Global Research
Sector – Cement & Building Materials
Equities - GCC
October 9, 2013

GCC Cement Sector

GCC Cement

- **Majority capacity expansions are online; some companies still adding**
- **Cement demand in GCC to remain in the range of 90-110mtpa during 2013-16e**
- **Cement price in GCC to grow at an annual average of 3% during 2013-16e**
- **Recovery in UAE real estate & construction market a great plus**
- **Positive: Saudi Arabia & Oman; Neutral to Positive: UAE & Qatar**

Cement demand in GCC to improve from 4-5% in 2013 to 6-7% in 2014

GCC's cement sector witnessed a broad turnaround last year, mainly on increasing construction activity across the region. We expect the uptrend in demand to continue at least for the next 4-5 years, with further sizable additions for high ticket projects (2022 FIFA World Cup in Qatar, and World Expo 2020, which is expected to be hosted by Dubai). Currently, Saudi Arabia is leading the region in terms of housing and infrastructure. The Kingdom has come up with a SAR250bn housing construction program and introduced the Mortgage law, which are expected to boost demand for cement. The UAE, Qatar and Oman are following suit. Positive market sentiment, and increasing tourism and trade led to the recovery of the UAE's real estate sector in 2013, with resumption of several stalled projects. Qatar has planned construction projects worth about USD140bn for the next five years to prepare for the 2022 FIFA World Cup.

Majority capacity additions in place; few more in the pipeline

As of 2012, cement grinding capacity in GCC totaled 117mtpa, while clinker capacity was around 88mtpa. Surplus at the clinker level is quite low, while that at the grinding level is in the range of 25-30mn tons. With an expected increase in demand for cement (due to the factors mentioned above), we believe surplus at the clinker level will completely disappear, while that at the cement level will decline to 5-10mn tons by 2015-16. The drop would be aided by very few cement capacity expansions that would increase supply from 117mtpa in 2012 to 126mtpa by 2015.

View on the companies under coverage

Our BUY/SELL recommendation for companies are based on various factors such as the cost structure, expansion plans, geographical presence within a country/countries, market share in the country/countries it operates in, vertical and horizontal integrations and price performance over the last 12 months. Although equity markets witnessed huge improvement, some companies such as Qatar National Cement and Arkan Building Materials (trading below book value) underperformed. Considering the above mentioned factors, we recommend **BUY** on Arkan, Qatar National, Yamama and Arabian Cement.

Global Research - GCC Cement Universe

	CMP (LC)	Stock Performance			P/E	Fair Value	Upside /	Recom.
	(6.10.13)	1m (%)	3m (%)	12m (%)	2014e	(LC)	(Downside)	
Arabian Cement	73.00	4.3	1.4	41.1	10.3	81.25	11.3%	BUY
Eastern Prov. Cement	57.75	2.2	(2.5)	12.1	13.3	57.94	0.3%	HOLD
Qassim Cement	84.00	1.2	(1.2)	10.2	12.8	85.21	1.4%	HOLD
Saudi Cement	107.75	6.1	8.5	22.3	13.4	104.74	-2.8%	HOLD
Yamama Cement	53.25	4.4	6.5	18.6	11.3	59.44	11.6%	BUY
Yanbu Cement	74.25	4.9	8.4	49.0	12.7	74.05	-0.3%	HOLD
Oman Cement	0.784	1.3	5.9	20.8	13.9	0.816	4.1%	HOLD
Raysut Cement	1.995	7.0	-	43.0	13.4	1.791	-10.2%	SELL
Qatar Nat. Cement	102.00	1.0	1.5	(2.4)	11.4	119.22	16.9%	BUY
Arkan Bldg. Mat.	0.82	30.2	(1.2)	6.5	18.3	0.95	16.0%	BUY
RAK Cement	0.98	14.0	-	44.9	*n/m*	0.84	-14.2%	SELL

Source: Bloomberg & Global Research

Faisal Hasan, CFA
Head of Research
fhasan@global.com.kw
Tel: (965) 2295-1270

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

Global Investment House
www.globalinv.net

Valuation Methodology

For arriving at the fair value of cement companies, we have used a blend of two valuation methods:

- Cash flow approach represented by the Discounted Cash Flow Method.
- Relative valuation approach based on 2014e P/E multiple of the GCC cement sector.

Discounted Cash flow Method – DCF

The DCF is based on a 4-year forecast of free cash flows to the firm (2013-16). The free cash flows for the forecasted period and the terminal value are then discounted back at the weighted average cost of capital (WACC) to arrive at the total net present value (NPV) of the company. Subsequently cash and non-operating assets are added while long-term debt is subtracted to arrive at the equity value. Cost of Equity is derived using the Capital Asset Pricing Model (CAPM).

Relative Valuation Method

We have used relative valuation based on the GCC Cement sector 2014e P/E multiple. GCC cement sector 2014e P/E multiple is based on weighted average 2014e P/E multiple of companies under our coverage. This sector P/E is then multiplied with the forecasted 2014 EPS of the cement company to arrive at the fair value of the cement company.

Valutions

	Arabian Cement (SAR mn)	Eastern Cement (SAR mn)	Qassim Cement (SAR mn)	Saudi Cement (SAR mn)	Yamama Cement (SAR mn)	Yanbu Cement (SAR mn)	Oman Cement (OMR mn)	Raysut Cement (OMR mn)	Qatar Nat. Cement (QAR mn)	Arkan Bldg. Mat (AED mn)	RAK Cement (AED mn)
DCF											
PV of Cash Flows & Terminal Value											
Yr 1	424	288	574	1,178	2,608	775	19	22	257	(15)	(9)
Yr 2	430	227	501	1,131	2,458	618	17	21	294	104	3
Yr 3	445	214	443	1,079	2,436	653	15	19	278	57	7
Yr 4	376	163	432	937	2,229	726	14	23	312	135	17
Terminal	4,817	1,854	4,924	12,009	27,687	9,932	194	299	4,445	2,530	273
Assumptions											
Growth Rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Risk Free Rate	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Risk Premium	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
Country Risk Premium	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	2.0%	2.0%	1.0%	1.0%	1.0%
Company Risk Premium	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.0%	0.0%
COE	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.5%	12.5%	11.5%	11.0%	11.0%
WACC	11.0%	12.0%	12.0%	11.0%	11.5%	10.5%	10.7%	10.9%	10.2%	8.5%	9.2%
Equity Value	6,285	5,016	7,664	16,027	11,932	11,581	277	351	5,892	1,832	407
DCF Value	**78.6**	**58.3**	**85.2**	**104.8**	**58.9**	**73.5**	**0.836**	**1.756**	**120.00**	**1.05**	**0.84**
Relative Valuation											
Peer Group Multiple	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Price based on PE	**92.0**	**56.4**	**85.4**	**104.7**	**61.5**	**76.1**	**0.735**	**1.930**	**116.10**	**0.57**	***n/m***
Fair Value											
Fair Value - DCF (80%)	78.6	58.3	85.2	104.8	58.9	73.5	0.836	1.756	120.00	1.05	0.84
Fair Value - RV (20%)	92.0	56.4	85.4	104.7	61.5	76.1	0.735	1.930	116.10	0.57	*n/m*
Fair Value	**81.3**	**57.9**	**85.2**	**104.7**	**59.4**	**74.1**	**0.816**	**1.791**	**119.22**	**0.95**	**0.84**
CMP	**73.0**	**57.5**	**84.0**	**107.8**	**53.3**	**74.3**	**0.784**	**1.995**	**102.00**	**0.82**	**0.98**
Upside	**11.3%**	**0.8%**	**1.5%**	**-2.8%**	**11.6%**	**-0.3%**	**4.1%**	**-10.2%**	**16.9%**	**16.0%**	**-14.2%**
Recommendation	**BUY**	**HOLD**	**HOLD**	**HOLD**	**BUY**	**HOLD**	**HOLD**	**SELL**	**BUY**	**BUY**	**SELL**

Source: Global Research

Fact Sheet

	Arabian Cement	Eastern Cement	Qassim Cement	Saudi Cement	Yamama Cement	Yanbu Cement	Oman Cement	Raysut Cement	Qatar Nat. Cement	Arkan Bldg. Mat	RAK Cement
Current Operations	Cement Production Saudi Arabia Cement, Jordan Ready Mix Saudi Arabia Ready Mix Jordan Paper Sack Saudi Arabia	Cement Production Saudi Arabia Cement, Yemen Concrete Saudi Arabia	Cement Production Saudi Arabia	Cement Production Saudi Arabia Packagin & Distribution of Cement, Kuw ait Packagin & Distribution of Cement, Bahrain Paper Sack Saudi Arabia	Cement Production Saudi Arabia Cement Yemen Paper Sack Saudi Arabia	Cement Production Saudi Arabia Paper Products Company Saudi Arabia	Cement Production Oman Paper Sack Oman	Cement Production Oman Cement Production UAE Ready Mix, Precast, Blocks Oman Trading Co. Yemen Shipping, Panama	Cement Production Qatar Quarries, Qatar Manufactur e & Distribution of Gypsum, Qatar	Cement Production UAE Cement Blocks, UAE GRP & PVC Pipes, UAE Bags Factory, UAE Furniture & Deco UAE Appt Hotel, UAE	Cement Production UAE Ready Mix, UAE
Future Plans & Additions	None	600 TPD new cement line to start in October 2013	None	None	None	Upgrade of Old Cement Lines	New Cement Grinding Mill - 150tph. Ready Mix Oman	Cement Handling Terminal, Oman, 2014 Cement Handling Terminal, Somalia Grinding Plant, Yemen Expansion in UAE	5,000TPD or 7,500TPD Clinker Plant Calcium Carbonate Plant	Dry Mortar, UAE Lime Plant, UAE	None

Source: Zawya, Company Reports & Global Research
** Future Additions can be plans of the company as well*

Sensitivity Analysis

ARABIAN CEMENT

	Terminal Growth Rate						COE				
WACC	1.0%	2.0%	3.0%	4.0%	5.0%	COD	10.0%	11.0%	12.0%	13.0%	14.0%
9.0%	83.7	91.4	101.6	115.9	137.3	5.0%	101.6	92.1	84.5	78.3	73.3
10.0%	76.6	82.5	90.0	100.0	114.0	6.0%	99.0	90.0	82.8	77.0	72.1
11.0%	70.9	75.5	81.3	88.6	98.5	7.0%	96.6	88.1	81.3	75.7	71.0
12.0%	66.2	69.9	74.4	80.1	87.3	8.0%	94.2	86.2	79.8	74.4	70.0
13.0%	62.3	65.4	69.0	73.4	78.9	9.0%	92.1	84.5	78.3	73.3	69.0

EASTERN PROVINCE CEMENT

	Terminal Growth Rate						COE				
WACC	1.0%	2.0%	3.0%	4.0%	5.0%	COD	10.0%	11.0%	12.0%	13.0%	14.0%
10.0%	58.1	63.9	71.3	81.1	94.8	-2.0%	71.3	63.8	57.9	53.3	49.5
11.0%	53.5	58.0	63.8	71.1	80.9	-1.0%	71.3	63.8	57.9	53.3	49.5
12.0%	49.6	53.4	57.9	63.6	71.0	0.0%	71.3	63.8	57.9	53.3	49.5
13.0%	46.5	49.6	53.3	57.9	63.5	1.0%	71.3	63.8	57.9	53.3	49.5
14.0%	43.8	46.4	49.5	53.2	57.8	2.0%	71.3	63.8	57.9	53.3	49.5

QASSIM CEMENT

	Terminal Growth Rate						COE				
WACC	1.0%	2.0%	3.0%	4.0%	5.0%	COD	10.0%	11.0%	12.0%	13.0%	14.0%
10.0%	87.5	93.6	101.5	112.1	126.8	-2.0%	101.5	92.4	85.2	79.5	74.8
11.0%	81.5	86.3	92.4	100.1	110.4	-1.0%	101.5	92.4	85.2	79.5	74.8
12.0%	76.6	80.5	85.2	91.1	98.7	0.0%	101.5	92.4	85.2	79.5	74.8
13.0%	72.5	75.7	79.5	84.1	89.9	1.0%	101.5	92.4	85.2	79.5	74.8
14.0%	69.1	71.7	74.8	78.5	83.1	2.0%	101.5	92.4	85.2	79.5	74.8

SAUDI CEMENT

	Terminal Growth Rate						COE				
WACC	1.0%	2.0%	3.0%	4.0%	5.0%	COD	10.0%	11.0%	12.0%	13.0%	14.0%
9.0%	108.0	118.0	131.3	150.0	177.9	5.0%	131.3	118.8	108.9	100.9	94.3
10.0%	98.7	106.3	116.1	129.2	147.5	6.0%	127.9	116.1	106.8	99.2	92.8
11.0%	91.2	97.2	104.7	114.4	127.2	7.0%	124.7	113.6	104.7	97.5	91.4
12.0%	85.2	90.0	95.9	103.2	112.6	8.0%	121.7	111.2	102.8	95.9	90.0
13.0%	80.1	84.0	88.7	94.5	101.7	9.0%	118.8	108.9	100.9	94.3	88.7

YAMAMA CEMENT

WACC	Terminal Growth Rate 1.0%	2.0%	3.0%	4.0%	5.0%
9.5%	61.0	65.6	71.5	79.6	91.2
10.5%	56.7	60.2	64.7	70.5	78.4
11.5%	53.2	56.0	**59.4**	63.8	69.5
12.5%	50.3	52.6	55.3	58.7	63.0
13.5%	47.9	49.7	52.0	54.6	58.0

COD	COE 10.0%	11.0%	12.0%	13.0%	14.0%
5.0%	71.5	65.3	60.4	56.4	53.2
6.0%	70.7	64.7	59.9	56.1	52.9
7.0%	70.0	64.1	**59.4**	55.7	52.6
8.0%	69.2	63.5	59.0	55.3	52.3
9.0%	68.5	63.0	58.5	54.9	52.0

YANBU CEMENT

WACC	Terminal Growth Rate 1.0%	2.0%	3.0%	4.0%	5.0%
8.5%	76.5	85.2	96.9	113.9	140.4
9.5%	68.8	75.3	83.7	95.3	111.9
10.5%	62.7	67.7	**74.1**	82.3	93.6
11.5%	57.7	61.7	66.6	72.9	81.0
12.5%	53.7	56.9	60.8	65.6	71.7

COD	COE 10.0%	11.0%	12.0%	13.0%	14.0%
5.0%	96.9	87.3	79.5	73.2	68.0
6.0%	92.5	83.7	76.7	70.9	66.0
7.0%	88.5	80.5	**74.1**	68.7	64.1
8.0%	84.9	77.6	71.6	66.6	62.4
9.0%	81.6	74.9	69.4	64.7	60.8

OMAN CEMENT

WACC	Terminal Growth Rate 1.0%	2.0%	3.0%	4.0%	5.0%
8.7%	0.840	0.919	1.026	1.179	1.415
9.7%	0.768	0.828	0.905	1.010	1.160
10.7%	0.711	0.758	**0.816**	0.892	0.995
11.7%	0.665	0.702	0.747	0.805	0.879
12.7%	0.627	0.657	0.693	0.737	0.793

COD	COE 10.5%	11.5%	12.5%	13.5%	14.5%
3.0%	1.026	0.932	0.857	0.797	0.747
4.0%	0.992	0.905	0.836	0.780	0.733
5.0%	0.961	0.880	**0.816**	0.763	0.719
6.0%	0.932	0.857	0.797	0.747	0.705
7.0%	0.905	0.836	0.780	0.733	0.693

RAYSUT CEMENT

WACC	Terminal Growth Rate 1.0%	2.0%	3.0%	4.0%	5.0%
8.9%	1.850	2.045	2.307	2.676	3.234
9.9%	1.672	1.820	2.011	2.268	2.629
10.9%	1.530	1.646	**1.791**	1.978	2.229
11.9%	1.414	1.507	1.620	1.762	1.946
12.9%	1.318	1.393	1.484	1.595	1.735

COD	COE 10.5%	11.5%	12.5%	13.5%	14.5%
5.0%	2.307	2.091	1.916	1.772	1.651
6.0%	2.208	2.011	1.851	1.718	1.605
7.0%	2.119	1.939	**1.791**	1.667	1.562
8.0%	2.037	1.872	1.735	1.620	1.522
9.0%	1.962	1.810	1.684	1.576	1.484

QATAR NATIONAL CEMENT

		Terminal Growth Rate							COE				
		1.0%	2.0%	3.0%	4.0%	5.0%			9.5%	10.5%	11.5%	12.5%	13.5%
WACC	8.2%	122.8	135.7	153.6	180.0	222.6	COD	3.0%	153.6	137.1	124.5	114.5	106.4
	9.2%	111.4	121.0	133.7	151.2	177.0		4.0%	149.1	133.7	121.8	112.3	104.6
	10.2%	102.4	109.8	119.2	131.6	148.8		5.0%	144.8	130.4	119.2	110.2	102.9
	11.2%	95.2	101.0	108.3	117.5	129.7		6.0%	140.8	127.4	116.8	108.3	101.3
	12.2%	89.3	94.0	99.7	106.8	115.8		7.0%	137.1	124.5	114.5	106.4	99.7

ARKAN BUILDING MATERIAL

		Terminal Growth Rate							COE				
		1.0%	2.0%	3.0%	4.0%	5.0%			9.0%	10.0%	11.0%	12.0%	13.0%
WACC	6.5%	1.01	1.29	1.73	2.52	4.34	COD	4.0%	1.73	1.46	1.25	1.09	0.95
	7.5%	0.79	0.98	1.25	1.68	2.46		5.0%	1.46	1.25	1.09	0.95	0.84
	8.5%	0.63	0.76	0.95	1.22	1.64		6.0%	1.25	1.09	0.95	0.84	0.74
	9.5%	0.51	0.61	0.74	0.93	1.19		7.0%	1.09	0.95	0.84	0.74	0.66
	10.5%	0.41	0.49	0.59	0.72	0.90		8.0%	0.95	0.84	0.74	0.66	0.59

RAK CEMENT

		Terminal Growth Rate							COE				
		1.0%	2.0%	3.0%	4.0%	5.0%			9.0%	10.0%	11.0%	12.0%	13.0%
WACC	7.2%	0.87	0.99	1.16	1.45	1.99	COD	3.0%	1.16	1.02	0.91	0.83	0.76
	8.2%	0.77	0.85	0.97	1.14	1.42		4.0%	1.10	0.97	0.88	0.80	0.74
	9.2%	0.70	0.76	0.84	0.96	1.12		5.0%	1.04	0.93	0.84	0.77	0.72
	10.2%	0.64	0.69	0.75	0.83	0.94		6.0%	0.99	0.89	0.81	0.75	0.70
	11.2%	0.59	0.63	0.68	0.74	0.82		7.0%	0.94	0.85	0.78	0.72	0.68

PEER Group Analysis

Name	Country	Mkt Cap USD mn	Stock Performance 1m	3m	12m	P/E 2014e	P/BV 2014e
Arabian Cement Company	KSA	1,557.3	4.3	1.4	41.1	10.3	1.7
Eastern Prov. Cement Company	KSA	1,324.4	2.2	(2.5)	12.1	13.3	2.3
Qassim Cement Company	KSA	2,016.0	1.2	(1.2)	10.2	12.8	3.7
Saudi Cement Company	KSA	4,426.8	6.1	8.5	22.3	13.4	4.7
Yamama Cement Company	KSA	2,875.5	4.4	6.5	18.6	11.3	2.8
Yanbu Cement Company	KSA	3,118.5	4.9	8.4	49.0	12.7	2.7
Oman Cement Company	Oman	673.8	1.3	5.9	20.8	13.9	1.7
Raysut Cement Company	Oman	1,036.4	7.0	-	43.0	13.4	2.7
Qatar National Cement Company	Qatar	1,375.5	1.0	1.5	(2.4)	11.4	1.8
Arkan Building Materials Company	UAE	390.7	30.2	(1.2)	6.5	18.3	0.8
RAK Cement	UAE	135.6	14.0	-	44.9	*N/M*	0.7
Southern Province Cement Company	KSA	4,022.7	1.4	1.4	9.4	12.6	5.1
Tabuk Cement Company	KSA	703.2	1.7	8.1	21.4	9.6	1.9
Al Jouf Cement Company	KSA	653.5	5.8	12.0	9.8	18.2	1.6
Hail Cement Company	KSA	569.1	9.2	6.0	13.7	NA	NA
Sharjah Cement Company	UAE	165.6	21.1	14.7	47.3	NA	NA
Fujairah Cement Company	UAE	115.3	0.0	0.0	25.3	NA	NA
National Cement Company	UAE	312.6	(10.4)	2.9	N/A	NA	NA
RAK White Cement Company	UAE	202.2	13.6	0.0	22.3	NA	NA
Union Cement Company	UAE	204.1	3.7	6.7	19.2	NA	NA
Gulf Cement	UAE	355.5	25.6	3.5	53.1	NA	NA
Kuwait Cement Company	Kuwait	892.0	2.8	5.8	(10.6)	NA	NA
Lucky Cement	Pakistan	714.1	(1.2)	6.2	74.4	6.7	1.3
DG Khan Cemenet	Pakistan	299.9	(2.8)	(17.7)	43.9	4.8	0.6
UltraTech Cement	India	8,527.6	22.9	(0.8)	0.9	16.1	2.6
Ambuja Cement	India	4,775.3	11.9	1.1	(11.3)	16.5	2.4
India Cement	India	257.8	7.9	(5.4)	(44.6)	5.9	0.4
JK Lakshmi Cement	India	136.2	24.6	(22.0)	(36.2)	5.1	0.6
Holcim	Switzerland	24,070.3	3.0	(1.9)	6.8	12.4	1.1
Lafarge	France	20,253.9	7.1	7.8	20.1	12.3	0.9
HeidelbergCement Group	Germany	14,338.6	5.3	10.4	33.6	12.2	0.8
Cemex	Mexico	12,800.3	0.0	8.7	41.5	120.3	1.1

Source: Bloomberg & Global Research

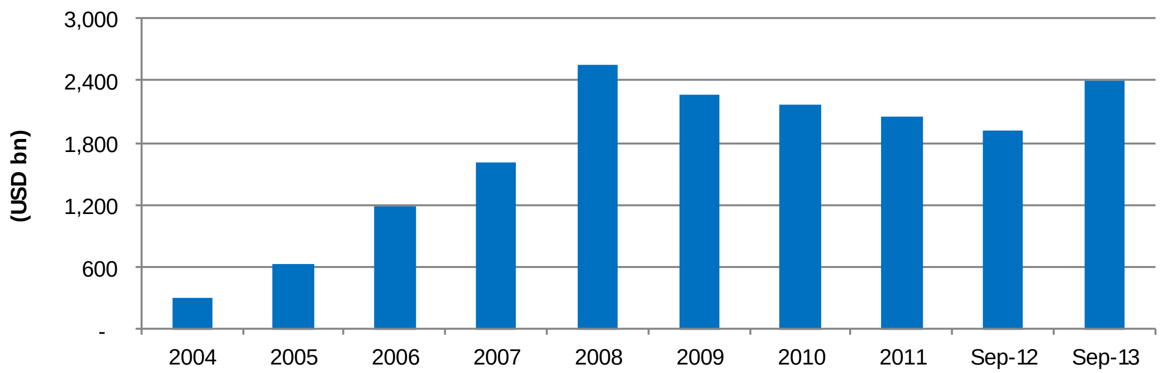
As of 06 October 2013

GCC Cement Sector

Cement sector rides on renewed GCC construction boom

The ongoing construction boom in GCC has been driving the demand for the cement sector. The construction sector is expected to maintain its upbeat performance in 2013, mainly supported by strong government expenditure and improving economic performance across the GCC region. Up till Sept 2013, the total value of projects in the GCC region stood at USD2,394bn, with the Saudi Arabia leading the table with USD1,010bn, followed by UAE (USD705bn) and Qatar (USD270bn). As per latest MEED estimates, contracts worth of USD86bn have been awarded during January to August period of 2013 of which roughly 40% belong to real estate and construction sector.

GCC Projects Market Size



Source: MEED and Global Research

In a bid to diversify away from oil, GCC continues to spur investments into Infrastructure space

The infrastructure segment remains at the center of GCC's current construction boom. GCC members are making efforts to reduce their dependence on oil revenues by developing non-oil private sectors, with a focus on the infrastructure segment. These efforts have been supported by improving economic performance and rising trade activity in the region.

UAE's focus remains on developing transportation infrastructure. Some of the major projects underway in the country include the Etihad Railway Network (USD11bn), Dubai airport expansion for almost (USD7.8bn), Dubai Metro (USD7.6bn) and other road and bridge projects. Second in line is KSA, which is investing almost USD16.5bn for improving the transportation system in Mecca. At the same time, the KSA government plans to invest USD9.4bn in a high-speed rail line connecting Mecca with Medina. On the other hand, Qatar continues to witness rapid rise in infrastructure expenditure owing to its preparations for the FIFA World Cup 2022. Qatar also plans to invest almost USD20bn on roads, USD25bn on railway, USD15.5bn on an airport and around USD8bn on a seaport.

