NCB CAPITAL

EQUITY RESEARCH

April 2009

Cement Monthly

Saudi Arabia Cement Sector

Demand strong in Makkah and Madinah Provinces

The 3.38mt of cement/clinker sales achieved in KSA, for Mar-09, is the highest ever monthly sales reported in the country. Discussions with managements and industry players indicate key sources of demand in Makkah and Madinah Provinces.

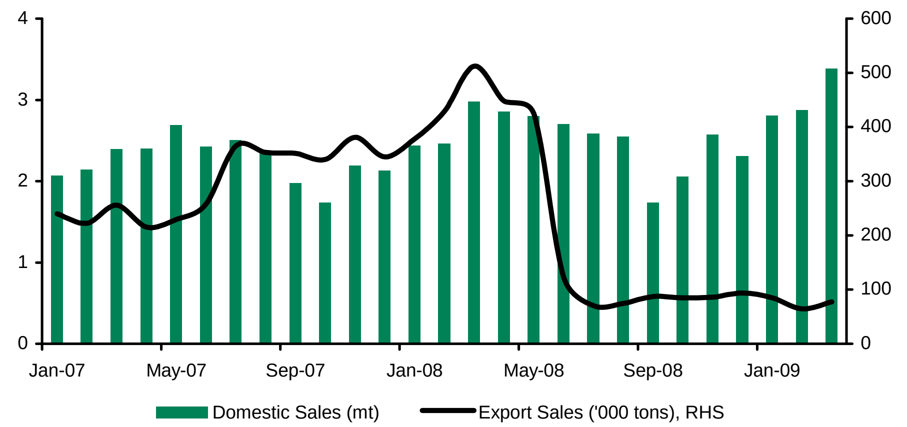
Sales: Cement dispatches in the domestic market strengthened for the third straight month, rising to 3.38mt in March. Mar-09 cement sales were up 13.6% YoY and 17.6% MoM.

Production: In Mar-09, KSA produced a sizeable amount of cement and clinker. Despite this, the 3.30mt of cement production fell short of total cement demand. As a result, manufacturers offloaded some of the old stock and helped reduce the cement inventory.

Stock: Clinker stock as a percentage of cement sales stood at 249% in Mar-09, versus 283% in Feb-09. Among listed firms, Saudi Cement Co located in the east had the highest clinker and cement stock as a percentage of cement deliveries at 451% and 46% respectively.

Discussions with managements of various cement companies reveal that much of current demand is originating from the Makkah and Madinah Provinces of the Kingdom. Ballpark calculations indicate that price realizations for companies based in the western region continue to remain 6 to 8% above the industry average. Both Yanbu Cement and Arabian Cement located in the western region record the lowest clinker stock as a percentage of sales ratios of 91% and 35% respectively.

Chart of the month: Domestic sales cross 3mt for the first time



Source: Yamama Cement, NCBC Research

Exhibit 1: Saudi cement companies – Valuation matrix

Company	M-Cap	Stock perf (%)		P/E (x)	EV/ EBITDA	P/BV (x)	EV/ton 08	DY (%)	ROE (%)	ROA (%)
	$ mn	Mar-09	YTD	TTM	08	*	$	08	TTM	TTM
Southern Cem (SPCC)	2,234	13.8	25.8	11.1	9.0	3.7	335	8.4	32.5	28.1
Saudi Cem (SCC)	1,607	17.8	2.2	10.0	10.1	2.3	173	5.9	22.4	13.2
Qassim Cem (YSCC)	1,322	4.9	31.3	9.9	7.6	2.6	295	7.3	29.0	22.3
Yamama Cem (YCC)	1,319	6.5	4.6	9.2	6.0	1.8	206	5.5	19.5	15.4
Yanbu Cem (QCC)	1,312	(11.7)	15.3	9.0	6.5	2.4	262	8.5	24.9	22.5
Eastern Cem (EPCC)	999	3.9	6.9	9.9	7.1	2.2	292	6.9	20.5	16.7
Arabian Cem (ACC)	953	1.5	39.4	11.5	10.7	1.6	381	6.7	13.4	9.4
Tabuk Cem (TCC)	483	2.4	(0.5)	13.0	7.4	1.7	247	7.5	12.7	10.9

Source: NCBC Research, All prices as of April 22, 2009 * P/BV based on latest available book value

