NCB CAPITAL

EQUITY RESEARCH

May 2009

Cement Monthly

Saudi Arabia Cement Sector

April: Domestic demand continues to rise

Cement dispatches in Saudi Arabia remained above the 3.0mt mark for the second consecutive month this year. Strong domestic demand is helping cement companies offset revenue losses owing to export restrictions.

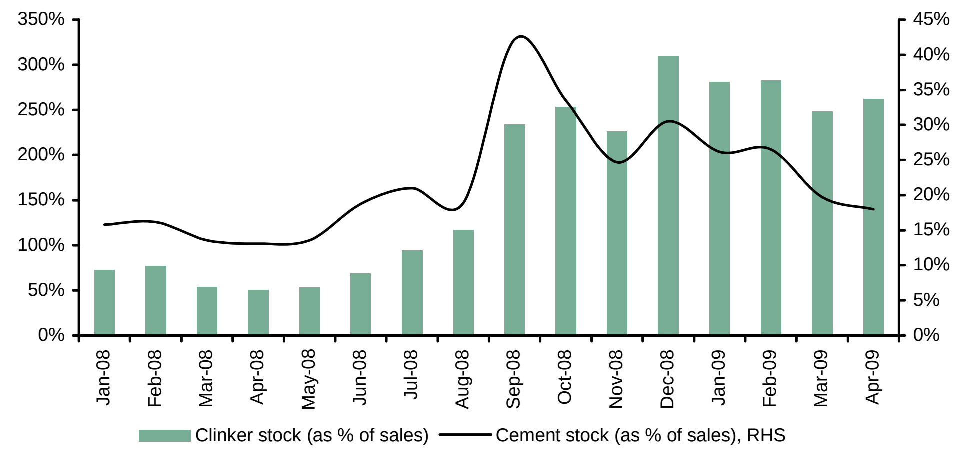
Sales: Domestic cement dispatches remained strong. Apr-09 cement and clinker sales were up 14.9% YoY at 3.28mt though down 2.8% sequentially. Saudi Cement and Qassim Cement achieved their highest-ever monthly domestic sales in Apr-09.

Production: The Apr-09 production of 3.26mt just about met domestic demand, indicating that export sales were made from the old stock, helping reduce inventory.

Stock: Cement stock as a percentage of sales fell to 18% in Apr-09 from 20% in Mar-09. Over the same period, clinker stock as a percentage of cement sales moved up to 263% from 249%.

Market shares: In Apr-09, newly established private players cornered a 14.9% domestic market share, whereas market shares of most listed companies declined.

Chart of the month: Cement stock and clinker stock (as % of sales)



Source: Yamama Cement, NCBC Research

Exhibit 1: Saudi cement companies – Valuation matrix

Company	M-Cap $ mn	Stock perf (%) Apr-09	Stock perf (%) YTD	P/E (x) TTM	EV/ EBITDA TTM	P/BV (x) *	EV/ton 08 $	DY (%) 08	ROE (%) TTM	ROA (%) TTM
Southern Cem (SPCC)	2,290	9.5	28.9	11.3	9.9	3.8	345	8.2	32.5	28.1
Saudi Cem (SCC)	1,743	26.5	10.8	10.9	10.6	2.5	186	5.5	22.4	13.2
Yamama Cem (YSCC)	1,471	19.7	16.6	10.2	7.5	2.0	230	4.9	19.5	15.4
Qassim Cem (QCC)	1,403	32.9	39.4	10.5	8.2	2.8	315	6.9	29.0	22.3
Yanbu Cem (YCC)	1,402	18.1	23.2	9.7	7.4	2.5	281	8.0	24.9	22.5
Eastern Cem (EPCC)	1,082	12.1	15.7	10.8	8.5	2.3	317	6.4	20.5	16.7
Arabian Cem (ACC)	1,019	41.5	49.1	12.3	11.6	1.7	403	6.3	13.4	9.4
Tabuk Cem (TCC)	548	15.9	12.9	14.7	9.4	1.9	288	6.6	12.7	10.9

Source: NCBC Research, All prices as of May 20, 2009 * P/BV based on latest available book value

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Please refer to the last page for important disclaimer

