2Q 2010 Preview

JUNE 2010

KSA Cement Sector

Looks interesting, but not quite there

We remain cautious on the KSA cement sector with Yamama our only Overweight. The data YTD supports our bearish stance. Valuations are looking increasingly attractive with the sector on 10.6x 2010e P/E and most dividend yields above 7%; however, we would need most stocks to fall another 5-10% before we become more interested.

- In this report we update our six covered cement stocks based on the YTD data available until May-10, as well as the 1Q10 results. We highlight our revised estimates, as well as 2Q10 forecast numbers.
- We upgrade Eastern Cement to a Neutral rating and PT of SR44.3 (6% upside) after the strong underperformance since our downgrade to Underweight in March. With Saudi Cement down 11% since our initiation, we upgrade it to a Neutral rating from Underweight with a PT of SR41.2 (6% downside)
- We downgrade Southern Cement to an Underweight rating and PT of SR60.0 (12% downside).
- We maintain our Overweight rating on Yamama Cement with a PT of SR58.0 (upside of 21%), Neutral rating on Qassim Cement with a PT of SR71.3 (upside of 6%) and Neutral rating on Yanbu Cement with a PT of SR39.4 (downside of 5%).
- We continue to remain cautious on the sector with oversupply, the export ban and increased competition expected to lead to continued pressure on cement prices and market shares for the listed companies.
- In our view, the main positive of the sector remains the high dividends, with yields in many cases above 7%.

Exhibit 1: Saudi cement companies – Valuation matrix

Company	Rating	TP SR	Stock perf (%) May	Stock perf (%) YTD	P/E (x) '10	EV/EBITDA '10	P/BV (x) Latest	EV/ton 10E $	DY (%) '10	ROE (%) '10	ROA (%) '10
Southern Cem (SPCC)	UW	60.0	(3.2)	1.5	13.6	10.7	4.1	391	7.4	28.4	24.9
Saudi Cem (SCC)	N	41.2	(16.9)	13.2	10.2	9.2	2.3	248	5.3	20.3	13.0
Yamama Cem (YSCC)	OW	58.0	(11.5)	1.1	10.2	7.7	2.2	268	7.3	20.2	17.1
Qassim Cem (QCC)	N	71.3	(6.6)	(2.5)	11.4	9.3	3.6	374	7.4	29.1	24.0
Yanbu Cem (YCC)	N	39.4	(7.0)	(14.8)	10.1	7.5	2.0	241	7.3	17.3	14.8
Eastern Cem (EPCC)	N	44.3	(8.6)	(16.3)	9.2	7.1	1.9	261	7.2	18.6	16.5
Arabian Cem (ACC)	NR	-	(17.2)	(20.9)	7.9	8.9	1.2	198	5.8	14.5	8.2
Tabuk Cem (TCC)	NR	-	(5.4)	(10.3)	12.2	5.9	1.4	199	6.7	11.5	9.5

Source: NCBC Research, All prices as of June 09, 2010
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

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2Q10 outlook is weak

- We believe 2Q10 will be another difficult quarter for the cement sector. For the six covered stocks, we expect revenues to increase by 3.3% with gross profit remaining flat and net income declining by 2.3%. Prices are set to remain weak, falling by 3% YoY and flat QoQ to SR231, we believe.
- Although we expect total volume growth in the sector to be around 18% in 2Q10, this is 8% lower than the 26% YoY growth seen in 1Q10. Additionally, an increasing amount of this extra volume will continue to go to private players. We expect the six covered stocks to increase sales volumes by some 8% YoY in 2Q10.
- In most cases, we have lowered our 2Q10 and 2010 sales volume forecasts for the stocks under coverage. The notable exceptions are Eastern cement, where due to the company starting to sell clinker in KSA to replace low cement sales, overall 2010 sales volumes are set to be 12% higher than previously expected. Saudi Cement is also expected to sell 19% more cement than we previously envisaged.
- The caveat with the above point is that in both Eastern and Saudi Cement's instances, we believe lower prices are being used to aide volume growth, hence these increases in sales volume growth are not fully translated into the financials. Conversely, we believe the likes of Southern and Yanbu Cement will try to keep a premium to the sector average prices, thus leading to their financials not being as bad as the volumes data may suggest.
- We believe some of the extreme weather seen in Riyadh (flooding and sandstorms) will lead to a softer than expected performance from the companies with exposure to the central region; principally Yamama Cement, but also Qassim Cement.

Exhibit 2: Coverage stocks - Summary of financials 2Q10e vs. 2Q09a

(SR mn)

	Revenues			Gross profit			Net profit		
Company	**2Q10**	**2Q09**	**% change**	**2Q10**	**2Q09**	**% change**	**2Q10**	**2Q09**	**% change**
Yamama	319	313	1.9	178	181	(2.0	165	165	(0.4)
Yanbu	248	277	(9.9)	137	160	(12.6)	130	152	(14.1)
Eastern	250	207	20.9	128	116	10.6	115	103	11.9
Saudi	427	357	19.6	214	181	18.3	182	168	8.8
Southern	361	361	0.0	209	215	(2.8)	201	212	(5.3)
Qassim	250	280	(10.8)	137	159	(13.6)	133	148	(10.6)
Total	**1,855**	**1,799**	**3.3**	**1,003**	**1,012**	**(0.9)**	**926**	**948**	**(2.3)**

Source: Company, NCBC Research estimates

Change to estimates

In the table below we highlight the changes to our 2010 and 2011 numbers, as well as price targets, since our last update on the sector at the end of March 2010.

Exhibit 3: Changes to estimates

		Old 2010E	New 2010E	% Chg	% Gr	Old 2011E	New 2011E	% Chg	% Gr
Eastern Cement									
Revenue	SR mn	791	875	10.6	12.4	779	821	5.4	(6.2)
Gross Profit	SR mn	411	446	8.5	10.9	389	414	6.5	(7.1)
Net Profit	SR mn	370	391	5.6	11.4	349	370	6.0	(5.3)
Total sales volumes	Mn ton	3,361	3,754	11.7	17.6	3,446	3,631	5.4	(3.3)
Target price	SR					44.8	44.3	(0.4)	
Saudi Cement									
Revenue	SR mn	1,363	1,587	16.5	17.9	1,403	1,506	7.4	(5.1)
Gross Profit	SR mn	681	777	14.1	13.0	687	737	7.3	(5.1)
Net Profit	SR mn	573	654	14.2	11.2	576	609	5.7	(5.9)
Total sales volumes	Mn ton	5,966	7,093	18.9	26.9	6,330	6,866	8.5	(3.2)
Target price	SR					41.7	41.2	(1.3)	
Southern Cement									
Revenue	SR mn	1,374	1,301	(5.3)	(1.3)	1,376	1,347	(2.1)	3.6
Gross Profit	SR mn	781	745	(4.7)	(2.9)	752	735	(2.1)	(1.2)
Net Profit	SR mn	734	698	(4.9)	(4.8)	705	690	(2.1)	(1.2)
Total sales volumes	Mn ton	5,667	5,313	(6.2)	0.0	5,906	5,783	(2.1)	8.9
Target price	SR					65.8	60.0	(8.9)	
Yamama Cement									
Revenue	SR mn	1,306	1,306	0.0	12.3	1,331	1,331	0.0	1.9
Gross Profit	SR mn	683	689	0.9	11.2	677	677	0.0	(1.8)
Net Profit	SR mn	628	634	0.9	12.8	624	623	(0.1)	(1.6)
Total sales volumes	Mn ton	5,834	5,834	0.0	12.4	6,066	6,066	0.0	4.0
Target price	SR					61.6	58.0	(5.9)	
Qassim Cement									
Revenue	SR mn	1,067	1,011	(5.3)	2.5	1,019	994	(2.4)	(1.6)
Gross Profit	SR mn	611	566	(7.4)	(0.4)	568	552	(2.8)	(2.4)
Net Profit	SR mn	582	534	(8.3)	1.6	544	527	(3.1)	(1.2)
Total sales volumes	Mn ton	4,602	4,470	(2.9)	4.8	4,528	4,442	(1.9)	(0.6)
Target price	SR					80.1	71.3	(11.0)	
Yanbu Cement									
Revenue	SR mn	882	863	(2.1)	(8.5)	965	965	0.0	11.8
Gross Profit	SR mn	482	460	(4.5)	(9.7)	501	491	(2.0)	6.7
Net Profit	SR mn	447	428	(4.3)	(11.2)	450	441	(2.1)	3.0
Total sales volumes	Mn ton	3,707	3,667	(1.1)	(6.1)	4,226	4,226	0.0	15.2
Target price	SR					46.9	39.4	(15.6)	