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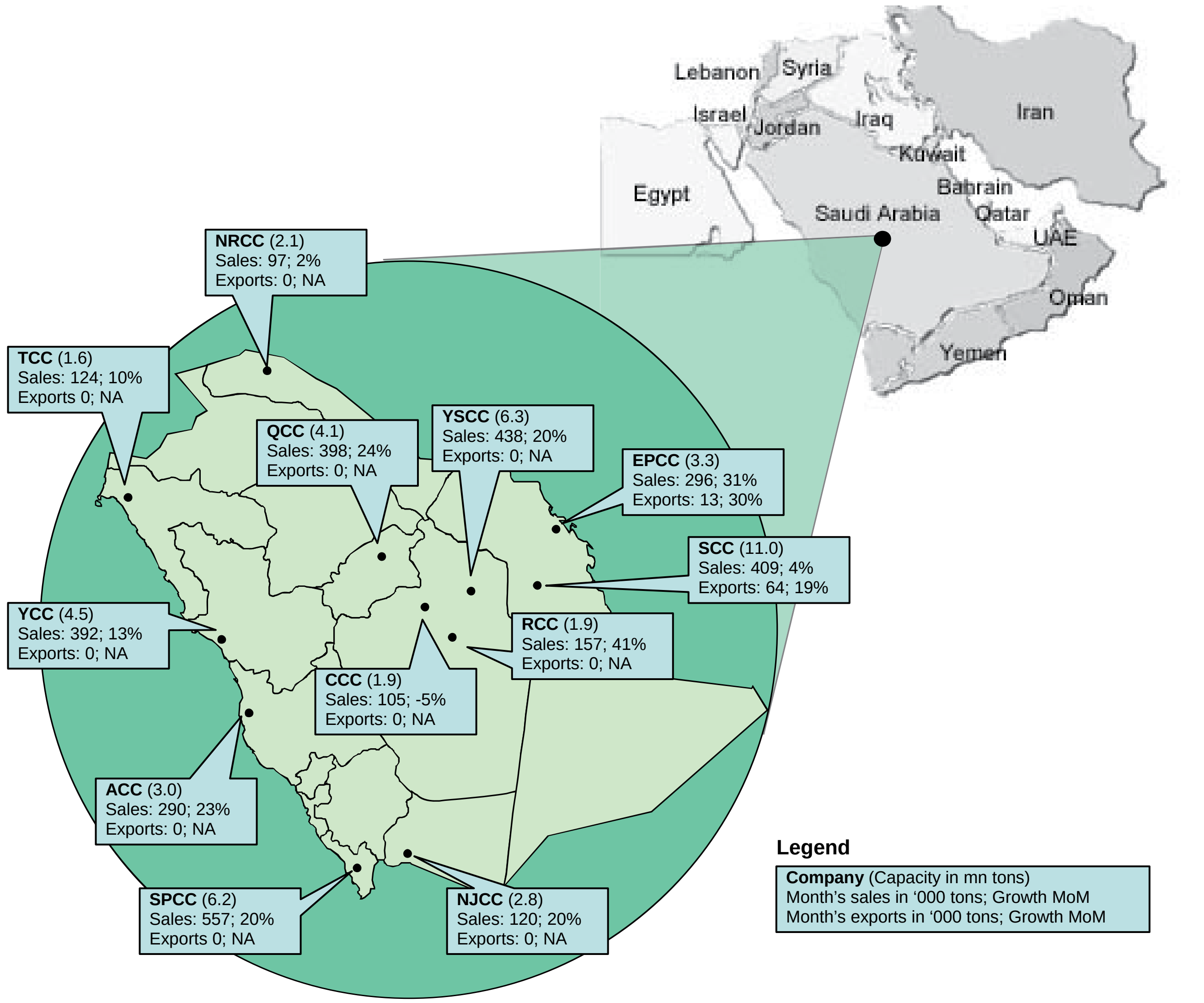
Industry snapshot

The Kingdom of Saudi Arabia (KSA) has 12 cement companies with an estimated annual production capacity of approximately 48mt.

March 2009 was a good month for the Saudi cement industry. Total dispatches (including exports) stood at 3.46mt versus 2.94mt in Feb-09 and 2.89mt in Jan-09. Total dispatches in the comparable month of the previous year were 3.49mt.

Export sales from the country continue to remain below the 100,000 ton mark. At 77,000 tons, cement exports from Saudi Arabia were down 85% YoY, but up 20.3% MoM.

Exhibit 2: March at a glance

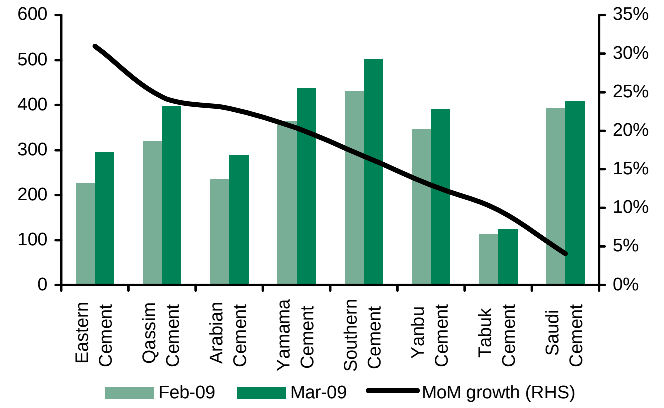


Source: Yamama Cement, NCBC Research
CCC – City Cement, NJCC – Najran Cement, RCC – Riyadh Cement, NRCC – Northern Region Cement

Domestic sales

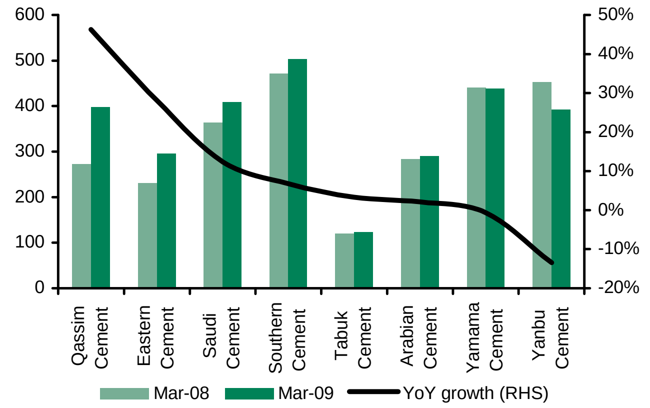
In Mar-09, cement sales in Saudi Arabia increased 17.6% MoM and 13.6% YoY. Total domestic sales of companies (including listed and private) stood at 3.38mt versus 2.87mt in Feb-09 and 2.97mt in Mar-08.

Exhibit 3: Domestic Sales ('000 tons) – MoM



Source: Yamama Cement, NCBC Research

Exhibit 4: Domestic Sales ('000 tons) – YoY



Source: Yamama Cement, NCBC Research

On an individual basis too, some of the companies – Southern Cement, Saudi Cement, Qassim Cement, Eastern Cement and Arabia Cement – achieved their highest-ever domestic sales numbers recorded, in Mar-09.

Of listed companies, only Yanbu Cement registered a major decline in YoY sales. Both Yanbu Cement and its geographically closest competitor Arabian Cement have very low inventory levels.

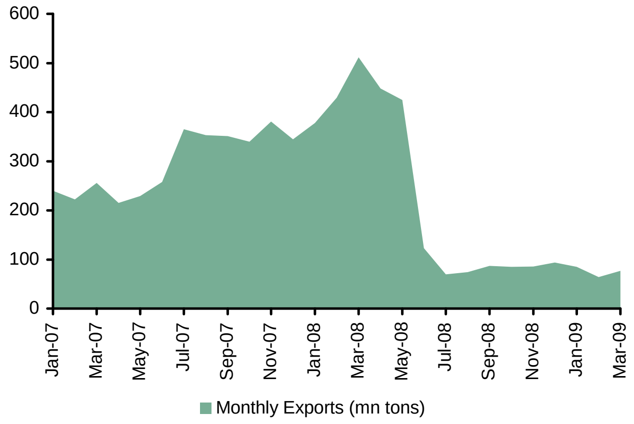
(Please refer to the annexure on Page 10 for company specific charts.)

