

The Management of Al Jazeera Steel Products Co. SAOG is pleased to present the Management Discussion and Analysis Report for the year ended 31 December 2022.

Global Economic Environment

The world economies started to emerge from the shadows of COVID during the year. While the threat of COVID continued to loom notably in China, most economies saw significant recoveries from the after effects of COVID. Economic activities and travels slowly began returning to pre COVID levels in most countries. However, the year 2022 was also an unexpectedly challenging year due to other unforeseen reasons. The year witnessed rampant inflation sweeping across even major economies. As a result of which Central banks started raising interest rates to control inflation. This resulted in interest rates rising from below 1% to near 5% even in GCC economies leading to higher costs of borrowing and liquidity issues. One of the major events witnessed during the course of the year was the prolonged conflict in Europe and the resulting geo political tensions . Another major challenge during the course of 2022 was the zero COVID policy of China which severely impacted economic activity in the country and impacted global supply chain and commodity demand. All the political and economic turmoil coupled with China's slowdown resulted in an environment of uncertainty and slowdown in demand. These also impacted on the steel market sentiments and we witnessed a major price correction during the year magnitude of which was last seen only in 2008. This majorly impacted financial performance of many rerollers in the region & elsewhere. While the industry hopes for an early solution to the geo political crisis, indications from major central banks have been dovish that interest rate increases may be flattening out in the near term. Since the relaxing of the zero COVID policy, China has been an uptick in economic activities and this augurs well for the global steel demand and support for commodity prices.

Industry Structure and Company Development

The GCC economies staged smart recovery during 2022 with all recording budget surplus after 2014. The strong energy prices have provided support and GCC economies are considered to be better placed during the current challenges.

It gives me great pleasure to note that the company successfully implemented SAP and PAS system. This will lead to greater coordination between different functionalities and make more informed decision making.

We strive to attain greater efficiencies in our production process and adopt more innovative process for internal work flows. The company continues its high level of preparedness to deal with contingencies . We made incremental upgrades to our production lines during the course of the year, which helped us reach new customer segments and markets. Further we have taken major investments for value added and expansion of our production base, details of which will be announced shortly. We expect 2023 to be a defining year for the company due to the various incremental upgrades & new projects we are embarking on.

Future Outlook

As per IMF October 2022 report, there are downside risk to the global economy and global GDP growth could reach 2.7% - the weakest in many years. However, outlook for GCC is more optimistic with 3.6% GDP growth expected in 2023. Oman is forecasted to have a robust GDP growth of 6% in 2023 while Saudi Arabia and United Arab Emirates also expected to record strong growths following a stellar 2022. While the region will not be decoupled from effects of a global slowdown amid geo political events and fiscal tightening, there are reasons to be cautiously optimistic as far as the region's growth is concerned . The oil markets, which are a key driver of the GCC economies, have shown resilience throughout 2022 and expected to be well supported going into 2023. As per EIA estimates, oil is likely to sustain between US\$ 75 - US\$ 95 per barrel in 2023. The GCC have more than US\$ 2.5 trillion project pipeline as per current MEED estimates. We are seeing progress on some of the major projects which should support the steel demand in the region. With oil revenues remaining healthy, construction activity is expected to pick up across the GCC. The company is

investing heavily in newer and added value products.

All these factors along with the steps taken by the company under the able guidance of our Chairperson and Board of Directors gives us confidence that the company is poised for achieving greater growths in the coming years.