Source: Company, NCBC Research estimates,

1Q10 Review

The cement sector reported poor results in 1Q10 with net income down by 0.8% for the eight listed companies, despite these eight companies selling 15% more in terms of volumes YoY. Yamama was the standout company with net income up 31% YoY in 1Q10. The weak numbers for the sector but strong performance by Yamama is in line with our cautious view on the sector, but Overweight rating on Yamama.

- Revenues for the KSA listed cement sector increased by 8% in 1Q10 YoY to SR2,114mn with Yamama showing the best growth at 35% and Yanbu reporting the weakest with revenues declining by 14%
- Gross income for the sector was flat at SR1,111mn in 1Q10 with Yamama showing the best growth at 27% and Arabian reporting the weakest figure with gross profit down by 22%. We believe profitability suffered at Arabian Cement due to a mechanical problem at one of the lines leading to it shutdown for around a month. Gross margins for the sector fell by 4% to 53%.
- Net income for the sector fell by 1% to SR1,008mn in 1Q10 with Yamama showing the best growth at 31% and Arabian reporting the weakest, down by 21%. Net income margins for the sector fell by 4% YoY to 48% in 1Q10.
- Total sales volumes for the KSA cement sector increased by 26% to 11,670mn tons in 1Q10. For the eight listed stocks, total volumes increased by 14.6% to 9,184mn tons; sales volumes increased by 93.8% to 2,486mn tons for the four private cement companies in KSA. From the listed companies, Yamama recorded the best growth at 37% and Yanbu reporting the weakest, down by 7%.
- The average price of cement per ton for the eight listed stocks fell by 6% YoY to SR228, and down 1% QoQ. The average cost of cement per ton increased by 2% YoY to SR107, although it was down 9% QoQ. This was primarily due to Arabian Cement, where QoQ costs fell by 24% as in 4Q09 it had stopped production at one of its lines leading to a sharp increase in the cost per ton recorded here.
- The above results are in line with our sector update dated 30 March 2010. Here, we highlighted our cautious view on the sector as a whole due to concerns on oversupply in the market, the ongoing conditional export ban, as well as intensifying competition from existing private players and new companies coming online. We stated that although volume growth should be impressive, the reported financials will not match this due to the mentioned sector-side concerns.
- Yamama is our only Overweight rated stock due to its location in the central region, ability to meet increased demand and low costs per ton. We believe its strong financial performance in 1Q10 where net income increased by 31% YoY against the flat results for the sector justifies our rating. We believe the market has not factored in the superior nature of Yamama Cement into its price.

Exhibit 4: KSA cement sector (only listed stocks for financial data)

All figure in SRmn, unless specified

KPI	1Q 10	1Q 09	% Change
Revenue	2,114	1,959	7.9
Gross profit	1,111	1,107	0.4
Gross margin (%)	52.5	56.5	(4.0)
Net profit	1,008	1,016	(0.8)
Net margin (%)	47.7	51.8	(4.2)
Average price of cement (SR)	228	242	(5.6)
Average cost of cement (SR)	107	105	1.5
Cement production ('000 tons)	11,236	9,136	23.0
Total cement & clinker sales ('000 tons)	11,670	9,297	25.5
Total cement stock	534	671	(20.4)
Total clinker stock	9,182	8,473	8.4

Source: Company, NCBC Research estimates

- For the covered stocks (all the listed companies except Arabian and Tabuk), the main difference in results to the sector was that revenue and all profit lines grew slightly faster than when Arabian and Tabuk are added, as above.
- The average price per ton at these six stocks decreased by 5% YoY, against a decline of 5.6% when Arabian and Tabuk Cement are included. Yamama Cement was the only company which managed to increase prices QoQ, by 2%. We believe this is largely due to the location of Yamama cement near Riyadh where most of the cement demand in KSA is currently concentrated, thus allowing it to charge a location premium.
- Total sales volumes for the covered stocks increased by 15% YoY in 1Q10, 11% slower than for the sector as a whole when private companies are included. We believe the increasing market share going to the private players is a key threat to the listed companies; based on the latest data (end of May-10), private players had a 22% share of the domestic market against 14% a year ago.

Exhibit 5: Covered stocks

All figure in SRmn, unless specified

KPI	1Q 10	1Q 09	% Change
Revenue	1,835	1,685	8.9
Gross profit	982	956	2.8
Gross margin (%)	53.5	56.8	(3.2)
Net profit	892	878	1.6
Net margin (%)	48.6	52.1	(3.5)
Average price of cement (SR)	231	244	(5.0)
Average cost of cement (SR)	107	105	2.1
Cement production ('000 tons)	7,732	6,798	13.7
Total cement & clinker sales ('000 tons)	7,941	6,901	15.1
Total cement stock	383	517	(25.9)
Total clinker stock	6,904	5,814	18.7

Source: Company, NCBC Research estimates

Saudi Cement (SCC)

Volumes offsetting margin pressure

Neutral

Target Price (SR)	**41.2**
Current price (SR)	**43.6**

Stock details

52-week range H/L (SR)			53/35
Market cap ($mn)			1,781
Shares outstanding (mn)			153
Listed on exchanges			TADAWUL
Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(14.2)	(4.4)	20.3
Rel. to market	(5.8)	2.0	20.0
Avg daily turn.(mn)		**SR**	**US$**
3M		11.3	3.0
12M		7.9	2.1

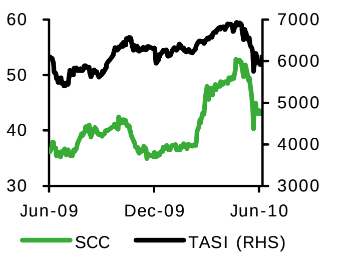
Reuters code	3030.SE
Bloomberg code	SACCO AB
Website	www.saudicement.com.sa

Valuation multiples

	09	10E	11E
P/E (x)	7.6	10.2	11.0
P/B (x)	1.4	1.3	1.2
EV/EBITDA (%)	9.8	9.0	9.7
Div yield (%)	8.0	5.4	5.4

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

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SCC is down 11% since our initiation leading to our upgrade on the stock to Neutral. SCC has been able to leverage on its high stock levels by meeting demand easily. However, this has not been met by similar profitability growth due to lower margins from its high transport costs/low cement prices. We remain cautious on the stock but believe concerns are now reflected in the share price.