Lack of affordable housing in GCC

The housing segment remains at the center of GCC's current construction boom. With population rising gradually, high cost of land and rising house prices, affordable housing shortage continues to pose a challenge for most markets. By the end of 2012, Bahrain had more than 55,000 nationals on the wait-list for low-cost housing, while in Kuwait, the wait time for government housing stood at several years. Qatar has witnessed a large inflow of expatriate workers in recent years, thus intensifying the housing shortage situation. KSA, which has the largest housing market in the GCC, availability of affordable housing has been growing due to high land and house prices. Moreover, industry estimates reveal that the Kingdom would require around 15,000 units every year to meet the demand. Similarly, UAE's housing sector also continues to reel under high property prices and long waiting time for government housing.

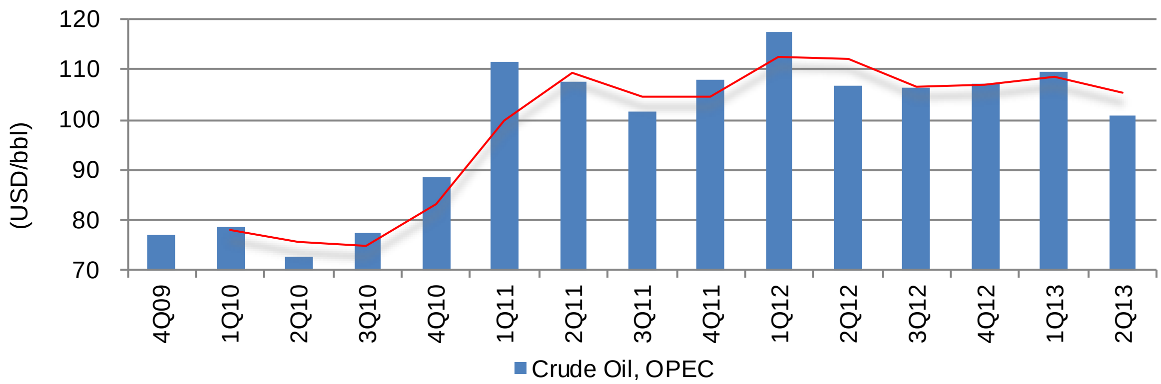
Thus, the local governments have been stressing hard on developing housing infrastructure over the coming few years. Among all GCC members, Saudi is leading the race with its USD67bn housing development program to build 500,000 units. UAE is also planning to invest USD2.7bn to replace 12,500 old houses. Even the Kuwaiti government is expected build 174,000 new houses and three cities by 2020 at an estimated cost of USD5bn.

Higher oil revenues have led to a strong budget

Government support has been a key factor driving the growth for the construction sector, and thereby the cement sector in the GCC. Most GCC members have allocated large portions of their respective budgets on construction activities. For the 2013-14 fiscal period, GCC's aggregate budget expenditure stands over USD400bn. Of this, substantial allocations have been made to the segments of Education, Health and Infrastructure. Saudi Arabia has allocated almost a quarter of its total budget on Education and increased spending on Infrastructure & Transportation by almost 16%YoY. Similarly, other GCC members have also committed large expenditures plans, which are expected to translate into higher construction activity in the region. At the same time, the governments continue to work towards investor friendly policies in order boost both local as well as foreign investments.

High oil prices in the recent years have helped the GCC region recover well from the 2008 financial crisis. Consequently, GCC nations witnessed a surge in their national revenues, with oil revenues forming a major part of the total revenues for most nations.

Oil Price – OPEC Reference Basket

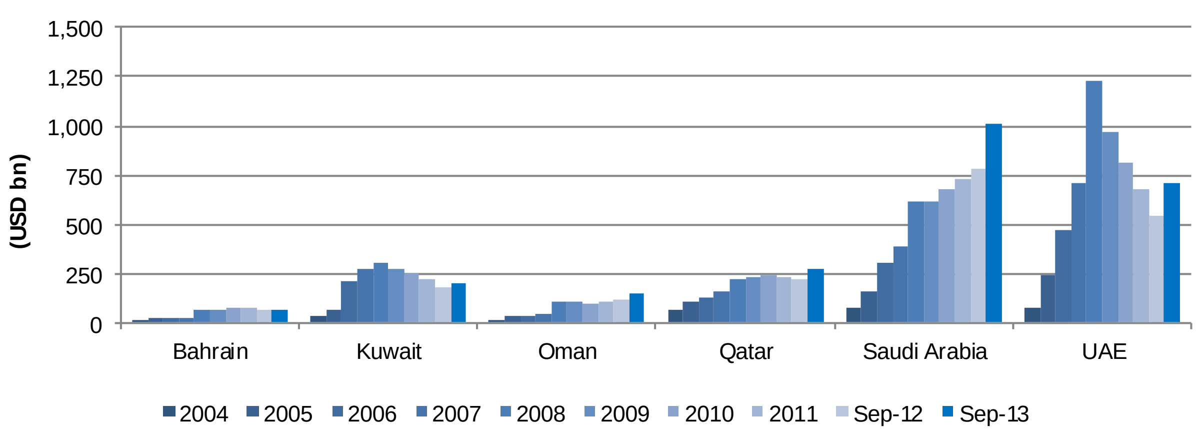


Source: OPEC

Favorable government policies provides an addition support

KSA has been aiding its housing segment through the introduction of the latest mortgage law, providing funding assistance through REDF and Additional load programs. UAE has been focusing on policies such as permitting freeholds and leaseholds to non-UAE/GCC nationals, and allocation of 20% of residential gross floor area to the middle income population. Furthermore, the government's has extended visas of real estate investors to three years from six months, thus bringing in new investments. Qatar and Oman are Qatar is primarily focusing on the construction sector through their robust national budgets. Qatar continues to invest in construction as a part of its preparations for the FIFA World Cup 2022 and its Vision 2030. The country plans to invest around USD100bn over the coming five years on construction.

Projects Country Wise



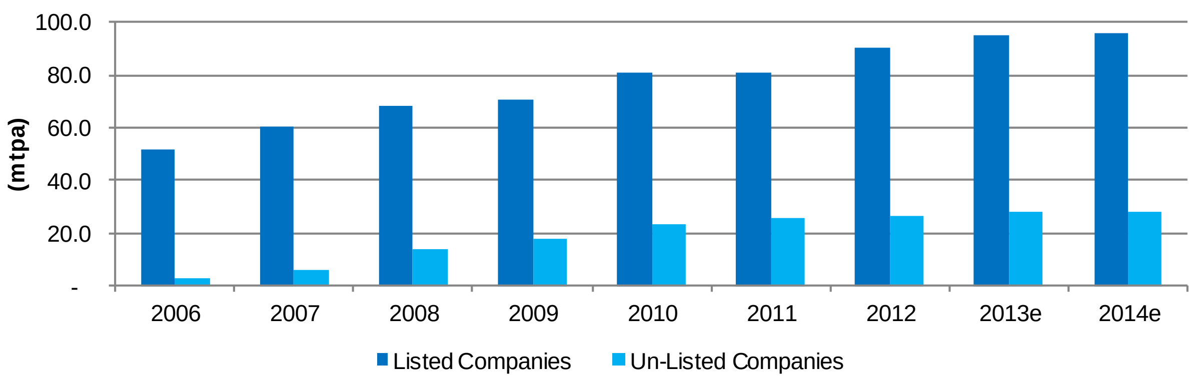
Source: MEED and Global Research

Demand/Supply scenario in the GCC

GCC cement capacity is in excess of demand

Currently, we estimate that GCC's total installed capacity is adequate to meet the surging demand up till 2014. Cement capacity has witnessed a significant growth over the last 5 years, rising by 35.6mtpa to 117.1mtpa in 2012 from 81.5mtpa in 2008. Of this total, 11.0mtpa was added in 2012. This clearly reflects that GCC cement manufacturers have been constantly adding new capacity, anticipating higher demand as a result of heightened construction activity in the region. Total capacity of listed companies grew to 90.4mtpa in 2012 from 67.8mtpa in 2008. At the same time, unlisted cement companies almost doubled their capacity from 13.7mtpa in 2008 to 26.7mtpa in 2012. Going forward, we expect GCC's total installed capacity to increase by 7.3mtpa to 124.4mtpa. Out of this, listed companies are expected to see an addition of 5.7mtpa while the unlisted companies are expected to add 1.6mtpa.

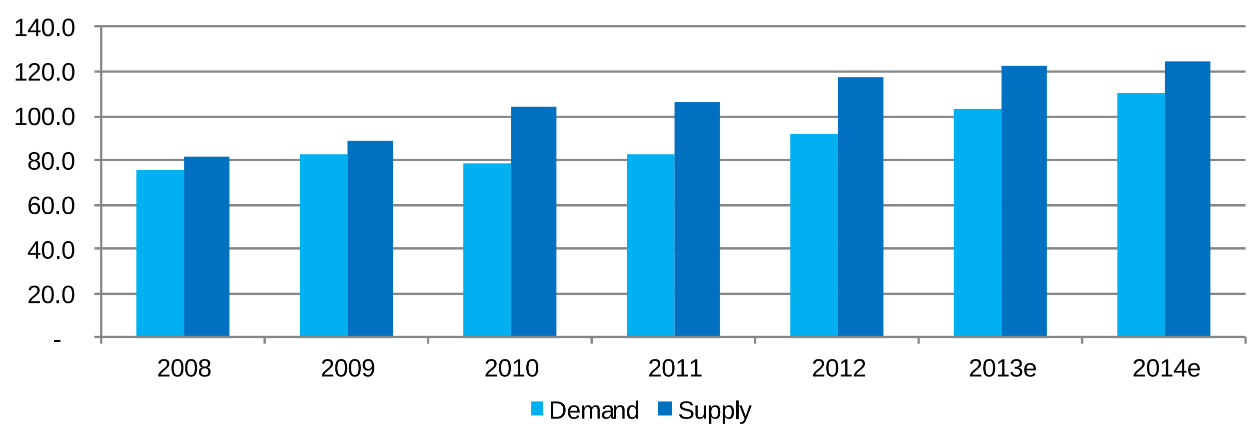
GCC Cement Capacity: 2008-14e



Source: Company Reports & Global Research

We estimate that the increase in capacity will be in excess of the demand in the region. Since the onset of the financial crisis in 2008, supply of cement has constantly outstripped its demand. This is partly attributed to the pre-crisis period when construction activity was strong in the GCC, mainly in the UAE. As a result, cement companies ramped up capacities to meet the rising demand. However, demand growth dipped during the crisis period and the region was caught up in an oversupply situation. UAE and Oman continued to dump their excess supply to neighboring nations due to slackened local demand.

GCC Demand / Supply (mtpa) - 2008-14e



Source: Company Reports and Global Research

Similarly, with construction activity picking up once again in recent times, the region has once again started adding capacity in anticipation of higher demand from the construction sector. But we feel that supply would continue to be adequate to meet demand.

...paves way for exports

In fact, we believe that the excess supply of cement would support export business of GCC cement manufacturers. Historically, GCC companies have been exporting to the neighboring nations of Yemen, Iraq, Egypt and other North African markets. Particularly, the Northern Africa region has been witnessing a rise in infrastructure activities in recent time, thus leading to higher demand for cement. However, supply of cement remains weak in their respective domestic markets. As a result, these regions are becoming more reliant on exported cement. Oman and UAE stand to benefit the most with their existing excess supply. In fact, we feel there could be a strong case for GCC companies ramping up production specifically for export markets.

Low input costs make GCC the highest margin-sector in the world

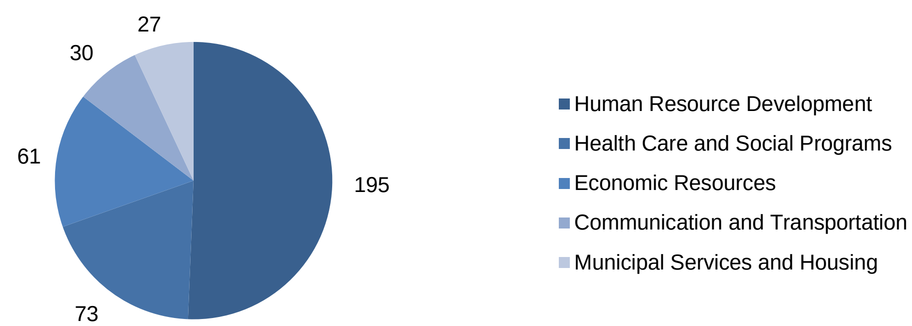
GCC cement companies enjoy raw materials at cheaper rates compared to most of their global counterparts. Companies have access to abundant limestone reserves. At the same time, natural gas is supplied to companies at subsidized rates. As a result, gross margins of GCC companies range from 30-55%, while that of their global peers (primarily China and India) range from 15-25%. Thus, GCC cement sector is currently the highest margin sector in the world.

Saudi Arabia

High oil prices to support robust budget, thereby boosting construction activity in KSA

KSA came out with another year of strong budget in 2013 that is expected to drive construction activity in KSA. The budgeted expenditure for 2013 stood at USD219bn, up 18.8%YoY compared to 2012. Of the total amount, USD76bn has been allocated for capital expenditure, which would include investment in roads, railway, power and housing projects. At the same time, the KSA government laid out its Ninth Development Plan, wherein it states its plan to invest SAR1.4tn in various sectors. According to the plan, the government plans to invest 50.6% of the total expenditure amount on human resource development, 19% on health care and social programs, 15.7% on the development of economic resources, 7.7% on communication and transportation and 7% on municipal services and housing.

KSA Ninth Development Plan Breakup (USD bn)

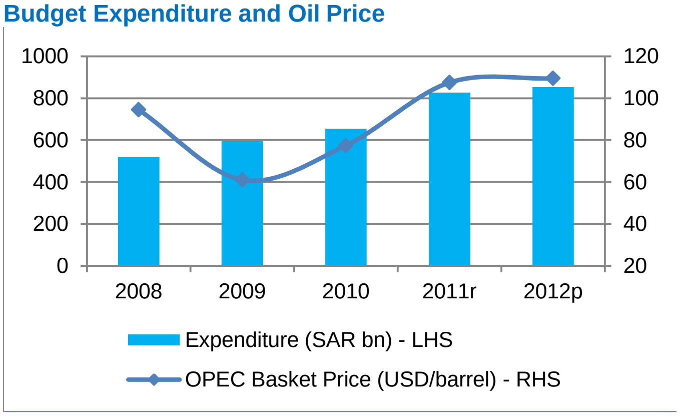


Source: Ministry of Economy and Planning

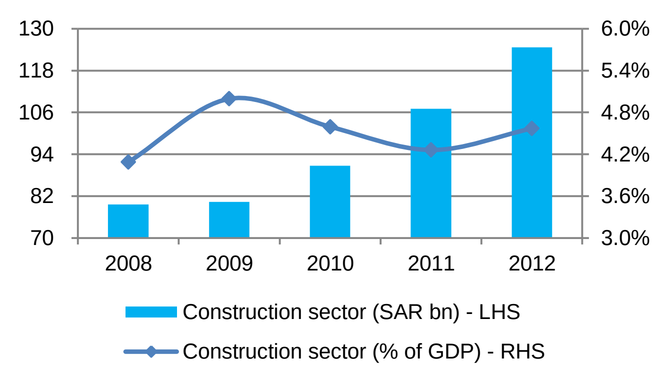
Investment in the Education segment involves construction of 25 technology colleges, 50 industrial training centers and 28 technical institutes. In the development of health care segment, construction of 117 hospitals, 400 centers for emergency care and 750 primary centers of health care have been provisioned for.

At the same time, KSA's budget has remained robust in the recent years supported by high oil prices (hovering around the level of USD100/barrel). Despite a forecasted decline in oil prices going forward, projected oil prices are higher than the estimates for KSA's 2013 budget. Thus, we expect oil to continue to support the KSA economy and thereby the construction sector going forward.

Budget Expenditure and Oil Price



KSA Construction sector - value and % of GDP

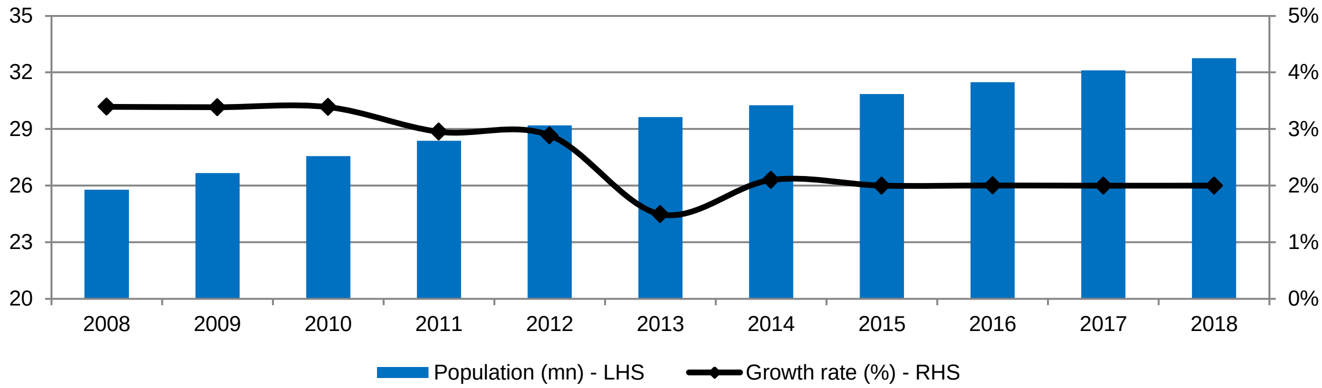


Source: Ministry of Economy and Planning, SAMA

Housing segment to drive demand for cement

Saudi Arabia is currently facing a huge housing shortage. The situation continues to aggravate with a rapidly rising population in the Kingdom, which has also attracted a lot of expatriate workers in the recent years. As a result, the government put forward USD67bn housing plan in 2011 to build 500,000 units across the Kingdom. The government also continues to work towards public-private partnerships to address the shortage problem in the housing segment.

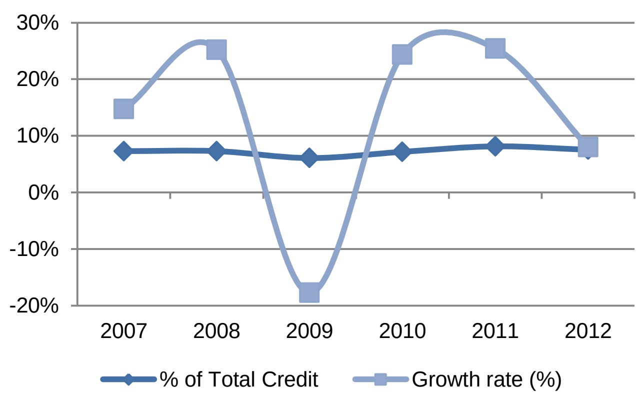
Saudi Population



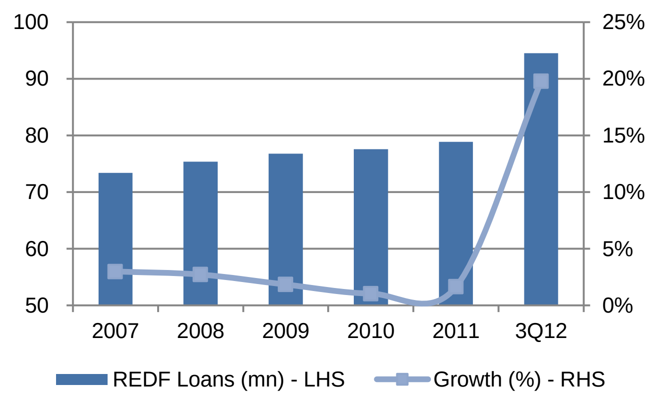
Source: IMF

The impact of the housing sector on demand for cement is expected to amplify with the introduction of the new mortgage law. The mortgage law will facilitate funding options for the real estate market, primarily the housing segment. The KSA government has already released three of the five laws that make up the overall mortgage law while the other two laws are about to be finalized soon. The new mortgage law is expected to boost residential lending to the tune of USD30-32bn in the coming four to five years. In addition to the mortgage law, the KSA is also progressing towards increasing lending activity for the housing segment through REDF and the recently started "Additional Loan Program". The REDF loan has seen a significant rise, jumping 19.8% to SAR94bn in 3Q12 from SAR79bn in 2011.

Credit to Real Estate & Construction



REDF Loans (mn) and Loan Growth (%)



Source: SAMA

Infrastructure development to boost demand further

In addition to the focus on the housing segment, the KSA government is also focused on spending on infrastructural development in the Kingdom. A major government initiative involves developing six economic cities in the Kingdom, with an investment over USD70bn. In addition, the government is also working towards revamping the hospitality sector, owing to rising volume of visitors to the Kingdom especially in the Makkah region. In addition to the ongoing expansion at the Holy Mosque, total investment in the hospitality segment is expected to reach SAR500bn by 2015.

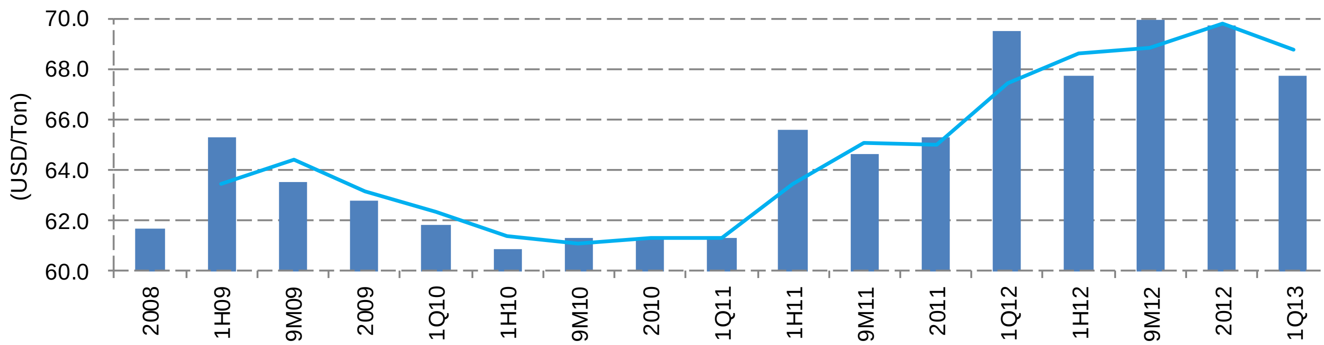
Western and Central regions are current hot-spots

The Western and Central regions in KSA are the current hot-spots for construction activity. The central region is the key political hub of Kingdom and is currently witnessing massive construction activity that includes projects of road construction, commercial buildings, airports, educational facilities and residential buildings. However, the majority of the construction activity is taking place in the Western region of Kingdom. Being home to four of the six economic cities in Kingdom, the Western region has seen a surge in construction activity in recent years. In addition, rising tourism to the holy cities of Mecca and Medina is further leading to infrastructural development in the region. Companies with exposure to the above two regions, such as Yanbu Cement, City Cement, Yamamah Saudi Cement and Arabian Cement, are expected to benefit the most from the ongoing construction boom in the Kingdom.

Price cap to restrict top line growth; fuel subsidies to support margins

The cement industry in KSA continues to be heavily regulated by the local government. Considering the rising demand for cement within the Kingdom and rampant hoarding practices at various distribution points, cement prices rose abruptly across the Kingdom. As a result, the KSA government was forced to introduce a price cap of SAR250/ton on cement sales, which was later decreased to SAR240/ton in early 2012. Additionally, the government has also set a price of SAR12/bag for wholesalers and SAR14/bag for end users. As a result, the growth in top line of Saudi cement companies is expected to remain restricted in the coming years.