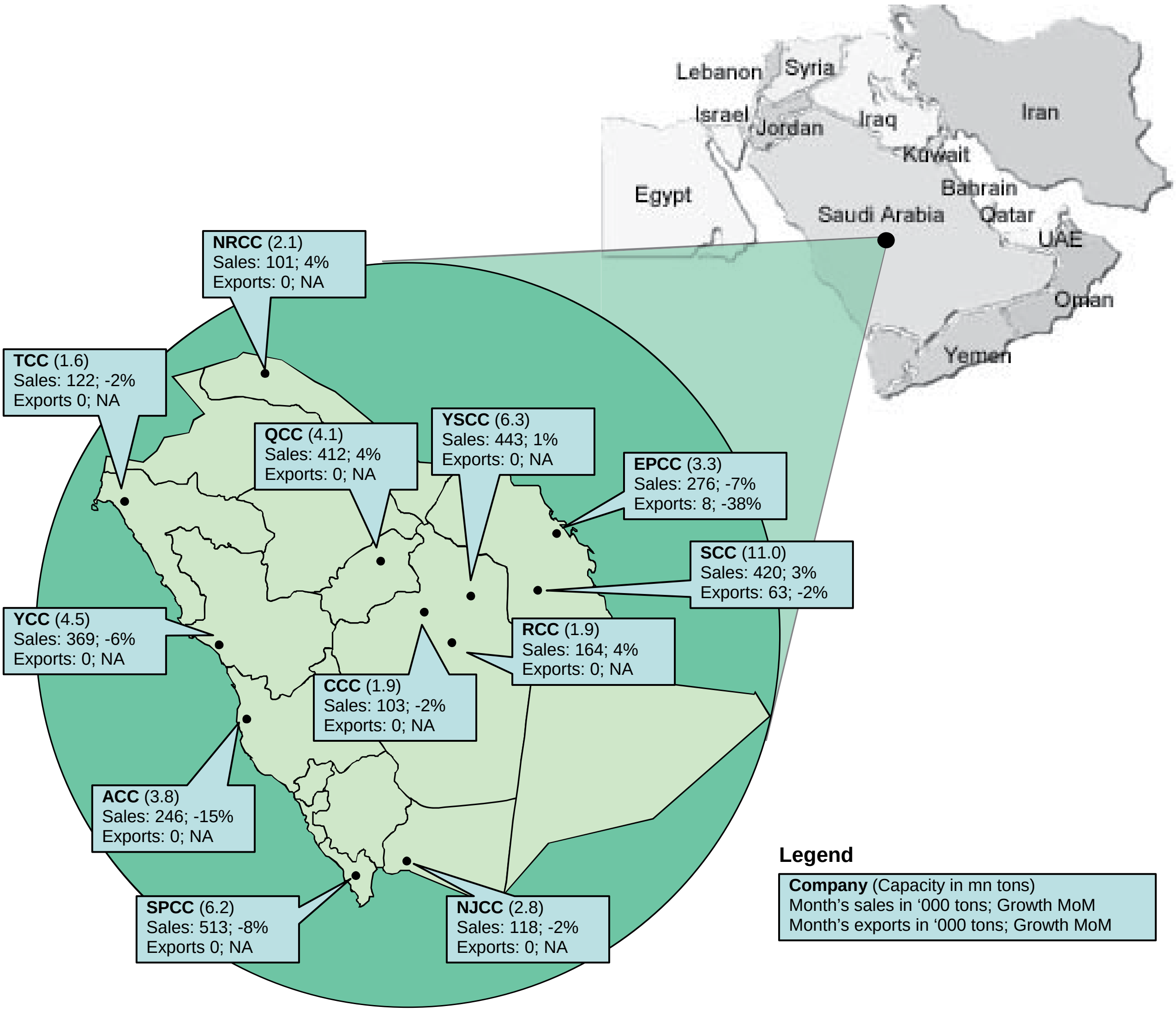
Industry snapshot

The Kingdom of Saudi Arabia (KSA) has 12 cement companies with an estimated annual production capacity of approximately 49mt.

In Apr-09, total dispatches, including exports, stood at 3.36mt versus 3.46mt in Mar-09 and 2.94mt in Feb-09. Dispatches in Apr-08 were 3.31mt.

Export sales continue to remain below the 100,000 ton mark. At 71,000 tons, cement exports from Saudi Arabia were down 84% YoY and 7.8% MoM.

Exhibit 2: Apr-09 at a glance



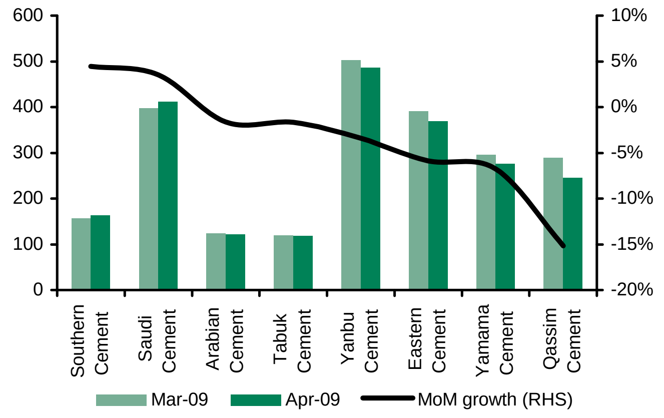
Source: Yamama Cement, NCBC Research

CCC – City Cement, NJCC – Najran Cement, RCC – Riyadh Cement, NRCC – Northern Region Cement

Domestic sales

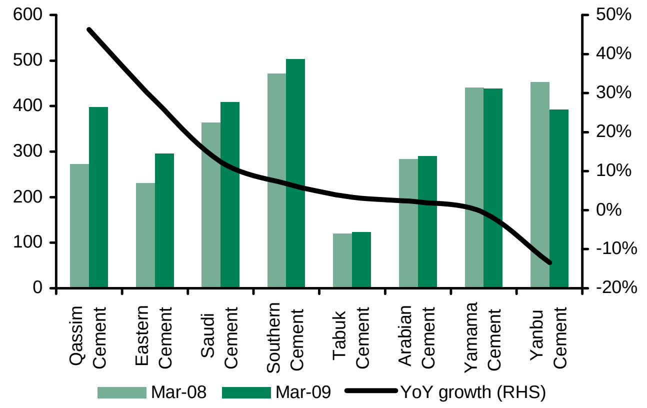
In Apr-09, cement sales in Saudi Arabia declined 2.8% MoM, but were 14.9% higher YoY. Total domestic sales of companies (including listed and private) stood at 3.28mt versus 3.38mt in Mar-09 and 2.86mt in Apr-08.

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



Source: Yamama Cement, NCBC Research

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



Source: Yamama Cement, NCBC Research

Companies such as **Saudi Cement, Qassim Cement, Riyadh Cement, and Northern Cement achieved their highest-ever domestic sales numbers in Apr-09 individually.** In fact, these four cement companies beat their previous records of highest-ever domestic sales by 2.7–4.5%.

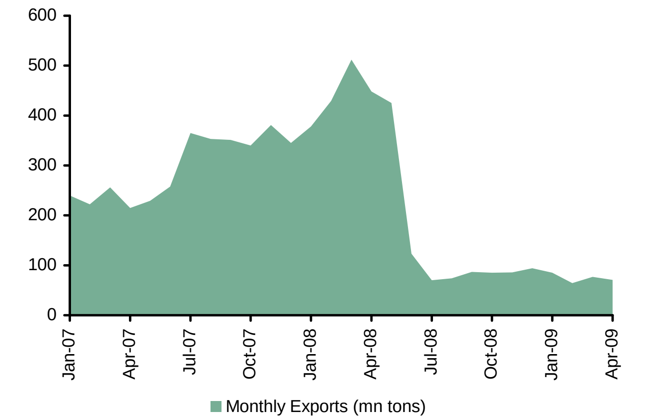
(Please refer to the Annexure on Page 10 for company-specific charts.)