- **Strong volumes, mixed financials expected in 2Q10:** We expect revenues to increase by 20% to SR427mn in 2Q10 with net income increasing by 9% to SR182mn. For Apr and May, total volumes are up 34% YoY. 2Q10 is expected to be another good quarter from Saudi Cement in terms of volumes and revenues as it continues to leverage its high stock levels to meet cement demand easily. However, we continue to believe this will be countered by high transport costs and low prices leading to a mixed financial performance.
- **2Q10 expected to be a repeat of 1Q10:** Despite sales volumes increasing by 30% in 1Q10, revenues increased by only 17%, with net income increasing by only 16% to SR177mn. We believe SCC was charging prices around 3% lower than the sector average. This, coupled with the implicit high transport costs present for SCC, we believe led to net margins of 43% against 47% for peers.
- **Sales volumes, profitability estimates increased:** We have increased our 2010e sales volume estimate for SCC by 19% to 7.1mn tons as SCC is being able to sell higher volumes due to lower prices. We have lowered our assumption for SCC's average selling price by 2% to SR224, leading to our profitability numbers increasing by only 14% in 2010e.
- **Capital increase leads to 51mn more shares, but no impact on fundamentals :** On 18 May 2010, SCC increased its number of shares by 51mn to 153mn through issuance of bonus shares. This lead to our previous PT falling by 33.3% due to the increased number of shares. This issuance is purely technical and should have no impact on the fundamentals of the stock
- **Moving towards fair value, upgrade to Neutral:** We upgrade the stock to Neutral based on it falling 11% since our initiation, as well as better than expected sales volumes. SCC trades at a P/E ratio of 10.2x 2010e, slightly below the industry average of 10.6x

Financials

		2009	2010E	2011E	2012E	2013E	2014E	CAGR
Revenues	SR mn	1,346	1,587	1,506	1,465	1,446	1,411	1.0
EBITDA	SR mn	820	887	825	768	739	709	(2.9)
EBITDA margin	%	60.9	55.9	54.7	52.5	51.1	50.3	
Net income	SR mn	588	654	609	563	536	508	(2.9)
Net margin	%	43.7	41.2	40.4	38.4	37.1	36.0	
EPS	SR	5.77	4.28	3.98	3.68	3.50	3.32	(10.4)

Source: Company, NCBC Research estimates

Financials

Exhibit 6: Income statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Net sales	1,346	1,587	1,506	1,465	1,446	1,411
% change	6.8	17.9	(5.1)	(2.8)	(1.3)	(2.4)
Operating expenses	81	100	108	108	108	110
Operating profit	606	677	630	578	546	513
EBITDA	820	887	825	768	739	709
Dep. & Amortization	214	210	195	190	193	196
Other income	(2.5)	(6.2)	(5.4)	(0.9)	3.5	8.1
Pre-tax profit	603	671	624	577	549	521
Tax (Zakat)	15	17	16	14	14	13
Net income	588	654	609	563	536	508
% change	(5.3)	11.2	(6.9)	(7.5)	(4.8)	(5.1)
Net margin	43.7	41.2	40.4	38.4	37.1	36.0
EPS	5.77	4.28	3.98	3.68	3.50	3.32

Source: Company, NCBC Research estimates

Exhibit 7: Balance sheet

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Current assets	1,048	1,196	1,265	1,224	1,170	1,094
Investments	69	127	145	162	178	194
Net fixed assets	3,837	3,755	3,650	3,559	3,474	3,396
Other assets	0	0	0	0	0	0
Total assets	**4,955**	**5,078**	**5,061**	**4,946**	**4,822**	**4,684**
Current liabilities	1,318	1,215	1,018	820	641	473
Total debt	487	417	348	278	209	139
Other liabilities	74	74	74	74	74	74
Total liabilities	1,878	1,706	1,439	1,172	923	686
Share capital	1,020	1,530	1,530	1,530	1,530	1,530
Reserves & surplus	2,057	1,842	2,091	2,244	2,369	2,468
Shareholders' funds	3,077	3,372	3,621	3,774	3,899	3,998
Minority interest	0	0	0	0	0	0
Total equity & liab	**4,955**	**5,078**	**5,061**	**4,946**	**4,822**	**4,684**

Source: Company, NCBC Research estimates

Exhibit 8: Cash flow statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	436	714	829	789	824	977
Cash flow from inv.(b)	(218)	(157)	(84)	(98)	(112)	(126)
CAPEX	(236)	(128)	(90)	(99)	(108)	(117)
Free cash flow	200	586	739	690	716	860
Cash flow from fin.(c)	(63)	(599)	(599)	(650)	(650)	(652)
Debt	301	(240)	(240)	(240)	(240)	(242)
Net chg. in cash (a+b+c)	155	(42)	146	41	62	200
Cash at start of the year	31	187	144	291	332	394
Cash at end of the year	187	144	291	332	394	594

Source: Company, NCBC Research estimates

Exhibit 9: Key ratios

	2009	2010E	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	5.77	4.28	3.98	3.68	3.50	3.32
Cash EPS	7.9	5.6	5.3	4.9	4.8	4.6
Div per share	3.5	2.3	2.3	2.7	2.7	2.7
Book value per share	30.2	33.1	35.5	37.0	38.2	26.1
Valuation ratios (x)						
P/E	7.6	10.2	11.0	11.9	12.5	13.1
P/Cash EPS	5.5	7.7	8.3	8.9	9.2	9.5
P/BV	1.4	1.3	1.2	1.2	1.1	1.7
EV/sales	5.9	5.0	5.3	5.5	5.5	5.7
EV/EBITDA	9.8	9.0	9.7	10.4	10.8	11.3
Div yield (%)	8.0	5.4	5.4	6.1	6.1	6.1
Profitability ratios (%)						
Gross margin	51.1	49.0	49.0	46.9	45.3	44.2
Operating margin	45.0	42.7	41.8	39.5	37.8	36.4
EBITDA margin	60.9	55.9	54.7	52.5	51.1	50.3
Net profit margin	43.7	41.2	40.4	38.4	37.1	36.0
ROE	19.9	20.3	17.4	15.2	14.0	12.9
ROA	12.4	13.0	12.0	11.2	11.0	10.7
Liquidity ratios						
Current ratio	0.8	1.0	1.2	1.5	1.8	2.3
Quick Ratio	0.3	0.3	0.5	0.7	0.9	1.7
Operating ratios (days)						
Inventory	358	360	355	320	270	140
Receivables outstanding	45	47	44	42	38	41
Payables outstanding	35	42	38	28	25	30
Operating cycle	403	407	399	362	308	181
Cash cycle	368	365	361	334	283	151

Source: Company, NCBC Research estimates

Southern Cement

Pressure from competitors

Underweight

Target Price (SR) 60.0

Current price (SR) 68.0

Stock details

52-week range H/L (SR)	78/58
Market cap ($mn)	2,542
Shares outstanding (mn)	140
Listed on exchanges	TADAWUL

Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(1.8)	(9.6)	17.7
Rel. to market	6.6	(3.2)	17.5

Avg daily turn.(mn)	**SR**	**US$**
3M	3.7	1.0
12M	3.0	0.8

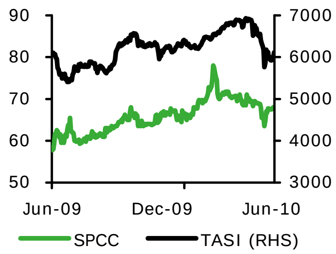
Reuters code	3050. SE
Bloomberg code	SACCO AB
Website	www.spcc.com.sa

Valuation multiples

	09	**10E**	**11E**
P/E (x)	13.0	13.6	13.8
P/B (x)	3.9	3.9	3.9
EV/EBITDA (%)	10.4	10.5	10.5
Div yield (%)	7.4	7.4	7.4

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

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We downgrade SPCC to Underweight due to increased competition, particularly from its local private peer Najran Cement. This is exacerbating the existing sector-wide issues leading to a poor outlook, with limited catalysts in the medium-term to change this; we are cautious on SPCC.