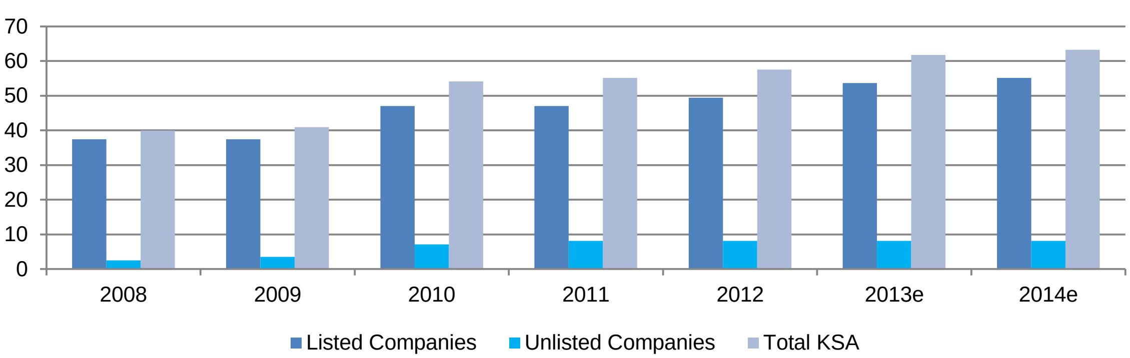
KSA Cement Price



Source: Company Reports & Global Research

However, KSA cement companies continue to enjoy the highest margins not only in the GCC region but in the world. The high margins are attributed to availability of subsidized fuel and abundant raw materials (limestone) in the Kingdom. KSA cement companies switched to Natural gas as their primary fuel due to rising coal prices a few years back. Natural gas is supplied by the local government body Saudi Aramco, at a subsidized rate of USD0.75/mmbtu, which is one-fifth of the current international prices. As a result, gross margins of KSA cement companies stand in the range of 39-59%, the highest in the world. In comparison, most of the international peers have range from 15%-25%.

KSA Cement Capacity (mtpa)



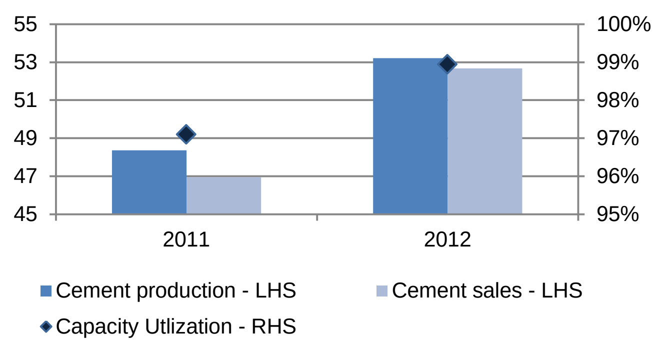
Source: Company accounts and Global Research

Capacity ramp up in progress

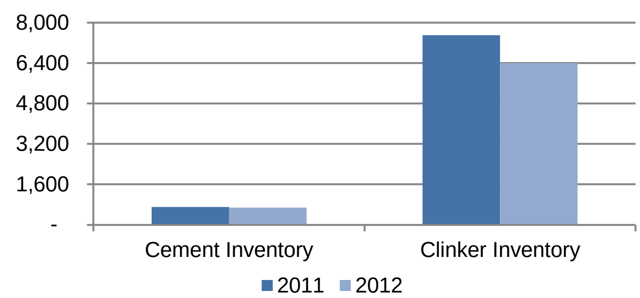
The current capacity of the Saudi cement sector is estimated at around 57.5mtpa and is expected to reach almost 63mtpa by the end of 2014. Many companies have already started working towards adding new capacity or re-starting older facilities. Najran Cement is ready to start its third production line with a capacity of 7,000tpd while Saudi Cement recommenced production at three of its older kilns with a combined capacity of 1,325tpd. Qassim Cement is also in the process of installing a capacity of 5,500tpd while Al Jouf Cement is gearing up for a third line of production with a capacity of 5,000tpd, in addition to its ongoing construction of the second line with same capacity.

Total cement consumption in the Kingdom rose 12.1%YoY to 52.6mn tons in 2012 from 47.0mn tons in 2011. On the other hand, total exports stood at 0.6mn tons in 2012, down from 1.5mn tons in 2011. A rise in local sales and a decline in export volumes clearly indicate the focus of KSA companies to meet rising local demand. Accordingly, KSA cement companies increased their cement production 10.0%YoY to 53.2mn tons in 2012 from 48.4mn tons in 2011. Meanwhile, total clinker production reached 48.3mn tons in 2012, up 12.4%YoY from 42.9mn tons in 2011.

Cement Production (MT), Sales (MT) and Capacity Utilization (%)



Cement and Clinker Inventory (MT)



Source: Company accounts and Global Research

As a result of this rise in production, KSA cement companies have witnessed an improvement in capacity utilization, which rose to 98.9% in 2012 from 97.1% in 2011. Meanwhile, the surge in production has also led to a sharp depletion in inventory levels. Total clinker inventory fell 14.8%YoY to 6.4MT in 2012 from 7.5MT in 2011. Similarly, cement inventory declined to 0.68mn tons in 2012 from 0.69mn tons in 2011.

Even though KSA cement companies were able to meet the local demand adequately in 2012, the demand-supply scenario could change in the coming years. Despite the willingness to ramp up production, KSA companies have faced obstacles in obtaining required oil supplies from Saudi Aramco. However, KSA remains committed to meeting its internal demand, clearly reflected by the recent royal decree to order the import of 10mtpa of cement. Also, the government has plans for establishing 3-4new cement plants with a capacity of 12mtpa over the coming years. In the coming two years, we expect an addition of 5.7mtpa to the sectors capacity.

Uncertain fuel supply and price remain a concern

Supply and price of natural gas continues to be a concern for KSA companies planning to add new capacity. Due to production constraints, Saudi Aramco has restricted allocation of new gas supply to the cement manufacturers. As a result, most existing players have been stuck with their expansion plans. The KSA government intervened in 2012 to provide for a six-month period of assured fuel supply to all cement company expansions. However, any long term assurance for uninterrupted supply is still far from reality.

KSA companies have been enjoying supply of natural gas at a subsidized rate of USD0.75/mmbtu, which almost one-fifth of the international prices. However, Saudi Aramco has been contemplating an increase in natural gas price to USD2-2.5/mmbtu. In the event of such a dramatic increase, margins of KSA cement companies could be seriously dented. Moreover, the pressure to hike the official price continues to mount as the Kingdom is expected to run short of supplies in the coming years. Despite some recent discovery of gas fields, oil companies are reluctant to start production unless official prices are increased to cover up the production costs adequately.

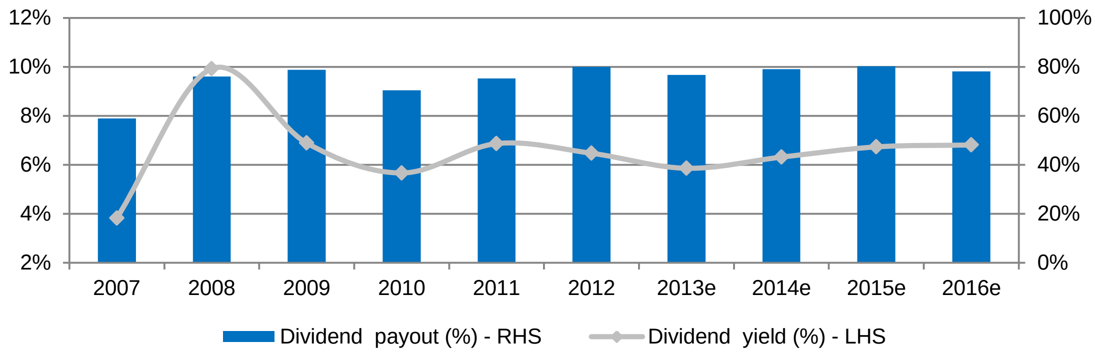
Cement import to present fresh challenges for the sector

In light of the high demand-shortage supply situation in the Kingdom, the government lifted the import ban on cement and clinkers. In addition, the Saudi Arabian Ports Authority recently announced that the commercial ports are now ready to receive cement and clinker. The announcement follows King Abdullah s recent decree to allow for an import of 10mtpa of cement. This is expected to bring fresh challenges for the sector. Currently, KSA companies have a price cap of SAR240/ton, which is lowest in the GCC. As a result, clinker and cement imports would be costlier to the local companies, despite the government arranging for subsidies on imports. Thus, KSA companies could face substantial margin compression in the coming quarters.

Dividends remain attractive for Saudi companies

High dividends remain a key positive for Saudi cement companies. The sector (GIH coverage) dividend payout has gradually increased from 70% in 2010 to 80% in 2012. As a result, average sector yield rose from 5.7% in 2010 to 6.5%. For 2012, Saudi Cement and Qassim Cement topped the table with their dividend yields standing at 9.0% and 7.5%, respectively. The high dividend payout of Saudi cement companies is attributed to the healthy cash reserves that were built up over the previous 2-3 years, when the demand for cement started surging in the Kingdom.

Dividend Payout and Dividend Yield



Source: Company Reports & Global Research

Going forward, we expect operating cash flows to remain robust as a result of continued growth in demand for cement led by burgeoning construction activity. Thus, we expect dividend payout to remain above 77% during 2013-16, with the sector dividend yield rising from 6.5% in 2012 to 6.8% in 2016.

Oman

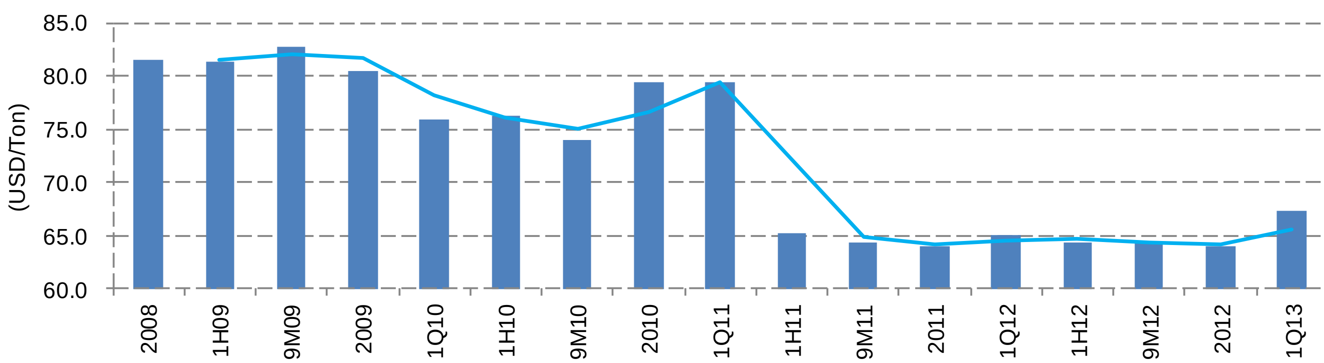
Strong government budget to drive growth for the cement sector

Oman government has been pushing hard for infrastructure projects in the country, driving up demand for cement considerably. We expect demand to rise aggressively in 2013 with a majority of the infrastructure and construction projects already underway. The Oman government has allocated OMR600mn for roads and other infrastructure projects in 2013. This figure is in excess of some existing projects that include expansion of the Muscat and Salalah airports and the Batinah expressway. At the same time, construction activity has been boosted by increased lending activity. Loan disbursements to the construction sector came in at almost OMR930mn at the end of 2012, up 36%YoY. A major part of this has is to be utilized towards the completion of the airports, ports, roads and the development the industrial estates, water and wastewater projects. Overall, Oman's construction sector is expected to exceed the level of USD5bn over the coming 3-4 years, thus yielding an average growth rate of almost 6%. This is further expected to translate into a growth of almost 5% (CAGR) in domestic demand for cement during the period 2012-16.

Cement price expected to uptrend led by improved demand

After remaining subdued for almost six quarters, cement prices in Oman witnessed a rise in 1Q13. In 1Q13 average cement prices stood at USD67.4/ton (OMR25.9/ton) compared to an average price of USD65.0ton (OMR25.0/ton) during 1Q12. With demand building up locally aided by strong government support, we expect prices to move upwards in the coming quarters.

Oman Cement Price



Source: Company Reports & Global Research

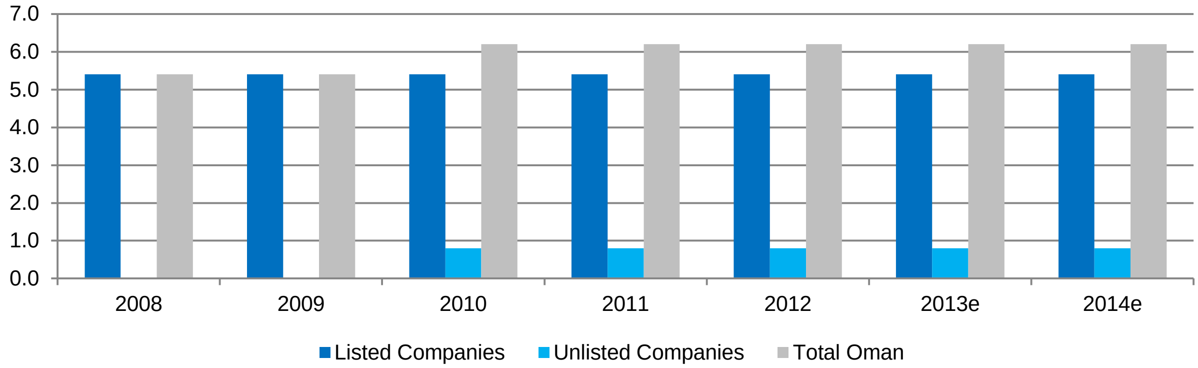
Dependence on export declines, however dumping from neighbor countries continue

In the previous years, Omani cement companies have been significantly reliant on exports. However, the situation has been changing off late, owing to a pick-up in local demand led by solid construction activity. However, Omani companies continue to face severe competition from other regional peers, mainly from UAE. Since the 2008 financial meltdown, the UAE cement market has been witnessing a slump in demand, forcing the companies to dump their excess capacity to neighboring countries including Oman. Despite the improvement in UAE's cement demand in 2013, excess capacity continues to be a drag on the sector. Thus, UAE companies continue to offload their excess capacities in Oman. As a result, price realization for Omani cement companies remained subdued in the previous quarters. Going forward, the margins growth could remain a challenge for Omani companies, until cement imports start receding. However, overall construction activity in the GCC is currently on the rise, with UAE seeing a major recovery in its real estate sector. Thus, we expect dumping of excess capacity in Oman to reduce in the coming years, thereby aiding in growth in price realization and margin expansion.

Oman's capacity remains adequate for the foreseeable future

Despite the rising demand in Oman, we feel the country has adequate cement capacity to meet the internal demand up till 2014.Thus we expect the country's total cement capacity to remain at 6.2mtpa throughout this period. The

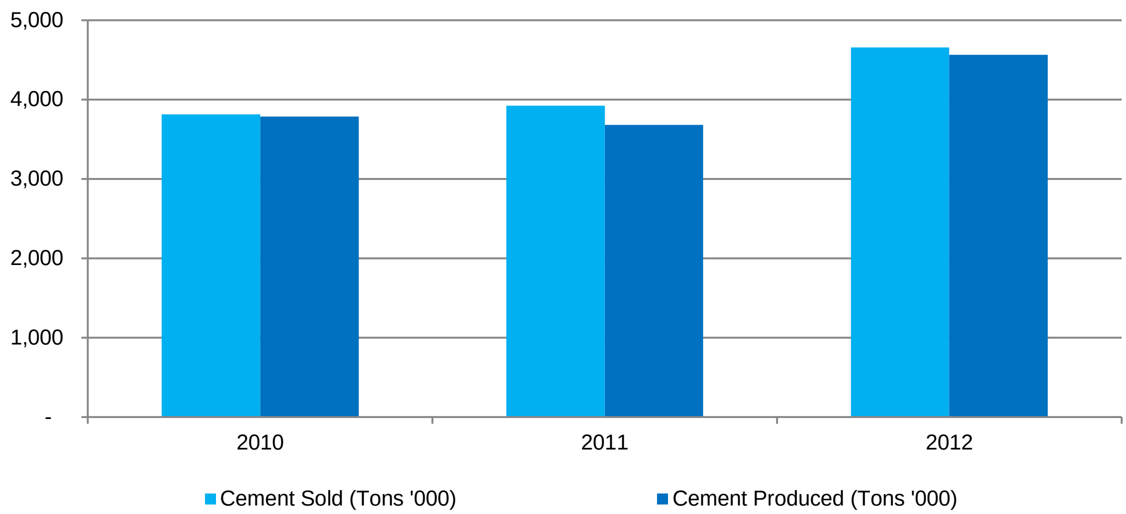
Oman Cement Capacity (mtpa)



Source: Company Reports & Global Research

Total cement sales increased 18.7%YoY to 4.7mn tons in 2012 from 3.9mn tons in 2011. The rising demand was met by a larger increase in production. Total production rose 23.9%YoY to 4.6mn tons in 2012 from 3.7mn tons in 2011. Consequently, capacity utilization level rose to 75.8% in 2012 from 68.8% in 2011.

Cement Sold and Produced



Source: Company Reports & Global Research

Rising demand from within Oman is expected to reduce the country's dependence on exports. Moreover, with KSA opening up its market for imports, UAE cement companies are expected to shift their export activity away from Oman. Thus Omani companies would be better placed to serve the local demand.

United Arab Emirates

Real estate recovery driven by improved sentiments, tourism and trade to boost demand

UAE has witnessed solid rebound in its real estate sector in 2013, driven by improved market sentiments, rising tourism. In particular, the Dubai market has seen a surge in real estate transactions, rising 69.8%YoY to AED89bn during 1H13. The markets witnessed some important launches and announcements in 2013 that include the following:

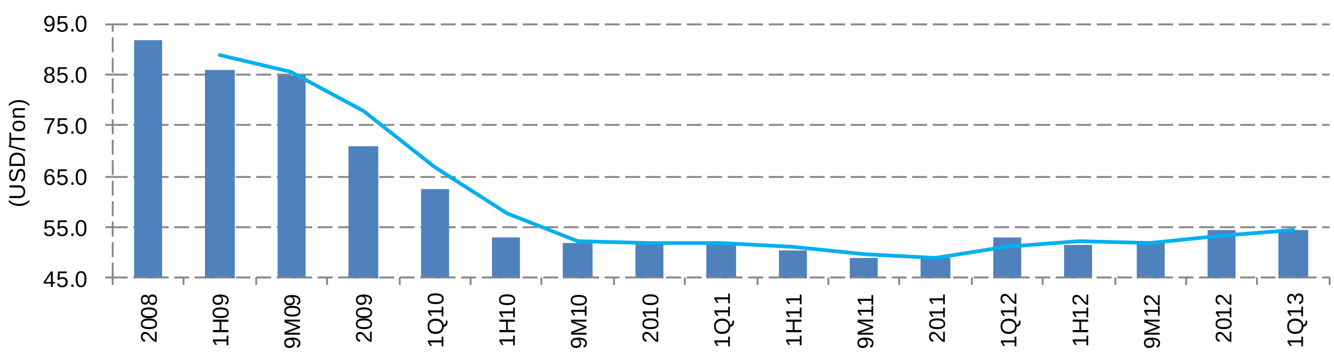
- AED1bn Cayan Tower in Dubai,
- Joint venture between Emaar Properties and Meraas Holding to develop “Dubai Hills Estate”
- TDIC sold the first phase of Saadiyat Beach Residences and commenced construction of the third phase
- Aldar Properties received the award for constructing 996 villas from Abu Dhabi Housing authority
- Al Habtoor City – USD3bn

Government support and investor friendly regulatory framework to boost construction activity

The UAE construction remains driven by government support. The Dubai government has allocated 16% of its USD9.3bn spending budget in 2013. On the other hand, the Abu Dhabi Government recently indicated that it intends to spend USD90bn on development projects during 2013-17. As per MEED estimates (as of September, 2013), the total value of projects stand at USD705bn compared to USD545bn at the end of September 2012, growth of a hefty 29.4%.

Consequently, the construction sector is expected to account for around 11.1% of UAE’s GDP by 2013, a significant rise from 10.3% in 2011. UAE’s construction market is currently being driven by projects in the infrastructure and residential/non-residential segments. The government continues to boost the sector with investor-friendly policies, which include allowing freeholds and leaseholds to non-UAE/GCC nationals along with allocating 20% of residential gross floor area to the middle-income population. Furthermore, the government has undertaken initiatives to attract fresh investments into the sector by extending visas of real estate investors to three years from the earlier period of six months. The effects were visible in the order backlog of the country’s major players: Arabtec’s order backlog rose to USD5.5bn in 1Q13 from 3.6bn in 1Q12, while that of DSI increased to USD2.4bn from USD2.1bn during the same period.

UAE Cement Price



Source: Company Reports & Global Research

Rising price realization to boost top-line growth

Price of cement and other building materials remained stagnant over the last two years owing to the slump in the real estate and construction sectors. However, the since the turnaround in the real estate market in 2013, the prices have started trending upwards to rising demand in the country. UAE realization prices increased by 2.6% from USD53.1/ton in 1Q12 to USD54.5/ton in 1Q13, as demand pick up in the UAE, especially from the Dubai region and more unused supply is being dispatched to other neighboring countries specially Saudi Arabia.

Margins remain under pressure; non-core income provides some relief

UAE companies continue to face downward pressure on margins, reflected in the decline in gross and operating margins in 1Q13. However, net profit margin improved during this period, owing to a rise in the non-core income component. Most UAE cement companies have large investments in UAE's real estate and equity markets, which have rallied during this period.

Oversupply situation remains a concern; capacity addition to stall

The astronomical growth in UAE's real estate market during the 2004-07 period led to huge capacity additions by UAE cement companies. However, when the real estate market crashed in 2007, UAE's cement sector witnessed a serious oversupply situation, driving capacity utilization levels of UAE firms down to the level of almost 50%. Even though cement companies have been trying to offload the excess capacity by exporting cement to the neighboring nations, the excess capacity still continues to prove a drag on the sector. The government has already taken a notice of the sudden recovery in the real estate market and has already swung into action with several measures to control the real estate market, thereby preventing another bubble situation. Thus we expect an oversupply situation to persist in UAE, which could potentially hurt utilization and profitability levels of UAE cement firms.

UAE Cement Capacity (tons)

Name of Producer	Location	Owners	Clinker	Cement
STAR CEMENT	Abu Dhabi	Aditya Birla Group	-	1,365,100
NATIONAL CEMENT FACTORY	Abu Dhabi	Holcim	-	2,312,640
TEBA CEMENT	Abu Dhabi			
STAR CEMENT	Ajman	Aditya Birla Group	-	1,043,900
AL AIN CEMENT/ARKAN	Al Ain	Arkan Building Materials	3,930,000	5,600,000
NAEL CEMENT FACTORY	Al Ain	Nael & Bin Harmal Group, A/d	-	1,000,000
NATIONAL CEMENT CO.	Dubai	Al Ghurair, Dubai	1,320,000	2,087,800
CEMEX	Dubai (J/Ali)	Cemex	-	1,600,000
BINANI CEMENT CO.	Dubai (J/Ali)	Binani -Indian Group	-	1,000,000
JABEL ALI CEMENT FACT.	Dubai (J/Ali)	Al Sayed Mohd Hussain Sharaf	-	800,000
FUJAIRAH CEMENT INDS.	Fujairah	Public share holding -Fuj Govt	4,125,000	2,529,450
LAFARGE EMCC	Fujairah	Dubai Holding/Lafarge/Fuj Govt	2,640,000	3,372,600
STAR CEMENT	Fujairah	Aditya Birla Group	2,400,000	-
GULF CEMENT CO.	RAK	Public share holding	3,729,000	2,738,230
UNION CEMENT CO.	RAK	Public share holding -RAK Govt	4,257,000	4,270,500
RAK CEMENT CO.	RAK	Share holding -GCC/RAKWC/RAK Govt	1,116,220	1,234,093
PIONEER CEMENT CO	RAK	RAK Inv Auth & Penna Cement India	1,237,500	2,007,500
PAN EMIRATES	Fujairah	AL BANNA	-	800,000
SHARJAH CEMENT FACT.	Sharjah	Public Share Holding	1,782,000	4,592,000
AL HAMRIYA CEMNT	Sh. (Hamriya)	Bin Kamaal	-	923,450
UAQ CEMENT INDS.	UAQ	Public share holding -Kuwaiti	-	642,400
Total			**26,536,720**	**40,669,663**

Source: Union Cement

As a result, we do not expect any large scale addition of capacity in the UAE over the coming two years. We expect the total capacity to rise to 42mtpa by 2014 from 40.7mtpa in 2012.