Analysis of segments and product-wise performance

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The Company sells five different types of steel products. The product-wise performance is given below:

Particulars	Sales Quantity in MT					
	Group			Parent		
	2022	2021	Growth %	2022	2021	Growth %
Black Pipes	90,377	87,481	3%	89,880	87,914	2%
Galvanized Pipes	62,771	75,047	(16%)	63,301	74,891	(15%)
Hollow Sections	13,402	23,236	(42%)	13,402	23,236	(42%)
CTL Sheets	7,963	16,142	(51%)	7,963	16,142	(51%)
Merchant Bar Mill	209,878	200,932	4%	208,252	202,937	3%
Total	384,391	402,838	(5%)	382,798	405,120	(6%)

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Financial Review

The financial performance of the Company in 2022 as compared to that of 2021 is given below:

(Amount in RO)

Particulars	Group			Parent		
	2022	2021	Variance %	2022	2021	Variance %
Sales	149,266,823	150,359,079	(1%)	147,397,621	150,243,981	(2%)
Gross Profit	19,393,531	24,177,483	(20%)	18,581,904	23,238,070	(20%)

Other Income	608,922	3,454	17529%	967,985	2,170	44508%
Selling and Distribution Expenses	11,020,131	9,239,516	19%	10,944,581	9,182,876	19%
Administration Expenses	5,195,961	3,131,520	66%	4,503,465	2,950,824	53%
Other operating expenses	45,927	122,902	(63%)	48,158	122,902	(61%)
Provision for ECL on trade receivables	(1,320,150)	359,512	(467%)	(859,419)	410,892	(309%)
Finance Cost – Net	1,355,446	611,941	121%	1,278,481	553,618	131%
Income Tax expenses	562,515	1,506,931	(63%)	531,918	1,476,723	(64%)
Net Profit	3,142,623	9,208,615	(66%)	3,102,705	8,542,405	(64%)
Earnings Per Share	0.025	0.074	(66%)	0.025	0.068	(64%)

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Operational Review

In 2022, monthly sales volumes averaged 31,890 mt in 2022 against 33,760 mt in 2021. Sales value though was only marginally lower by 1% YOY because of higher steel prices at the beginning of the year. There was a decline in net profit due to severe price correction during the course of the year as well as drop in demand. Further, there was an additional burden on the company related to imposition of duty in Saudi Arabia.

During the year, the Tube Mill division produced and sold 174,546 mt as compared to 202,183 mt in the previous year. Tube Mill volumes were affected due to subdued demand as well as higher inventory costs.

In the Merchant Bar Mill (MBM) division, in 2022, we sold 208,252 mt as against 202,937 mt of products in 2021. MBM volumes improved due to increased construction activity and also due to certain new market segments we have developed during the last few years.

A combination of smart procurement, diversified market and product portfolio helped us maintain sustained operations and helped the company to limit the effects of the various headwinds and challenges faced during the course of the year. The Company could achieve and close the year 2022 with a net profit of RO 3.1 million.

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Human Resources and Omanisation

Our total employee strength is 674. One of the ways in which the Company improves its competence in the present market is through employee training and personal development.

Our trained and skilled workforce, along with their hard work, has contributed to enhancing productivity and sales. We are proud to have 42% Omanisation.

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Health and Safety

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The Company considers the health and safety of its employees to be of the utmost importance. Our primary focus during the pandemic was to keep our employees safe and keep COVID afflictions to a minimum. We faced many challenges post COVID; however, with constant vigil and awareness, we were able to overcome those challenges. In this regard, we would like to thank all the public health authorities in Suhar, who have been a great help and a constant source of guidance on managing the COVID crisis.

The hard work and dedication of each of our employees ensured that we could sustain our operations during some of the most challenging times. I want to express my heartfelt gratitude to each and every colleague for their dedication and hard work in one of the most difficult periods of our lives.

The Company has its own clinic with facilities to provide basic medical assistance to the employees. The clinic employs a full-time male nurse, and a doctor is available part-time every day.

The Company has also obtained a group medical policy for its employees and eligible dependents from a reputed insurance company in Oman. Furthermore, the Company also has a group life policy for all its employees.

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Corporate Social Responsibility

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The Company sees Corporate Social Responsibility as an essential element of any corporate development. The Company sees itself as part of the wider Suhar and Omani society. We actively support the underprivileged in medical treatment, employability, and education. Further, the Company sponsored events that support the promotion of various arts, cultural forums, and sports.

A N Venkat

Chief Executive Officer