Exports

The Kingdom's cement exports stood at 71,000 tons in Apr-09 vis-à-vis 445,000 tons in Apr-08 and 77,000 tons in Mar-09. The 84% YoY decline has been mainly due to government restrictions on cement exports. 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.

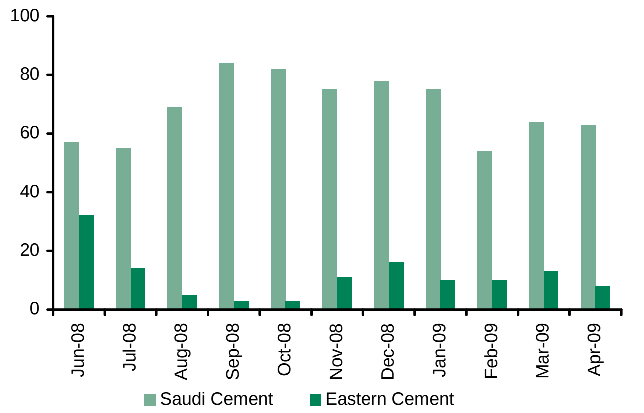
The two cement-exporting companies, Saudi Cement and Eastern Province Cement, exported 63,000 tons and 8,000 tons of cement respectively in Apr-09 versus 64,000 tons and 13,000 tons of cement respectively in Mar-09.

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



Source: Yamama Cement, NCBC Research

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



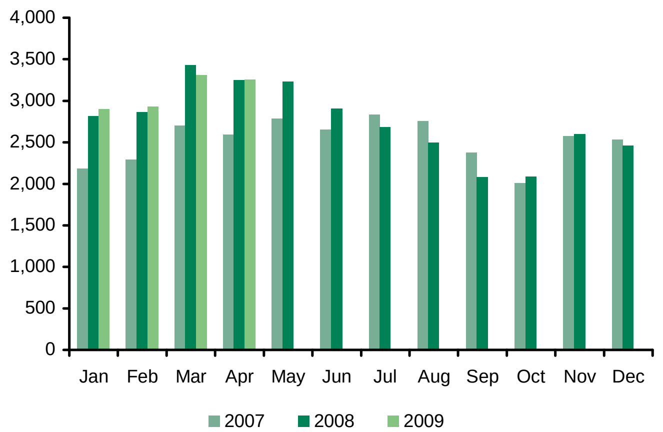
Source: Yamama Cement, NCBC Research

Production

Saudi Arabia produced 3.26mt cement in Apr-09, up 0.3% YoY but down 1.4% MoM. The production met 97% of total cement demand for the month, the remaining being met by old stock. This resulted in an 11.0% reduction in cement stockpiles at the manufacturer level.

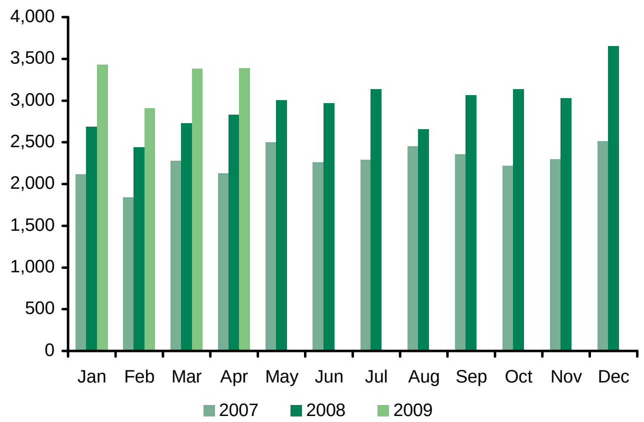
(Please refer to the Inventory / stock section on Page 5 for more details).

Exhibit 7: Cement production ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 8: Clinker production ('000 tons)



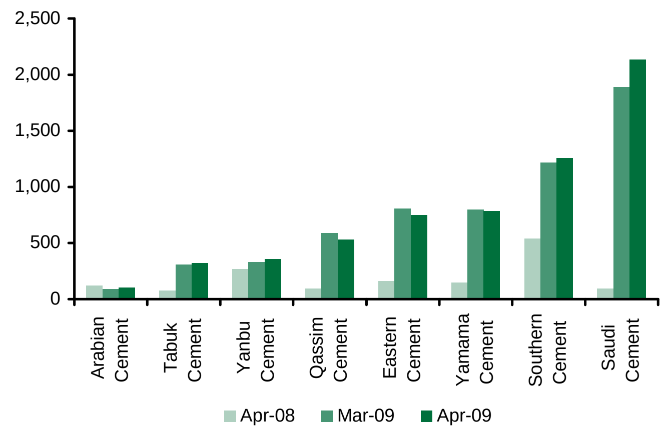
Source: Yamama Cement, NCBC Research

In case of clinker, the scenario was quite the opposite. In Apr-09, clinker production increased 19.6% YoY and 0.2% MoM. Yamama Cement, Tabuk Cement, Saudi Cement and a few private players mainly accounted for the increased clinker production.