Exports

Cement sales outside the Kingdom stood at 77,000 tons in Mar-09, as against 507,000 tons in Mar-08 and 64,000 tons in Feb-09. The 85% YoY decline is explained by the government restriction on sale of cement outside the country. The special weekly cement export quota of 25,000 tons for Bahrain, if fully utilized, should result in sales of 100,000 tons per month.

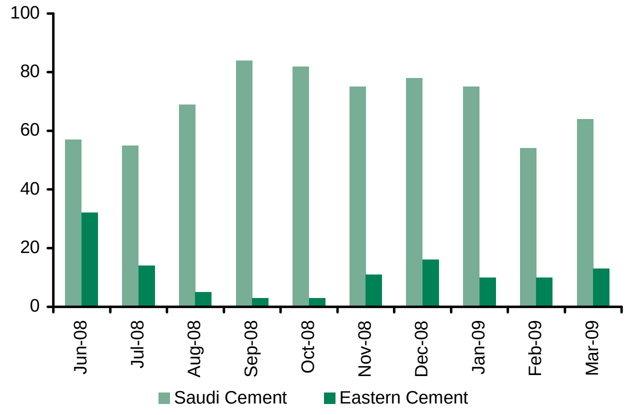
The two cement exporting companies – Saudi Cement Co and Eastern Province Cement Co – sold 64,000 tons and 13,000 tons of cement respectively, outside the Kingdom in Mar-09 versus 54,000 tons and 10,000 tons of cement, respectively in Feb-09.

Exhibit 5: KSA's total cement exports ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 6: Exports by SCC and EPCC ('000 tons)



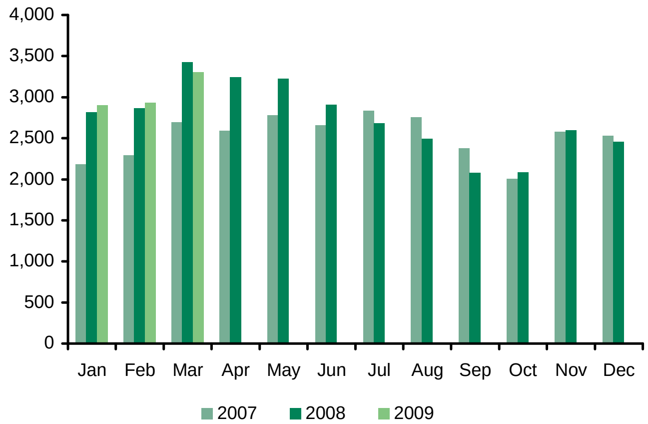
Source: Yamama Cement, NCBC Research

Production

Saudi Arabia produced 3.31mt of cement in Mar-09, down 3.6% YoY but up 12.8% MoM. Production covered 96% of the total cement demand for the month; while the rest was met through old stock. This resulted in a 13.0% reduction in the cement stockpiles at the manufacturer level.

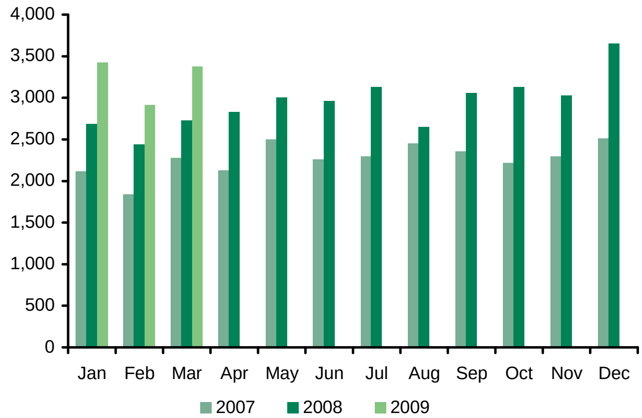
(Please refer to the Inventory / stock section on Page 5 for more details).

Exhibit 7: Cement production ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 8: Clinker production ('000 tons)



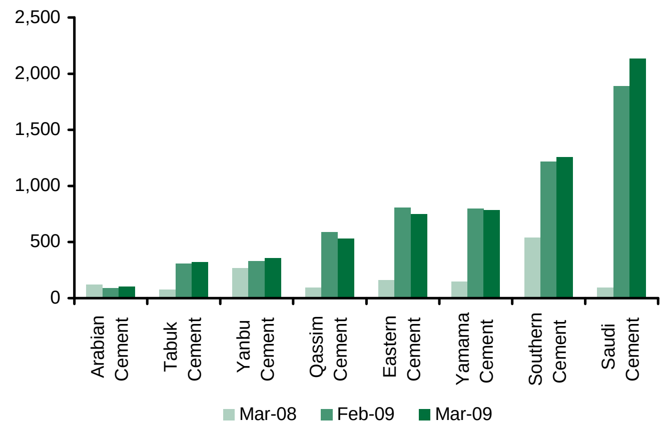
Source: Yamama Cement, NCBC Research

In contrast, clinker production increased during the month by 23.8% YoY and 16.0% MoM. Companies leading the increased clinker production are – Saudi Cement, Arabian Cement, Tabuk Cement and Najran Cement.

Inventory / stock

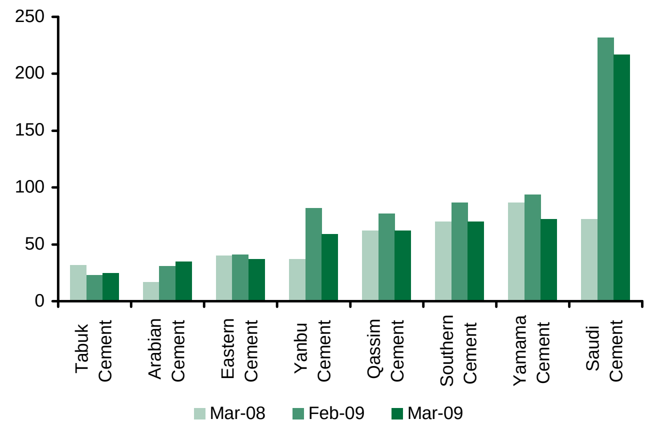
Stockpiling of clinker at the manufacturer level is continuing, albeit at a slower pace. At the end of Mar-09, total clinker stock held by cement producers was higher by just 1.5% MoM, the lowest rise since the export ban was put in place 10 months ago.

