years.

Marine could still be a saleable business: We believe that the division of two new units might also fetch better valuations for the operating unit than the combined valuation of the Topaz group moving forward. Topaz Marine would be a pure OSV (Offshore Support Vessel) play and the Topaz Engineering would be a pure OFS (Oil Field Service) play with marine engineering capabilities. As per the management, the company may possibly look for initial listing of its successful business - the Topaz Marine unit.

The company may also contemplate the scaling up of its businesses through suitable M&A opportunities in the coming quarters, which we believe would be the positive trigger over a medium term horizon. However, the management has clearly stated that the restructuring of its business would remain the focus on the short term and they may look for a listing option post the resolution of internal issues in the company.

Engineering Strain to impact Operating Performance for FY2011E…

Marine Segment - Growth to remain Intact: Marine business of the company is expected to contribute on a healthy note in the coming quarters led by the presence of robust capex program by Oil exploration majors, the prevailing higher day rates and the company's younger fleet of assets, which is on a positive note. Management too remain quiet optimistic on this segment with the expected addition of Topaz Commander (annual contract value of USD 10 million) and additional vessels in the Caspian region. RNSS has added about 21 vessels over the last two years and the anticipated higher utilization of these vessels would keep up the momentum picking up through H2 2011. This segment would remain the anchor for future growth.

Engineering segment - Margin pressure to persist: Towards restructuring and cost-saving measures in Topaz, the company has accepted resignations of the top management team. The company also plans to close the loss-making operations on an immediate basis or take steps towards faster turnaround. Added, RNSS plans to study the viability of smaller divisions in the coming months, which we believe would be completed by end of 2011E. As of now, the order backlog in this segment too remains low at USD 60 million which is a concerning factor. The management says that the order visibility to improve by end of the year.

Contract Services - Future remains strong: Management sees stronger opportunities emerging in this segment during H2 2011 led by new contract wins, higher utilization levels of existing facilities and extension of contracts, which is on a progressive note. The increase in manpower costs in H1 has hit the margins. However, the company expects about 80% of incremental costs to be passed on in the case of Oil & Gas clients and also about 50% claims on leave cycle costs. This is expected to come into the accounts by end of this current year.

Capex Program and Funding remains challenging…

Outlook - Set for testing days: During H1 2011, RNSS has done a capex program worth USD 80 million (c. RO 30.7 million), mainly into the opportunistic growth, which is still lower than the initial management guidance. The company expects to spend about USD 200 million (c. RO 77.5 million) during the current fiscal year. Of this, about 70% of the capex would go into the marine division. We believe that the company may face setbacks to its previous capex plan of USD 1.3 billion over the short term. The company has earlier planned to complete the stated capex program within a period of three years beginning 2011, which might be delayed beyond at the current situations. We have revised the same in our Earnings model.

Cash flow to decide on future capex: As at end of H1 2011, the overall debt to equity ratio *(Gross debt levels of about RO 321 million)* of the company is at 1.9X levels. We anticipate the future capex program would depend on the improvement of the cash flow situation of the company in the coming quarters. The company is also in the process of starting off refinancing discussions with the short and long term lenders which would effectively improve upon the liquidity moving ahead. RNSS has committed to pay its payments on time and invest in the essential capex in the coming quarters, which is understandable. The effective refinancing plan would give cushion for the company in going for its future growth.

Speed Breaker in growth…

Earnings - Stress case scenario: With the lower than expected operating results for H1 2011, we have revisited our earnings estimates for FY2011E and FY2012E. We have accounted for the upcoming non-recurring expenses, losses in Engineering segment and the change in capex and the funding program moving ahead. Post accounting for the changes, we have estimated the company to report FY2011E PAT (after minority) of about RO 11.935 million (EPS works out to be about RO 0.042), a decline of about 56.8% on a YoY basis. However FY2012E PAT (after minority) is expected to increase to about RO 23.941 million (EPS of RO 0.085), an increase of 100.6% on a YoY basis (almost doubling) as compared to FY11E earnings, which is also based on the management guidance of resumption in stronger operational performance during next fiscal year.

Correction in prices cum valuation upside…

Weighted fair value at RO 0.665: We have used a combination of Sum of the Parts (SOTP), Excess Return Model (ERR), EV/EBIT and PE valuation to arrive at our fair value. Our earnings have also been accounted for the non-recurring charges indicated by the company in H1 2011 results. We have used Cost of Equity assumption of about 12.4% in our valuations.