Inventory / stock

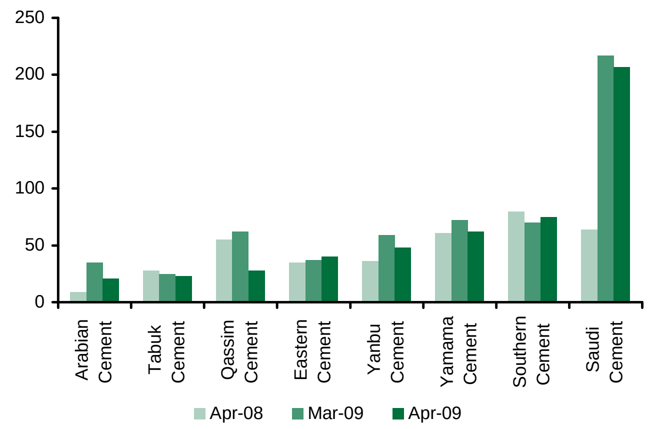
Stockpiling of clinker at the manufacturer level continues, albeit at a slower pace. **During the past three months, total clinker stock of cement producers increased just 2-3% each month compared with the double-digit growth seen previously.** At the end of Apr-09, total clinker stock of cement producers was 3.2% higher MoM.

Exhibit 9: Clinker stock ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 10: Cement stock ('000 tons)

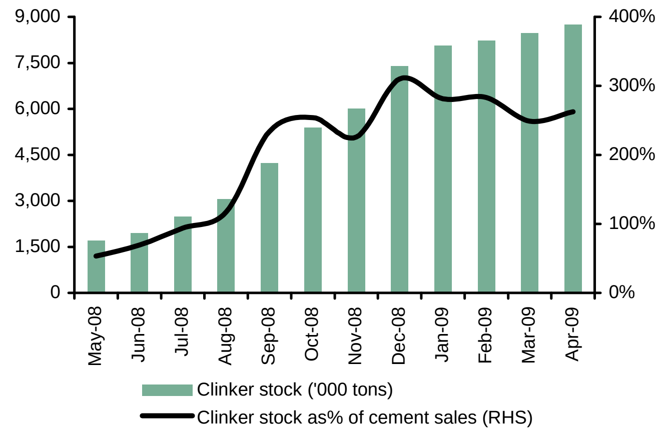


Source: Yamama Cement, NCBC Research

Total clinker stock of the industry stood at 8.7mt in Apr-09, or just short of three months' cement sales[1]. Company wise, as a percentage of sales, Arabian Cement had the lowest clinker stock of 27%; just enough to meet cement sales of 10 days. Saudi Cement's clinker stock stood at 482% or more than four months' cement sales.

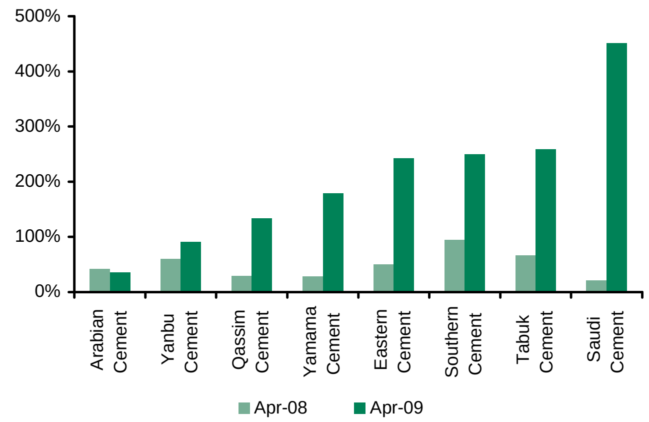
Cement companies based in the western region continue to hold low clinker stock, whereas those based in the eastern region maintain large stockpiles of clinker.

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 four months of 2009

Market share

In Apr-09, four companies lost domestic market share to five companies. **Qassim Cement was the biggest gainer of the month.** Companies that managed to improve their market share by a wide margin include Saudi Cement and Yamama Cement.

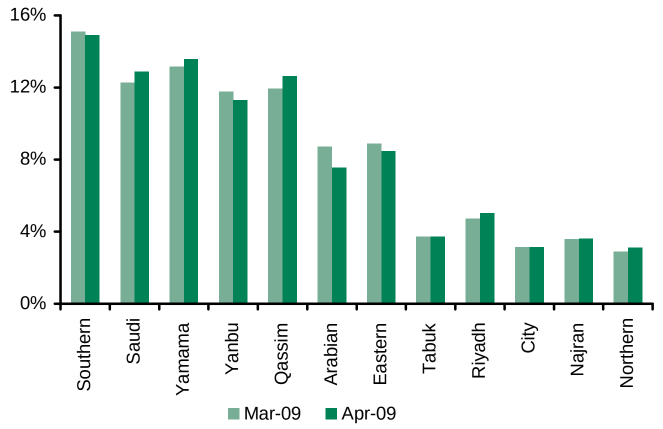
Winners: Qassim Cement (0.7%), Saudi Cement (0.6%), Yamama Cement (0.4%), Riyadh Cement (0.3%), and Northern Cement (0.2%)

Losers: Arabian Cement (-1.2%), Yanbu Cement (-0.5%), Eastern Cement (-0.4%), and Southern Cement (-0.2%)

Unchanged: Tabuk Cement, City Cement, and Najran Cement

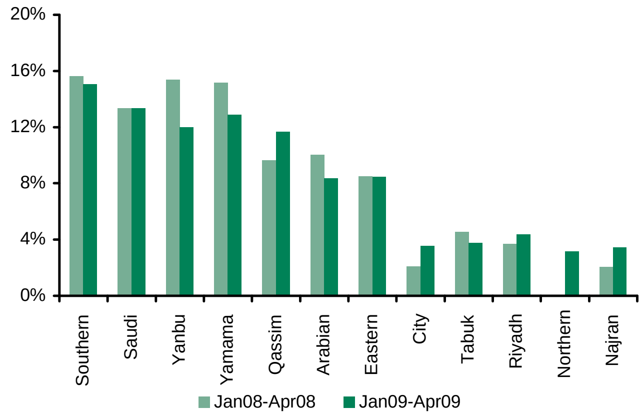
New companies — Riyadh Cement, Najran Cement, City Cement and Northern Cement — have managed to increase market share at the expense of the traditional players. **The new players were responsible for 14.5% of total cement sales in the first four months of 2009, compared with 11.0% in FY2008.**

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 20 May 2009, the cement sector index was up 25.2% YTD, vis-à-vis an increase of 26.0% in the Saudi benchmark index TASI. The upswing in 2009 comes after a ~50% fall in 2008. The exhibit below shows the valuation multiples of all listed cement companies in the Kingdom.