- **Competition expected to intensify in 2Q10:** We expect revenues to be flat at SR361mn in 2Q10e with net income falling by 5% to SR201mn. For Apr and May, total sales volumes are up 2% YoY. 2Q10 is set to be another weak quarter for SPCC as it is expected to continue losing market share, particularly to its local private competitor Najran Cement.
- **Poor 1Q10 due to sector as well as specific issues:** 1Q10 revenues fell by 2.5% YoY with net profits down by 5.3% to SR190mn. SPCC highlighted lower prices, increased expenses, the export ban and falls in other income as the key reasons behind the poor results.
- **Competition from Najran Cement putting a squeeze on SPCC:** In 1Q10 SPCC reported the second worst sales volumes figures in the sector, down by 2% against the 26% increase the sector as a whole saw. We believe Najran Cement, a recently established private cement company also based in the south, is aggressively marketing its cement, leading to increased pressure for SPCC. In 1Q10, Najan increased its sales volume by 139% and took its KSA market share to 6.2% from 3.3%.
- **Sales volumes, profitability estimates lowered:** We have lowered our 2010e sales volume estimate for SPCC by 6% to 5.3mn tons. This has led to our 2010e revenue estimate falling by 5% to SR1,301mn with our net income estimate falling by 5% to SR698mn
- **Outlook tough, valuation expensive:** With SPCC faring worse than expected against the competition from Najran cement, we downgrade the stock to Underweight. SPCC is trading at a P/E of 13.6x 2010e earnings, above the industry average of 10.6x.

Financials

		2009	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**CAGR**
Revenues	SR mn	1,318	1,301	1,347	1,441	1,430	1,451	2.0
EBITDA	SR mn	856	850	851	869	836	841	(0.6)
EBITDA margin	%	64.9	65.4	63.2	60.3	58.4	58.0	
Net income	SR mn	734	698	690	698	659	661	(3.6)
Net margin	%	55.6	53.7	51.2	48.5	46.1	45.5	
EPS	SR	5.24	4.99	4.93	4.99	4.71	4.72	(3.6)

Source: Company, NCBC Research estimates

Financials

Exhibit 10: Income statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Net sales	1,318	1,301	1,347	1,441	1,430	1,451
% change	1.6	(1.3)	3.6	7.0	(0.7)	1.5
COGS	551	556	611	694	724	742
Gross income	767	745	736	747	706	709
Gross margin	58.2	57.3	54.6	51.8	49.4	48.9
Operating expenses	34	38	38	41	42	43
Operating expenses as % of sales	2.6	2.9	2.8	2.9	2.9	3.0
Operating profit	733	707	698	706	665	666
Operating margin	55.6	54.4	51.8	49.0	46.5	45.9
EBITDA	856	850	851	869	836	841
Dep. & Amortization	123	146	153	164	171	175
Other income	26	13	13	14	14	15
Non-recurring items	0	0	0	0	0	0
Pre-tax profit	759	720	712	720	679	681
Tax (Zakat)	26	22	21	22	20	20
Net income	734	698	690	698	659	661
% change	(7.3)	(4.8)	(1.2)	1.1	(5.6)	0.3
Net margin	55.6	53.7	51.2	48.5	46.1	45.5
EPS	5.24	4.99	4.93	4.99	4.71	4.72

Source: Company, NCBC Research estimates

Exhibit 11: Balance sheet

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Current assets	907	832	734	638	685	741
Investments	0	0	0	0	0	0
Net fixed assets	1,768	1,851	1,978	2,105	2,043	1,979
Other assets	127	126	125	123	122	121
Total assets	**2,802**	**2,810**	**2,837**	**2,866**	**2,849**	**2,841**
Current liabilities	257	253	274	285	286	288
Total debt	0	0	0	0	0	0
Other liabilities	83	98	116	138	164	194
Total liabilities	340	351	391	423	450	483
Share capital	1,400	1,400	1,400	1,400	1,400	1,400
Reserves & surplus	1,062	1,058	1,047	1,043	1,000	959
Shareholders' funds	2,462	2,458	2,447	2,443	2,400	2,359
Total equity & liab	**2,802**	**2,810**	**2,837**	**2,866**	**2,849**	**2,841**

Source: Company, NCBC Research estimates

Exhibit 12: Cash flow statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	778	878	880	858	843	860
Cash flow from inv.(b)	(99)	(228)	(279)	(289)	(108)	(110)
CAPEX	(99)	(229)	(280)	(290)	(109)	(111)
Free cash flow	679	649	600	568	734	749
Cash flow from fin.(c)	(648)	(702)	(702)	(702)	(702)	(702)
Debt	0	0	0	0	0	0
Net chg. in cash (a+b+c)	31	(52)	(100)	(132)	34	48
Cash at start of the year	575	607	555	454	322	356
Cash at end of the year	607	555	454	322	356	404

Source: Company, NCBC Research estimates

Exhibit 13: Key ratios

	2009	2010E	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	5.2	5.0	4.9	5.0	4.7	4.7
Cash EPS	6.1	6.0	6.0	6.2	5.9	6.0
Div per share	5.0	5.0	5.0	5.0	5.0	5.0
Book value per share	17.6	17.6	17.5	17.4	17.1	16.8
Valuation ratios (x)						
P/E	13.0	13.6	13.8	13.6	14.5	14.4
P/Cash EPS	11.1	11.3	11.3	11.0	11.5	11.4
P/BV	3.9	3.9	3.9	3.9	4.0	4.0
EV/sales	6.8	6.9	6.6	6.2	6.2	6.1
EV/EBITDA	10.4	10.5	10.5	10.3	10.7	10.6
Div yield (%)	7.4	7.4	7.4	7.4	7.4	7.4
Profitability ratios (%)						
Gross margin	58.2	57.3	54.6	51.8	49.4	48.9
Operating margin	55.6	54.4	51.8	49.0	46.5	45.9
EBITDA margin	64.9	65.6	63.2	60.3	58.4	58.0
Net profit margin	55.6	53.7	51.2	48.5	46.1	45.5
ROE	30.4	28.4	28.1	28.6	27.2	27.8
ROA	26.4	24.9	24.4	24.5	23.1	23.2
Liquidity ratios						
Current ratio	3.5	3.3	2.7	2.2	2.4	2.6
Quick Ratio	3.3	3.0	2.1	1.4	1.6	1.8
Operating ratios (days)						
Inventory	158	142	128	128	128	128
Receivables outstanding	32	32	32	32	32	32
Payables outstanding	40	40	44	44	44	44
Operating cycle	190	174	160	160	160	160
Cash cycle	150	134	116	116	116	116

Source: Company, NCBC Research estimates

Qassim Cement

Delicate balancing act

With a mixed outlook, we remain Neutral on QCC. Weak volumes are set to hold back the 2Q10 performance, leading to limited profit gains. Its low cost basis remains an advantage with the expected 2010 dividend yield amongst the highest in the sector. However, due to concerns on fundamentals, we remain Neutral.

- **Weak volumes to be a drag on 2Q10:** We expect revenues to fall by 11% to SR250mn in 2Q10e with net income falling by 11% to SR133mn. For April and May, total sales volumes are down 11.6% YoY, against up 17.6% for the sector. 2Q10 is set to be another weak quarter for QCC as it is expected to report weak sales volume data leading to poor financials, in contrast to 1Q10.
- **Decent volumes, weak numbers in 1Q10:** Sales volumes increased by an impressive 19% at QCC in 1Q10. However, due largely to a fall in cement prices, the financial performance was not as impressive with gross income up only 3% and net income down by 4%.
- **Cost advantage remains a positive:** With easy access to key raw material inputs coupled with a highly efficient workforce and technologically advanced plant, QCC produced cement at SR96 per ton in 1Q10 versus the industry average of SR109 per ton. In an industry facing pricing pressure, QCC's low cost status is a key advantage for the stock.
- **Sales volumes, profitability estimates lowered:** We have lowered our 2010 sales volume estimate for QCC by 3% to 4.5mn tons. This has led to our 2010 revenue estimate falling by 5% to SR1,011mn, with our net income estimate falling by 8% to SR534mn.
- **Dividend yield attractive, but fundamentals remain muted:** Due to the poor outlook, we remain Neutral on QCC. At 11.4x 2010e P/E, 7.5% above the sector average, QCC looks expensive from a valuation perspective. However, its expected dividend yield of 7.4% is amongst the highest in the sector. With fundaments weak though, dividends alone are not enough for us to become buyers of the stock.