Qatar

Infrastructure spending continues to boost demand

Strong infrastructure spending by the Qatar government continues to boost demand for the cement sector. Total expenditure during the period 2013-14 has been set at USD57.8bn, up 18% from USD49bn set for the previous year. Furthermore, recent BMI estimates show that Qatar is expected to spend USD140-150bn on infrastructure over the next decade. Out of this, around USD40bn is earmarked for railways, USD15.5bn for airports, USD20bn for roads and around USD4bn for stadia. Qatar's construction activity is primarily driven by FIFA World Cup 2022 and its Vision 2030 plan. Some of the major projects are already underway are:

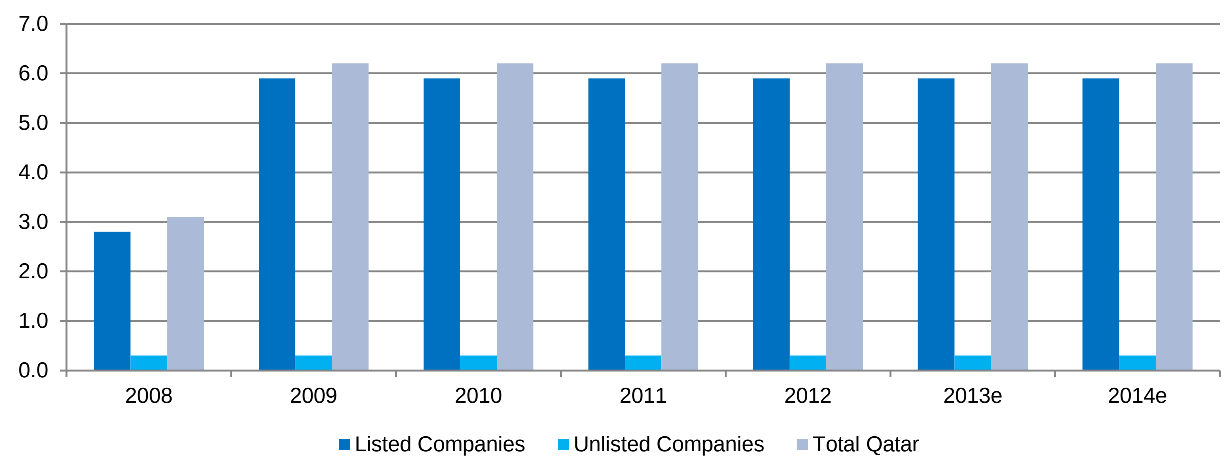
- There are two major road projects led by public works authority Ashghal: a local roads and drainage program for upgrading Doha's road network worth of USD14.6bn and is expected to be completed in 2016; the other one includes highways in Doha, Lusail and Dukhan worth of USD14.6bn to be completed in 2016.
- Qatar Rail's construction cost is pegged at USD35bn with initial phases to be completed by 2020.
- An Msheireb real estate regeneration project in the center of Doha worth of USD5.5bn to house 27,000 residents and is expected to be completed in 2016. The project includes commercial, retail, cultural and entertainment areas.
- Development of schools and health care are also high on the priority list of the government, receiving 28% and 18% respectively of the total capital spending in 2013-14.

With such huge project pipelines, demand for cement is expected to shoot. Average cement demand in Qatar during 2013-15 period is expected to stand at around 5.5mtpa, higher than the government estimate of 3.5-4mtpa. With many big ticket projects coming online thereafter, cement demand is expected to pick up further to 10.0mtpa.

Qatar could face a serious cement shortage scenario in near future

Given the rapid rise in cement demand, Qatari companies are still not ready to gear up capacity to meet the same. Qatar National Cement Company announced a capacity addition of 0.93mtpa to 5.36mtpa recently. However, with no other major capacity addition announcements, we feel Qatar will face a major cement shortage scenario going forward.

Qatar Cement Capacity (mtpa)

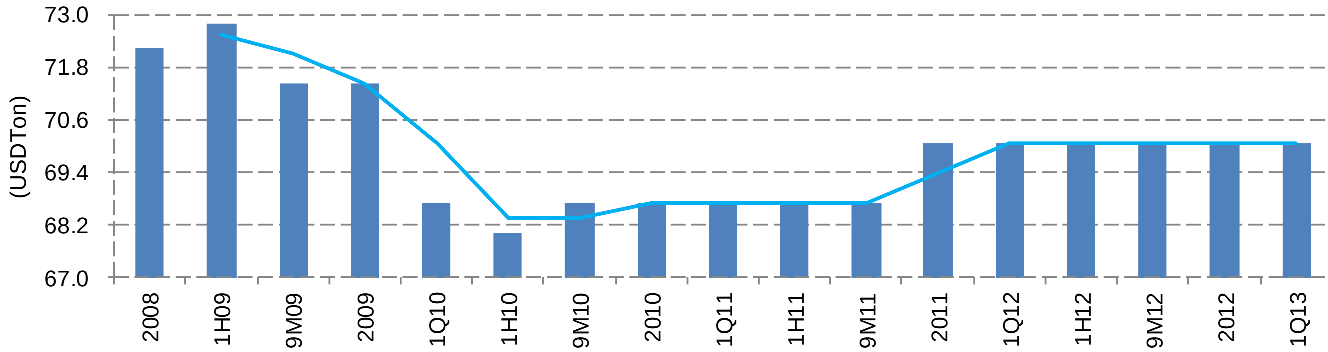


Source: Company Reports & Global Research

Cement price remains stagnant; however margins improve owing to efficient operating environment

Cement price in Qatar have remained mostly constant since last couple of years. In 1Q13, average cement prices in Qatar remained around same at USD70.1/ton which was equal to the average in 2012 and 2011. The same has prices have prevailed since last couple of years because of government control. Due to increase in demand, price may move upward in near term. However, Qatari companies have witnessed an improvement in their margins. The improvement is ascribed to a shift to more efficient and operative environment.

Qatar Cement Price



Source: Company Reports & Global Research

Balance sheets continue to become stronger

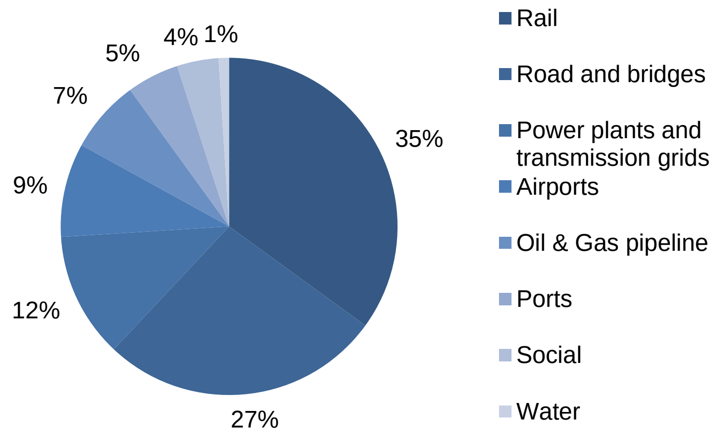
Qatari companies continue to work towards strengthening their balance sheets by reducing debt levels. Overall debt level of the sector fell 6.0% to USD291.5mn in 1Q13, mainly led by a 75% fall in debt of Qatar National Cement.

Kuwait

Cement demand is expected to pick up with robust infrastructure spending

Kuwait accounts for roughly 10% of GCC construction materials distribution market. In previous years, demand had slowed down as a result of postponement or delay in major infrastructure projects. In addition, weak business environment further slowed down the expansion the industrial activity. However, Kuwait is also in line to join the current construction boom in the GCC, with a projects worth of USD188bn already underway. The Kuwaiti government has been showing adequate support for infrastructural development. Some major projects underway in the nation include Kuwait City's USD7bn ongoing metro project, which is expected to be completed by 2020 and the USD3.3bn Kuwait International Airport (KIA) terminal which is expected to open in September 2016. Furthermore, Kuwait plans to invest around USD6.2bn in a series of motorway construction projects with an approximate length of 550km by 2015. At the same time, the other major developments include USD2.6bn Subiya causeway, a 37.5km bridge crossing Kuwait Bay, linking Kuwait City, Subiya peninsula and Boubyan Island. Also, Kuwait has over USD 5bn university building projects either in planning stage or under construction. With such robust infrastructure spending plan, demand of cement is expected to pick up in near future.

Ongoing construction project value breakdown as per sectors (Feb-2013)

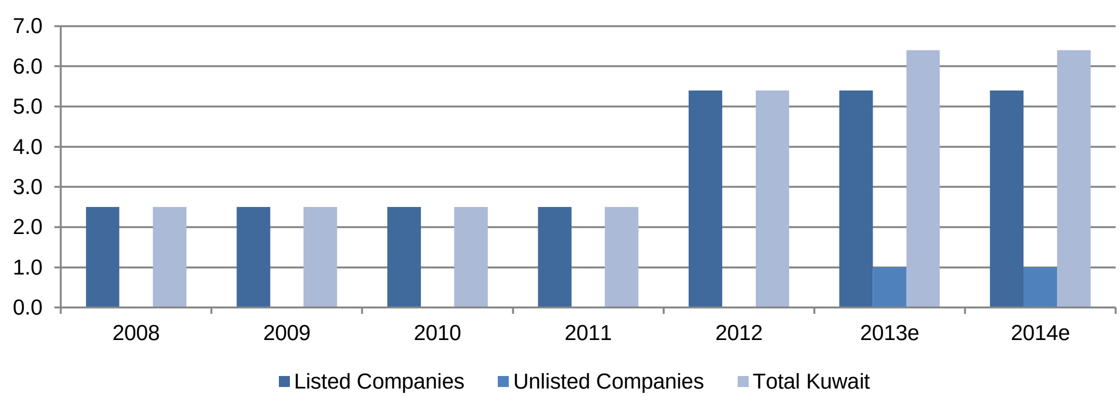


Source: BMI

Capacity addition expected in 2013

In terms of cement production capacity, Kuwait's cement sector remained quite stagnant up till 2011. However, with improved focus of the government on construction activities leading to higher demand, the sector doubled its capacity in 2012 to almost 5.4mtpa from 2.5mtpa in 2011. We expect another round of capacity in addition in 2013, which is expected to take the total capacity to almost 6.4mtpa. Thereafter, the capacity is expected to be adequate to meet the country's local demand and thus remain flat.

Kuwait Cement Capacity (mtpa)

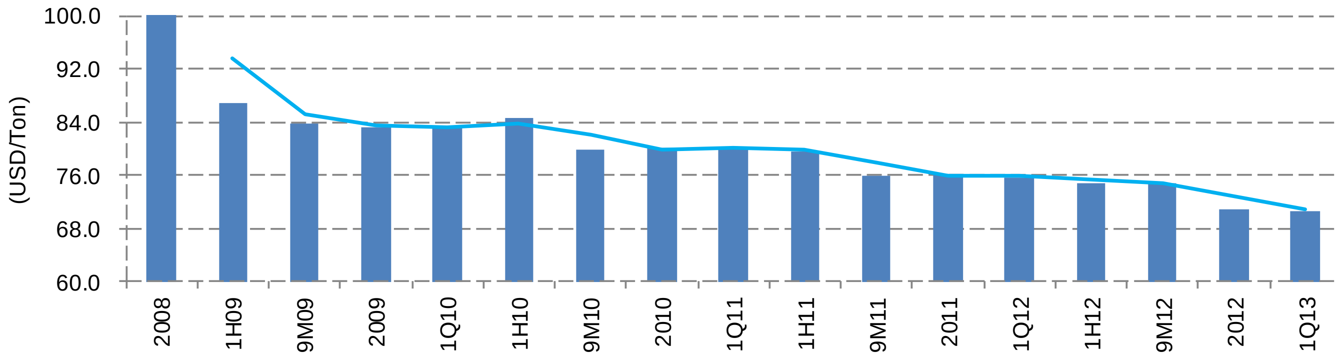


Source: Company Reports & Global Research

Cement price declines in 1Q13, may witness further price down turn in near future

Kuwait witnessed a decline in average realization price of 6.7% to USD70.7/ton in 1Q13, compared to the same period last year. Prevailing weak demand is the key reason for such a price decline. However, cement demand is expected to pick up once ongoing infrastructure and construction projects pick up.

Kuwait Cement Price



Source: Company Reports & Global Research

The key cement producer of the country Kuwait Cement Company has recently increased its grinding capacity to 5.0mtpa, which was not sufficient to cater to the growing need of the industry earlier, hence, the country relied on imports. However, with this recent capacity addition the imports might decline as some new grinding plant have also ventured their way into the market. Presently, due to weak business environment, most of the construction projects are getting delayed from their scheduled execution; this coupled with competitive pressure may erode the price further in near term.

Saudi Arabia

Arabian Cement Company (ACC)

BUY
Target Price
SAR81.3

Market Data

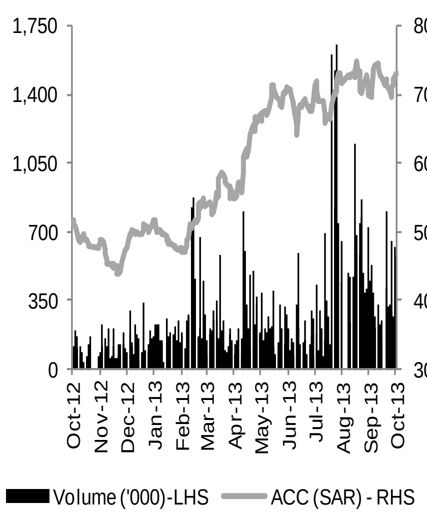
Bloomberg Code:	ARCCO AB
Reuters Code:	3010.SE
CMP (6th October 2013):	73.0
O/S (mn)	80.0
Market Cap (SAR mn):	5,840.0
Market Cap (USD mn):	1,557.3
P/E 2014e (x):	10.3
P/BV 2014e (x):	1.7

Price Performance 1-Yr

High (SAR):	76.3
Low (SAR):	43.7
Average Volume ('000):	272

	1m	3m	12m
Absolute (%)	4.3	1.4	41.1
Relative (%)	4.8	4.0	16.2

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Earnings disappoint in 2Q13**
- **Agreement with Northern Cement to bode well for revenues**
- **Capacity expansion uncertain amid fuel supply issues**
- **TP revised to SAR81.3/share; we recommend a BUY rating**

ACC profits are expected to recover in 2013, aided by improved growth in revenues and stabilization of operations. The company's clinker swap agreement with Northern Cement, resolution of labor problems at Qatrana Cement and restart of the third cement mill at the KSA unit are expected to boost its revenues. Resumption of operations at the struggling Qatrana Cement unit is also expected to improve margins. We expect EPS to increase at a CAGR of 14.0% during 2012-16 and have revised our target price to SAR81.3/share, 11.3% above the current market price. Therefore, we recommend a BUY rating on the stock.

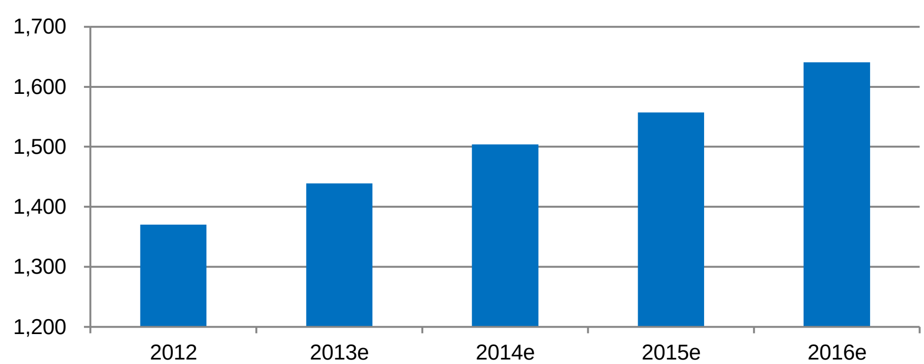
Earnings disappoint in 2Q13

ACC recorded weak results in 2Q13. Although net profit rose 88.6%YoY to SAR135.6mn during the quarter, this was mainly due to an impairment charge of SAR86.8mn recognized in 2Q12 and higher investment income. Adjusting for the impairment charge, net profit fell 14.6%YoY. The decline was due to a 2.0%YoY fall in revenues to SAR362.0mn and a 14.2%YoY rise in production costs. Revenues have suffered constantly owing to labor issues at the Qatrana Cement unit in Jordan and shutdown of the third cement mill at ACC's unit in KSA. The impact can be seen on cement dispatches, which declined 9.0%YoY to 1.1mn tons during the quarter.

Agreement with Northern Cement to bode well for revenues

ACC struck a clinker swap deal with Northern Cement, under which the former will receive 700,000 tons of clinker from the latter. On the other hand, Qatrana Cement, ACC's subsidiary in Jordan, would supply the same quantity of clinker to Northern Cement's plant in the country. ACC is located in KSA's prime construction hub and the additional clinker supply is expected to boost the company's revenues in 2013. Thus, we expect revenues to grow 5.0% during the year. We expect revenues to remain on an uptrend, recording a CAGR of 4.6% through 2012-16.

Revenues (SAR mn)



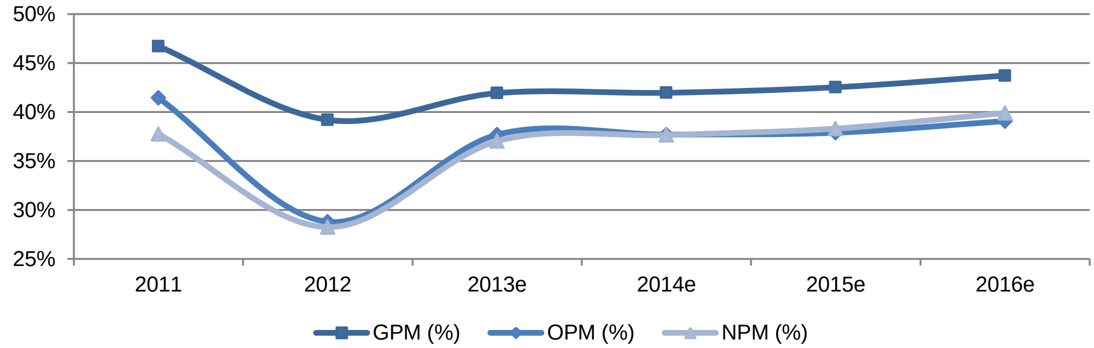
Source: Company Reports & Global Research

Margins to recover starting 2013

ACC's margins are expected to recover now that labor issues at Qatrana Cement have been resolved and revenues are expected to grow continuously. ACC recognized an impairment charge of SAR100.2mn in 2012 that dented its margins. However, labor problems have ended with the unit resuming normal operations.

Also, production is expected to increase further once the company restarts the third cement mill at its unit in KSA (Rabigh), which was shut down in 2012 after a fire. In addition, the clinker swap agreement with Northern Cement is expected to contribute to ACC's revenues. Therefore, we expect margins to recover starting 2013. We estimate gross margin to improve to 43.7% by 2016 from 39.2% in 2012, and (consequently) operating margin to expand to 39.1% from 28.8% over this period. As a result, net profit margin is expected to rise to 39.9% by 2016 from 28.3% in 2012.

Gross margin, Operating margin and Net profit margin



Source: Company Reports & Global Research

Capacity expansion remains uncertain amid fuel supply issues

ACC announced its plan to add a new production line with 7,000tpd (or 2.3mtpa) capacity, which would increase its existing capacity by 41.0%. ACC is located in the Western region, the prime construction zone in KSA, and the addition of this new line could act as a catalyst for the stock. However, the company has put the expansion plan on hold for now as it has not been able to secure fuel supplies from Saudi Aramco.

Target price revised to SAR81.3/share; we recommend a BUY rating

We have revised the fair value to SAR81.3/share, which is 11.3% above the current market price. The company's clinker swap agreement with Northern Cement, resumption of operations at Qatrana Cement and restart of the third cement mill at its KSA unit are expected to boost sales. Margins are also expected to recover as operations at Qatrana Cement stabilize. We expect EPS to increase at a CAGR of 14.0% during 2012–16. Thus, we recommend a **BUY** rating on the stock.

Financial Statements

(SAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Income Statement							
Revenue	745	1,079	1,371	1,439	1,504	1,557	1,641
Cost of sales	(426)	(575)	(833)	(836)	(873)	(895)	(923)
Gross Profit	**319**	**504**	**537**	**603**	**631**	**662**	**717**
SG&A	(31)	(57)	(142)	(61)	(64)	(72)	(76)
Operating Profit	**288**	**447**	**395**	**542**	**567**	**590**	**641**
Financial charges	(8)	(61)	(60)	(46)	(41)	(37)	(33)
Other income	(28)	3	2	(1)	(1)	(2)	(2)
Profit Before Taxation	**263**	**410**	**375**	**537**	**569**	**600**	**658**
Zakat and minority interest	(8)	(7)	6	7	9	9	10
Net Profit	**255**	**407**	**387**	**533**	**566**	**597**	**655**
Balance Sheet							
Cash and Bank Balance	147	304	285	250	275	299	337
Receivables	159	210	211	282	320	324	352
Inventories	214	309	305	292	306	308	383
Other Current assets	45	44	59	61	64	68	71
Total Current Assets	**565**	**866**	**859**	**886**	**965**	**999**	**1,143**
Long-term investments	254	312	347	382	420	462	467
Deferred expenses and other dues	20	24	29	29	30	31	33
Net fixed assets	3,316	3,245	3,016	3,032	3,040	3,042	3,062
Total Fixed Assets	**3,589**	**3,580**	**3,393**	**3,442**	**3,491**	**3,536**	**3,562**
Total Assets	**4,155**	**4,447**	**4,252**	**4,328**	**4,455**	**4,534**	**4,705**
Accounts payables	185	190	223	215	225	227	252
Current portion of long-term loan	214	286	205	183	165	148	134
Other current liabilities	27	28	14	20	20	21	23
Long-term debt	1,191	1,105	814	733	659	594	534
Employee end-of-service benefits	36	39	43	45	47	50	52
Share capital	800	800	800	800	800	800	800
Retained Earnings	678	923	1,069	1,320	1,524	1,679	1,892
Other reserves	967	1,021	1,050	978	978	978	978
Total Shareholders Equity	2,503	2,795	2,951	3,131	3,337	3,494	3,709
Total Equity & Liability	**4,155**	**4,447**	**4,252**	**4,328**	**4,455**	**4,534**	**4,705**
Cash Flow							
Cash Flow from Operating Activities	306	421	643	635	690	763	753
Cash Flow from Investing Activities	(304)	(85)	(29)	(287)	(214)	(216)	(200)
Cash Flow from Financing Activities	94	(180)	(632)	(384)	(452)	(522)	(514)
Change in Cash	95	157	(19)	(35)	24	25	38
Net Cash at End	**147**	**304**	**285**	**250**	**275**	**299**	**337**
Ratio Analysis							
Gross margin	42.8%	46.7%	39.2%	41.9%	42.0%	42.5%	43.7%
Operating profit margin	38.7%	41.4%	28.8%	37.7%	37.7%	37.9%	39.1%
Net Profit Margin	34.3%	37.8%	28.3%	37.0%	37.6%	38.3%	39.9%
Return on Average Assets	6.4%	9.5%	8.9%	12.4%	12.9%	13.3%	14.2%
Return on Average Equity	10.7%	15.4%	13.5%	17.5%	17.5%	17.5%	18.2%
EV/ton (USD)	335.8	323.9	332.2	456.5	448.4	440.9	433.0
Quick ratio (x)	0.8	1.1	1.3	1.4	1.6	1.7	1.9
Debt / Equity (x)	0.56	0.50	0.35	0.29	0.25	0.21	0.18
EV/EBITDA (x)	18.2	11.3	12.6	12.1	11.2	10.5	9.4
EV/Revenues (x)	6.4	4.3	3.5	4.5	4.2	4.0	3.8
FCF Yield	-0.8%	9.2%	15.0%	7.5%	8.4%	9.6%	9.0%
EPS (SAR)	3.2	5.1	4.8	6.7	7.1	7.5	8.2
Book Value Per Share (SAR)	31.3	34.9	36.9	39.1	41.7	43.7	46.4
Market Price (SAR) *	34.2	44.1	50.0	73.0	73.0	73.0	73.0
Market Capitalization (SAR mn)	2,736	3,528	4,000	5,840	5,840	5,840	5,840
Dividend Yield	0.7%	4.5%	6.0%	4.8%	6.2%	7.5%	7.5%
P/E Ratio (x)	10.7	8.7	10.3	11.0	10.3	9.8	8.9
P/BV Ratio (x)	1.1	1.3	1.4	1.9	1.7	1.7	1.6

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing prices on October 06, 2013*

Eastern Province Cement Company (EPCC)

HOLD
Target Price
SAR57.9

Market Data

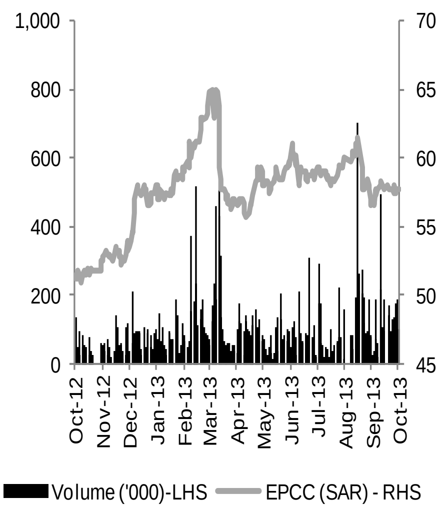
Bloomberg Code:	EACCO AB
Reuters Code:	3080.SE
CMP (6th Oct. 2013):	57.8
O/S (mn)	86.0
Market Cap (SAR mn):	4,966.5
Market Cap (USD mn):	1,324.4
P/E 2014e (x):	13.3
P/BV 2014e (x):	2.3

Price Performance 1-Yr

High (SAR):	65.5
Low (SAR):	51.0
Average Volume ('000):	117

	1m	3m	12m
Absolute (%)	2.2	-2.5	12.1
Relative (%)	4.8	4.0	16.2

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Earnings slide 25.0%YoY in 2Q13**
- **Capacity constraints to restrict revenue growth; new plant is the key**
- **Aging lines push up costs; margins to remain under pressure**
- **EPCC's plant located away from key demand points in KSA**
- **TP revised to SAR57.9/share; we maintain our HOLD rating**

EPCC continues to reel under pressure with capacity constraints and weaker demand in the Eastern region. High utilization rate has left limited room for volume expansion, while high transportation costs has restricted tapping the growing demand in key demand regions. Meanwhile, aging production lines continue to take a toll on production volumes and operating costs, exerting downward pressure on margins. As a result, we expect EPS growth to remain almost flat until 2016. We revise our target price to SAR57.9, which is 0.3% above the current market price of the stock. Thus, we recommend a HOLD rating on the stock.