Exhibit 9: Clinker stock ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 10: Cement stock ('000 tons)

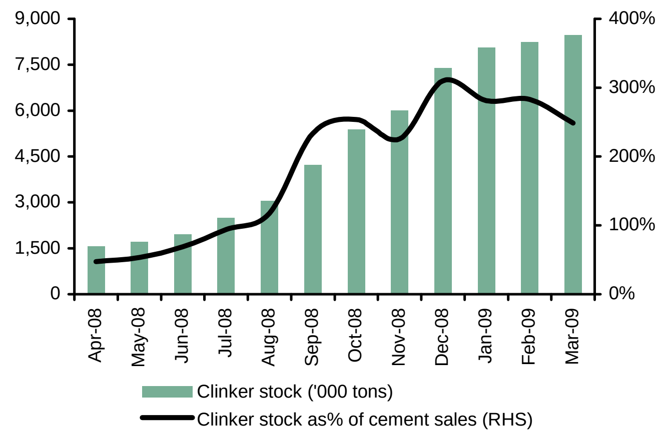


Source: Yamama Cement, NCBC Research

Total clinker stock of the industry stood at 8.5mt in Mar-09, or just short of three months' cement sales[1]. Company wise, Arabian Cement has the lowest clinker stock of 35% as a percentage of sales; for Saudi Cement, clinker stock stood at 451%, or more than four months' cement sales.

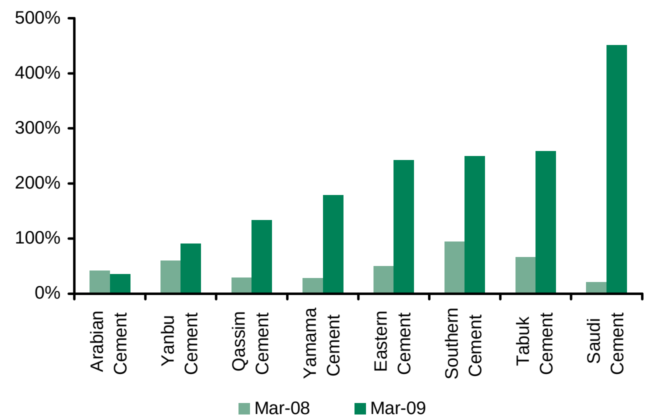
It is interesting to note that cement companies based in the western region hold low clinker stock, whereas those based in the eastern region seem burdened with huge stockpiles of clinker. Higher price realization for cement sold by companies based in the western region supports our view of strong cement demand in the Makkah and Madinah Provinces. For instance in 1Q-09, price realizations for Yanbu Cement Co stood at SR254/ton versus the industry average of SR239/ton.

Exhibit 11: Clinker stock



Source: Yamama Cement, NCBC Research

Exhibit 12: Clinker stock (as % of sales)



Source: Yamama Cement, NCBC Research

[1] Average cement sales for the first three months of 2009

Market share

In Mar-09, five companies lost domestic market share in favor of the other six. **Eastern Cement was the biggest gainer of the month.** Other companies that managed to improve their market share by a wide margin include Riyadh Cement and Qassim Cement.

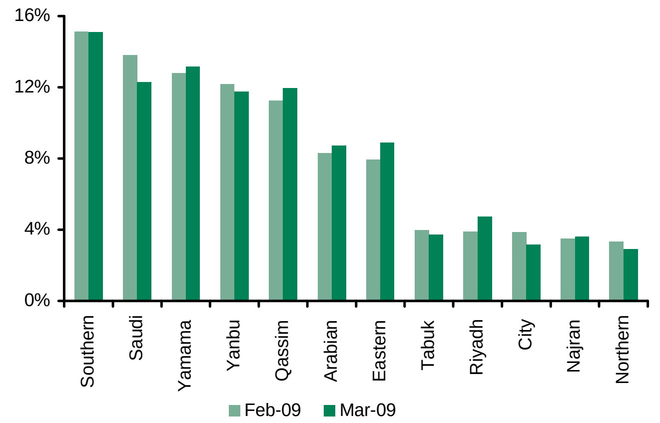
Winners: Eastern Cement (1.0%), Riyadh Cement (0.8%), Qassim Cement (0.7%), Arabian Cement (0.4%), Yamama Cement (0.4%), and Najran Cement (0.1%)

Losers: Saudi Cement (-1.5%), City Cement (-0.7%), Northern Cement (-0.4%), Yanbu Cement (-0.4%), and Tabuk Cement (-0.2%)

No change: Southern Cement

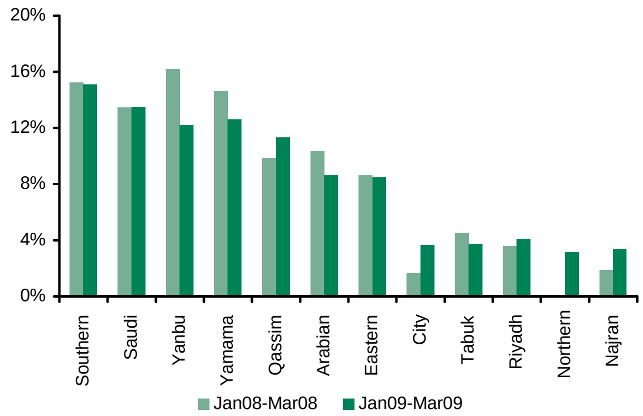
New companies — Riyadh Cement, Najran Cement, City Cement and Northern Cement —have managed to increase market share at the expense of the traditional players. **The new players were responsible for 14.3% of total cement sales in the first three months of 2009**.

Exhibit 13: Domestic market share – cement sales



Source: Yamama Cement, NCBC Research

Exhibit 14: Domestic market share – cement sales YTD



Source: Yamama Cement, NCBC Research

Valuation

As of 22 Apr 2009, the cement sector index is up 16.1% YTD, vis-à-vis an increase of 8.6% in the Saudi benchmark index TASI. The upswing in 2009 comes after a fall of ~50% in 2008. The exhibit below shows the valuation multiples of all the listed cement companies in the Kingdom.