Financials

		2009	2010E	2011E	2012E	2013E	2014E	CAGR
Revenues	SR mn	987	1,011	994	949	950	941	(1.0)
EBITDA	SR mn	633	622	617	585	584	573	(2.0)
EBITDA margin	%	64.2	61.5	62.1	61.6	61.4	60.9	
Net income	SR mn	608	534	527	498	496	485	(4.4)
Net margin	%	61.6	52.8	53.0	52.4	52.2	51.6	
EPS	SR	6.76	5.93	5.86	5.53	5.51	5.39	(4.4)

Source: Company, NCBC Research estimates

Neutral

Target Price (SR)	71.3
Current price (SR)	67.8

Stock details

52-week range H/L (SR)			78/56
Market cap ($mn)			1,628
Shares outstanding (mn)			90
Listed on exchanges			TADAWUL
Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(5.9)	(11.4)	18.9
Rel. to market	2.5	(5.0)	18.6
Avg daily turn.(mn)		**SR**	**US$**
3M		12.7	8.5
12M		18.8	5.0

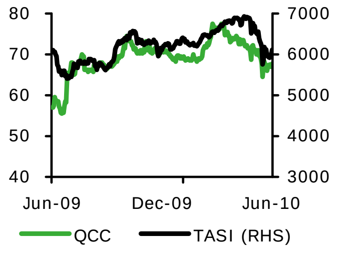
Reuters code	3040.SE
Bloomberg code	QACCO AB
Website	www.qcc.com.sa

Valuation multiples

	09	10E	11E
P/E (x)	10.0	11.4	11.6
P/B (x)	3.3	3.3	3.2
EV/EBITDA (%)	8.9	9.1	9.2
Div yield (%)	8.9	7.4	7.4

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

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Financials

Exhibit 14: Income statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Net sales	987	1,011	994	949	950	941
% change	20.3	2.5	(1.6)	(4.6)	0.1	(1.0)
Operating expenses	29	35	29	28	28	27
Operating profit	539	530	523	488	485	471
EBITDA	633	622	617	585	584	573
Dep. & Amortization	94	92	94	97	99	102
Other income	91	17	18	22	24	26
Pre-tax profit	630	547	541	510	509	497
Tax (Zakat)	22	14	14	13	13	12
Net income	608	534	527	498	496	485
Net income adjusted	525	534	527	498	496	485
EPS	6.76	5.93	5.86	5.53	5.51	5.39

Source: Company, NCBC Research estimates

Exhibit 15: Balance sheet

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Current assets	882	862	929	957	996	1,065
Investments	0	0	0	0	0	0
Net fixed assets	1,255	1,217	1,182	1,149	1,116	1,084
Other assets	116	116	116	116	116	116
Total assets	**2,253**	**2,195**	**2,228**	**2,222**	**2,228**	**2,265**
Current liabilities	255	225	226	218	216	220
Total debt	145	125	81	37	0	0
Other liabilities	19	19	19	19	19	19
Total liabilities	419	368	326	274	235	239
Share capital	900	900	900	900	900	900
Reserves & surplus	935	927	1,003	1,049	1,094	1,127
Shareholders' funds	1,835	1,827	1,903	1,949	1,994	2,027
Minority interest	(1)	(1)	(1)	(1)	(1)	(1)
Total equity & liab	**2,253**	**2,195**	**2,228**	**2,222**	**2,228**	**2,265**

Source: Company, NCBC Research estimates

Exhibit 16: Cash flow statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	652	602	646	600	603	601
Cash flow from inv.(b)	(433)	(54)	(60)	(63)	(67)	(70)
CAPEX	(107)	(54)	(60)	(63)	(67)	(70)
Free cash flow	545	548	586	537	537	531
Cash flow from fin.(c)	(540)	(562)	(496)	(496)	(488)	(452)
Debt	(44)	(20)	(44)	(44)	(37)	0
Net chg. in cash (a+b+c)	(321)	(13)	91	42	49	80
Cash at start of the year	336	16	2	93	135	184
Cash at end of the year	16	2	93	135	184	263

Source: Company, NCBC Research estimates

Exhibit 17: Key ratios

	2009	2010E	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	6.8	5.9	5.9	5.5	5.5	5.4
Cash EPS	7.8	6.9	6.9	6.6	6.6	6.5
Div per share	6.0	5.0	5.0	5.0	5.0	5.0
Book value per share	20.4	20.3	21.1	21.7	22.2	22.5
Valuation ratios (x)						
P/E	10.0	11.4	11.6	12.3	12.3	12.6
P/Cash EPS	8.7	9.7	9.8	10.3	10.2	10.4
P/BV	3.3	3.3	3.2	3.1	3.1	3.0
EV/sales	5.7	5.6	5.7	6.0	6.0	6.0
EV/EBITDA	8.9	9.1	9.2	9.7	9.7	9.9
Div yield (%)	8.9	7.4	7.4	7.4	7.4	7.4
Profitability ratios (%)						
Gross margin	57.6	56.0	55.5	54.4	53.9	53.0
Operating margin	54.7	52.5	52.6	51.5	51.0	50.1
EBITDA margin	64.2	61.5	62.1	61.6	61.4	60.9
Net profit margin	53.2	52.8	53.0	52.4	52.2	51.6
ROE	34.2	29.1	28.3	25.8	25.2	24.1
ROA	26.9	24.0	23.8	22.4	22.3	21.6
Liquidity ratios						
Current ratio	3.5	3.8	4.1	4.4	4.6	4.8
Quick Ratio	2.7	3.0	3.4	3.7	3.9	4.2
Operating ratios (days)						
Inventory	169	152	137	130	125	120
Receivables outstanding	17	17	16	16	14	12
Payables outstanding	10	20	23	22	20	24
Operating cycle	186	169	153	146	139	132
Cash cycle	176	149	130	124	119	108

Source: Company, NCBC Research estimates

CEMENT | 12 June 2010 COMPANY UPDATE

Eastern Province

Neutral

Target Price (SR) 44.3

Current price (SR) 41.7

Stock details

52-week range H/L (SR)			53/41
Market cap ($mn)			958
Shares outstanding (mn)			86
Listed on exchanges			TADAWUL
Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(3.7)	(19.4)	(7.3)
Rel. to market	4.7	(13.0)	(7.6)
Avg daily turn.(mn)		**SR**	**US$**
3M		3.9	1.1
12M		3.7	1.0

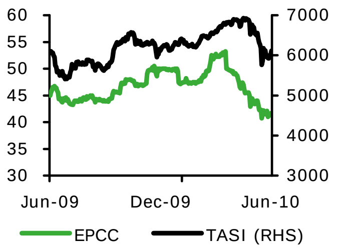
Reuters code	3080.SE
Bloomberg code	EACCO AB
Website	www.epcco.com.sa

Valuation multiples

	09	10E	11E
P/E (x)	8.3	9.2	9.7
P/B (x)	1.9	1.7	1.6
EV/EBITDA (%)	6.6	7.0	7.4
Div yield (%)	7.2	7.2	7.2

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

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Upgrade to Neutral on valuation

We upgrade EPCC to Neutral, largely based on its low valuation against peers. It has underperformed the TASI by 8% YTD. With it trading at a 13% discount to the KSA cement sector on 2010 P/E, we believe much of the poor outlook for EPCC is now priced in.