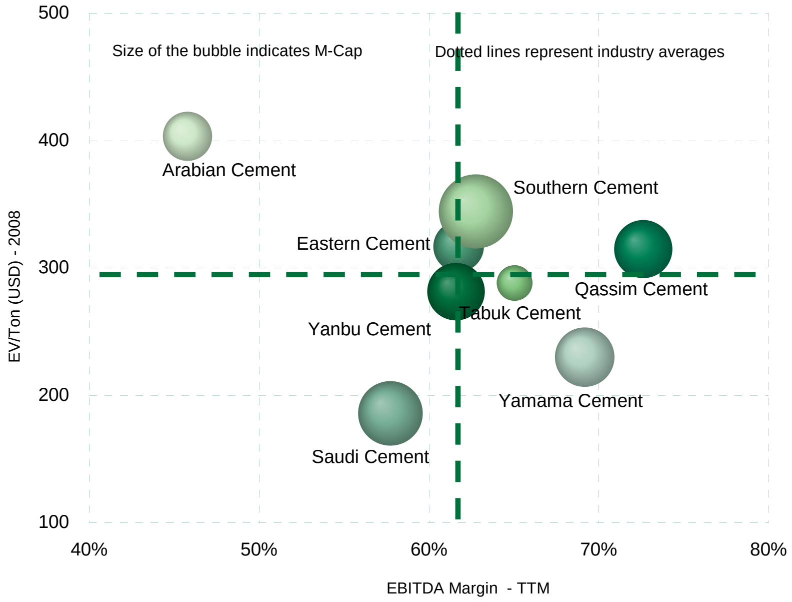
Exhibit 15: Saudi cement companies – Valuation matrix

Company	Reuters	M-Cap $ mn	Stock performance (%) Apr-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	2,290	9.5	28.9	11.3	9.9	3.8	345	8.2	32.5	28.1
Saudi Cement	3030.SE	1,743	26.5	10.8	10.9	10.6	2.5	186	5.5	22.4	13.2
Yamama Cement	3020.SE	1,471	19.7	16.6	10.2	7.5	2.0	230	4.9	19.5	15.4
Qassim Cement	3040.SE	1,403	32.9	39.4	10.5	8.2	2.8	315	6.9	29.0	22.3
Yanbu Cement	3060.SE	1,402	18.1	23.2	9.7	7.4	2.5	281	8.0	24.9	22.5
Eastern Cement	3080.SE	1,082	12.1	15.7	10.8	8.5	2.3	317	6.4	20.5	16.7
Arabian Cement	3010.SE	1,019	41.5	49.1	12.3	11.6	1.7	403	6.3	13.4	9.4
Tabuk Cement	3090.SE	548	15.9	12.9	14.7	9.4	1.9	288	6.6	12.7	10.9

Source: NCBC Research, All prices as of May 20, 2009 * P/BV based on latest available book value

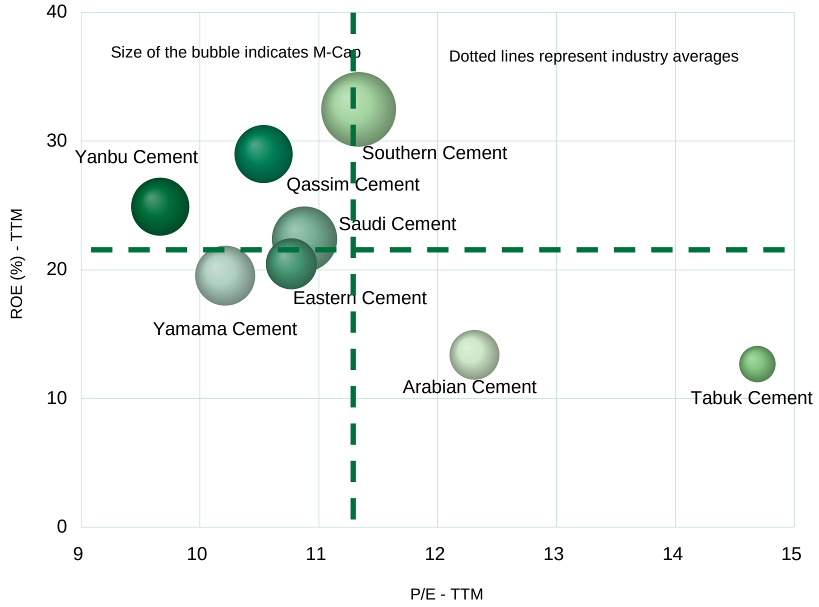
The following exhibits depict the current valuation of Saudi cement companies.

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)