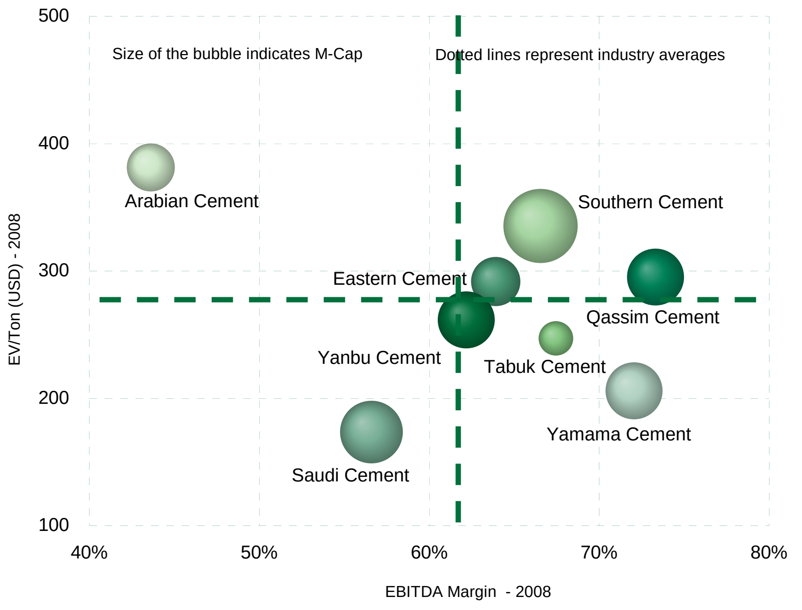
Exhibit 15: Saudi cement companies – Valuation matrix

Company	Reuters	M-Cap $ mn	Stock performance (%) Mar-09	YTD	P/E (x) TTM	EV/ EBITDA 08	P/BV (x) *	EV/ton 08 $	DY (%) 08	ROE (%) TTM	ROA (%) TTM
Southern Cement	3050.SE	2,234	13.8	25.8	11.1	9.0	3.7	335	8.4	32.5	28.1
Saudi Cement	3030.SE	1,607	17.8	2.2	10.0	10.1	2.3	173	5.9	22.4	13.2
Qassim Cement	3040.SE	1,322	4.9	31.3	9.9	7.6	2.6	295	7.3	29.0	22.3
Yamama Cement	3020.SE	1,319	6.5	4.6	9.2	6.0	1.8	206	5.5	19.5	15.4
Yanbu Cement	3060.SE	1,312	(11.7)	15.3	9.0	6.5	2.4	262	8.5	24.9	22.5
Eastern Cement	3080.SE	999	3.9	6.9	9.9	7.1	2.2	292	6.9	20.5	16.7
Arabian Cement	3010.SE	953	1.5	39.4	11.5	10.7	1.6	381	6.7	13.4	9.4
Tabuk Cement	3090.SE	483	2.4	(0.5)	13.0	7.4	1.7	247	7.5	12.7	10.9

Source: NCBC Research, All prices as of April 22, 2009 * P/BV based on latest available book value

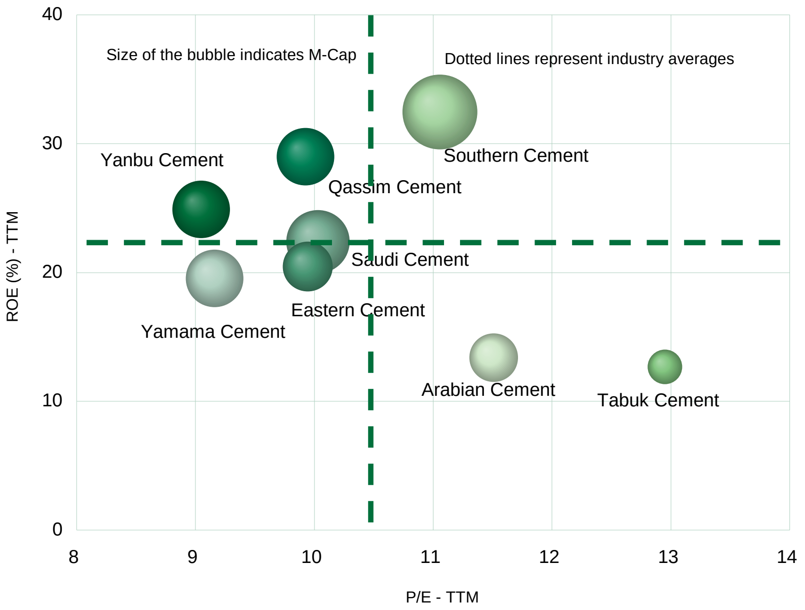
The following exhibits depict the current valuation of cement companies listed in Saudi Arabia.

Exhibit 16: EV per ton vs. EBITDA margin



Source: NCBC Research

Exhibit 17: P/E vs. ROE



Source: NCBC Research

Annexures

Annexure 1- Production and dispatches

Exhibit 18: Cement production and dispatches ('000 tons)