- **Ongoing domestic clinker sales to help 2Q10 numbers:** We expect revenues to increase by 21% to SR250mn in 2Q10e with net income rising by 12% to SR115mn. For April and May, total sales volumes are up 37% YoY, against up 17.6% for the sector. The upturn in sales volumes is largely due to EPCC commencing domestic sales of clinker in 2010 to supplement poor cement sales.
- **Lower pricing, higher costs led to poor 1Q10:** EPCC increased its sales volumes by a reasonable 15% in 1Q10, although its prices fell by 6% YoY and 4% QoQ. With costs increasing by 5% YoY, this combined with the lower prices to lead to the poor financials with net income falling by 4.9%.
- **Power generation unit a positive:** EPCC announced on 31 May that it had started operations on its SR117mn power generation plant. We view this as a positive given the risk that subsidies from the government on power could be reduced leading to cost pressures for those companies fully reliant on the government for power.
- **Sales volumes, profitability estimates increased due to KSA clinker sales:** Due to its commencement of clinker sales in KSA in 2010, we have increased our 2010e sales volume estimate for EPCC by 12% to 3.75mn tons. This has led to our 2010e revenue estimate increasing by 11% to SR875mn with our net income estimate increasing by 6% to SR391mn.
- **Muted outlook increasingly priced in-upgrade to Neutral:** Although we are cautious on the fundamental outlook for EPCC, it has underperformed the TASI by 7% and the sector by 6% since our downgrade to Underweight. It is currently trading at 9.2x 2010 P/E, a 13% discount to peers leading us to believe most of the poor outlook is now priced in to the stock.

Financials

		2009	2010E	2011E	2012E	2013E	CAGR (09-13E)
Net sales	SR mn	779	875	821	747	738	(1.3)
Gross income	SR mn	441	481	452	409	396	(2.7)
Gross margin	%	56.7	54.9	55.0	54.7	53.7	
Operating income	SR mn	368	404	372	326	309	(4.2)
Operating margin	%	47.3	46.2	45.3	43.6	42.0	
Net income	SR mn	351	391	370	325	308	(3.2)
Net margin	%	45.0	44.6	45.0	43.5	41.7	
EPS	SR	4.08	4.54	4.30	3.78	3.58	(3.2)

Source: Company, NCBC Research estimates

Financials

Exhibit 18: Income statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Net sales	779	875	821	747	738	754
% change	(2.5)	12.4	(6.2)	(9.0)	(1.3)	2.2
COGS	376	429	407	382	388	405
Gross Income	402	446	414	365	349	349
Gross margin (%)	51.6	50.9	50.4	48.9	47.4	46.3
Total operating expenses	411	471	449	421	428	446
Operating profit	368	404	372	326	309	308
Operating margin (%)	47.3	46.2	45.3	43.6	42.0	40.9
EBITDA	441	481	452	409	396	398
Interest Income, net	(3)	(2)	(1)	(1)	(0)	(0)
Other income	12	10	13	12	10	9
Non-recurring items	0	0	0	0	0	0
Pre-tax profit	377	412	384	337	320	317
Tax (Zakat)	14	15	14	13	12	12
Minority Interest	0	0	0	0	0	0
Net income	351	391	370	325	308	305
% change	(19.2)	11.4	(5.3)	(12.2)	(5.3)	(0.9)
Net income margin (%)	45.0	44.6	45.0	43.5	41.7	40.5
EPS	4.08	4.54	4.30	3.78	3.58	3.55

Source: Company, NCBC Research estimates

Exhibit 19: Balance sheet

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Current assets	855	857	904	925	942	960
Investments	354	419	419	419	419	419
Net fixed assets	1,048	1,077	1,106	1,136	1,165	1,193
Other assets	59	59	59	59	59	59
Total assets	**2,316**	**2,411**	**2,488**	**2,538**	**2,584**	**2,631**
Current liabilities	175	164	154	143	139	136
Total debt	73	30	5	0	0	0
Other liabilities	38	56	58	59	62	66
Total liabilities	**286**	**251**	**217**	**202**	**201**	**202**
Share capital	860	860	860	860	860	860
Reserves & surplus	1,170	1,301	1,411	1,476	1,524	1,569
Shareholders' funds	2,030	2,161	2,271	2,336	2,384	2,429
Total equity & liab	**2,316**	**2,411**	**2,488**	**2,538**	**2,584**	**2,631**

Source: Company, NCBC Research estimates

Exhibit 20: Cash flow statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	454	370	434	427	390	393
Cash flow from inv.(b)	(63)	(170)	(109)	(112)	(115)	(119)
CAPEX	(209)	(106)	(109)	(112)	(115)	(119)
Free cash flow	245	264	325	314	275	275
Cash flow from fin.(c)	(302)	(302)	(285)	(265)	(260)	(260)
Debt	(40)	(43)	(25)	(5)	0	0
Net chg. in cash (a+b+c)	88	(103)	40	49	15	15
Cash at start of the year	253	341	238	279	328	343
Cash at end of the year	341	238	279	328	343	358

Source: Company, NCBC Research estimates

Exhibit 21: Key ratios

	2009	2010E	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	4.08	4.54	4.30	3.78	3.58	3.55
FCF per share	4.9	5.4	5.2	4.7	4.6	4.6
Div per share	3.0	3.0	3.0	3.0	3.0	3.0
Book value per share	23.6	25.1	26.4	27.2	27.7	28.2
Valuation ratios (x)						
P/E	10.2	9.2	9.7	11.0	11.7	11.8
P/Cash EPS	8.5	7.7	8.0	8.8	9.1	9.1
P/BV	1.8	1.7	1.6	1.5	1.5	1.5
EV/sales	4.3	3.8	4.1	4.5	4.9	4.8
EV/EBITDA	7.6	7.0	7.4	8.2	9.1	9.0
Div yield (%)	7.2	7.2	7.2	7.2	7.2	7.2
Profitability ratios (%)						
Gross margins	51.6	50.9	50.4	48.9	47.4	46.3
Operating margin	47.3	46.2	45.3	43.6	42.0	40.9
EBITDA margins	56.7	54.9	55.0	54.7	53.7	52.8
Net profit margins	45.0	44.6	45.0	43.5	41.7	40.5
ROE	18.0	18.6	16.7	14.1	13.0	12.7
ROA	15.5	16.5	15.1	12.9	12.0	11.7
Liquidity ratios						
Current ratio	4.9	5.2	5.9	6.5	6.8	7.0
Quick Ratio	3.0	2.8	3.2	3.8	4.0	4.2
Operating ratios (days)						
Inventory	327	340	365	370	360	355
Receivables outstanding	68	78	83	88	93	88
Payables outstanding	88	83	78	73	68	63
Operating cycle	395	418	448	458	453	443
Cash cycle	307	335	370	385	385	380

Source: Company, NCBC Research estimates

Yamama Cement

Remains our top pick in cement

Overweight

Target Price (SR)	58.0
Current price (SR)	**47.9**

Stock details

52-week range H/L (SR)			54/38
Market cap ($mn)			1, 727
Shares outstanding (mn)			135
Listed on exchanges			TADAWUL
Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(7.4)	(7.9)	22.8
Rel. to market	1.0	(1.5)	22.6
Avg daily turn.(mn)		**SR**	**US$**
3M		10.2	2.7
12M		7.6	2.0

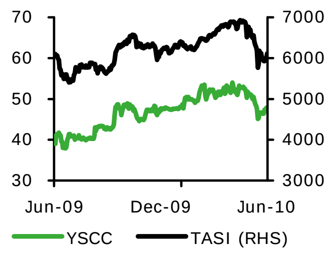
Reuters code	3020.SE
Bloomberg code	YACCO AB
Website	www.yamamacement.com

Valuation multiples

	09	10E	11E
P/E (x)	10.6	10.2	10.4
P/B (x)	2.3	2.0	1.9
EV/EBITDA (%)	7.8	7.5	7.6
Div yield (%)	4.2	7.3	7.3

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

We maintain our Overweight on Yamama Cement with upside of 21%. Yamama is well located to take advantage of the increased momentum of the construction sector in 2010, particularly in the Central region. A low cost base and self integrated plant remain key positives for the stock.