2Q13 results disappoint; earnings slide 25.0%YoY

Eastern Province Cement Company (EPCC) posted disappointing results in 2Q13, with its net profit declining 25.0%YoY to SAR77.4mn. The sharp decline was caused by a decline in revenues, alongside a rise in operating costs. Revenues fell 4.4%YoY to SAR203.4mn, while operating costs rose 35.4%YoY to SAR12.3mn. EPCC carried out some major maintenance work during the quarter that brought down its production volumes, resulting in a decline in revenues. At the same time, maintenance work led to an increase in operating costs. As a result, the operating margin fell 13.2 percentage points to 33.7% in 2Q13. Similarly, net profit margin plunged 10.4 percentage points to 38.1% in 2Q13. However, the decline in net profit margin was restricted by higher non-core income, mainly from Investment Income and Income from Associates.

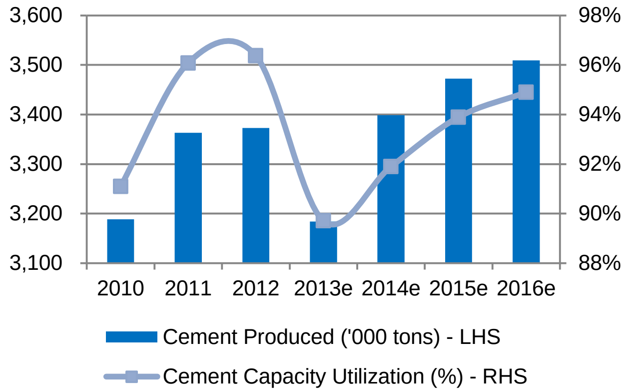
Capacity constraints to keep revenue growth muted

No development on 10,000tpd plant announced in 2012: We expect EPCC's revenue growth to remain muted over the coming years owing to capacity constraints. The company has been operating at high capacity utilization rates (over 90%) in the last two years, and thus, unable to capitalize on any incremental demand in KSA. However, the proposed new plant with a capacity of 10,000tpd (or 3.3mtpa) announced last year could be a game changer for the stock. However, there is no clarity on the progress of the new plant; recent press release in Tadawul dated September 3, 2013, mentioned there is no new development on the expansion, and any developments would be announced only after four months (from the date of press release). As such, we have not incorporated this expansion in our forecasts. Perhaps, another cause of concern for new expansion is hovering around the ongoing fuel issues, which could potentially delay the start of a new plant.

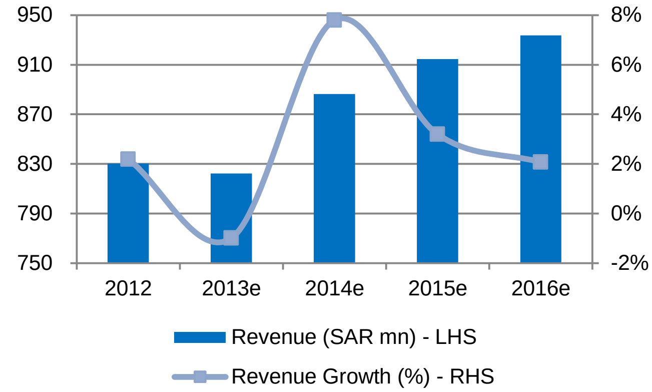
Trial run started for 600tpd specialized cement: The company has recently started trial operations of a new 600tpd production line (or xmn ton) for specialized cement.. However, this new line is just 6% of EPCC's current capacity, so we believe it will have a limited impact on the production, and hence, revenues. Overall, we expect revenues to increase at a rate of 3.0% (CAGR) during 2012–16.

Higher price to restrict impact of lower volumes: EPCC has seen a spike in price realization in the last two quarters, rising above SAR270/ton. We believe a sudden shortage, coupled with export sales, has helped EPCC improve its price realization. This will be able to restrict the impact of lower volume sales. However, we believe this is a temporary phenomenon, and expect prices to fall back to the level of SAR240–250/ton in the coming quarters.

Production and Capacity utilization rate



Revenue and YoY increase

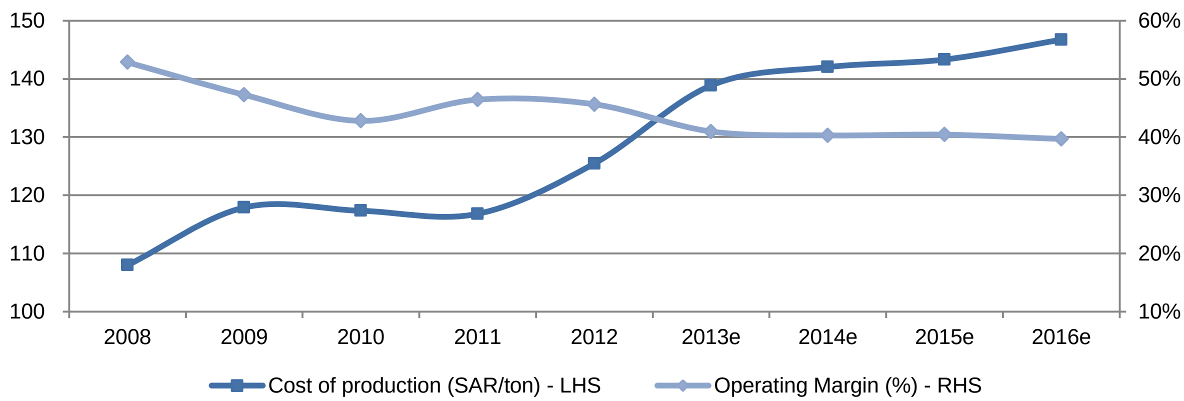


Source: Company Reports & Global Research

Aging lines push up costs; margins to remain under pressure

EPCC's aging production lines have led to a rise in operating costs, as seen in 2Q13, when the company undertook some major maintenance work. Cost of production per ton rose from SAR108 in 2008 to SAR125 in 2012. The net impact was a decline in operating margin, which further translated to a decline in net profit margin. Operating margin declined from 52.8% in 2008 to 45.6% in 2012, while net profit margin fell from 54.4% in 2008 to 47.3% in 2012. Going forward, we expect cost of production to rise further to SAR147/ton by 2016. Simultaneously, we see operating margin sliding to 39.7% in 2016, while net profit margin falling to 41.5%.

Cost of production and Operating margin



Source: Company Reports & Global Research

EPCC's plant located away from key demand points in KSA

EPCC's location puts it at a disadvantage, being away from the key hot spots for construction activity – the western and central regions. At the same time, high transportation costs deter the company from catering to the cement demand in the western and central regions. However, we expect the scenario to change in the long term, with some fresh construction activity taking place in the eastern region in recent times. Housing shortage in the eastern region has led to the start of new residential projects. Moreover, infrastructure projects have shown signs of a pick-up. In fact, the eastern region has become the third largest destination for new investment in KSA. Thus, we expect demand to pick up in the long term.

Target Price revised to SAR57.9/share; we recommend HOLD on the stock

We have revised the fair value to SAR57.9/share, based on limited revenue growth prospects and weak demand outlook for the company. We expect margins to decline over the coming 3–4 years, while EPS growth would remain almost flat. Our fair value is currently 0.3% higher than the current market price. The stock also looks overvalued on the P/E basis. EPCC's 2013 P/E stands at 14.1x compared to the sector average of 13.0x. Thus, we recommend a **HOLD** rating on the stock.

Financial Statements

	(SAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Income Statement	Revenue	819	813	830	822	886	915	934
	Cost of sales	(432)	(394)	(407)	(442)	(483)	(498)	(515)
	Gross Profit	**388**	**419**	**423**	**380**	**404**	**417**	**419**
	SG&A	(37)	(41)	(44)	(43)	(47)	(47)	(48)
	Operating profit	**351**	**377**	**379**	**337**	**357**	**370**	**370**
	Financial charges	(4)	(4)	-	-	-	-	-
	Other income/losses	11	2	30	29	29	30	31
	Profit Before Taxation	**357**	**376**	**409**	**365**	**387**	**400**	**402**
	Zakat and minority interest	(14)	(12)	(16)	(13)	(14)	(14)	(14)
	Net Profit	**343**	**364**	**393**	**353**	**373**	**386**	**388**
Balance Sheet	Cash and Bank Balance	401	321	376	370	362	368	333
	Receivables	173	179	154	180	219	238	281
	Inventories	306	382	395	428	510	626	767
	Other current assets	30	34	39	41	43	45	47
	Total current assets	**910**	**916**	**965**	**1,019**	**1,133**	**1,278**	**1,429**
	Investments	386	362	418	376	387	399	411
	Deferred charges	12	10	12	13	13	14	14
	Net fixed assets	1,052	1,051	1,061	1,068	1,072	1,048	1,021
	Total Fixed assets	**1,450**	**1,423**	**1,491**	**1,457**	**1,472**	**1,460**	**1,446**
	Total Assets	**2,360**	**2,340**	**2,456**	**2,476**	**2,605**	**2,738**	**2,876**
	Accounts payables	79	85	80	88	98	99	103
	Zakat provision	14	12	16	16	16	17	17
	Other current liabilities	91	44	48	50	52	55	58
	Long-term debt	25	-	-	-	-	-	-
	Employee end-of-service benefits	40	40	45	47	49	52	55
	Share capital	860	860	860	860	860	860	860
	Retained Earnings	40	102	149	242	355	482	610
	Other reserves	910	895	915	915	915	915	915
	Total Shareholders Equity	2,111	2,158	2,268	2,275	2,388	2,515	2,643
	Total Equity & Liability	**2,360**	**2,340**	**2,456**	**2,476**	**2,605**	**2,738**	**2,876**
Cash Flow	Cash Flow from Operating Activities	452	397	500	396	361	352	310
	Cash Flow from Investing Activities	(91)	(101)	(145)	(59)	(112)	(87)	(88)
	Cash Flow from Financing Activities	(302)	(374)	(299)	(344)	(258)	(258)	(258)
	Change in Cash	60	(79)	55	(6)	(8)	7	(35)
	Net Cash at End	**401**	**321**	**376**	**370**	**362**	**368**	**333**
Ratio Analysis	Gross margin	47.3%	51.5%	50.9%	46.2%	45.5%	45.6%	44.8%
	Operating profit margin	42.8%	46.4%	45.6%	41.0%	40.3%	40.4%	39.7%
	Net Profit Margin	41.9%	44.8%	47.3%	42.9%	42.1%	42.2%	41.5%
	Return on Average Assets	14.7%	15.5%	16.4%	14.3%	14.7%	14.5%	13.8%
	Return on Average Equity	16.6%	17.1%	17.8%	15.5%	16.0%	15.7%	15.0%
	EV/ton (USD)	272.0	299.1	324.6	345.3	332.1	331.6	334.1
	Quick ratio (x)	3.3	3.8	4.0	3.8	3.7	3.8	3.7
	Debt / Equity (x)	0.04	0.00	0.00	0.00	0.00	0.00	0.00
	EV/EBITDA (x)	10.1	10.4	11.2	13.6	12.8	12.4	12.5
	EV/Revenues (x)	4.4	4.8	5.1	5.6	5.2	5.0	5.0
	FCF Yield	9.5%	7.4%	8.7%	6.0%	5.3%	5.6%	4.7%
	EPS (SAR)	4.0	4.2	4.6	4.1	4.3	4.5	4.5
	Book Value Per Share (SAR)	21.1	21.6	22.4	23.5	24.8	26.2	27.7
	Market Price (SAR) *	45.3	49.4	53.9	57.8	57.8	57.8	57.8
	Market Capitalization (SAR mn)	3,896	4,247	4,636	4,967	4,967	4,967	4,967
	Dividend Yield	7.7%	7.1%	6.5%	5.2%	5.2%	5.2%	5.2%
	P/E Ratio (x)	11.4	11.7	11.8	14.1	13.3	12.9	12.8
	P/BV Ratio (x)	2.2	2.3	2.4	2.5	2.3	2.2	2.1

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing prices on October 06, 2013*

Qassim Cement Company (QCC)

HOLD
Target Price
SAR85.2

Market Data

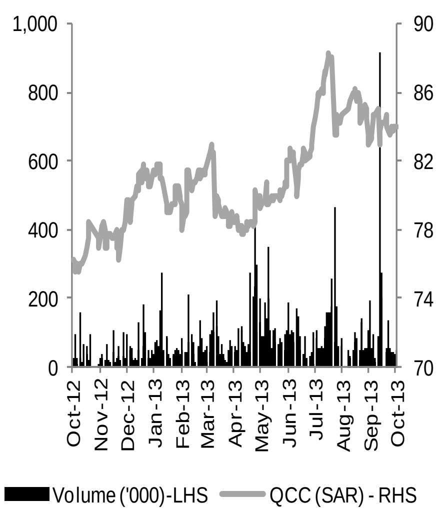
Bloomberg Code:	QACCO AB
Reuters Code:	3040.SE
CMP (6th October 2013):	84.0
O/S (mn)	90.0
Market Cap (SAR mn):	7,560.0
Market Cap (USD mn):	2,016.0
P/E 2014e (x):	12.8
P/BV 2014e (x):	3.7

Price Performance 1-Yr

High (SAR):	88.5
Low (SAR):	75.0
Average Volume ('000):	96

	1m	3m	12m
Absolute (%)	1.2	-1.2	10.2
Relative (%)	4.8	4.0	16.2

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Earnings grow 11.5%YoY in 2Q13**
- **Capacity constraints to restrict revenue growth**
- **5,500tpd expansion, a potential trigger; fuel supply remains a concern**
- **Attractive dividend yield, a positive**
- **TP revised to SAR85.2/share; we assign HOLD rating**

QCC's revenues continue to be hindered by capacity constraints. Despite the company's location in the central region, lack of capacity addition and high utilization rates have impeded its ability to tap growing demand in the region. Consequently, we expect revenues to increase at a CAGR of just 2.3% during 2012–16, translating to EPS growth of 2.6% (CAGR). However, low capital expenditure and zero debt have helped QCC to maintain high dividend yields. We have revised our target price to SAR85.2/share, which is 1.4% above the current market price. Accordingly, we assign a HOLD rating on the stock.

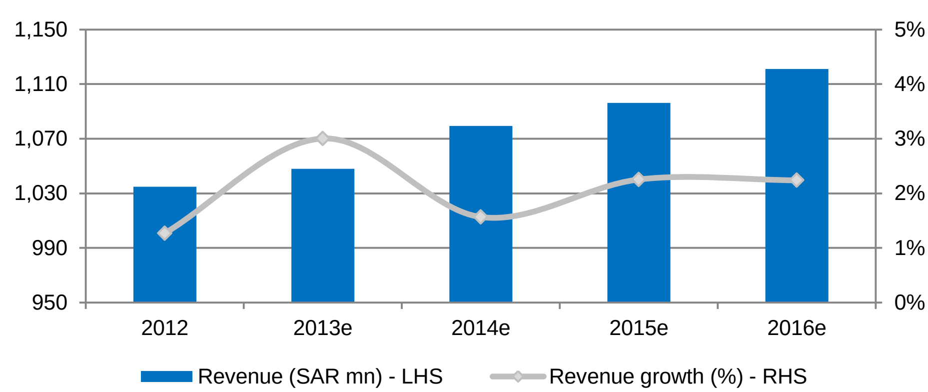
Earnings grow 11.5%YoY in 2Q13

QCC reported positive 2Q13 results, with net profit growing 11.5%YoY to SAR166.1mn. This growth can be ascribed to a 5.1%YoY growth in revenues to SAR300.7mn, driven by a 4.0%YoY rise in cement dispatches to 1.2mn tons. Cost of production per ton declined 7.8%YoY to SAR100.3, thus boosting gross margin by 3.8 percentage points to 60.3%. Operating margin increased by 4.1 percentage points to 57.7% due to a 4.8%YoY decline in SG&A expenses. However, net profit margin growth was relatively lower (up 3.2 percentage points to 55.2%) due to a 46.7%YoY increase in Zakat in 2Q13.

Capacity constraints to restrict revenue growth

Despite QCC's advantageous location, capacity constraints are expected to restrict revenue growth. QCC's cement plants are currently operating at full utilization; this leaves absolutely no room to increase production even if more clinker is imported to meet any incremental demand.

Revenues and YoY increase



Source: Company accounts and Global Research

With volumes remaining stagnant, revenue growth will be tied to higher price realizations in the coming years. Strong demand in the region is expected to push up price realization, but the rise will be marginal due to the price cap. As a result, revenue is expected to increase at a CAGR of 2.3% during 2012–16.

5,500tpd expansion, a potential trigger; fuel supply remains a concern

QCC announced its plan to construct a new production line with a capacity of 5,500tpd or 1.8mtpa, which is roughly 54% of the current capacity. Recently, the company announced that it is in the stage of inviting bids from contractors to implement the expansion plan and will announce further developments by the end of 3Q13. Given the rising demand for cement in the western and central regions, this expansion remains a potential catalyst for the stock. However, fuel supply remains a key concern for the company. QCC came up with the proposal for the new production line in 2011 and had requested for additional fuel supplies from Saudi Aramco. However, Saudi Aramco declined the request in early 2012. Thereafter, there has been no development on securing addition fuel supplies. Thus, we remain uncertain about fuel allocation for the new production line and have not incorporated the expansion in our estimates.

Attractive dividend yield, a positive

Stable cash flows, minimal capital expenditure and zero debt have ensured high dividend payout over the past three years. QCC paid a dividend of SAR5.5/share in 2010, and then increased it to SAR5.75/share in 2011 and to SAR6.0/share in 2012. It recently announced SAR2.75/share for 1H13, up from SAR2.5/share in 1H12 and SAR2.25/share in 1H11. This translates to a dividend payout of 96% in 1H13 (on TTM basis). With no major capital expenditure assumed in our forecasts and zero debt, we expect QCC to maintain dividend at SAR6.0/share over the coming years. We expect a dividend yield of 7.1% on the stock in 2013, the second highest within our coverage.

Target price revised to SAR85.2/share; we recommend HOLD

We have revised the fair value to SAR85.2/share, which is 1.4% above the current market price. Despite QCC's advantageous location, the company is unable to tap the growing demand in the local region due to capacity constraints. The company continues to operate at full utilization rates and has not expanded capacity in the last four years. As a result, we forecast revenue growth to remain sluggish (CAGR of 2.3%) during the period 2012-16. In turn, EPS growth is estimated at 2.6% (CAGR). Nevertheless, QCC continues to pay high dividends with payout ratio above 90%, resulting in a yield of 7.1% for 2013 (the second highest within our coverage). We recommend a **HOLD** rating on the stock.

Financial Statements

	(SAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Income Statement	Revenue	968	1,035	1,048	1,079	1,096	1,121	1,146
	Cost of sales	(412)	(426)	(434)	(442)	(450)	(460)	(470)
	Gross Profit	**557**	**609**	**614**	**637**	**646**	**661**	**676**
	SG&A	(38)	(37)	(34)	(38)	(38)	(39)	(40)
	Operating Profit	**519**	**572**	**580**	**599**	**607**	**622**	**636**
	Financial charges	-	-	-	-	-	-	-
	Other income	4	10	13	15	16	18	20
	Profit Before Taxation	**523**	**582**	**593**	**614**	**624**	**640**	**656**
	Zakat and minority interest	(22)	(29)	(32)	(32)	(32)	(33)	(34)
	Net Profit	**501**	**553**	**561**	**582**	**591**	**606**	**622**
Balance Sheet	Cash and Bank Balance	20	245	231	294	346	395	498
	Receivables and Prepayments	51	46	39	59	90	138	141
	Inventories	187	189	211	216	229	255	287
	Other Current assets	478	421	522	537	553	565	576
	Total Current Assets	**735**	**900**	**1,002**	**1,107**	**1,219**	**1,353**	**1,503**
	Capital work-in-progress	23	21	22	23	24	25	27
	Deferred charges after amortization	42	32	29	27	26	25	24
	Net fixed assets	1,223	1,170	1,104	1,048	992	929	865
	Total Fixed Assets	**1,288**	**1,223**	**1,155**	**1,099**	**1,042**	**979**	**916**
	Total Assets	**2,023**	**2,124**	**2,157**	**2,206**	**2,261**	**2,332**	**2,418**
	Accounts payables	12	13	17	15	15	15	16
	Dues to shareholders	33	36	41	41	41	41	41
	Other current liabilities	103	97	98	105	107	110	113
	Long-term debt	-	-	-	-	-	-	-
	Employee end-of-service benefits	20	22	26	29	32	35	38
	Share capital	900	900	900	900	900	900	900
	Retained Earnings	445	490	454	436	426	430	448
	Other reserves	511	567	623	681	740	801	863
	Total Shareholders Equity	1,855	1,956	1,975	2,016	2,066	2,131	2,211
	Total Equity & Liability	**2,023**	**2,124**	**2,157**	**2,206**	**2,261**	**2,332**	**2,418**
Cash Flow	Cash Flow from Operating Activities	545	692	527	620	607	597	650
	Cash Flow from Investing Activities	133	(18)	(4)	(15)	(14)	(7)	(5)
	Cash Flow from Financing Activities	(674)	(448)	(537)	(542)	(542)	(542)	(542)
	Change in Cash	4	225	(14)	64	52	48	104
	Net Cash at End	**20**	**245**	**231**	**294**	**346**	**395**	**498**
Ratio Analysis	Gross margin	57.5%	58.9%	58.6%	59.0%	58.9%	58.9%	59.0%
	Operating profit margin	53.6%	55.3%	55.3%	55.5%	55.4%	55.4%	55.5%
	Net Profit Margin	51.7%	53.4%	53.5%	53.9%	53.9%	54.1%	54.3%
	Return on Average Assets	23.5%	26.7%	26.2%	26.7%	26.5%	26.4%	26.2%
	Return on Average Equity	27.2%	29.0%	28.5%	29.2%	29.0%	28.9%	28.6%
	EV/ton (USD)	402.4	454.3	502.3	523.6	519.9	516.4	509.0
	Quick ratio (x)	3.7	4.9	5.1	5.5	6.1	6.6	7.2
	Debt / Equity (x)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	EV/EBITDA (x)	10.8	11.0	12.0	12.1	11.9	11.5	11.1
	EV/Revenues (x)	5.8	6.1	6.7	6.7	6.6	6.4	6.2
	FCF Yield	9.3%	10.3%	7.1%	7.8%	7.6%	7.6%	8.3%
	EPS Adj. (SAR)	5.6	6.1	6.2	6.5	6.6	6.7	6.9
	Book Value Per Share Adj. (SAR)	20.6	21.7	21.9	22.4	23.0	23.7	24.6
	Market Price (SAR) *	62.3	72.8	80.0	84.0	84.0	84.0	84.0
	Market Capitalization (SAR mn)	5,603	6,548	7,200	7,560	7,560	7,560	7,560
	Dividend Yield	8.4%	6.9%	7.5%	7.1%	7.1%	7.1%	7.1%
	P/E Ratio (x)	11.2	11.8	12.8	13.0	12.8	12.5	12.2
	P/BV Ratio (x)	3.0	3.3	3.6	3.7	3.7	3.5	3.4

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing prices on October 06, 2013*

Saudi Cement Company (SCC)

HOLD
Target Price
SAR104.7

Market Data

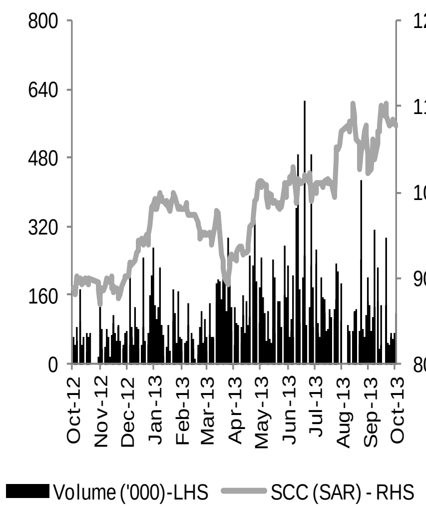
Bloomberg Code:	SACCO AB
Reuters Code:	3030.SE
CMP (6th October 2013):	107.8
O/S (mn)	153.0
Market Cap (SAR mn):	16,600.5
Market Cap (USD mn):	4,426.8
P/E 2014e (x):	13.4
P/BV 2014e (x):	4.7

Price Performance 1-Yr

High (SAR):	110.5
Low (SAR):	87.0
Average Volume ('000):	129

	1m	3m	12m
Absolute (%)	6.1	8.5	22.3
Relative (%)	4.8	4.0	16.2

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Earnings remain positive in 2Q13**
- **Revenue growth to continue, albeit at a slower pace**
- **Large capacity to help meet incremental demand**
- **TP revised to SAR104.7/share; recommend HOLD rating**

SCC continues to benefit from a large capacity, thereby catering to the increased demand for cement in the central region. Revenues are expected to continue increasing at a moderate pace (CAGR of 4.3% during 2012-16) due to a higher base; revenue rose at a CAGR of 17.9% during 2009-12. EPS is projected to increase at a CAGR of 6.1% over the forecasted period due to rehabilitation of older facilities and economies of scale owing to a large capacity. However, in our opinion, the market has already factored in these growth prospects, as reflected in the 22.3% rise in the stock price over the last year (outperforming the TASI by 6.1%). We revise our Target Price to SAR104.7/share, 2.8% below the current market price. We recommend HOLD on the stock.