Table 4: Valuation Methodologies

Weighted Fair Value Calculations	Fair value	Weight
SOTP - Segmental PE - FY12E	0.673	30%
SOTP - Segmental EV/EBIT - FY12E	0.612	20%
PE Model - Group - FY12E	0.679	20%
Excess Return Model (ERR) - RoE (12%)	0.683	30%
Weighted Fair Value	**0.665**	
Upside Potential	**17.7%**	

Source: *GBCM Research Estimates*

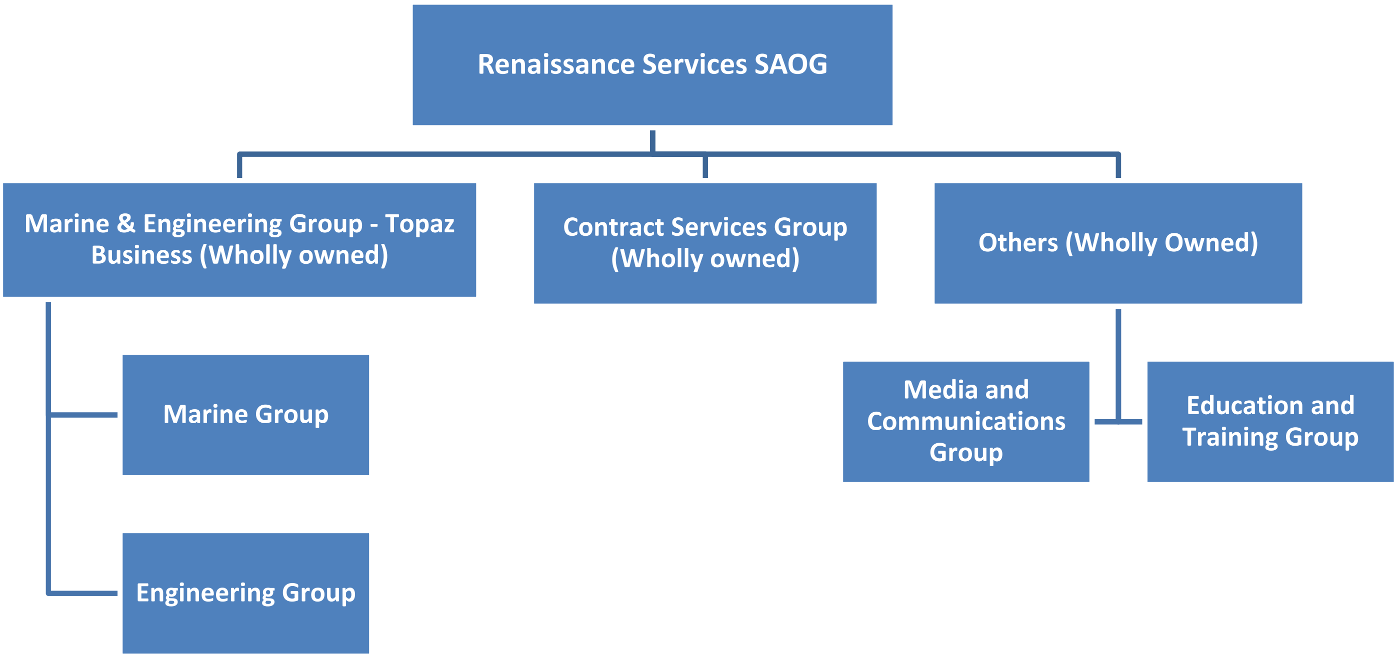
Outlook - Building up credibility…

Lost credibility - Disclosure policy to enhance: RNSS has organized the Investor conference in MSM for local investors and also conducted a conference call for International investors to highlight the position of the company post Q2 results ambiguity. With the shakeup of investor belief in the growth story of the company, we believe that the company has taken appropriate steps towards building up of its credibility among the investors. The integrity and trustworthiness of Renaissance Services would be tested in the coming quarters, which need to be watched out in the form of improved disclosure policies. Management team of the company has also given guidance in the conference towards the enhancement of the corporate disclosure moving ahead, which can be taken as a positive step.

Lacks Trigger over short term; Discounted for negativism: At the current levels, the stock trades at 13.4X of P/E (FY11E EPS of RO 0.042) and 6.7X of P/E (FY12E EPS of RO 0.085). The stock has reacted sharply post disappointing Q2 results and we believe that it has also priced in for the impending concerns surrounding. Added, the stock trades at P/BV adjusted of 1.02X (current Book value adjusted for potential losses works out to be c. 0.552 bz), which can be seen as a support level for the stock. ***We recommend a Neutral rating on the short term and an Accumulate rating over a long term horizon.*** Based on a combination of SOTP, ERR and PE valuation methodology, we have arrived at **weighted fair value of RO 0.665**, which provides an upside of about 17.7% from the current levels.