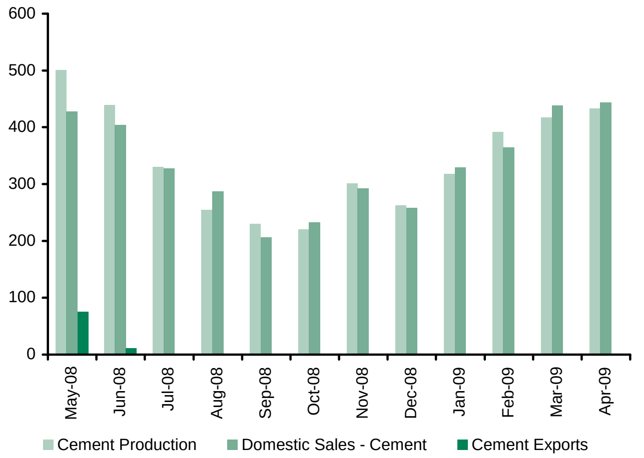
Description	Apr-09	Apr-08	% chg YoY	Mar-09	% chg MoM	(Jan-Apr) 2009	2008	% chg YoY
Production								
Cement	3,259	3,248	0.3	3,306	(1.4)	12,395	12,357	0.3
Clinker	3,386	2,830	19.6	3,378	0.2	13,100	10,684	22.6
Dispatches								
Cement	3,331	3,305	0.8	3,406	(2.2)	12,515	12,449	0.5
Clinker	27	4	575.0	54	(50.0)	140	60	133.3
Company-wise Production								
Southern Cement	491	523	(6.1)	486	1.0	1,822	1,922	(5.2)
Saudi Cement	473	473	0.0	458	3.3	1,910	1,814	5.3
Yamama Cement	433	497	(12.9)	417	3.8	1,560	1,835	(15.0)
Qassim Cement	378	282	34.0	383	(1.3)	1,390	1,268	9.6
Yanbu Cement	358	375	(4.5)	369	(3.0)	1,456	1,620	(10.1)
Eastern Cement	287	322	(10.9)	305	(5.9)	1,080	1,288	(16.1)
Arabian Cement	232	239	(2.9)	294	(21.1)	1,009	1,034	(2.4)
Tabuk Cement	120	131	(8.4)	126	(4.8)	454	480	(5.4)
Others	487	406	20.0	468	4.1	1,714	1,096	56.4
Company-wise Dispatches								
Southern Cement	486	518	(6.2)	503	(3.4)	1,840	1,936	(5.0)
Saudi Cement	483	481	0.4	473	2.1	1,886	1,829	3.1
Yamama Cement	443	523	(15.3)	438	1.1	1,574	1,838	(14.4)
Qassim Cement	412	289	42.6	398	3.5	1,426	1,254	13.7
Yanbu Cement	369	376	(1.9)	392	(5.9)	1,463	1,644	(11.0)
Eastern Cement	284	327	(13.1)	309	(8.1)	1,076	1,288	(16.5)
Arabian Cement	246	261	(5.7)	290	(15.2)	1,022	1,074	(4.8)
Tabuk Cement	122	135	(9.6)	124	(1.6)	459	487	(5.7)
Others	486	395	23.0	479	1.5	1,769	1,099	61.0

Source: Yamama Cement, NCBC Research

Annexure 2 - Chart gallery – Company data

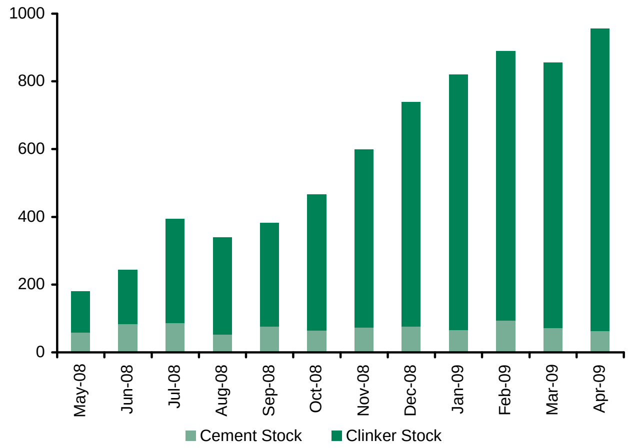
Yamama Cement (YSCC)

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



Source: Yamama Cement, NCBC Research

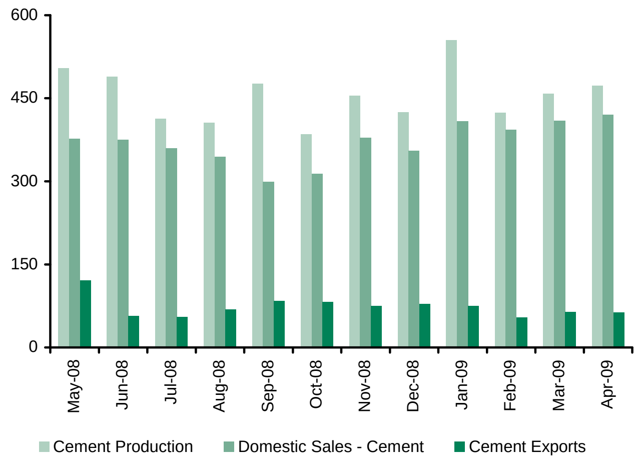
Exhibit 20: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

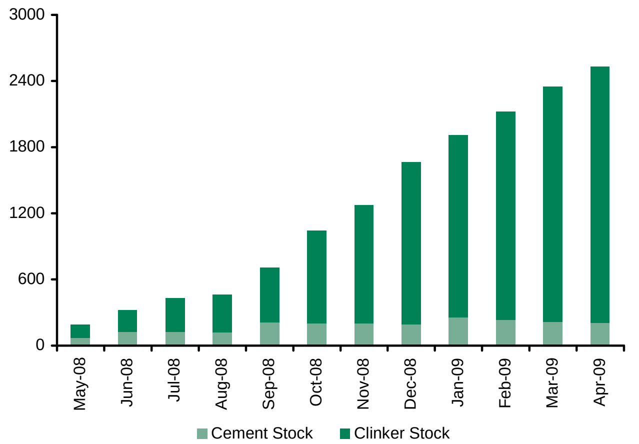
Saudi Cement (SCC)

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



Source: Yamama Cement, NCBC Research

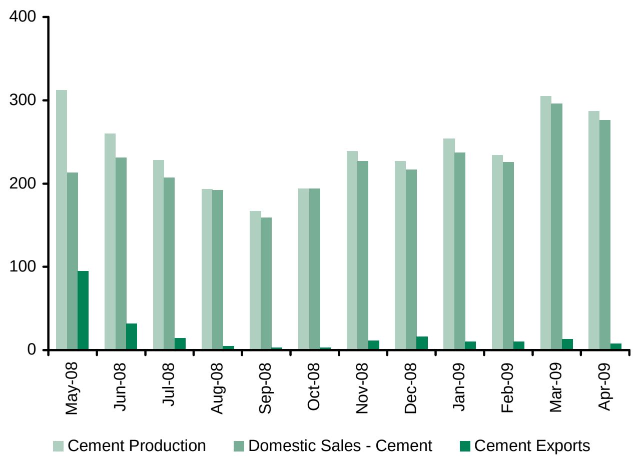
Exhibit 22: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