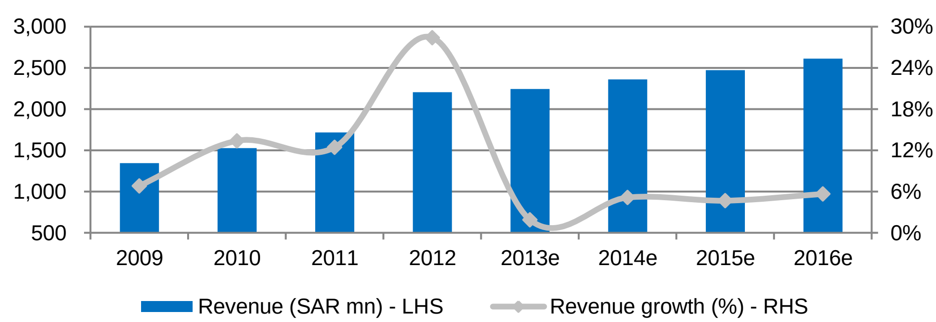
Earnings remain positive in 2Q13

SCC posted another quarter of positive results in 2Q13, with net profit rising 5.8%YoY, after increasing 4.5%YoY in 1Q13. The rise was led by the 6.0%YoY growth in revenues that, in turn, was ascribed to higher cement dispatches, partially offset by lower price realization during the quarter. Dispatches rose 16.5%YoY to 2.5mn tons in 2Q13, while the average price realization declined 9.1%YoY to SAR253.3/ton. Margins improved during 2Q13 due to the 10.6%YoY decrease in cost of production to SAR115.8/ton; gross margin advanced to 54.3% from 53.5% in 2Q12. Consequently, operating margin rose to 50.5% from 49.8% during the same period. However, net profit margin fell slightly to 49.0% from 49.1% in 2Q12 due to a significant YoY decline in income from associates and other income.

Revenue growth to continue at a slower pace

We expect SCC's revenue to continue rising in the coming years, albeit at a slower pace, after posting robust growth of 17.9% (CAGR) during 2009–12. The company plans to increase revenue by rehabilitating and re-operating Kiln 4 and 5 at the Hofuf facility. This is expected to boost production by 3,000tpd, or 1.0mtpa, nearly 13.5% of the production in 2012. Re-operation of the kilns is expected to commence in 4Q13. Thus, majority of the impact of this increase would be reflected in 2014. In 2013, we expect revenues to grow 1.9%YoY and 5.2%YoY in 2014. Revenues are expected to increase at a CAGR of 4.3% over 2012–16.

Revenues and YoY increase

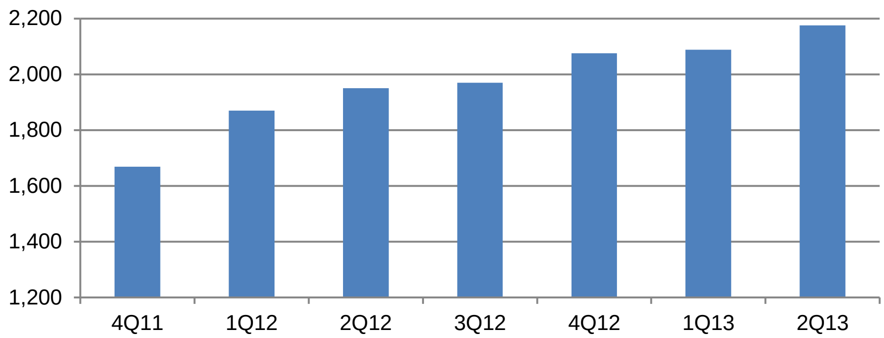


Source: Company accounts and Global Research

Large capacity to help meet incremental demand

SCC continues to benefit from a large capacity. In 2013, the company held its position as the largest cement producer in KSA, with production aggregating 8.7mtpa and accounting for 16.4% of the total industry. However, due to subdued demand in the eastern region, SCC has largely been selling cement in the central region which, we believe, is the construction hot spot in Saudi Arabia, with mega projects such as the USD22bn Riyadh Metro. As a result, the company witnessed a continuous uptrend in volume dispatches.

Cement dispatches ('000 tons)

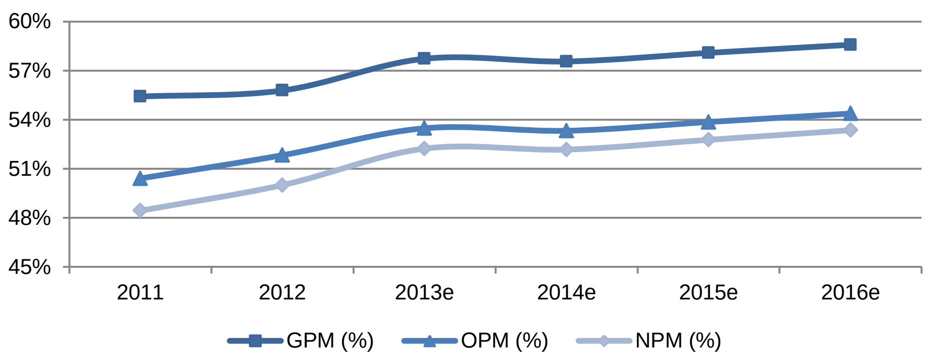


Source: Company Accounts and Global Research

Margins to maintain uptrend

SCC is expected to witness an improvement in production efficiency by rehabilitating Kiln 4 and 5 at the Hofuf facility. At the same time, the company's large capacity is likely to aid margin expansion through economies of scale. We expect gross margin to be 58.6% by 2016 from 55.8% in 2012, and operating margin to rise to 54.4% from 51.8% during the same period. Consequently, net profit margin is estimated to increase to 53.4% in 2016 from 50.0% in 2012.

Gross margin, Operating margin and Net profit margin



Source: Company Accounts and Global Research

Gearing up to replace older cement mills; no developments yet

In 2012, SCC announced plans to replace three of its older cement mills with two new mills. The new mills would have a capacity of 440tph vis-à-vis 360tph for the current mills, adding 0.6mtpa of cement grinding capacity. The mills are expected to improve production efficiency and quality as well as comply with environmental guidelines. However, there has been no development since the announcement. Thus, we have not incorporated this factor in our estimates.

Target Price revised to SAR104.7/share; recommend HOLD

We have revised the fair value to SAR104.7/share, which is 2.8% below the current market price. The company continues to benefit from a large capacity. We expect revenue growth to continue, although at a slower pace due to a high base effect. Revenues are expected to register a CAGR of 4.3% over 2012-16, while EPS is estimated to grow 6.1% due to improved efficiencies from rehabilitation of older facilities and economies of scale. However, the market has factored in these prospects, as reflected in the 22.3% rise in the stock price over the past one year (surpassing the broader index by 6.1%). Thus, we recommend a **HOLD** rating for the stock.

Financial Statements

(SAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Income Statement							
Revenue	1,526	1,716	2,203	2,246	2,361	2,472	2,612
Cost of sales	(757)	(765)	(974)	(949)	(1,002)	(1,036)	(1,082)
Gross Profit	**769**	**951**	**1,229**	**1,296**	**1,359**	**1,436**	**1,530**
SG&A	(88)	(86)	(87)	(95)	(100)	(104)	(110)
Operating Profit	**681**	**865**	**1,142**	**1,201**	**1,259**	**1,331**	**1,420**
Financial charges	(22)	(17)	(15)	(14)	(12)	(11)	(9)
Other income	17	5	15	16	17	17	18
Profit Before Taxation	**676**	**853**	**1,142**	**1,203**	**1,264**	**1,338**	**1,429**
Zakat and minority interest	(17)	(21)	(41)	(30)	(32)	(33)	(36)
Net Profit	**660**	**831**	**1,102**	**1,173**	**1,232**	**1,304**	**1,394**
Balance Sheet							
Cash and Bank Balance	91	232	227	402	492	599	563
Receivables and Prepayments	214	174	205	215	226	237	322
Inventories	525	479	323	332	353	366	434
Other Current assets	41	52	47	49	52	54	72
Total Current Assets	**870**	**936**	**802**	**998**	**1,124**	**1,257**	**1,390**
Long-term investments	69	79	98	107	118	130	143
Work in progress	309	67	88	54	55	56	57
Net fixed assets	3,368	3,516	3,346	3,292	3,235	3,175	3,112
Total Fixed Assets	**3,746**	**3,663**	**3,532**	**3,453**	**3,408**	**3,361**	**3,311**
Total Assets	**4,617**	**4,599**	**4,333**	**4,452**	**4,532**	**4,618**	**4,702**
Accounts payables	41	44	33	32	34	35	37
Short-term loan	486	550	485	485	424	372	295
Other current liabilities	208	231	249	235	250	260	273
Long-term debt	441	420	335	285	242	206	175
Employee end-of-service benefits	69	72	73	80	88	97	107
Share capital	1,530	1,530	1,530	1,530	1,530	1,530	1,530
Retained Earnings	1,195	1,023	793	969	1,128	1,283	1,450
Other reserves	646	729	835	835	835	835	835
Total Shareholders Equity	3,371	3,282	3,158	3,334	3,493	3,648	3,815
Total Equity & Liability	**4,617**	**4,599**	**4,333**	**4,452**	**4,532**	**4,618**	**4,702**
Cash Flow							
Cash Flow from Operating Activities	892	1,118	1,432	1,334	1,413	1,490	1,441
Cash Flow from Investing Activities	(51)	(104)	(59)	(98)	(133)	(134)	(135)
Cash Flow from Financing Activities	(937)	(873)	(1,378)	(1,061)	(1,189)	(1,249)	(1,342)
Change in Cash	(96)	141	(5)	175	90	107	(37)
Net Cash at End	**91**	**232**	**227**	**402**	**492**	**599**	**563**
Ratio Analysis							
Gross margin	50.4%	55.4%	55.8%	57.7%	57.6%	58.1%	58.6%
Operating profit margin	44.6%	50.4%	51.8%	53.5%	53.3%	53.9%	54.4%
Net Profit Margin	43.2%	48.4%	50.0%	52.2%	52.2%	52.8%	53.4%
Return on Average Assets	13.8%	18.0%	24.7%	26.7%	27.4%	28.5%	29.9%
Return on Average Equity	20.5%	25.0%	34.2%	36.1%	36.1%	36.5%	37.3%
EV/ton (USD)	246.8	296.6	317.8	382.2	379.2	375.9	375.2
Quick ratio (x)	0.5	0.6	0.6	0.9	1.1	1.3	1.6
Debt / Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
EV/EBITDA (x)	11.6	11.1	11.9	13.6	12.8	12.0	11.2
EV/Revenues (x)	5.2	5.6	6.2	7.3	6.9	6.6	6.2
FCF Yield	10.9%	11.0%	10.3%	7.3%	7.8%	8.3%	8.0%
EPS Adj. (SAR)	4.3	5.4	7.2	7.7	8.1	8.5	9.1
Book Value Per Share Adj. (SAR)	22.0	21.5	20.6	21.8	22.8	23.8	24.9
Market Price (SAR) *	49.8	61.2	88.4	107.8	107.8	107.8	107.8
Market Capitalization (SAR mn)	7,619.4	9,369.7	13,529.8	16,485.8	16,485.8	16,485.8	16,485.8
Dividend Yield	4.7%	9.8%	9.0%	6.0%	6.5%	7.0%	7.4%
P/E Ratio (x)	11.6	11.3	12.3	14.1	13.4	12.6	11.8
P/BV Ratio (x)	2.3	2.9	4.3	4.9	4.7	4.5	4.3

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing prices on October 06, 2013*

Yamama Saudi Cement Company (YSCC)

BUY
Target Price
SAR59.4

Market Data

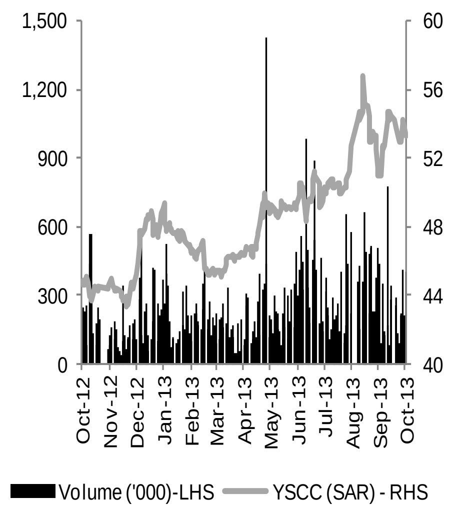
Bloomberg Code:	YACCO AB
Reuters Code:	3020.SE
CMP (6th October 2013):	53.3
O/S (mn)	202.5
Market Cap (SAR mn):	10,783.1
Market Cap (USD mn):	2,875.5
P/E 2014e (x):	11.3
P/BV 2014e (x):	2.8

Price Performance 1-Yr

High (SAR):	57.0
Low (SAR):	43.0
Average Volume ('000):	252

	1m	3m	12m
Absolute (%)	4.4	6.5	18.6
Relative (%)	4.8	4.0	16.2

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Earnings grow 27.8%YoY in 2Q13**
- **Strong presence in the central region**
- **Capacity constraints to restrict revenue growth**
- **TP revised to SAR59.4/share; we recommend a BUY rating**

YSCC continues to benefit from its location in one of the biggest construction hubs (central region) in KSA. However, already high utilization rates amid uncertain future expansion are expected to keep revenue growth subdued. Meanwhile, YSCC's plant relocation could lead to technology upgrades, and result in higher efficiency; we believe this could act as a potential catalyst for the stock. We expect EPS to increase 5.9% (CAGR) during 2012-16. Unlike other cement players of Saudi, YSCC has underperformed. Accordingly, we have revised our target price to SAR59.4/share, 11.6% above the current market price. Thus, we recommend a BUY rating on the stock.

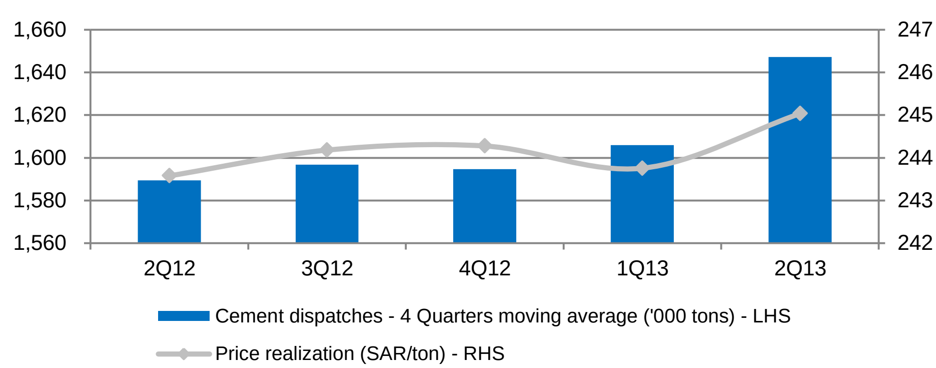
Earnings rebound in 2Q13 (up 27.8%YoY) after flat growth in 1Q13

YSCC posted strong results in 2Q13 after it registered lackluster numbers in 1Q13. Net profit in 2Q13 surged 27.8%YoY to SAR267.6mn. The rise was led by a 10.4%YoY growth in revenues combined with 8.9%YoY decline in production cost per ton. Revenue growth was driven largely by higher volumes, which increased 9.7%YoY to 1.9mn tons; meanwhile, price realization also inched up 0.6%YoY to SAR245/ton. As a result, gross margin increased by 4.3 percentage points YoY to 59.0% in 2Q13, translating to an operating margin of 56.4% during the quarter from 51.8% last year. Earnings were further boosted by a 110.3%YoY rise in other income to SAR18.9mn. As a result, net margin was up 8.0 percentage points YoY to reach 58.8% from 50.8% in 2Q12.

Strong presence in the central region

YSCC continues to wield its power in the project-rich central region. The central region is the second biggest home to construction projects in KSA, while YSCC is the largest cement producer in the region. Some of the key projects coming up in the region include the USD22bn Riyadh Metro, USD1.7bn power plant-12 project of Saudi Electricity Company, and the USD1.6bn water station project in Ras-Akhair. As per Zawya projects, total projects in the central region make up almost 21% of the total projects in KSA (as on 2Q13). In 2012, YSCC sold 6.4mn tons of cement, constituting 39.6% of the total 16.1mn tons cement sold by all players in the region. Rising construction activity in the region has translated into larger dispatches for YSCC. At the same time, proximity to large cement-consuming areas keeps transportation costs under check, which is a major problem with many of its peers.

Cement Dispatches and Price Realization

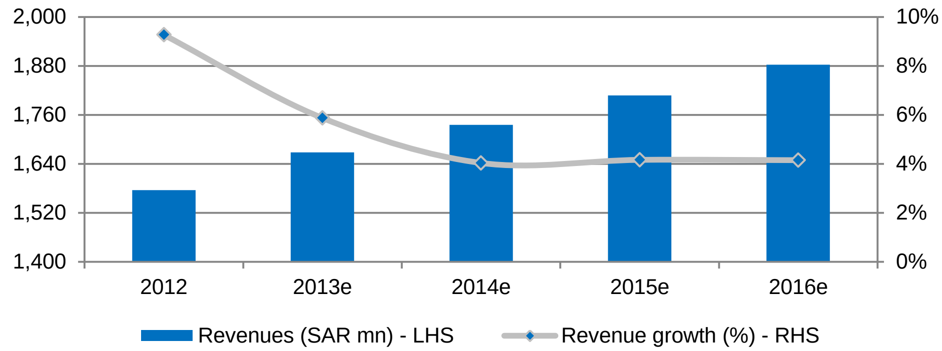


Source: Company Reports & Global Research

Capacity constraints to limit revenue growth

Despite YSCC's strategically advantageous location, capacity constraints are expected to restrict its revenue growth in the long term. The company has not announced any capacity expansion plan in the near future. Meanwhile, YSCC has been operating at high utilization rates (near 95%). On the other hand, price growth remains restricted as well, given the price cap in the industry. As a result, we expect revenues to slow down going forward. In 2013, we see revenues growing 5.9%YoY compared to a 9.3%YoY growth in 2012. For the period 2012-16, we estimate revenues to increase at a CAGR of 4.6%, slower than the 10.7% CAGR rise witnessed during 2009-12.

Revenue and YoY increase



Source: Company Reports & Global Research

Plant relocation a potential catalyst

YSCC was ordered to relocate its plant to the southern region of Riyadh, with a grace period of four years. We believe plant relocation would provide the company an opportunity to upgrade its technology and improve efficiency. The company already enjoys production efficiency from the integration of clinker and cement production coupled with efficient power generation facilities. However, there is no clarity on the relocation plans of YSCC so far. Thus, we have not incorporated the same in our model.

Target Price revised to SAR59.4/share; we recommend BUY on the stock

We have revised the fair value to SAR59.4/share, which is 11.6% above the current market price. Demand outlook remains strong, but capacity constraints are expected to downplay the company's growth path. Revenue increased at a 10.7% CAGR during 2009-12. However, we expect revenue growth to slow down to 4.6% CAGR during 2012–16. This is estimated to translate in to an EPS growth of 5.9% (CAGR) during 2012-16. Thus, we recommend a **BUY** rating on the stock.

Financial Statements

(SAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Income Statement							
Revenue	1,272	1,442	1,576	1,668	1,736	1,808	1,883
Cost of sales	(560)	(633)	(662)	(688)	(713)	(739)	(759)
Gross Profit	**712**	**809**	**914**	**980**	**1023**	**1069**	**1124**
SG&A	(46)	(59)	(51)	(57)	(59)	(62)	(65)
Operating profit	**666**	**751**	**863**	**923**	**964**	**1,008**	**1,059**
Financial charges	(6)	(5)	(7)	(6)	(5)	(5)	(32)
Other income	22	18	25	27	29	31	32
Profit Before Taxation	**682**	**764**	**866**	**944**	**987**	**1,033**	**1,060**
Taxation	(25)	(24)	(48)	(28)	(30)	(31)	(31)
Net Profit	**657**	**740**	**818**	**916**	**958**	**1,002**	**1,029**
Balance Sheet							
Cash and Bank Balance	700	898	1,241	1,182	1,246	1,346	1,422
Receivables and Prepayments	245	301	322	343	347	357	387
Inventories	132	137	66	113	127	142	177
Other Current assets	24	21	21	23	26	28	31
Long-term investments	394	419	438	482	530	583	642
Capital work-in-progress	7	40	69	90	117	152	198
Deferred charges after amortization	19	23	14	13	12	12	11
Loans to affliated companies	-	-	-	-	-	-	-
Net fixed assets	2,106	1,959	1,809	1,815	1,813	1,802	1,782
Total Assets	**3,653**	**3,822**	**4,005**	**4,061**	**4,218**	**4,421**	**4,649**
Accounts payables	61	103	182	141	146	152	156
Dues to shareholders	41	39	43	47	52	57	63
Other current liabilities	143	192	88	76	77	79	79
Long-term debt	190	48	31	28	25	23	20
Employee end-of-service benefits	59	64	62	66	69	72	76
Share capital	1,350	1,350	2,025	2,025	2,025	2,025	2,025
Retained Earnings	550	565	675	638	638	678	742
Other reserves	1,258	1,460	899	1,040	1,185	1,335	1,487
Total Shareholders Equity	3,159	3,375	3,599	3,703	3,848	4,038	4,254
Total Equity & Liability	**3,653**	**3,822**	**4,005**	**4,061**	**4,218**	**4,421**	**4,649**
Cash Flow							
Cash Flow from Operating Activities	797	913	1,178	965	1,120	1,166	1,155
Cash Flow from Investing Activities	(123)	(253)	(432)	(213)	(246)	(258)	(272)
Cash Flow from Financing Activities	(692)	(623)	(763)	(812)	(809)	(809)	(808)
Change in Cash	(18)	38	(18)	(59)	64	100	76
Net Cash at End	**700**	**66**	**48**	**1,182**	**1,246**	**1,346**	**1,422**
Ratio Analysis							
Operating profit margin	52.4%	52.0%	54.8%	55.3%	55.5%	55.7%	56.2%
Net Profit Margin	51.6%	51.3%	51.9%	54.9%	55.2%	55.4%	54.6%
Return on Average Assets	17.9%	19.8%	20.9%	22.7%	23.1%	23.2%	22.7%
Return on Average Equity	21.1%	22.6%	23.4%	25.1%	25.4%	25.4%	24.8%
EV/ton (USD)	276.0	207.2	332.0	408.2	405.3	400.9	397.5
Quick ratio (x)	4.0	3.7	5.1	5.8	5.9	6.0	6.2
Debt / Equity (x)	0.08	0.06	0.01	0.01	0.01	0.01	0.01
Cash return as % of invested capital	18.3%	19.7%	21.6%	22.6%	22.8%	22.7%	22.7%
EV/EBITDA (x)	9.8	6.5	9.1	10.5	10.0	9.4	8.9
EV/Revenues (x)	5.1	3.4	5.0	5.8	5.5	5.2	5.0
FCF Yield	10.6%	15.2%	12.4%	6.9%	8.3%	8.6%	8.4%
EPS (SAR)	3.2	3.7	4.0	4.5	4.7	4.9	5.1
Book Value Per Share (SAR)	15.6	16.7	17.8	18.3	19.0	19.9	21.0
Market Price (SAR) *	51.5	41.5	44.6	53.3	53.3	53.3	53.3
Market Capitalization (SAR mn)	6,953	5,603	9,038	10,783	10,783	10,783	10,783
Dividend Yield	7.8%	9.6%	6.3%	7.5%	7.5%	7.5%	7.5%
P/E Ratio (x)	15.9	11.4	11.1	11.8	11.3	10.8	10.5
P/BV Ratio (x)	3.3	2.5	2.5	2.9	2.8	2.7	2.5

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing prices on October 06, 2013*

Yanbu Cement Company (YCC)

Market Data

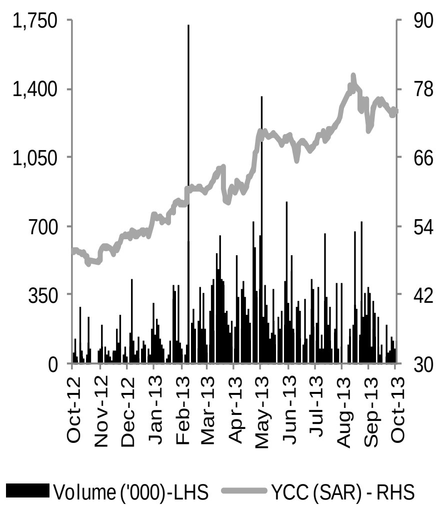
Bloomberg Code:	YACCO AB
Reuters Code:	3060.SE
CMP (6^{th} October 2013):	74.3
O/S (mn)	157.5
Market Cap (SAR mn):	11,694.4
Market Cap (USD mn):	3,118.5
P/E 2014e (x):	12.7
P/BV 2014e (x):	3.0

Price Performance 1-Yr

High (SAR):	80.8
Low (SAR):	46.0
Average Volume ('000):	221

	1m	3m	12m
Absolute (%)	4.9	8.4	49.0
Relative (%)	4.8	4.0	16.2

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Robust 2Q13 earnings driven by higher volumes**
- **Location advantage – key strength**
- **Spare capacity, high inventory to help meet incremental demand**
- **Re-start of 3 lines potential catalyst; however, fuel supply uncertain**
- **TP revised to SAR74.1/share; recommend HOLD rating**

YCC's key strength is its location advantage, with plants situated close to the main demand points. Spare capacity and high clinker inventory are expected to continue to help meet any incremental demand. We expect revenues to increase 10.7%YoY in 2013 and at a CAGR of 4% during 2013-16. EPS is estimated to increase at a CAGR of 8.8% due to the large size of operations coupled with economies of scale. However, we believe the stock's positives have already been factored in given the 49.0% rise in its price over the past year, outperforming the TASI by 32.8%. We revise our target price to SAR74.1/share, 0.3% below the current market price. Accordingly, we recommend a HOLD rating on the stock.

