

Financial Performance Growth of Oman Cement Company

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Abstract

Purpose: The objectives of the study were to analyse the financial growth of Oman Cement Company (OCC) to critically investigate the financial performance along with its growth in the Oman cement industry.

Design/methodology/approach: The data was collected from the five years' financial statements between 2016 and 2020 listed in the Muscat Security Market and the analysis was carried out applying the different ratios – profitability ratios, liquidity ratios, management efficiency ratios, operating ratios, and financing ratios.

Findings: The results of the study reveal that the OCC growing more efficiently in finance with effectively utilizes its assets. The company liquidity position was given a positive sign during the study period. The management and operating efficiency are less, and it needs improvement. Overall financial growth is stable impartment started during the end of the study period.

Research Implications: The study implies that the company management needs to utilize the fixed assets and improve the cash and cash equivalents. The production policy needs an eye on the future success of management.

Social implications: The study suggests that the management should act wisely in handling finance. Further, the OCC policies should maintain standards to compete with foreign competitors.

Originality / Value: Only a very few have examined the causes for the financial issue in the Oman cement industry, and it is a first-hand study of its kind, and the results will be useful to the stakeholders.

Keywords: Financial Statement Analysis, Performance Growth, Cement industry in Oman, Ratio Analysis, Oman Cement Company.

Introduction

The Sultanate's building materials sector, in particular, the cement industry has been a beneficiary of the country's long-term plan of diversifying its economy. With the Government's support towards the construction sector, demand for Oman's cement has crossed the production capacity from the two prime producers of cement in Oman, namely, Oman Cement Company (OCC) SAOG (dates back to 1977) and Raysut Cement Company (RCC) SAOG (which started in 1981). However, Oman is still importing cement from outside.

The RCC being present in the southern part of the country serves the deficit markets of Yemen and East Africa for which it has established cement receiving facilities at the Ports of Mukalla and Aden. The Sultanate is also seeking to break the cycle of its oil and gas dependency by cutting the share of hydrocarbons-derived GDP in half by 2020 and substituting a more diversified economic base. To that end, the country plans to boost the GDP contribution of heavy industry from 19.8% in 2017 to 29% by 2020 and has earmarked USD 106 billion to invest in the non-oil sectors, including the construction industry and manufacturing ([Salem, 2014](#)).

The cement produced by the two local producers is expected to reach 8.4 million tons from the present capacity of 7.3 million tons. Put together these two local producers contribute to 50% of the local demand. 70% of the revenue generated by these companies is made locally and the rest from exports to Yemen and East Africa. OCC dominates the northern market of Oman while RCC dominates in the southern part of Oman.

Oman Cement Company (OCC)

OCC is having the current market price of RO 0.426 per share and is expecting RO 59.7 million revenue in 2018. Its compound annual growth rate (CAGR) stood at 4.4% including discounts etc. It confirms that OCC is keeping a good operating margin and control over the cost which includes RO 2.5 million in operating expenses and the cost of production reported to decline further in 2022 expecting to fetch more profit margin (23%). OCC is targeting a net profit of RO 11.6 million in 2018 and a net profit margin of 19.5%. OCC is also targeting the CAGR of 7.9% during the period 2018 to 2022. The company is focusing more on the sales of the export segment and cost-cutting measures to stabilize its business ([Karmani & Salim, 2018](#)).

Statement of the problem

The cement industry is the mainstream in the construction sector which backs up the sector to the core. According to Global Data, the construction sector growth slowed down due to the COVID-19 in 2020 and Oman's construction sector crashed by 10.3% ([GlobalData, 2020](#)). The increasing delays in the construction projects due to low oil prices and the impact of downgrading credit rating – all these factors indirectly minimized the growth of the cement industry and it has been struggling with the challenges. The cement industry enforced restrictions to export cement to attract the global market. The local producers in Oman are undergoing a critical competitive situation from the imported cement suppliers with cheap prices.

Oman's cement producers come across lots of functional difficulties due to an increase in natural gas prices. The increased prices have impacted the cost of production severely. Price increase in costs like leasing, fuel, etc. has also had a drastic impact on the production costs. Further to that, the recent introduction of value-added tax (VAT), will also indirectly affect the prices in the form of fuel prices, transportation costs, etc. These are all hampered the price stability of the industry. However, both the companies OCC and RCC can produce maximum quantity of cement to their fullest capacity to meet the demand due to the ongoing construction activities locally. These companies' efforts with improved production capacities and efficient cost-cutting measures had made them come out of the cost escalations and the competitive market environment.