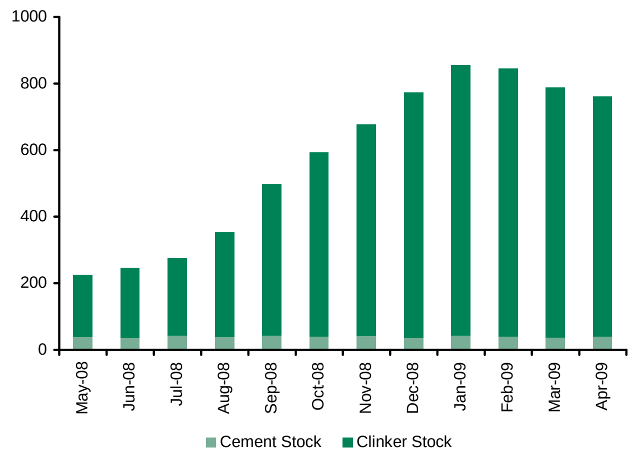
Eastern Province Cement (EPCC)

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



Source: Yamama Cement, NCBC Research

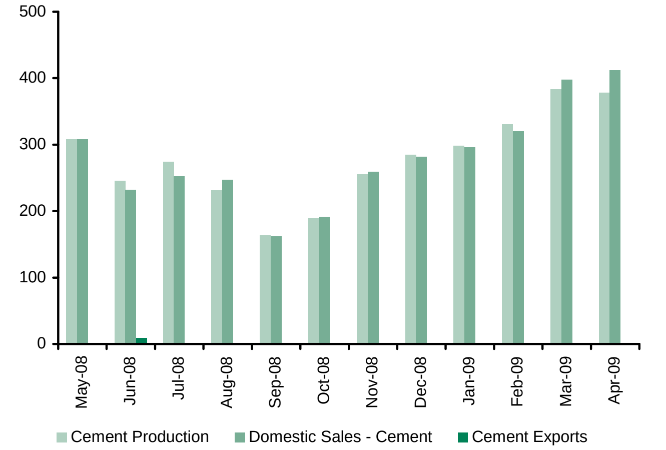
Exhibit 24: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

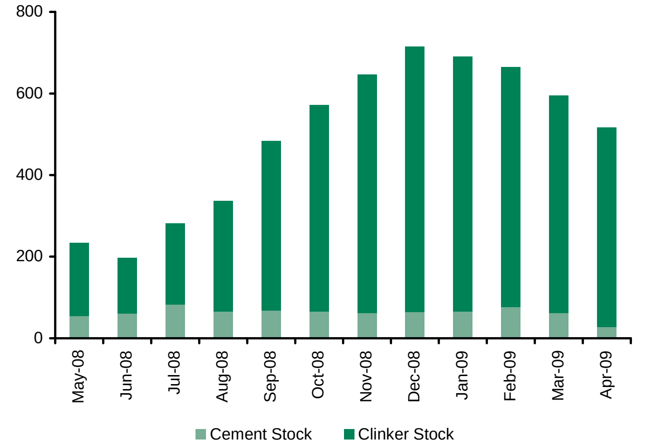
Qassim Cement (QCC)

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



Source: Yamama Cement, NCBC Research

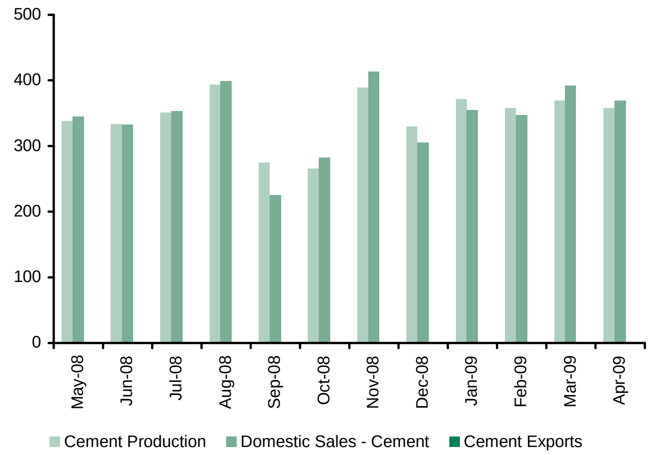
Exhibit 26: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

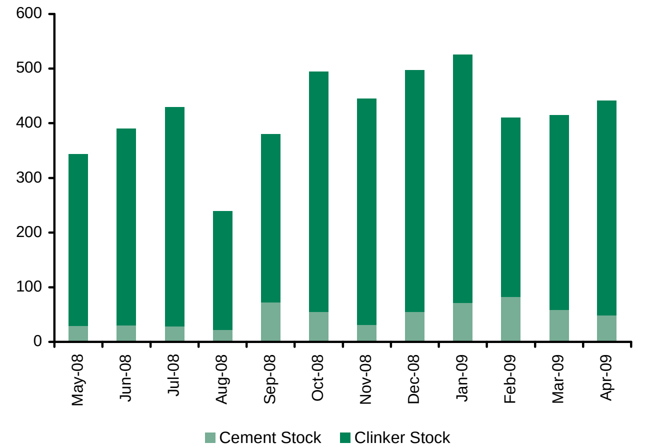
Yanbu Cement (YCC)