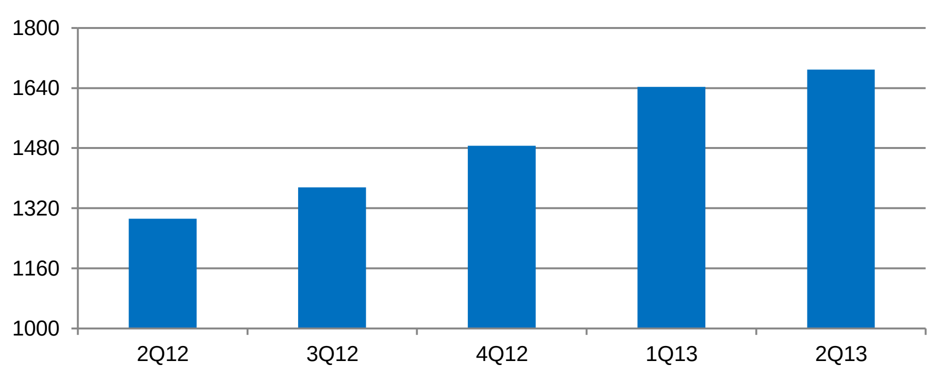
Robust 2Q13 earnings driven by growth in volumes

YCC posted strong results in 2Q13, with net profit rising 27.3%YoY to SAR274.4mn.The growth is ascribed to an 11.2%YoY increase in revenues to SAR480.0mn, driven by a 10.5% rise in cement dispatches to 1.9mn tons. Margins improved on production efficiencies and lower SG&A costs. The average cost of production per ton of cement fell 14.5%YoY to SAR96.9 in 2Q13, resulting in 6.8 percentage point growth in gross margin. Operating margin grew by 7.3 percentage points to 59.7% from 52.4% in 2Q12 following a 14.0%YoY fall in SG&A costs. Consequently, YCC's net profit margin improved by 7.2 percentage points to 57.2% in 2Q13.

Location advantage – key strength

YCC is located in the main construction hub of KSA, where several big-ticket projects are ongoing as well as expected (in Makkah, Madina and Jeddah). Some key projects include economic cities – King Abdullah Economic City and Knowledge Economic City, Haramain Rail project, Jeddah Metro project, and a host of other infrastructure and housing developments. Thus, we believe demand for cement would continue to remain strong in the coming years.

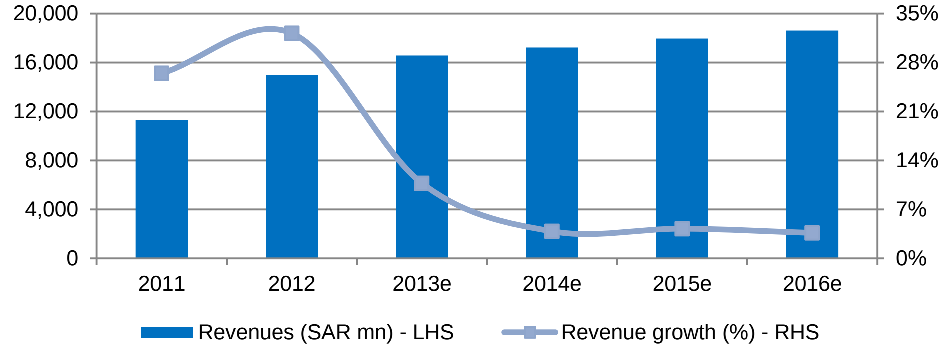
Cement dispatches ('000 tons)



Source: Company Reports & Global Research

Strong volumes led to significant growth in revenues during 2011 (26.4%YoY) and 2012 (32.2%YoY). We expect revenues to continue to grow on a higher base; we estimate a CAGR of 5.6% during 2012-16.

Revenues and YoY Increase

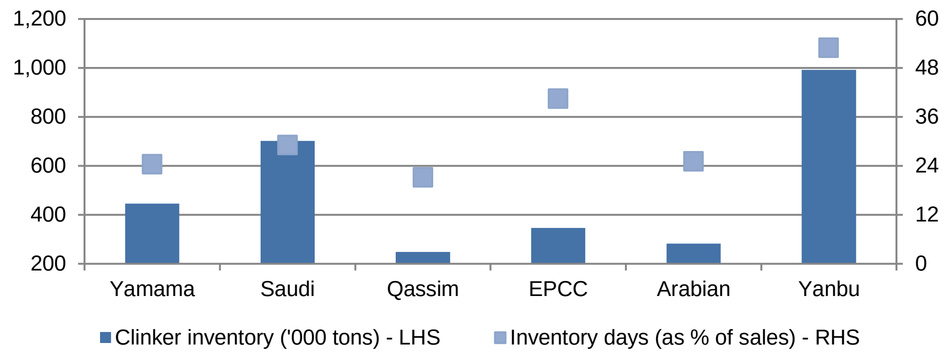


Source: Company accounts and Global Research

Low utilization, high inventory to help meet rising demand

YCC's plant is operating at a relatively low capacity utilization rate (70% in 2012), which, we believe, provides room to increase production in the backdrop of strong demand for cement. Spare capacity has helped YCC to build its inventory level; we believe this could be utilized to meet the high demand for cement from the large construction projects in the Kingdom in the coming years. YCC's clinker stood at 1.0mn tons in July 2013, or equivalent to around two months of cement sales, the highest within our coverage.

Clinker inventory and Inventory days



Source: Company accounts and Global Research

Re-operation of three lines could act as a catalyst; however, fuel supply is uncertain

YCC has three non-operating lines with a capacity of around 1.2mtpa. Re-operating these lines could boost volumes and, in turn, sales. However, the ongoing concern about fuel supply continues to pose a challenge. Thus, we have not incorporated re-operation of these lines in our model.

Target Price revised to SAR74.1/share; recommend HOLD rating

We have revised the fair value to SAR74.1/share, which is 0.3% below the current market price. YCC continues to enjoy location advantage in the western region; thus, we expect the outlook for demand to remain strong. In line with this, we have forecasted revenues to rise at a CAGR of 5.6% during 2012–16. EPS is estimated to increase at a CAGR of 8.8% due to the large size of operations coupled with economies of scale. However, we believe that the stock's positives have already been factored in, as reflected in the 49.0% rise in the stock price over the past year, beating the broader index by 32.8%. Accordingly, we recommend a **HOLD** rating on the stock.

Financial Statements

(SAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Income Statement							
Revenue	895	1,132	1,496	1,657	1,722	1,795	1,861
Cost of sales	(431)	(577)	(704)	(679)	(707)	(731)	(757)
Gross Profit	**465**	**556**	**792**	**978**	**1015**	**1064**	**1104**
SG&A	(26)	(31)	(35)	(48)	(50)	(52)	(54)
Operating profit	**439**	**524**	**757**	**930**	**965**	**1,012**	**1,049**
Financial charges	(0)	(0)	(12)	(14)	(10)	(7)	(5)
Other income	9	30	5	5	5	6	7
Profit Before Taxation	**448**	**554**	**750**	**922**	**961**	**1,011**	**1,051**
Zakat and minority interest	(18)	(25)	(30)	(36)	(38)	(40)	(42)
Net Profit	**430**	**529**	**720**	**885**	**923**	**971**	**1,010**
Balance Sheet							
Cash and Bank Balance	320	558	786	723	581	541	734
Receivables and Prepayments	170	170	169	227	283	344	357
Stock inventory and WIP	156	305	324	353	407	441	477
Spare parts and other materials	162	23	20	45	94	148	153
Other current assets	0	-	-	-	-	-	-
Total current assets	**809**	**1,055**	**1,300**	**1,349**	**1,365**	**1,473**	**1,721**
Deferred charges	-	-	15	-	-	-	-
Net fixed assets	3,284	3,504	3,397	3,503	3,602	3,648	3,683
Total Fixed assets	**3,284**	**3,504**	**3,412**	**3,503**	**3,602**	**3,648**	**3,683**
Total Assets	**4,092**	**4,559**	**4,712**	**4,851**	**4,967**	**5,121**	**5,404**
Accounts payables	206	149	43	140	145	150	197
Profit for distribution	56	56	57	60	63	66	69
Other current liabilities	358	383	443	348	315	299	295
Long-term debt	871	1,039	780	546	382	268	187
Employee end-of-service benefits	49	57	55	60	66	73	80
Share capital	1,050	1,050	1,050	1,575	1,575	1,575	1,575
Retained Earnings	430	529	985	464	385	257	152
Other reserves	1,049	1,267	1,267	1,621	1,990	2,378	2,782
Total Shareholders Equity	2,529	2,846	3,302	3,660	3,950	4,210	4,509
Total Equity & Liability	**4,092**	**4,559**	**4,712**	**4,851**	**4,967**	**5,121**	**5,404**
Cash Flow							
Cash Flow from Operating Activities	679	578	814	1,044	950	1,017	1,205
Cash Flow from Investing Activities	(1,279)	(338)	(80)	(250)	(250)	(200)	(200)
Cash Flow from Financing Activities	626	(1)	(506)	(858)	(842)	(857)	(812)
Change in Cash	25	238	228	(64)	(142)	(40)	193
Net Cash at End	**320**	**558**	**786**	**723**	**581**	**541**	**734**
Ratio Analysis							
Gross margin	51.9%	49.1%	52.9%	59.0%	58.9%	59.3%	59.3%
Operating profit margin	49.0%	46.3%	50.6%	56.1%	56.0%	56.4%	56.4%
Net Profit Margin	48.1%	46.7%	48.1%	53.4%	53.6%	54.1%	54.3%
Return on Average Assets	12.4%	12.2%	15.5%	18.5%	18.8%	19.3%	19.2%
Return on Average Equity	17.4%	19.7%	23.4%	25.4%	24.2%	23.8%	23.2%
EV/ton (USD)	291.4	300.0	182.4	399.4	396.9	393.2	383.1
Quick ratio (x)	1.0	1.8	2.4	2.4	2.4	2.6	2.8
Debt / Equity (x)	0.42	0.45	0.32	0.19	0.13	0.08	0.05
EV/EBITDA (x)	11.7	9.0	7.1	12.7	12.1	11.4	10.7
EV/Revenues (x)	5.9	4.4	3.6	7.0	6.7	6.4	6.0
FCF Yield	-13.4%	5.6%	14.5%	6.8%	6.0%	7.0%	8.6%
Adjusted EPS (SAR)	2.7	3.4	4.6	5.6	5.9	6.2	6.4
Book Value Per Share (SAR)	16.1	18.1	21.0	23.2	25.1	26.7	28.6
Market Price (SAR) *	42.8	40.7	48.2	74.3	74.3	74.3	74.3
Market Capitalization (SAR mn)	4,494	4,275	5,064	11,694	11,694	11,694	11,694
Dividend Yield	4.7%	3.3%	3.5%	4.5%	5.4%	6.1%	6.1%
P/E Ratio (x)	15.7	12.1	10.5	13.2	12.7	12.0	11.6
P/BV Ratio (x)	2.7	2.3	2.3	3.2	3.0	2.8	2.6

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing prices on October 06, 2013*

Oman

Oman Cement Company (OCC)

HOLD
Target Price
OMR0.816

Market Data

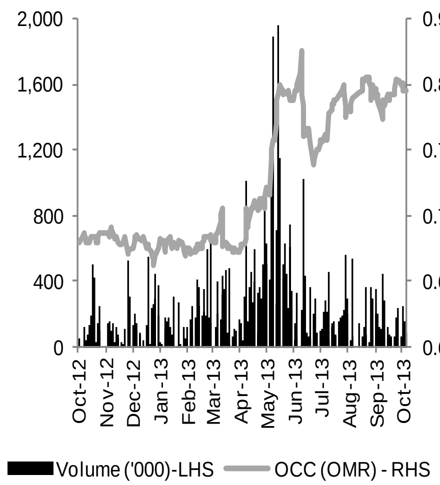
Bloomberg Code:	OCOI OM
Reuters Code:	OCCO.OM
CMP (6th October 2013):	0.784
O/S (mn)	330.8
Market Cap (OMR mn):	259.4
Market Cap (USD mn):	673.8
P/E 2014e (x):	13.9
P/BV 2014e (x):	1.7

Price Performance 1-Yr

High (OMR):	0.83
Low (OMR):	0.62
Average Volume ('000):	239.7

	1m	3m	12m
Absolute (%)	1.3	5.9	20.8
Relative (%)	3.8	3.0	17.9

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Unexpected shutdown drops the income by a hefty 39% in 2Q13**
- **Increase in cement grinding capacity by 150tph on the cards**
- **Company plans to set up ready mix concrete plant**
- **TP upgraded to OMR0.816/share; HOLD maintained; 12m price up 20.8%**

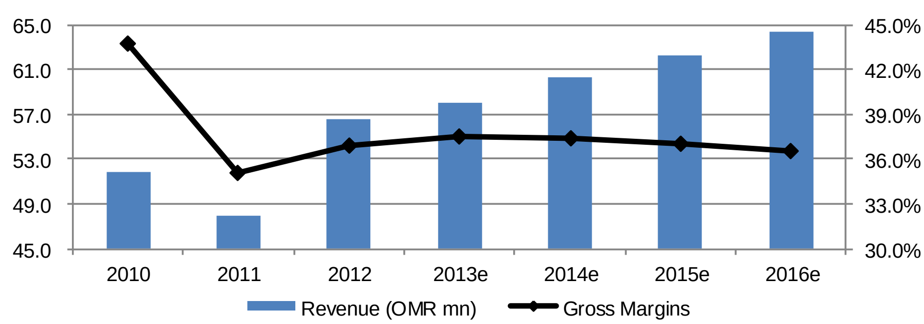
OCC reported good set of results which were equally matched by disappointment in the second quarter owing to the unprecedented shutdown. However the production has commenced and everything is on track for 3Q13. Company has announced expansion of its grinding capacity and at the same time has intends to setup a ready mix concrete plant. However the timeline for commissioning of both has not been announced. Once both are in place we will revisit our estimates. For the time being, we have revised the fair value upward to OMR0.816/share, which is 4.1% above the current market price. Hike in the fair value resulted largely because of better visibility of Omani market and the new export avenues identified by its local players. We expect EPS to increase at a CAGR of 2.2% during 2012-16. However, most of the positive are already factored in the stock price, reflected in its 20.8% appreciation over the last one year. At current price the stock is trading at 2014 PE and P/Bv multiple of 13.9x and 1.7x, respectively. Thus, we recommend a HOLD rating for the stock.

Unexpected shutdown drops the income by a hefty 39% during 2Q13

OCC profits reduced by a hefty 39% during the second quarter as the company was able to dispatch lesser quantity of cement owing to an unexpected breakdown of one of its cement mills for more than a month. During the quarter company sales dropped by 20% to 461k tons compared to 577k tons in the same period last year. Selling price however managed to resist a larger fall in revenue as they rose by 4.6% during the quarter to OMR25.5/ton compared to OMR24.4/ton in 2Q12. With the drop in revenue and an increase in cost, gross margins dropped significantly during 2Q13. We believe this quarter drop in income was largely a one off event and expect the coming quarters to do particularly well. However, 3Q13 would be a lean quarter because of harsh summer and Ramadan, where the construction activity takes a breather.

Revenue to increase at a CAGR of 3.2% during 2012-2016

OCC revenue is expected to an increase at a CAGR of 3.2% during 2012-16, owing to better outlook of Omani Cement market. The better visibility is largely due to diversion of cheap exports of UAE to other neighboring countries as compared to dumping of most cement earlier in Oman.



Source: OCC & Global Research

At the same time country is moving ahead with significant number of construction projects which are expected to give further headways to the revenue. While on the margins front we expect the situation to remain tight as some of UAE producers are still dumping their produce in Oman. Revenue could gain further strength once the plans of ready mix concrete plan are finalized. However as of yet we have not incorporated it in our estimates.

OCC plans to set up a ready mix concrete plant; proceeds from plants not yet incorporated

Keeping in view the limited growth in cement segment and continuous dumping of cement from neighboring countries, Oman cement finally decided to move into vertical integration by planning to set up a ready mix concrete plant. Such decision are pretty common in GCC as majority of the cement companies have every now and then invested in different ventures to curb the problem of growth cycle by investing in other associated business. So far the company has not announced the size of the plant, amount to be invested and timeline of commissioning hence no data is available which can be incorporated in the model. But nevertheless the typical time frame of building a ready mix plant is around 12-15months and once an official statement is announced we will incorporate it in our financial model.

Company plans to increase capacity by 150tph; timeline not yet announced

Keeping in view the increase in demand and diversion of UAE cement to other countries, the company finally announced plans of increasing their grinding capacity by 150tph. However, the company did not announce the amount and timeline of commissioning of the new grinding mill. However, the company is in the process of identifying a suitable vendor for the cement mill and is in the advanced stage of finalization. OCC is also planning to improve its pollution control equipment of Line 2 for clinker and a consultant has been appointed.

Target price revised to OMR0.816/share; HOLD maintained

We have revised the fair value upward to OMR0.816/share, which is 4.1% above the current market price. Hike in the fair value resulted largely because of better visibility of Omani market and the new export avenues identified by its local players. We expect EPS to increase at a CAGR of 2.2% during 2012-16. However, most of the positive are already factored in the stock price, reflected in its 20.8% appreciation over the last one year. At current price the stock is trading at 2014 PE and P/Bv multiple of 13.9x and 1.7x, respectively. Thus, we recommend a **HOLD** rating for the stock.

Financial Statement

	(OMR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Profit & Loss Statement	Net Sales Revenue	51.9	47.9	56.7	58.1	60.3	62.4	64.3
	Cost of Sales	(29.2)	(31.1)	(35.8)	(36.3)	(37.8)	(39.3)	(40.8)
	Gross Profit	**22.7**	**16.8**	**20.9**	**21.8**	**22.6**	**23.1**	**23.5**
	General & Administrative Expense	(5.2)	(3.4)	(3.6)	(3.7)	(3.8)	(4.0)	(4.0)
	Operating Profit	**17.5**	**13.4**	**17.3**	**18.2**	**18.8**	**19.1**	**19.6**
	Other Income	10.6	1.4	2.4	2.1	1.9	1.7	1.6
	Share of Result of Associates	0.1	0.1	0.2	0.2	0.2	0.2	0.3
	Net Finance Income	(0.0)	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
	Profit Before Taxation	**28.2**	**14.5**	**19.7**	**20.4**	**20.8**	**21.0**	**21.3**
	Taxation	(3.2)	(1.7)	(2.2)	(2.0)	(2.1)	(2.1)	(2.1)
	Net Profit	**25.0**	**12.8**	**17.5**	**18.3**	**18.7**	**18.9**	**19.1**
Balance Sheet	Cash and Bank Balance	3.2	3.0	2.6	3.8	4.3	4.2	5.0
	Receivables and Prepayments	5.6	8.9	9.7	10.5	11.6	12.0	14.1
	Inventories	9.4	12.6	13.8	13.7	14.0	14.0	13.7
	Investments	6.4	6.3	6.7	6.7	6.8	6.8	6.9
	Other Assets	16.8	12.5	5.5	5.6	5.6	5.6	5.6
	Long-term Deposits	17.8	11.3	25.3	24.1	22.9	21.7	20.6
	Investments in Associates	0.7	0.8	0.9	0.9	1.0	1.0	1.0
	Investments Available-for-Sale	12.8	11.0	13.4	13.7	14.0	14.2	14.5
	Net Fixed Assets	99.5	107.8	107.1	105.7	105.3	104.7	103.1
	Total Assets	**172.2**	**174.3**	**185.1**	**184.7**	**185.2**	**184.2**	**184.6**
	Loans	7.4	8.0	12.0	12.3	11.7	11.1	10.6
	Payables	7.7	11.4	7.6	10.4	12.4	12.6	14.0
	Others	8.7	6.5	7.4	5.2	5.2	5.3	5.3
	Paid -up Capital	33.1	33.1	33.1	33.1	33.1	33.1	33.1
	Reserves	35.7	35.0	37.0	37.3	37.5	37.8	38.1
	Share Premium	6.7	6.7	6.7	6.7	6.7	6.7	6.7
	Retained Earnings	73.0	73.6	81.2	79.6	78.5	77.6	76.8
	Total Shareholders Equity	148.5	148.4	158.0	156.8	155.9	155.2	154.8
	Total Equity & Liability	**172.2**	**174.3**	**185.1**	**184.7**	**185.2**	**184.2**	**184.6**
Cash Flow	Cash Flow from Operating Activities	27.6	8.4	22.2	22.6	23.8	23.2	23.1
	Cash Flow from Investing Activities	(17.9)	3.0	(16.7)	(1.6)	(2.7)	(2.7)	(1.8)
	Cash Flow from Financing Activities	(8.9)	(11.6)	(5.9)	(19.7)	(20.6)	(20.6)	(20.5)
	Net Change in Cash	0.8	(0.2)	(0.4)	1.2	0.5	(0.1)	0.8
	Net Cash at End	**3.2**	**3.0**	**2.6**	**3.8**	**4.3**	**4.2**	**5.0**
Ratio Analysis	Current Ratio (x)	3.2	2.9	3.2	2.6	2.5	2.5	2.5
	Quick Ratio (x)	2.5	2.0	2.0	1.7	1.6	1.6	1.7
	Gross Profit Margin (%)	43.8%	35.1%	36.9%	37.6%	37.4%	37.0%	36.6%
	Operating Margin (%)	33.7%	28.0%	30.6%	31.2%	31.1%	30.7%	30.4%
	Net Profit Margin (%)	48.3%	26.7%	30.9%	31.6%	31.0%	30.3%	29.7%
	Return on Average Assets (%)	15.4%	7.4%	9.7%	9.9%	10.1%	10.2%	10.4%
	Return on Average Equity (%)	17.6%	8.6%	11.4%	11.7%	12.0%	12.1%	12.3%
	Debt / Equity (x)	0.05	0.05	0.08	0.08	0.08	0.07	0.07
	Cash Return On Capital Invested (%)	21.7%	12.6%	15.3%	15.9%	16.3%	16.5%	16.8%
	EV/Ton (OMR)	69.8	51.2	84.1	106.3	105.9	105.7	105.1
	Dividend Yield (%)	6.9%	9.6%	9.8%	7.7%	7.7%	7.7%	7.7%
	EV/Revenues (x)	3.50	2.78	3.74	4.61	4.42	4.27	4.12
	EV/EBITDA (x)	5.64	7.10	8.77	10.76	10.52	10.37	10.18
	Book Value Per Share (OMR)	0.45	0.45	0.48	0.47	0.47	0.47	0.47
	Market Price (OMR) *	0.54	0.39	0.61	0.78	0.78	0.78	0.78
	Market Capitalization (OMR mn)	177.3	128.0	202.5	259.4	259.4	259.4	259.4
	EPS (OMR)	0.08	0.04	0.05	0.06	0.06	0.06	0.06
	P/E Ratio (x)	7.1	10.0	11.6	14.1	13.9	13.7	13.6
	P/BV Ratio (x)	1.2	0.9	1.3	1.7	1.7	1.7	1.7