Being, most of the cement usage is in the northern part of the country and the demand for cement in the southern part is lower, the OCC is considered an essential player in the cement industry in Oman. Due to the COVID-19 restrictions, the construction has slowed and the cement manufacturers have seen lower demand for its products during this period (2020-2021) in Oman. Due to the delayed construction and low demand for cement products affecting the OCC's financial condition. Also, the government restrictions and foreign competition in the market slowing down the growth of OCC. This was the reason for taking up the study – which has also raised the questions like – How is the financial performance of OCC? What will be the growth of the OCC by increasing the cost of production?

Objectives

Considering the above, the aims of the study were

- To analyze the financial growth of Oman Cement Company (OCC)
- To critically investigate the financial performance along with its growth in the Oman cement industry

Review of literature

[Khan & Al Maktoumi \(2021\)](#) analyzed the financial performance measure of the selected commercial banks of Oman using different ratios to help the stakeholders to take a suitable decision. [Alami et al. \(2021\)](#) found that financial performances were measured by ratios and there was a significant relationship in measuring through return on equity (ROE) and return on assets (ROA). [Kanakriyah \(2020\)](#) confirmed that the company's financial performance based on the ratios had a significant impact on the dividend policy. [Alam et al. \(2016\)](#) claimed that the company performance ratios had no significant impact on its competitors.

[Shah \(2017\)](#) brought out the possible impact of the cement industry through the dividend payout ratio whereas growth, liquidity, and leverage had a significant impact on other industries. [Okafor et al. \(2020\)](#) observed that the cement companies in Nigeria recorded a low level of financial performance and inconsistent environmental accounting practices. [Khatoon & Hossain \(2017\)](#) revealed that the evaluation of the financial performance of Bangladeshi cement companies represented low over the years. [Zatira & Puspitasari \(2020\)](#) analyzed that the cement companies in Indonesia found that none of the cement companies were financially in a healthy condition. [Burange & Yamini \(2009\)](#) found that the majority of the performances of the

companies in the cement industry were above industry average due to the flourishing real estate business and the growing construction activities.

[Al Maktoumi et al. \(2020\)](#) revealed that the construction projects got stranded and procrastinated due to the non-availability of materials and supply of raw materials such as cement. [Al-Sadi and Khan \(2018\)](#) revealed that the construction company employee preferred monetary benefits along with a free working environment to avoid the delay in the construction besides availability of raw materials. [Al-Ghrairee \(2021\)](#) found that the strategic plans of construction companies needed improvements towards facilitating raw materials etc. to get the construction projects completed in time.

[Muthusamy and Karthika \(2019\)](#) revealed that the financial positions of the selected cement companies grow reasonably and the short-term solvency position needs to be improved for future growth. [Angamuthu \(2015\)](#) claimed that the companies with minimal working capital turnover and minimal inventory turnover were having good short-term solvency status. [Shaikh et al. \(2019\)](#) revealed that the cement companies' overall debt had a significant negative relationship with their performances. [Dhivya et al. \(2017\)](#) stated that the ratios were indicated by the Associated Cement Companies (ACC) in the comfortable zone during the study period. [Dasgupta & Das \(2021\)](#) revealed that the cement firms had an adequate improvement with the adoption of environmental management practices and the industry adopting a sustainability approach. [Omrani et al. \(2019\)](#) revealed the weaker companies and their performance to be strengthened to make a strong Iranian cement industry.

Research Methodology

The financial performance of the company was adjudged using the following ratio analyses:

Ratio	Formula	References
Net Profit (NP)	$\frac{\text{Net Profit}}{\text{Sales}} * 100$	Rutkowska-Ziarko (2020).
ROE	$\frac{\text{Net Profit}}{\text{Shareholder's Equity}}$	
ROA	$\frac{\text{Net Profit}}{\text{Total Assets}}$	
Cash Ratio	$\frac{\text{Total Cash}}{\text{Current Liabilities}}$	Chiaromonte and Casu (2017).
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	
Quick Ratio (Acid Test)	$\frac{(\text{Current Assets} - \text{Inventories})}{\text{Current Liabilities}}$	
Working Capital to Sales	$\frac{(\text{Current Assets} - \text{Current Liabilities})}{\text{Total Revenue}} * 100$	
Days in Accounts Receivable	$\frac{\text{Accounts Receivable}}{\text{Credit Sales}} * 365$	Guerard et al. (2021).
Days in Accounts Payable	$\frac{\text{Accounts Receivable}}{\text{Purchases}} * 365$	
Annual Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	
Days In Inventory	$\frac{365}{\text{Annual Inventory Turnover}}$	
Asset Turnover Ratio (ATR)	$\frac{\text{Net Assets}}{\text{Total Assets}}$	Dayi and Ulusoy (2020).