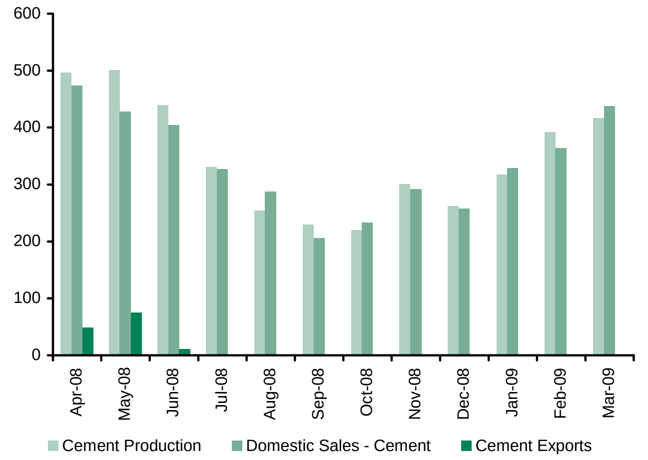
Description	Mar-09	Mar-08	% chg YoY	Feb-09	% chg MoM	(Jan-Mar) 2009	(Jan-Mar) 2008	% chg YoY
Production								
Cement	3,306	3,429	-3.6%	2,931	12.8%	9,136	9,109	0.3%
Clinker	3,378	2,729	23.8%	2,911	16.0%	9,714	7,854	23.7%
Dispatches								
Cement	3,406	3,458	-1.5%	2,910	17.0%	9,184	9,144	0.4%
Clinker	54	31	74.2%	32	68.8%	113	56	101.8%
Cement Production								
Southern Cement	417	548	-23.9%	392	6.4%	1,127	1,338	-15.8%
Saudi Cement	458	464	-1.3%	424	8.0%	1,437	1,341	7.2%
Yamama Cement	305	322	-5.3%	234	30.3%	793	966	-17.9%
Yanbu Cement	383	335	14.3%	331	15.7%	1,012	986	2.6%
Qassim Cement	369	439	-15.9%	358	3.1%	1,098	1,245	-11.8%
Eastern Cement	294	259	13.5%	240	22.5%	777	795	-2.3%
Arabian Cement	486	560	-13.2%	444	9.5%	1,331	1,399	-4.9%
Tabuk Cement	126	120	5.0%	105	20.0%	334	349	-4.3%
Others	468	382	22.5%	403	16.1%	1,227	690	77.8%
Cement Dispatches								
Southern Cement	438	526	-16.7%	364	20.3%	1,131	1,315	-14.0%
Saudi Cement	473	468	1.1%	447	5.8%	1,403	1,348	4.1%
Yamama Cement	309	322	-4.0%	236	30.9%	792	961	-17.6%
Yanbu Cement	398	316	25.9%	320	24.4%	1,014	965	5.1%
Qassim Cement	392	453	-13.5%	347	13.0%	1,094	1,268	-13.7%
Eastern Cement	290	284	2.1%	236	22.9%	776	813	-4.6%
Arabian Cement	503	565	-11.0%	431	16.7%	1,354	1,418	-4.5%
Tabuk Cement	124	120	3.3%	113	9.7%	337	352	-4.3%
Others	479	404	18.6%	416	15.1%	1,283	704	82.2%

Source: Yamama Cement, NCBC Research

Annexure 2 - Chart gallery – Company data

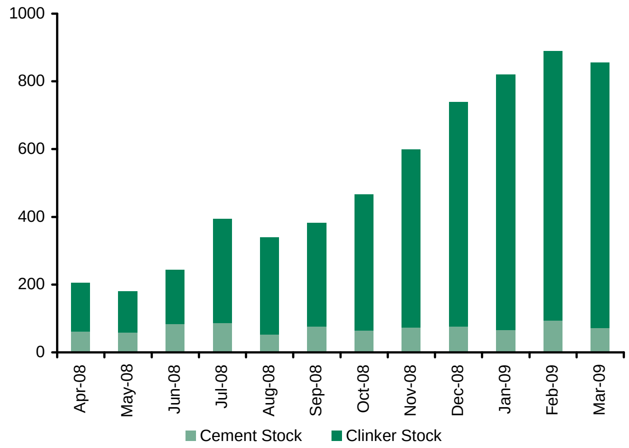
Yamama Cement (YSCC)

Exhibit 19: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

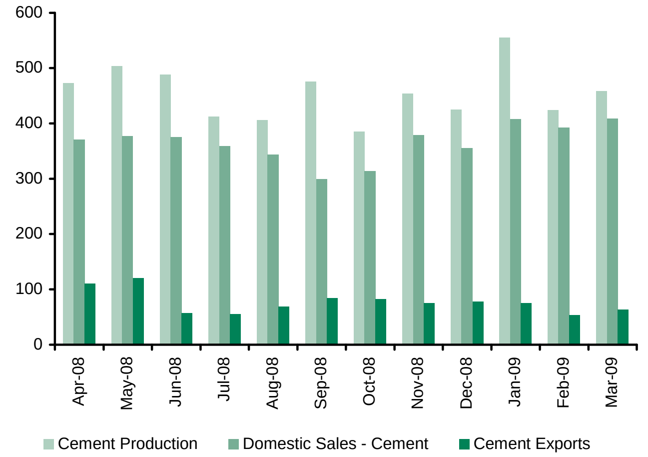
Exhibit 20: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

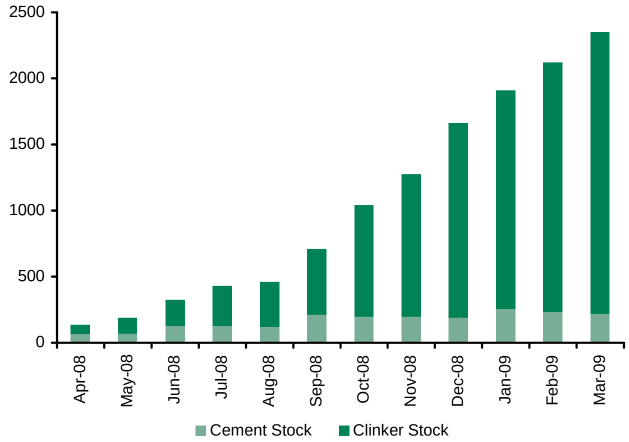
Saudi Cement (SCC)

Exhibit 21: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

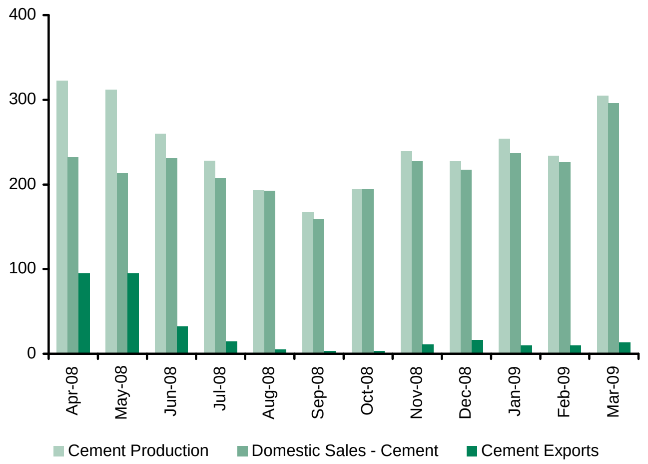
Exhibit 22: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