- **2010 to be strong, although 2Q10 softer due to weather:** We expect revenues to increase by 2% to SR319mn in 2Q10e with net income falling by 0.4% to SR165mn. For April and May, total sales volumes are up 3.3% YoY, as compared to 17.6% up for the sector. 2Q10 is set to be relatively weak for YSCC due to the floods and sand storms seen in Riyadh in April/May which led to intermittent shutdowns in construction projects.
- **Strongest performer in 1Q10, but not fully reflected in price:** Yamama reported a 31% increase in 1Q10 net income, the highest in its peer group and significantly ahead of the sector which was down 0.8%. However the stock price is up only 4% against peers YTD. We believe the market has not factored in the best-in-class nature of Yamama.
- **Central region remains centre of cement demand in KSA-Yamama ideally positioned to benefit:** Around 35% of the total KSA cement demand is based in the Central region. Due to its location just outside of Riyadh, Yamama is ideally located to meet this demand and will incur minimal logistical costs in the process. We believe over 90% of Yamama sales are focused in the central region
- **Sales volumes, profitability estimates lowered:** We have reiterated our 2010e sales volume estimate for Yamana at 5.8mn tons as a result of the sector as whole doing worse than we expected, coupled with weather issues leading to lower 2Q10 numbers. This has led to our 2010e revenue estimate remaining unchanged at SR1,306 with our net income estimate increasing marginally by 0.9% to SR634mn
- **Valuation at a discount, deserves to be at premium:** Yamama currently trades at 10.2x for 2010e P/E, below the industry average of 10.6x. However, we believe its advantageous location and ability to meet new demand will enable it to trade at least at par with the industry average, going forward.

Financials

		2009	2010E	2011E	2012E	2013E	CAGR (09-13E)
Net sales	SR mn	1,163	1,306	1,331	1,330	1,374	4.2
Gross income	SR mn	620	689	677	664	685	2.5
Gross margin	%	53.3	52.8	50.9	49.9	49.9	
Net income	SR mn	562	634	623	613	635	3.1
Net margin	%	48.3	48.5	46.8	46.1	46.2	
EPS	SR	4.2	4.7	4.6	4.5	4.7	3.1

Source: Company, NCBC Research estimates

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Financials

Exhibit 22: Income statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Net sales	1,163	1,306	1,331	1,330	1,374	1,387
% change	3.6	12.3	1.9	(0.0)	3.3	1.0
COGS	543	616	654	667	688	709
Gross Income	620	689	677	664	685	678
Gross margin (%)	53.3	52.8	50.9	49.9	49.9	48.9
Total operating expenses	589	665	709	722	747	770
Operating profit	574	640	622	608	627	617
Operating margin (%)	49.3	49.0	46.7	45.7	45.6	44.5
EBITDA	766	822	808	796	819	813
Interest Income, net	(13)	4	8	9	11	12
Other income	10	15	15	15	16	16
Non-recurring items	0	0	0	0	0	0
Pre-tax profit	580	651	639	629	651	645
Tax (Zakat)	18	17	16	16	16	16
Minority Interest	0	0	0	0	0	0
Net income	562	634	623	613	635	629
% change	(8.0)	12.8	(1.6)	(1.7)	3.6	(1.0)
Net income margin (%)	48.3	48.5	46.8	46.1	46.2	45.3
EPS	4.2	4.7	4.6	4.5	4.7	4.7

Source: Company, NCBC Research estimates

Exhibit 23: Balance sheet

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Current assets	1,068	1,137	1,339	1,404	1,565	1,690
Investments	379	420	417	532	570	648
Net fixed assets	2,216	2,117	2,016	1,914	1,810	1,704
Other assets	31	31	31	31	31	31
Total assets	**3,694**	**3,705**	**3,803**	**3,881**	**3,976**	**4,073**
Current liabilities	318	231	243	245	241	179
Total debt	267	200	134	67	0	0
Other liabilities	54	59	64	69	75	81
Total liabilities	**639**	**491**	**441**	**381**	**316**	**259**
Share capital	1,350	1,350	1,350	1,350	1,350	1,350
Reserves & surplus	1,705	1,864	2,012	2,150	2,310	2,464
Shareholders' funds	3,055	3,214	3,362	3,500	3,660	3,814
Total equity & liab	**3,694**	**3,705**	**3,803**	**3,881**	**3,976**	**4,073**

Source: Company, NCBC Research estimates

Exhibit 24: Cash flow statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	676	662	819	807	799	756
Cash flow from inv.(b)	(62)	(124)	(83)	(201)	(126)	(167)
CAPEX	(7)	(83)	(85)	(86)	(88)	(90)
Free cash flow	669	579	734	721	711	666
Cash flow from fin.(c)	(545)	(542)	(542)	(542)	(542)	(475)
Debt	(141)	(67)	(67)	(67)	(67)	0
Net chg. in cash (a+b+c)	69	(4)	195	64	132	113
Cash at start of the year	643	712	708	903	967	1,099
Cash at end of the year	712	708	903	967	1,099	1,212

Source: Company, NCBC Research estimates

Exhibit 25: Key ratios

	2009	2010E	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	4.2	4.7	4.6	4.5	4.7	4.7
FCF per share	5.6	6.0	6.0	5.9	6.1	6.1
Div per share	3.0	3.5	3.5	3.5	3.5	3.5
Book value per share	22.6	23.8	24.9	25.9	27.1	28.3
Valuation ratios (x)						
P/E	11.5	10.2	10.4	10.5	10.2	10.3
P/Cash EPS	8.6	7.9	8.0	8.1	7.8	7.8
P/BV	2.1	2.0	1.9	1.8	1.8	1.7
EV/sales	5.3	4.7	4.6	4.6	4.5	4.5
EV/EBITDA	8.1	7.5	7.6	7.8	7.5	7.6
Div yield (%)	6.3	7.3	7.3	7.3	7.3	7.3
Profitability ratios (%)						
Gross margins	53.3	52.8	50.9	49.9	49.9	48.9
Operating margin	49.3	49.0	46.7	45.7	45.6	44.5
EBITDA margins	65.8	63.0	60.7	59.9	59.6	58.6
Net profit margins	48.3	48.5	46.8	46.1	46.2	45.3
ROE	19.1	20.2	19.0	17.9	17.7	16.8
ROA	15.4	17.1	16.6	16.0	16.2	15.6
Liquidity ratios						
Current ratio	3.4	4.9	5.5	5.7	6.5	9.5
Quick Ratio	3.1	4.4	5.0	5.3	5.9	8.6
Operating ratios (days)						
Inventory	65	65	62	62	75	76
Receivables outstanding	79	87	87	87	85	86
Payables outstanding	40	40	44	44	40	41
Operating cycle	145	152	149	149	160	162
Cash cycle	105	113	105	105	120	121

Source: Company, NCBC Research estimates

CEMENT | 12 June 2010 COMPANY UPDATE

NCB CAPITAL

Yanbu Cement

Neutral

Target Price (SR) 39.4

Current price (SR) 41.3

Stock details

52-week range H/L (SR)			57/41
Market cap ($mn)			1,158
Shares outstanding (mn)			105
Listed on exchanges			TADAWUL
Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(4.0)	(13.8)	(14.5)
Rel. to market	4.5	(7.4)	(14.8)
Avg daily turn.(mn)		**SR**	**US$**
3M		5.4	1.4
12M		4.4	1.2

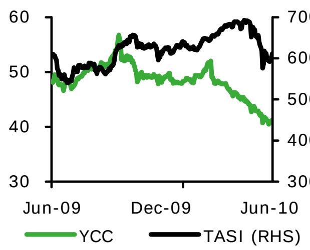
Reuters code	3020.SE
Bloomberg code	YACCO AB
Website	www.yanbucement.com

Valuation multiples

	09	10E	11E
P/E (x)	9.0	10.1	9.8
P/B (x)	1.8	1.7	1.6
EV/EBITDA (%)	7.1	7.6	7.0
Div yield (%)	7.3	7.3	7.3

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

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Please refer to the last page for important disclaimer

Fundamentals a drag

We remain Neutral on the stock as we continue to be cautious on the fundamental outlook for Yanbu Cement. It continues to suffer from its old lines and the slow pace of demand momentum in the Western region. This has been reflected in the share price with the stock underperforming the sector by 12% YTD. The key catalyst remains the opening of its new line in mid 2011.