Sales to Fixed Assets	$\frac{\text{Total Revenue}}{\text{Total Assets}}$	
Sales to Working Capital	$\frac{\text{Total Revenue}}{(\text{Current Assets} - \text{Current Liabilities})}$	
Debt to Equity Ratio (DER)	$\frac{\text{Total Liabilities}}{\text{Net Assets}}$	Chellasamy and Udhaya Kumar (2007)

Findings

PROFITABILITY RATIOS

Table 1 Profitability Ratios

Year	Net Profit (%)	ROE (Times)	ROA (Times)
2016	22.75	0.069	0.063
2017	16.67	0.053	0.048
2018	14.40	0.043	0.039
2019	8.34	0.025	0.023
2020	10.34	0.033	0.031

Source: Company Annual Reports

Table 1 indicates that there was high Net Profit recorded during 2016 (22.75%), while it got decreased in the following years. In the year 2020, again it raised to 10.34%. The ROE got increased from 0.069 (in the year 2016) and decreased to 0.025 in the year 2019. In the year 2020, ROE increased to 0.033. In the year 2016 ROA recorded the highest (0.063) and it got reduced subsequently. In the year 2020, it raised to 0.031 compared to earlier years.

LIQUIDITY RATIOS

Table 2 Liquidity Ratios

Year	Cash ratio (Times)	Current ratio (Times)	Quick Ratio (Times)	Working Capital to Sales (%)
2016	0.203	2.343	1.169	41.27
2017	0.223	2.706	1.500	49.21
2018	0.284	2.971	1.345	54.65
2019	0.225	3.172	1.336	61.54
2020	0.713	5.932	3.278	94.23

Source: Company Annual Reports

From Table 2, it can be seen that the cash ratio was high (0.713) during 2020 and it got increased from 2016 (0.203) to 2019 (0.225). The current ratio increased to 5.932 in 2020 from 2.343 during 2016. The quick ratio recorded the highest (3.278) during the year 2020 and it was more than one all over the years. The working capital to sales ratio got increased to 94.23% during 2020 and from a low record of 41.27% in 2016.

MANAGEMENT EFFICIENCY RATIOS

Table 3 Management Efficiency Ratios

Year	Days in Accounts Receivable	Days in Accounts Payable	Inventory Turnover	Days in Inventory
2016	35.36	87.92	2.10	173.85
2017	39.60	64.27	2.11	172.65
2018	59.54	70.73	0.32	1154.96
2019	74.09	68.23	0.33	1120.01
2020	72.51	57.15	1.65	221.30

Source: Company Annual Reports

From Table 3 it can be seen that the debt collection period was 35.6 days during the year 2016 while it got increased to 74.09 during the year 2019 and decreased to 72.51 days. The accounts payable ratio decreased to 57.15 days during the year 2020 and it was recorded highest (87.92) in the year 2016. The annual inventory turnover ratio recorded low (0.32) in 2018 and increased to 1.65 in 2020. The days in inventory recorded highest in 2019 (1120.01) and it reached 221.30 in 2020.

OPERATING RATIOS

Table 4 Operating Ratios

Year	ATR	Sales to Fixed Assets	Sales to Working Capital
2016	0.915	0.276	2.423
2017	0.916	0.290	2.032
2018	0.924	0.274	1.830
2019	0.921	0.277	1.625
2020	0.942	0.302	1.061

Source: Company Annual Reports

It is clear from Table 4 that the asset turnover recorded the lowest (0.915) in 2016, while it reached its highest (0.942) in 2020. The sales to fixed assets were at their highest (0.302) in 2020, while its lowest was (0.274) in 2018, and it recorded close proportions in the years 2016, 2017, and 2019, 0.276, 0.290, and 0.277 respectively. The sales to working capital ratio were at its highest (2.423) in 2016, while the lowest was recorded (1.061) in 2020.