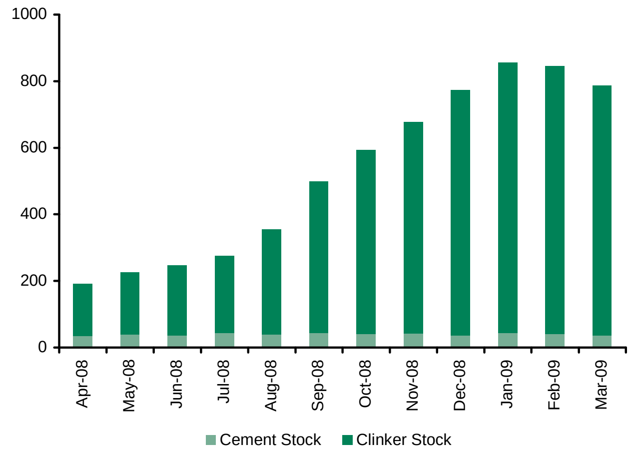
Eastern Province Cement (EPCC)

Exhibit 23: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

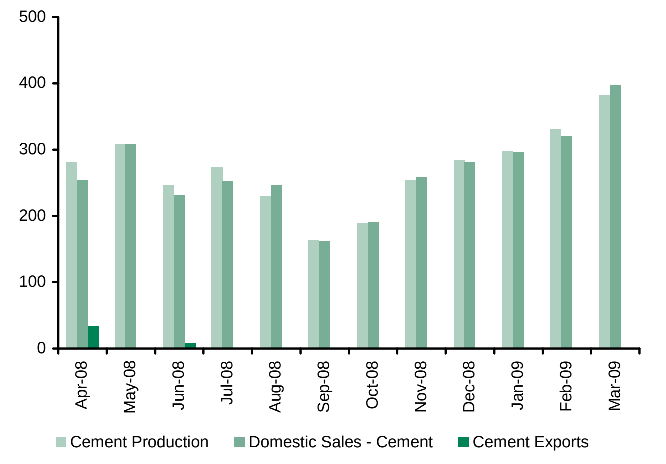
Exhibit 24: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

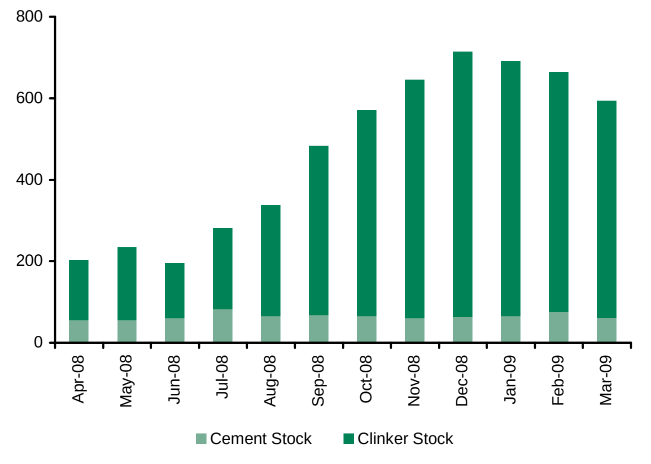
Qassim Cement (QCC)

Exhibit 25: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

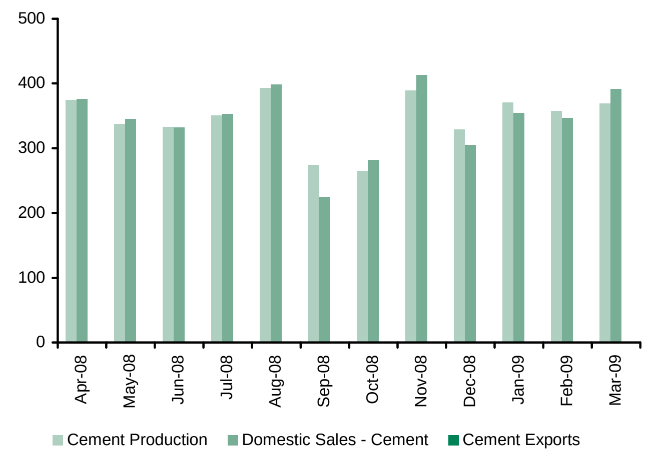
Exhibit 26: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

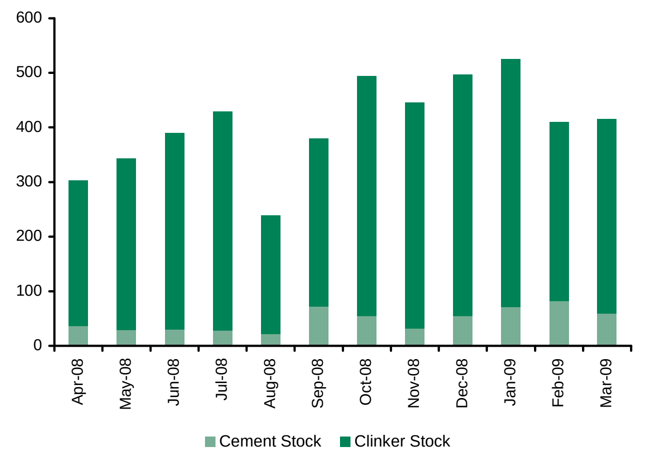
Yanbu Cement (YCC)

Exhibit 27: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

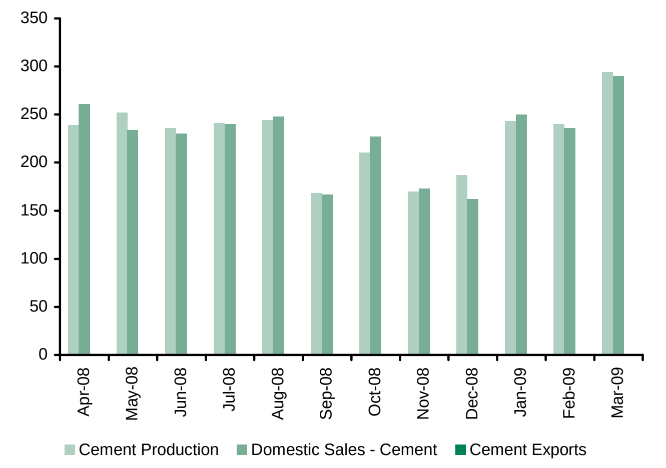
Exhibit 28: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

