NCB CAPITAL

APRIL 2010

KSA Cement Sector

Yamama Cement published on April 11 its regular monthly update on cement data in KSA for March 2010. We believe the YTD volume data bodes well for the YoY growth in financial performance we expect to see for Yamama, Qassim and Saudi Cement in 1Q10. Southern and Yanbu Cement are expected to see relatively weak numbers against their peers.

March 2010 / 1Q10 Cement Data

With the latest cement sector publication, we now have key data points for 1Q10, prior to the reporting of quarterly results for most of the sector. As a precursor to the analysis in our regular Cement Monthly report, we briefly analyze the data below. We highlight that the data is referring to volumes in tons from which we can only make assumptions on the financial performance of each company.

1Q 2010

- Total cement and clinker sales increased by 26% for 1Q10 YoY with domestic cement sales up by 23% YoY and cement exports up by 58% YoY. Exports are up strongly, largely due to the start of exports by Northern Cement which was not exporting in 1Q09. Total cement and clinker sales increased by 17% QoQ with domestic sales up 18% QoQ.
- Yamama Cement showed the strongest sales volume increase YoY in 1Q10, up 37%, with Saudi Cement the next highest at growth of 30% YoY in 1Q10. Yanbu Cement's total sales volume showed the worst performance, down 7%, with Southern Cement the next lowest with a decline of 2% YoY in 1Q10. Other listed stocks and their 1Q10 YoY increase in total sales volumes is as follows: Eastern - up 15%, Qassim - up 19%, Arabian - up 12% and Tabuk - up 12%
- For 1Q10, the listed companies increased total sales volumes by 15% YoY, versus growth of 94% for the new/unlisted companies. Market share for the listed companies fell from 86% in 1Q09 to 79% in 1Q10.

TAKEAWAYS

Assuming pricing/cost pressures are the same for every stock, the data suggests that the strongest YoY performance in 1Q10 should come from Yamama cement, followed by Saudi and Qassim Cement. Yanbu has already reported its 1Q10 results, with net income down 19% YoY. Given Yanbu's sales volumes showed the worst results in the sector of down 7% YoY for the quarter, its poor earnings seem in-line with this volume data. Southern Cement, with the next lowest sales growth performance, would also be expected to post weak earnings for the quarter.

We recently upgraded our rating on Yamama Cement to Overweight, downgraded on Yanbu to Neutral, and downgraded on Eastern Cement to Underweight. We also recently initiated on Qassim Cement with a Neutral rating, Southern Cement with a Neutral rating, and Saudi Cement with an Underweight rating.

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IMPORTANT INFORMATION