- **Another weak performance expected in 2Q10:** 2Q10 is expected to be another relatively weak quarter from Yanbu Cement as its old lines and the lack of demand momentum in the western region continue to pressure profitability. We expect revenues to fall by 10% to SR248mn in 2Q10 with net income falling by 14% to SR130mn. For April and May, total sales are down 9.4% YoY, against up 17.6% for the sector.
- **Old lines and slow demand led to weak 1Q10:** Despite the sector as a whole selling 26% more cement in 1Q10, Yanbu's sales volumes fell by 7%. This was reflected in poor financials with net income falling by 19%. We believe continued problems with its old lines, alongside slower than expected demand in the western region were to blame.
- **Top-line support from premium pricing expected to continue:** Yanbu's average cement price in 1Q10 was SR235 per ton, 0.9% ahead of the sector, helping limit its top-line declines. We believe it will be able to maintain a small price premium over its peers due its location advantage close to the demand points in the western region.
- **Estimates reduced:** We have reduced our sales volume estimates for 2010e by 1% considering inefficiencies with its old lines, as well as the demand outlook being weaker than we first expected. This leads to our revenue estimates falling by 2% to SR863mn in 2010e and our net income estimates falling by 4% to SR428mn.
- **Poor outlook, but reflected in stock performance, maintain Neutral rating:** Yamama had a torrid 1Q10, but this has been reflected in its stock performance where YTD, it has underperformed the sector by 12% and the TASI by 15%. It trades at 10.1x 2010 P/E, with a 6% discount to peers. We maintain our Neutral rating.

Financials

		2009	2010E	2011E	2012E	2013E	CAGR (09-13E)
Net sales	SR mn	943	863	965	1,074	1,149	5.1
Gross income	SR mn	510	460	491	525	544	1.6
Gross margin	%	54.0	53.3	50.9	48.9	47.3	
Net income	SR mn	486	439	468	500	517	1.6
Net margin	%	51.5	50.8	48.5	46.5	45.0	
EPS	SR	4.6	4.1	4.2	4.3	4.4	1.6

Source: Company, NCBC Research estimates

Financials

Exhibit 26: Income statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Net sales	943	863	965	1,074	1,149	1,166
% change	(13.7)	(8.5)	11.8	11.3	6.9	1.5
COGS	434	403	474	549	605	627
Gross Income	510	460	491	525	544	540
Gross margin (%)	54.0	53.3	50.9	48.9	47.3	46.3
Total operating expenses	458	425	497	575	632	654
Operating profit	486	439	468	500	517	512
Operating margin (%)	51.5	50.8	48.5	46.5	45.0	43.9
EBITDA	584	547	594	631	650	648
Interest Income, net	0	(6)	(16)	(37)	(43)	(35)
Other income	11	9	4	0	0	0
Non-recurring items	0	0	0	0	0	0
Pre-tax profit	497	442	455	463	474	477
Tax (Zakat)	12	11	11	12	12	12
Minority Interest	(2.9)	(3.1)	(3.4)	(4.0)	(4.6)	(5.3)
Net income	482	428	441	447	457	460
% change	(13.9)	(11.2)	3.0	1.5	2.2	0.6
Net income margin (%)	51.1	49.6	45.7	41.6	39.8	39.4
EPS	4.6	4.1	4.2	4.3	4.4	4.4

Source: Company, NCBC Research estimates

Exhibit 27: Balance sheet

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Current assets	543	(152)	(127)	571	564	551
Investments	183	183	0	0	0	0
Net fixed assets	2,104	2,923	3,736	3,702	3,666	3,628
Other assets	0	0	0	0	0	0
Total assets	**2,831**	**2,954**	**3,609**	**4,273**	**4,231**	**4,180**
Current liabilities	237	213	229	247	260	261
Total debt	118	152	664	1,176	976	776
Other liabilities	41	41	41	41	41	41
Total liabilities	**396**	**406**	**934**	**1,464**	**1,277**	**1,078**
Share capital	1,050	1,050	1,050	1,050	1,050	1,050
Reserves & surplus	1,366	1,477	1,600	1,730	1,870	2,013
Shareholders' funds	2,416	2,527	2,650	2,780	2,920	3,063
Minority interest	18	21	25	29	33	39
Total equity & liab	**2,831**	**2,954**	**3,609**	**4,273**	**4,231**	**4,180**

Source: Company, NCBC Research estimates

Exhibit 28: Cash flow statement

In SR millions, unless otherwise stated. Year-end Dec 31.

(SR mn)	2009	2010E	2011E	2012E	2013E	2014E
Cash flow from op. (a)	606	552	602	600	605	619
Cash flow from inv.(b)	(529)	(927)	(939)	(98)	(98)	(98)
CAPEX	(529)	(927)	(939)	(98)	(98)	(98)
Free cash flow	77	(375)	(337)	503	507	521
Cash flow from fin.(c)	(303)	(283)	195	195	(517)	(517)
Debt	114	34	512	512	(200)	(200)
Net chg. in cash (a+b+c)	(226)	(659)	(142)	697	(10)	3
Cash at start of the year	521	295	(364)	(506)	191	181
Cash at end of the year	295	(364)	(506)	191	181	185

Source: Company, NCBC Research estimates

Exhibit 29: Key ratios

	2008	2009E	2010E	2011E	2012E	2013E
Per share ratios (SR)						
EPS	4.59	4.08	4.20	4.26	4.35	4.38
FCF per share	5.5	5.1	5.4	5.5	5.6	5.7
Div per share	3.0	3.0	3.0	3.0	3.0	3.0
Book value per share	23.0	24.1	25.2	26.5	27.8	29.2
Valuation ratios (x)						
P/E	9.0	10.1	9.8	9.7	9.5	9.4
P/Cash EPS	7.5	8.1	7.7	7.5	7.3	7.3
P/BV	1.8	1.7	1.6	1.6	1.5	1.4
EV/sales	4.4	4.8	4.3	3.9	3.6	3.6
EV/EBITDA	7.1	7.6	7.0	6.6	6.4	6.4
Div yield (%)	7.3	7.3	7.3	7.3	7.3	7.3
Profitability ratios (%)						
Gross margins	54.0	53.3	50.9	48.9	47.3	46.3
Operating margin	51.5	50.8	48.5	46.5	45.0	43.9
EBITDA margins	61.9	63.4	61.5	58.8	56.6	55.6
Net profit margins	51.1	49.6	45.7	41.6	39.8	39.4
ROE	20.2	17.3	17.0	16.5	16.0	15.4
ROA	17.8	14.8	13.4	11.4	10.8	10.9
Liquidity ratios						
Current ratio	3.1	0.1	(0.6)	2.3	2.2	2.1
Quick Ratio	1.8	(1.1)	(1.7)	1.2	1.2	1.1
Operating ratios (days)						
Inventory	242	242	200	175	160	150
Receivables outstanding	56	54	45	40	38	35
Payables outstanding	36	38	30	25	22	20
Operating cycle	297	296	245	215	198	185
Cash cycle	262	258	215	190	176	165

Source: Company, NCBC Research estimates

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