(Ratings have been maintained; while the target price has been revised sharply lower post subdued Q2 2011 Earnings)

Chart 2: Renaissance Services - Holding Structure



Source: Company Reports, GBCM Research

Table 5: Financial Highlights - Quarterly Trend

Income Statement - (In RO 000' s)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Sales	**57,041**	**57,925**	**58,056**	**74,568**	**55,720**	**61,527**	**69,235**	**66,947**	**68,284**	**64,017**
Other income	1,030	627	1,414	(3,071)	226	290	321	(837)	253	253
Total Income	**58,071**	**58,552**	**59,470**	**71,497**	**55,946**	**61,817**	**69,556**	**66,478**	**68,537**	**64,270**
Cost of sales	42,254	42,453	41,646	26,854	42,008	43,067	47,567	23,316	51,111	49,386
Gross Profit	14,787	15,472	16,410	47,714	13,712	18,460	21,668	43,162	17,173	14,631
Admin & Gen Exp	6,939	7,551	7,462	10,667	5,493	8,689	7,966	4,602	7,703	7,435
EBITDA	**8,878**	**8,548**	**10,362**	**33,976**	**8,445**	**10,061**	**14,023**	**38,560**	**9,723**	**7,449**
Total Expenses (Inc. Dep & Amort)	49,215	50,009	49,112	58,711	47,503	51,758	55,539	49,879	58,819	56,826
Operating Profit (EBIT)	**8,856**	**8,543**	**10,358**	**12,786**	**8,443**	**10,059**	**14,017**	**16,599**	**9,718**	**7,444**
Finance Charges	2,709	1,529	1,880	1,727	2,025	2,402	3,058	2,853	4,009	4,348
Profit before tax	6,147	7,014	8,478	11,052	6,418	7,657	10,959	13,749	3,472	3,487
Income tax	1,360	392	2,245	184	1,121	1,250	1,815	2,315	1,765	1,829
Profit after tax (Before Minority)	**4,787**	**6,622**	**6,233**	**10,868**	**5,297**	**6,407**	**9,144**	**11,434**	**1,707**	**1,658**
Minority Interest	769	704	992	960	609	1,307	1,418	1,300	772	337
Profit after Minority Interest	**4,018**	**5,918**	**5,241**	**9,908**	**4,688**	**5,100**	**7,726**	**10,134**	**935**	**1,321**

Margins Trend (%)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Gross Profit Margin	25.9%	26.7%	28.3%	64.0%	24.6%	30.0%	31.3%	64.5%	25.1%	22.9%
EBITDA Margin	15.6%	14.8%	17.8%	45.6%	15.2%	16.4%	20.3%	57.6%	14.2%	11.6%
EBIT Margin	15.3%	14.6%	17.4%	17.9%	15.1%	16.3%	20.2%	25.0%	14.2%	11.6%
PAT (Before Minority)	8.2%	11.3%	10.5%	15.2%	9.5%	10.4%	13.1%	17.2%	2.5%	2.6%
PAT (After Minority)	6.9%	10.1%	8.8%	13.9%	8.4%	8.3%	11.1%	15.2%	1.4%	2.1%

Source: Company Reports, GBCM Research

Table 6: Income Statement Highlights

Income Statement (RO '000s)	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Sales	**106,418**	**142,939**	**199,213**	**234,260**	**247,590**	**253,429**	**276,474**	**289,696**
YoY (% change)		***34.3%***	***39.4%***	***17.6%***	***5.7%***	***2.4%***	**9.1%**	**4.8%**
Cost of sales	62,920	88,639	130,529	151,096	153,207	155,958	170,585	179,322
Admin & Gen Exp	17,166	21,291	25,904	28,124	32,619	26,750	30,412	31,867
Operating Profit	28,442	33,601	43,080	54,838	61,764	71,089	75,754	78,797
YoY (% change)		*18.1%*	*28.2%*	*27.3%*	*12.6%*	*15.1%*	6.6%	4.0%
Depreciation	10,008	11,284	15,305	17,706	21,221	21,971	24,568	25,988
Finance Charges	2,781	4,517	5,441	10,103	7,845	10,338	16,741	18,491
Profit before tax	15,653	17,789	22,334	33,319	32,691	38,783	17,927	34,319
Income tax	1,723	3,538	4,992	7,122	4,181	6,501	3,227	6,177
Profit after tax	13,930	14,251	17,342	26,197	28,510	32,282	14,700	28,141
Minority Interest	143	212	817	2,303	3,425	4,634	2,765	4,201
Adjusted Net Profit	**13,787**	**14,039**	**16,525**	**19,071**	**25,085**	**27,648**	**11,935**	**23,941**
YoY (% change)		***1.8%***	***17.7%***	***15.4%***	***31.5%***	***10.2%***	**-56.8%**	**100.6%**
Adj EPS	**0.068**	**0.069**	**0.074**	**0.078**	**0.089**	**0.098**	**0.042**	**0.085**