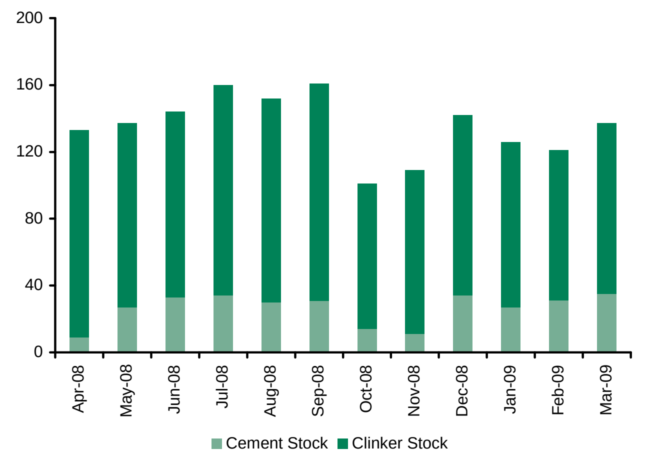
Arabian Cement (ACC)

Exhibit 29: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

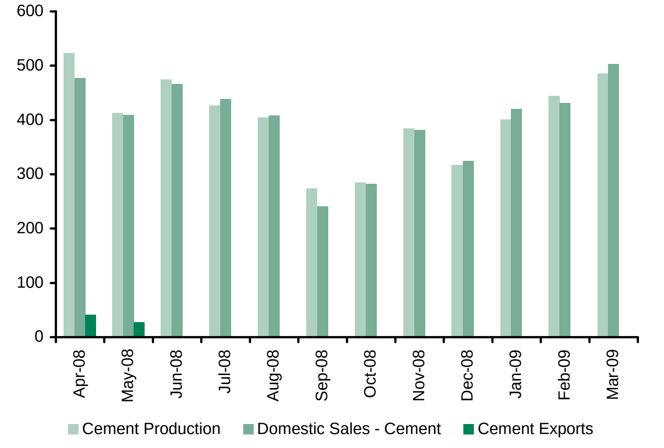
Exhibit 30: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

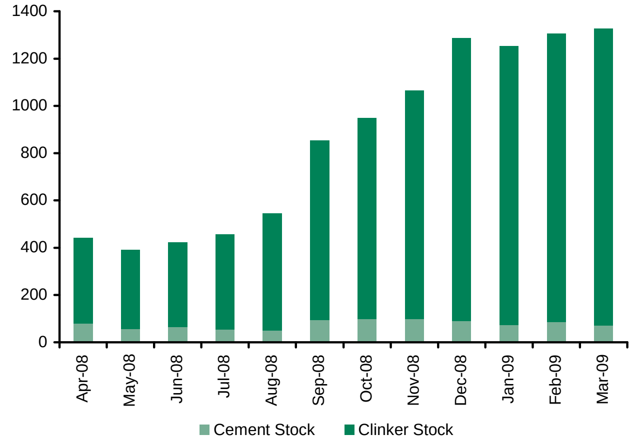
Southern Province Cement (SPCC)

Exhibit 31: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

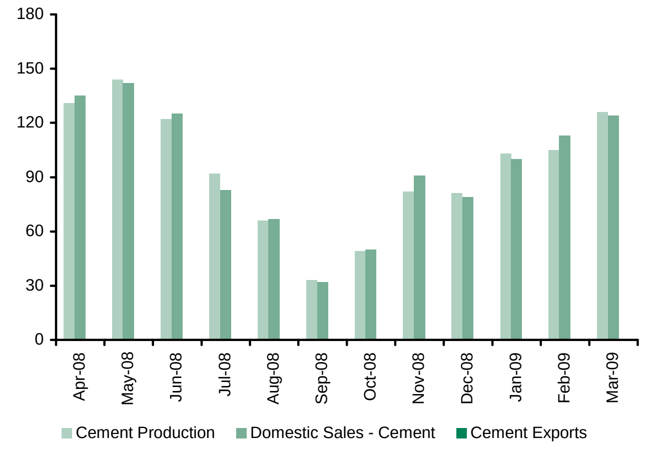
Exhibit 32: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

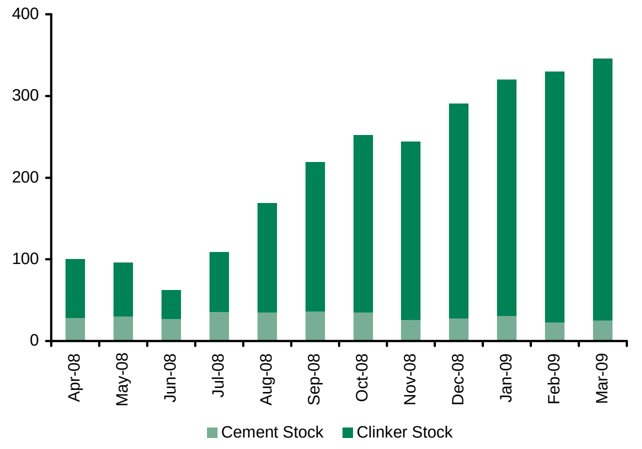
Tabuk Cement (TCC)

Exhibit 33: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 34: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

Glossary – Abbreviations used

%Chg	% change	MoM	Month on month	ROE	Return on equity
Bn	Billion	Mt	Million tons	Rev	Revenue
Div yld	Dividend yield	Net inc	Net income	SR	Saudi Riyal
EV	Enterprise value	P/E	Price to earnings	TTM	Trailing 12 month
EBITDA	Earnings before interest, tax, depreciation, and amortization	P/BV	Price to book value	YoY	Year on year
M-Cap	Market capitalization	QoQ	Quarter on quarter	YTD	Year to date
Mn	Million	ROA	Return on assets		