FINANCING RATIOS

Table 5 Financing Ratios

Year	2016	2017	2018	2019	2020
Debt to Equity (DER)	0.218	0.208	0.175	0.158	0.122

Source: Company Annual Reports

From Table 5 it can be seen that the debt-to-equity ratio recorded the highest in 2016 (0.218), and it descended to 0.208 until it reached its lowest (0.122) in 2020.

Combining the results obtained from the earlier Tables No. 1 to 5, all the ratios were put together and presented in Table 6.

Table 6 Combined Data of Ratio Analyses

Ratio\Year	2016	2017	2018	2019	2020
NP	22.75	16.67	14.4	8.34	10.34
ROE	0.069	0.053	0.043	0.025	0.033
ROA	0.063	0.048	0.039	0.023	0.031
ATR	0.915	0.916	0.924	0.921	0.942
DER	0.218	0.208	0.175	0.158	0.122

Source: Company Annual Reports

Discussion

The company has recorded a peak net profit of 22.75% in 2016 which decreased to a low of 8.34% during 2019 which shows that the company was in trouble from 2017 to 2019. In 2020 net profit increased by 2% than the net profit of 2019 indicates that the company was improving its sales and handling its expenses more efficiently. On the other hand, ROE continuously decreased from 2016 to 2019 shows that the management team of the company was less efficient in utilizing the equity finance of the business whereas the increase in 2020 shows good improvement as the company providing better returns to investors. ROA was recorded highest (0.063) in 2016 and lowest (0.023) in 2019. The highest ROA shows that the company utilized its assets well whereas the low ROA shows that the company did not utilize its resources properly. There seems to be an improvement in ROA in the year 2020; however, compared to 2016, the company needs to work on the fullest utilization of its assets in the business to generate income.

The cash ratio had huge variations. It appears that the cash and cash equivalents were not sufficient enough and not well managed to pay off their current liabilities. The current ratio was increasing every year and it reached 5.932 (very high) in 2020 and comparing with the increase in quick ratio it can be confirmed that the company needs immediate attention. It indicates there is a problem either with the finished goods or piling up of unused raw materials. Further, the working capital to sales ratio increased from 41.27% to 94.23% from 2016 to 2020 indicated that the working capital was higher than the average company operations.

The debt collection period increased from 35 to 73 days which shows that the company's debt collections rate was very poor. On the other hand, the days in accounts payable have decreased from 88 days (in 2016) to 57 days (in 2020) which indicated that the credit period obtained by the company has reduced. This might be due to the delayed payment made in the earlier years. The inventory turnover ratio (1.65) for 2020, has improved compared to previous years. The company was holding inventory for a very long period in 2018 and 2019 i.e. for more than 1000 days, which was not a welcoming one whereas the inventory holding period for the year 2020 was just 221 days. It clearly shows that inventory management has improved a lot. This might be due to the company was able to meet the increase in demand.

The company assets turnover ratio recorded a gradual increase from 0.915 (in 2016) to 0.942 (in 2020). This needs to be analyzed keeping in mind the industry standards. Sales to fixed assets ratio were low all over the years. This indicated that proper usage of fixed assets of the company was not done to generate sufficient revenue during the study period. Sales to working capital ratio declined in 2020 compared to earlier years. This indicates that the company did not effectively utilize liquid cash to support the sales growth. The declining debt-to-equity ratio all over the years implied that the company depends more on equity rather than debt financing.

Conclusion

OCC management is more efficient in utilizing investment financing to provide better returns to investors and able to utilize its resources well in generating income through its assets even during constraints due to COVID-19. The OCC has strong financial and stable improvements, and the management could utilize the fixed assets more effectively in the future. However, working capital management needs to be improved. On the whole, the financial performance of the company is satisfactorily maintained.

Recommendations

Based on the above discussion, the following suggestions were made:

- The company has a chronic cash shortage, and it is time to improve its cash position to pay off its liabilities.
- The company needs to pay more attention to working capital management, failing which the company will face a liquidity crunch.
- The cement industry in Oman is not in a comfortable position due to various factors. The company needs to keep an eye on the production and management policies and make changes for improvement in these areas.
- OCC needs to amend the policies pertaining to inventory to build more bargaining power and to achieve the targeted market growth.

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