Source: Company Reports, GBCM Research Estimates

Table 7: Balance Sheet Highlights

Balance Sheet (RO '000s)	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Property, plant and equipment	101,715	121,827	148,625	223,457	282,749	391,555	457,987	492,999
Total non-current assets	136,960	160,410	187,101	261,177	319,367	432,592	499,024	534,036
Inventories	4,098	8,081	13,086	9,915	11,042	13,270	13,824	14,485
Trade receivables	40,630	48,368	59,603	86,047	86,826	93,779	102,295	107,187
Bank and cash	17,239	4,916	15,974	15,011	30,692	22,437	12,528	34,108
Total Current assets	61,986	61,395	88,694	110,985	128,572	129,501	128,663	155,796
Total Assets	**198,946**	**221,805**	**275,795**	**372,162**	**447,939**	**562,093**	**627,686**	**689,832**
Trade and other creditors	33,172	38,233	60,125	68,002	64,760	62,422	68,234	71,729
Term loans and leases - Current	14,553	17,329	19,889	31,336	38,494	56,308	66,308	76,308
Bank Borrowing	6,421	2,629	779	2,803	3,520	3,485	3,485	3,485
Total Current liabilities	54,146	58,191	80,793	102,141	106,774	122,215	138,027	151,522
Long term loans less current maturity	55,979	60,116	78,160	118,945	150,090	228,508	268,508	293,508
Total liabilities	**116,752**	**130,039**	**166,398**	**233,468**	**279,522**	**366,261**	**423,073**	**463,068**
Share Capital	20,273	20,273	22,300	24,530	28,209	28,209	28,209	28,209
Total shareholders' equity	82,194	91,766	109,397	138,694	168,417	195,832	204,613	226,764
Total Liabilities & Shareholders' Equity	**198,946**	**221,805**	**275,795**	**372,162**	**447,939**	**562,093**	**627,686**	**689,832**

Source: Company Reports, GBCM Research Estimates

Table 8: Ratio Analysis

Key ratios	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profitability ratios								
Operating Profit Margin	26.7%	23.5%	21.6%	23.4%	24.9%	28.1%	27.4%	27.2%
EBITDA Margin	25.6%	23.5%	21.6%	23.4%	24.9%	28.1%	27.4%	27.2%
Adj. Net Profit Margin	13.0%	9.8%	8.3%	8.1%	10.1%	10.9%	4.3%	8.3%
Return on Equity	16.9%	15.5%	15.8%	15.2%	16.9%	16.0%	6.6%	11.8%
Return on Assets	6.9%	6.3%	6.0%	5.1%	5.6%	4.9%	1.9%	3.5%
Investment ratios								
Price/Earnings	8.3	8.2	7.6	7.3	6.4	5.8	13.4	6.7
Price/CEPS	4.8	4.5	4.0	3.8	3.4	3.2	4.4	3.2
Price/Book value	1.4	1.3	1.2	1.1	1.1	0.9	0.9	0.8
Dividend yield (%)		3%	2.7%	1.8%	2.1%	2.1%	1.1%	2.3%
EV/ EBITDA	6.1	5.4	8.7	5.3	6.1	8.1	6.4	6.3
Activity & Efficiency ratios								
Asset turnover	0.5	0.6	0.7	0.6	0.6	0.5	0.4	0.4
Inventory turnover ratio	26.0	17.7	15.2	23.6	22.4	19.1	20.0	20.0
Days of Inventory	24	33	37	24	26	31	30	29
Days Receivables	139	124	109	134	128	135	135	135
Days Payables	192	157	168	164	154	146	146	146
Cash Conversion cycle	(29)	(1)	(22)	(6)	0	20	19	19
Leverage ratio								
Debt/ Equity ratio	0.9	0.9	0.9	1.2	1.3	1.7	1.8	1.8

Source: Company Reports, GBCM Research Estimates

Stock Rating Methodology:

Buy - Upside more than 20%
Accumulate - Upside between 10% and 20%
Neutral - Upside or downside less than 10%
Reduce - Downside between 10% and 20%
Sell- Downside more than 20%
Not Rated - Stocks not in regular research coverage

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