Global Investment House

Sector Report

Subject : Saudi Arabia Cement Sector – Sector Report

Prepared by : Global Investment House **"Global"**
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- **Global** maintains **'POSITIVE'** outlook on Saudi Arabia Cement Sector.

Global Investment House – Saudi Arabia – Saudi Arabia Cement Sector – November 2007-The Saudi economy has been experiencing high growth over the last four years. The nominal GDP of the Kingdom grew at a CAGR of 16.5 per cent over 2002-'06; in real terms, the CAGR was 5.9 per cent. This growth has been driving boom in construction sector, hence the increased demand for cement. The GCC cement sector has seen good growth in recent years. A host of factors have seen huge investment inflow into the real estate sector of most GCC countries in recent months. This has positive implications for the GCC cement sector. The Saudi cement demand is projected to grow at an annual rate of more than 10 per cent during 2007-'10, one of the highest in the GCC region.

The aggregate profit of listed cement companies in Saudi Arabia reached SR3.68bn in 2006, up 18.2% from SR3.11bn reported in the previous year. The highest growth was registered in Eastern Province Cement which reported 49.1 per cent growth in net profit in 2006. During 2006, cement production rose to 27.03 million tonnes (mt) as compared to 26.03mt in 2005. Domestic deliveries stood at 24.7mt as compared to 24.4mt in 2005. Saudi Cement achieved the highest production numbers, clocking 5.0mt in 2006. The current combined total capacity for clinker and cement of these eight companies is 28.5mt and 33.1mt respectively. Yamama Cement, with clinker and cement capacities of 6.0mt and 6.5mt respectively, was the biggest cement company as per latest figures.

The total production of clinker and cement in the Kingdom in 2006 was 23.8mt and 27.0mt respectively, 7.5 per cent and 3.7 per cent higher, respectively, over 2005. The production of clinker and cement in the Kingdom grew at a CAGR of 2.4 per cent and 3.9 per cent respectively during 2003-'06. For the first nine months of 2007, the total production of clinker and cement was 20.2mt and 23.2mt respectively. On the back of healthy demand, average realizations for all the companies rose during 2006, continuing the uptrend of the previous years. The weighted average realization for all the eight companies combined was SR239.4/tonne, up 8.6 per cent over SR220.4/tonne in 2005.

The performance of the companies improved during 2006, with revenues increasing to SR6.5bn, up 12.5 per cent, and net profits increasing to SR3.7bn, up 18.2 per cent, over the previous year. The revenues and net profits of the eight companies grew at a CAGR of 11.5 per cent and 14.9 per cent, respectively, during 2003-'06. The strong performance of the Saudi listed cement companies seems to be continuing into 2007 as well. Results for first nine months of 2007 for the companies suggest that the revenues have grown by 17.8 per cent y-o-y, whereas the net profit has grown by 21.4 per cent y-o-y. This could well be a pointer to another year of robust performance for these companies in 2007. Saudi Cement, SPCC and Yamama were the leading companies in terms of value of sales in 2006. The three companies together accounted for close to half of the total revenues and net profits of all the eight listed companies that year.

The eight listed companies had a lackluster performance at the Saudi Stock Market (Tadawul) during last 12 months, which was in-line with the massive correction across the board in Tadawul. All the eight stocks were down for most part of the last 12 months. However the stocks have improved in recent months. Tadawul was the worst performing market among all the stock markets in GCC in the last 12 months. Tadawul All Stock Index (TASI) has gained only 2.3 per cent in last 12 months to November 6, 2007.

We maintain a '**POSITIVE**' outlook on the Saudi cement sector in the medium-term, driven, mainly, by expectations of sustained growth in revenues, owing to a plethora of big ticket infrastructure and real estate projects identified/announced currently underway all across the Kingdom, and sustainable profit margins. We are updating our coverage of the Saudi cement sector with full valuation of six out of the eight listed cement companies in this report. We recommend a '**BUY**' on Eastern Province Cement and Yanbu Cement. For the other four companies, we recommend a '**HOLD**'. Our recommendation on Saudi cement companies is tabulated below.

Table : Saudi Arabia Cement Sector - Recommendation Summary:

Name of the Company	Current Price (SR)	Target Price (SR)	Reco.	% upside /downside	BVPS (SR)	EPS (SR)	P/BV	P/E
Arabian Cement	93.0	91.0	HOLD	-2.2%	29.0	6.1	3.2	15.2
Eastern Cement	80.5	102.2	BUY	27.0%	17.9	6.7	4.5	12.0
Qassim Cement	145.0	157.9	HOLD	8.9%	33.2	10.9	4.4	13.2
Saudi Cement	100.3	104.6	HOLD	4.3%	24.4	6.7	4.1	15.0
Yanbu Cement	82.0	96.9	BUY	18.1%	21.6	6.9	3.8	11.8
Yamama Cement	79.0	85.3	HOLD	8.0%	16.9	5.7	4.7	13.8
Southern Cement*	77.5	--	NR	--	13.7	4.5	5.3	16.4
Tabuk Cement*	33.3	--	NR	--	12.0	3.1	2.7	10.4

Based on 2007 earnings and current market prices as on 6th Nov 2007
*2006 figures. NR – Not Rated
**Source: Global Research*