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



Source: Yamama Cement, NCBC Research

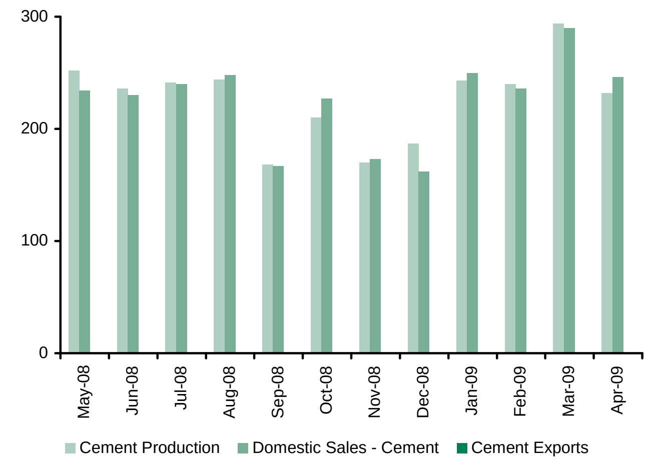
Exhibit 28: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

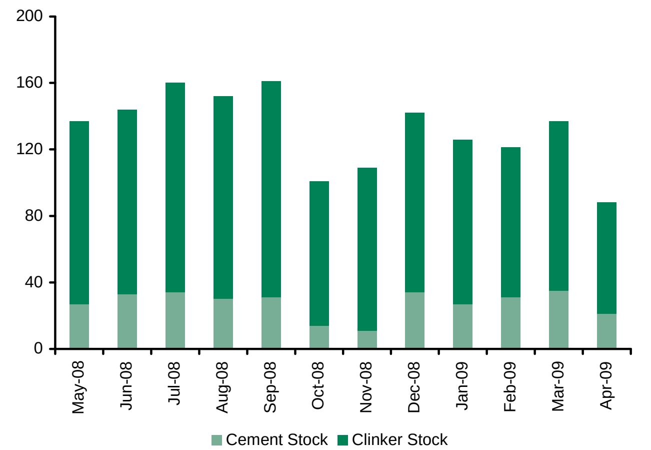
Arabian Cement (ACC)

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



Source: Yamama Cement, NCBC Research

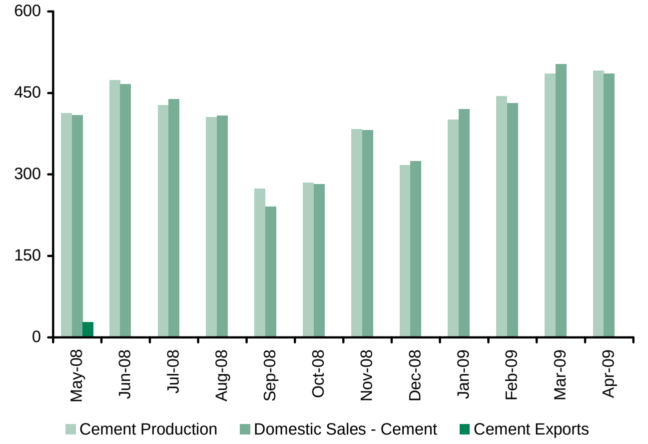
Exhibit 30: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

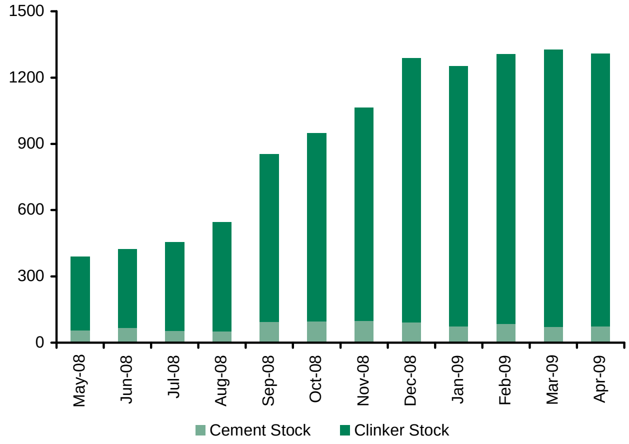
Southern Province Cement (SPCC)

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



Source: Yamama Cement, NCBC Research

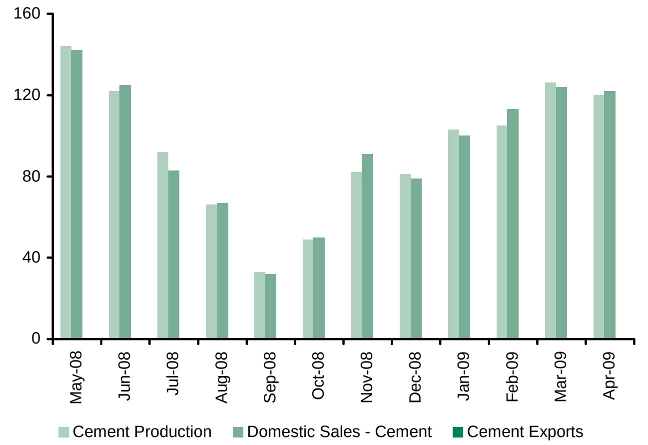
Exhibit 32: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

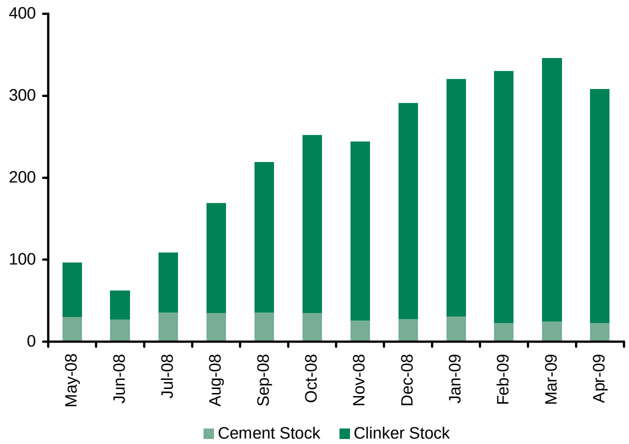
Tabuk Cement (TCC)

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		

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