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing price on MSM on October 06, 2013*

Raysut Cement Company (RCC)

SELL
Target Price
OMR1.791

Market Data

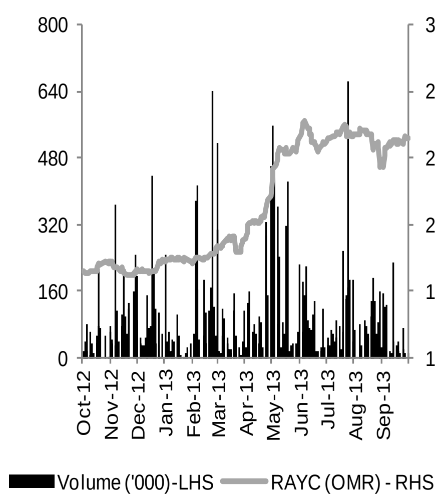
Bloomberg Code:	RCCI OM
Reuters Code:	RAYC.OM
CMP (6th October 2013):	1.995
O/S (mn)	200.0
Market Cap (OMR mn):	399.0
Market Cap (USD mn):	1,036.4
P/E 2014e (x):	13.4
P/BV 2014e (x):	2.7

Price Performance 1-Yr

High (OMR):	2.10
Low (OMR):	1.37
Average Volume ('000):	109.8

	1m	3m	12m
Absolute (%)	7.0	0.0	43.0
Relative (%)	3.8	3.0	17.9

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Effective cost management led to rise in 2Q13 profit**
- **Profit to increase at a CAGR of 6.0% during 2012-2016**
- **Company plans to land its foot print in Somalia and Yemen**
- **TP revised to OMR1.791/share; 12m price up by 43.0%**

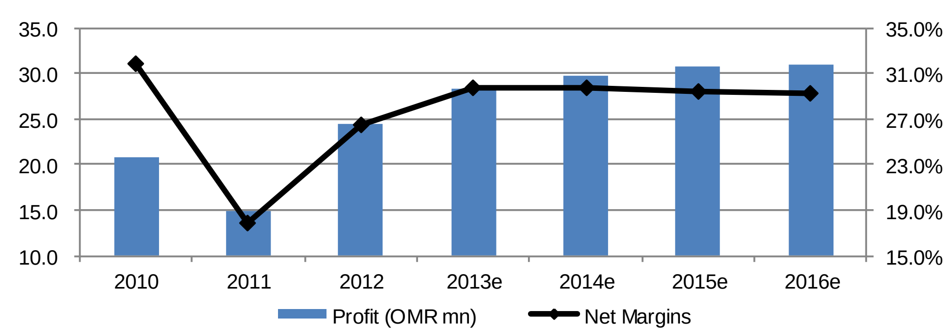
RCC reported good set of results in 2Q13 owing to efficient cost control measures adopted by the company. For 3Q13, we expect profit to drop to OMR6.0mn. Company has announced series of measures to further increase their revenue. It is in the final stages of setting up a cement handling terminal at Duqm port. Apart from that company's plans to go in for a series of expansion abroad and in the Sultanate. It plans to establish a modern state-of-the-art Cement Terminal in Berbera Port in Somalia. The other two plans are of establishing a grinding plant in Mukulla, Republic of Yemen and expansion of production capacity and production processes of its subsidiary, Pioneer Cement in Ras al Khaimah, UAE. We have revised the fair value upward to OMR1.791/share, which is 10.2% below the current market price. However, most of the positive are already factored in the stock price, reflected in its 43.0% appreciation over the last one year. At current price the stock is trading at 2014 PE and P/Bv multiple of 13.4x and 2.7x, respectively. Thus, we recommend a SELL rating for the stock.

Effective cost management led to rise in 2Q13 profit

RCC profits rose by 6% YoY during the second quarter. Led mainly by drop in cost of sales and further aided by decline in operating expenses. Sales revenue of the company dropped by 2.5% mainly because of 5.8% drop in sales volume, however, 3.5% increase in the realization price during the quarter resisted the decline. Average realization price of the group stood at OMR25.6/ton, while that of Raysut and Pioneer stood at OMR27.9/ton and OMR20.6/ton respectively. With the drop in cost and operating expenses, gross margins rose during 2Q13 to 41.8% compared to 40.5% earlier. Global Research estimates 3Q13 profit of OMR6.0mn, lesser by 16% on a QoQ basis mainly because of harsh summer season and Ramadan, where the construction activity takes a breather.

Profit to increase at a CAGR of 6.0% during 2012-2016

RCC profit is expected to an increase at a CAGR of 6.0% during 2012-16, owing to better outlook of Omani and UAE Cement market where the parent company and the full owned subsidiary operate.



Source: RCC & Global Research

The performance of Pioneer is expected to improve as the demand situation in UAE is expected to gain strength. Realization prices have also increased in UAE which has given further impetus to the margins. Sales revenue of the company is expected to increase at a CAGR of 3.4% during 2012-16 and within that the sales of Raysut are expected to increase at a CAGR of 5.3%.

Raysut Cement plans to invest in Duqm terminal

RCC is planning to build a cement handling terminal at Duqm port in partnership with other investors. The Company said that the cement handling terminal will be completed within ten months of signing a lease agreement with the Special Economic Zone Authority at Duqm. The terminal would be coming up at the world class Duqm port, which is 2.25-km long. The company has four cement handling terminals -- one each in Muscat, Sohar, Mukalla, Aden (Yemen). Besides that, RCC is also planning to develop mines in Duqm for limestone, the main raw material for cement plants. RCC and Oman Cement have conducted a joint study and found that the area is rich in minerals like limestone.

Company plans to land its foot print in Somalia and Yemen

The Board of Directors of Raysut Cement recently approved the company's plans to go in for a series of expansion abroad and in the Sultanate. As part of the plan, they will establish a modern state-of-the-art Cement Terminal in Berbera Port in Somalia, as a joint venture with one of the local partners for storing, packing and distribution of cement, with all the facilities and equipment including three silos in the capacity of 4,000 MT each. The other two decisions of the board include approval for establishing a grinding plant in Mukulla, Republic of Yemen through the sister company -- Mukulla Raysut -- as a joint venture with a local partner in the capacity of 0.5mn tons and expansion of production capacity and production processes of its subsidiary, Pioneer Cement in Ras al Khaimah, UAE. The plant in Yemen will carry out grinding and packing of cement in Yemen, while the project in Ras al Khaimah includes an additional cement silo and upgrading the cooling system and environment management systems. The estimated cost of the above projects is expected to be about OMR9.2m. The company's strategy to expand its market base through supplies to Yemen, East Africa and to other GCC countries has helped and with these further developments and expansion we expect its performance profitability to grow in the future.

Target price revised to OMR1.791/share; SELL maintained; 12m price up by 43.0%

We have revised the fair value upward to OMR1.791/share, which is 10.2% below the current market price. Hike in the fair value resulted largely because of better visibility of Omani and UAE cement market and the developments and expansion plans identified by the company. However, most of the positive are already factored in the stock price, reflected in its 43.0% appreciation over the last one year. At current price the stock is trading at 2014 PE and P/Bv multiple of 13.4x and 2.7x, respectively. Thus, we recommend a **SELL** rating for the stock.

Financial Statement

(OMR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Profit & Loss Statement							
Net Sales Revenue	65.0	83.8	92.8	95.4	99.8	104.2	106.2
Cost of Sales	(29.8)	(53.4)	(54.8)	(52.0)	(55.1)	(57.8)	(59.7)
Gross Profit	**35.2**	**30.5**	**38.0**	**43.4**	**44.7**	**46.5**	**46.6**
General & Administrative Expense	(12.6)	(10.2)	(9.5)	(12.0)	(12.2)	(13.3)	(13.6)
Operating Profit	**22.6**	**20.3**	**28.5**	**31.4**	**32.5**	**33.2**	**33.0**
Other Income	0.6	(0.7)	(0.7)	0.5	0.6	0.8	1.0
Share of Result of Associates	0.3	0.2	1.4	1.5	1.7	1.9	2.0
Net Finance Cost	(0.0)	(2.8)	(2.2)	(1.9)	(1.8)	(1.7)	(1.6)
Profit Before Taxation	**23.5**	**17.0**	**27.0**	**31.6**	**33.0**	**34.1**	**34.4**
Taxation	(2.8)	(2.1)	(2.5)	(3.2)	(3.3)	(3.4)	(3.4)
Net Profit	**20.7**	**14.9**	**24.5**	**28.4**	**29.7**	**30.7**	**31.0**
Balance Sheet							
Cash and Bank Balance	5.7	3.9	4.2	8.6	13.1	16.0	24.8
Receivables and Prepayments	10.5	12.3	12.4	18.2	24.5	31.4	32.1
Inventories	12.0	15.8	15.4	18.5	21.1	23.7	24.5
Investments	5.1	4.2	3.4	4.3	5.4	6.7	8.4
Other Assets	11.2	49.5	60.9	60.9	60.9	60.9	60.9
Investments & Advances	67.4	2.6	3.8	3.8	3.9	4.0	4.1
Gross Fixed Assets	124.4	161.0	161.6	164.8	168.0	171.2	174.4
Less: Accumulated Depreciation	44.8	60.3	66.4	72.6	78.9	85.3	91.9
Net Fixed Assets	79.6	100.6	95.2	92.2	89.1	85.9	82.6
Total Assets	**191.6**	**189.1**	**195.3**	**206.6**	**218.0**	**228.6**	**237.3**
Loans	68.4	68.2	62.2	59.1	56.2	53.3	50.7
Payables	1.7	5.8	4.9	5.0	5.3	5.5	5.7
Others	14.0	12.6	11.1	11.0	11.4	11.7	12.0
Paid-up Capital	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Share Premium	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Reserve	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Asset Replacement Reserve	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Retained Earnings	57.3	52.3	67.0	81.4	95.1	107.8	118.8
Shareholders Equity	107.5	102.4	117.1	131.5	145.2	158.0	169.0
Total Equity & Liability	**191.6**	**189.1**	**195.3**	**206.6**	**218.0**	**228.6**	**237.3**
Cash Flow							
Cash Flow from Operating Activities	29.0	26.4	31.3	23.3	25.1	25.3	33.2
Cash Flow from Investing Activities	(75.7)	3.1	(12.9)	(1.7)	(1.7)	(1.7)	(1.7)
Cash Flow from Financing Activities	45.6	(31.3)	(18.2)	(17.1)	(19.0)	(20.8)	(22.7)
Net Cash at End	5.7	3.9	4.2	8.6	13.1	16.0	24.8
Net Cash at End	**5.7**	**3.9**	**4.2**	**8.6**	**13.1**	**16.0**	**24.8**
Ratio Analysis							
Current Ratio (x)	1.7	1.1	3.0	3.8	4.5	5.2	5.8
Quick Ratio (x)	1.2	0.7	2.1	2.7	3.3	3.9	4.4
Gross Profit Margin (%)	54.2%	36.3%	40.9%	45.5%	44.8%	44.6%	43.8%
Operating Profit Margin (%)	34.8%	24.2%	30.7%	32.9%	32.6%	31.8%	31.0%
Net Profit Margin (%)	31.9%	17.8%	26.4%	29.8%	29.8%	29.5%	29.2%
Return on Average Assets (%)	13.2%	7.9%	12.8%	14.1%	14.0%	13.8%	13.3%
Return on Average Equity (%)	19.3%	14.2%	22.4%	22.9%	21.5%	20.3%	19.0%
Debt / Equity (x)	0.64	0.64	0.53	0.45	0.39	0.34	0.30
Cash Return On Capital Invested (%)	26.0%	34.5%	30.1%	30.2%	28.3%	26.8%	25.2%
EV/Ton (OMR)	111.9	47.9	63.8	86.4	85.0	83.9	4.9
Dividend Yield (%)	8.2%	13.2%	3.6%	3.5%	4.0%	4.5%	5.0%
EV/Revenues (x)	4.74	2.55	3.58	4.71	4.43	4.18	0.24
EV/EBITDA (x)	11.03	6.03	9.41	11.32	10.75	10.32	0.60
EPS (OMR)	0.10	0.07	0.12	0.14	0.15	0.15	0.16
Book Value Per Share (OMR)	0.54	0.51	0.59	0.66	0.73	0.79	0.84
Market Price (OMR) *	1.23	0.76	1.37	2.00	2.00	2.00	2.00
Market Capitalization (OMR mn)	245.0	152.0	274.0	399.0	399.0	399.0	399.0
P/E Ratio (x)	11.8	10.2	11.2	14.0	13.4	13.0	12.9
P/BV Ratio (x)	2.3	1.5	2.3	3.0	2.7	2.5	2.4

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing price on MSM on October 06, 2013*

Qatar

Qatar National Cement Company (QNCC)

BUY
Target Price
QAR119.2

Market Data

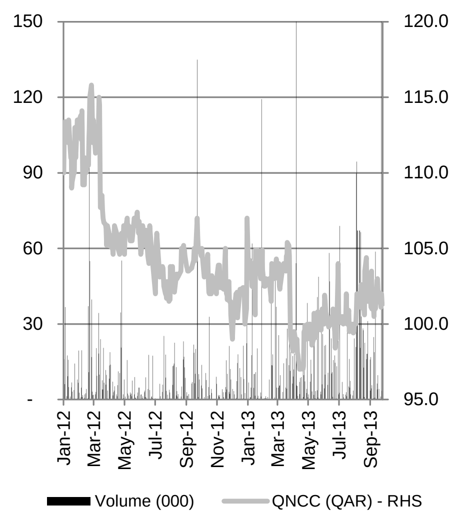
Bloomberg Code:	QNCD QD
Reuters Code:	QANC.QA
CMP (6th October 2013):	QAR102.0
O/S (mn)	49.1
Market Cap (QAR mn):	5,008.3
Market Cap (USD mn):	1,375.5
P/E 2014e (x):	11.4
P/BV 2014e (x):	1.8

Price Performance 1-Yr

High (QAR):	107.0
Low (QAR):	91.9
Average Volume ('000):	14.5

	1m	3m	12m
Absolute (%)	1.0	1.5	-2.4
Relative (%)	5.7	4.8	14.8

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Unexpected shutdown drops the income by a hefty 39% in 2Q13**
- **Increase in cement grinding capacity by 150tph on the cards**
- **Company plans to set up ready mix concrete plant**
- **TP upgraded to QAR119.2/share; BUY maintained**

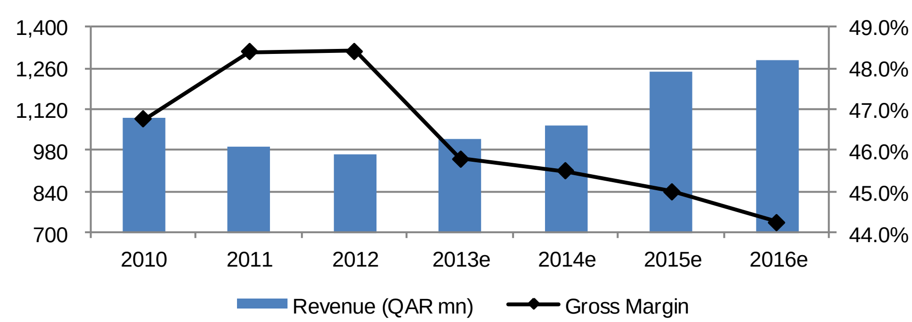
QNCC reported good set of results during 2Q13. Company witnessed inflow of new customers which was a sign of heating up of cement market in preparation of the World Cup 2022. Company is planning actively on deciding whether to go for 5,000TPD or 7,500TPD expansion of its cement capacity. Once finalized and commissioned the company would be a direct beneficiary of the incremental demand. Apart from that its calcium carbonate plant underwent trial run and is all set to contribute to the bottomline of the company. While the only negative stems from the Lime plant which is still not working ever since Qatar Steel stopped ordering the produce. We have revised the fair value upward to QAR119.2/share, which is 16.9% above the current market price. Hike in the fair value resulted largely because of expectation of improvement in Qatari cement demand. At current price the stock is trading at 2014 PE and P/Bv multiple of 11.4x and 1.8x, respectively. Thus, we maintain BUY rating on the stock.

2Q13 net income up 8.9% YoY and down marginally on a QoQ basis

QNCC recorded net income growth of 8.9% YoY during 2Q13. While on a QoQ basis the net income was down 1.4%. Growths on a YoY basis was mainly because of improvement in sales revenue and drop in operating expenses, while the drop on a QoQ basis was largely due to increase in cost and drop in other income. As the selling price has remained almost constant since last 2-3years, the growth in volume would have been instrumental in increase of the revenue. This shows as a sign of initiation of the projects related to the Football World Cup 2022. Other notable feature during the current quarter was the drop in the financial expense of the company by over 90% YoY and over 80% on a QoQ basis. For the 3Q13, we expect the company to announce net income of QAR101mn, a drop of 13.6%, stemming mainly because of the summer season and Ramadan.

Revenue to increase at a CAGR of 7.4% during 2012-2016

QNCC which is currently operating at cement utilization level of 78% and 81% respectively during 2011 and 2012 is expected to witness a hike in demand as the projects related to World Cup 2022 pickup pace.



Source: QNCC & Global Research

The management was of the view that they have witnessed inflow of lots of new customers which is quite an indicator of heating up of the cement demand locally. Hence, Global Research estimates its cement utilization level to touch 95-100% in 2015 and 2016 while it may decline if the capacity is raised within the period.

Capacity expansion on the cards; not yet incorporated in the estimates

The QNCC is in the process of boosting its production capacity. The consultancy work has already been placed for a design capacity of 5,000TPD or 7,500TPD clinker. The consultancy work has been placed with TPF, Basse Sambre of Belgium for a design capacity of 5,000TPD or 7,500TPD clinker. Although no timeline has been given as to when it will start and begin commissioning but once finalized it would take typically 24-30months for the new line to be operational.

Calcium Carbonate plant to go for trial run this year

QNCC calcium carbonate plant underwent trial run in the month of June 2013. The QAR22mn plant located in Umm-Bab area is specialized in the production of calcium carbonate for use in water treatment operations and has been set specifically to meet the needs of the Qatar Water and Electricity Company (Kahramaa). Kahramaa will be purchasing the calcium carbonate plant's production for a period of 25 years and that the plant will also be supplying raw material required by the Ras Girtas Power plant in Ras Laffan Industrial City.

Apart from that company plans to explore all the opportunities to increase the sales volume of washed sand and to utilize the idle capacity in order to achieve better returns and activate all possible options to absorb the adverse effect resulted from stoppage of lime sales due to Qatar steel's decision since June 2011 in order to avoid consequential losses in future.

Target price revised to QAR119.2/share; BUY maintained

We have revised the fair value upward to QAR119.2/share, which is 16.9% above the current market price. Hike in the fair value resulted largely because of expectation of improvement in Qatari cement demand. At current price the stock is trading at 2014 PE and P/Bv multiple of 11.4x and 1.8x, respectively. Thus, we maintain **BUY** rating on the stock.

Financial Statement

(QAR mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Profit & Loss Statement							
Net Sales Revenue	1,090	990	964	1,019	1,064	1,249	1,285
Cost of Sales	(581)	(511)	(497)	(552)	(580)	(687)	(717)
Gross Profit	**510**	**479**	**467**	**467**	**484**	**562**	**569**
General & Administrative Expense	(57)	(56)	(60)	(59)	(60)	(69)	(69)
Operating Profit	**452**	**423**	**407**	**408**	**424**	**493**	**500**
Other Income	35	37	20	26	25	24	23
Share of Result of Associates	2	1	1	1	1	2	2
Financial Charges	(10)	(5)	(2)	(1)	(1)	(1)	(1)
Profit Before Cont. to Social Fund	**479**	**456**	**425**	**434**	**450**	**517**	**523**
Social Fund Contribution	(12)	(11)	(11)	(11)	(11)	(13)	(13)
Net Profit	**467**	**445**	**415**	**423**	**438**	**505**	**510**
Balance Sheet							
Cash and Bank Balance	100	255	330	255	268	294	402
Receivables and Prepayments	142	160	153	156	149	168	157
Inventories	440	268	327	333	334	377	373
Investments Properties	14	12	11	12	13	14	16
Investments in Associates	43	45	46	49	51	54	56
Investments Available for Sale	177	149	153	163	173	184	184
Net Fixed Assets	1,692	1,730	1,661	1,833	1,960	2,095	2,205
Total Assets	**2,608**	**2,619**	**2,682**	**2,800**	**2,948**	**3,185**	**3,393**
Current Portion of Term Loan	160	82	82	41	20	23	25
Trade & Other Payable	115	130	154	174	187	226	239
Non-current Portion of Term Loan	164	82	-	-	-	-	-
Employee End of Service Benefits	9	10	11	12	13	14	14
Paid -up Capital	446	491	491	491	491	491	491
Legal Reserve	223	246	246	246	246	246	246
Other Reserve	482	460	459	469	479	490	490
Retained Earnings	1,008	1,118	1,238	1,367	1,511	1,696	1,888
Total Shareholders Equity	2,160	2,315	2,434	2,573	2,727	2,923	3,114
Total Equity & Liability	**2,608**	**2,619**	**2,682**	**2,800**	**2,948**	**3,185**	**3,393**
Cash Flow							
Cash Flow from Operating Activities	424	589	517	556	589	623	691
Cash Flow from Investing Activities	8	(6)	(65)	(295)	(260)	(280)	(265)
Cash Flow from Financing Activities	(218)	(428)	(377)	(337)	(316)	(318)	(318)
Net Change in Cash	215	155	75	(75)	14	26	108
Net Cash at End	**100**	**255**	**330**	**255**	**268**	**294**	**402**
Ratio Analysis							
Current Ratio (x)	2.5	3.2	3.4	3.5	3.6	3.4	3.5
Quick Ratio (x)	0.9	2.0	2.0	1.9	2.0	1.9	2.1
Gross Profit Margin (%)	46.7%	48.4%	48.4%	45.8%	45.5%	45.0%	44.3%
Operating Margin (%)	41.5%	42.7%	42.2%	40.1%	39.9%	39.4%	38.9%
Net Profit Margin (%)	42.8%	44.9%	43.0%	41.6%	41.2%	40.4%	39.7%
Return on Average Assets (%)	18.2%	17.0%	15.6%	15.4%	15.3%	16.5%	15.5%
Return on Average Equity (%)	22.9%	19.9%	17.5%	16.9%	16.5%	17.9%	16.9%
Debt / Equity (x)	0.15	0.07	0.03	0.02	0.01	0.01	0.01
Cash Return On Capital Invested (%)	27.3%	24.6%	22.1%	21.6%	21.3%	22.6%	21.7%
Dividend Yield (%)	4.7%	5.5%	5.9%	5.9%	5.9%	6.4%	6.4%
EV/Revenues (x)	5.5	4.9	4.9	4.7	4.5	3.8	3.6
EV/EBITDA (x)	10.1	8.5	8.8	8.6	8.2	7.2	6.8
Adjusted Book Value Per Share (QAR)	44.0	47.1	49.6	52.4	55.5	59.5	63.4
Market Price (QAR) *	117.0	100.0	100.9	102.0	102.0	102.0	102.0
Market Capitalization (QAR mn)	5,744.8	4,912.0	4,952.3	5,008.3	5,008.3	5,008.3	5,008.3
Adjusted EPS (QAR)	9.5	9.1	8.4	8.6	8.9	10.3	10.4
P/E Ratio (x)	12.3	11.0	11.9	11.8	11.4	9.9	9.8
P/BV Ratio (x)	2.7	2.1	2.0	1.9	1.8	1.7	1.6

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing price on QE on October 06, 2013*

UAE

Arkan Building Materials (Arkan)

BUY
Target Price
AED0.95

Market Data

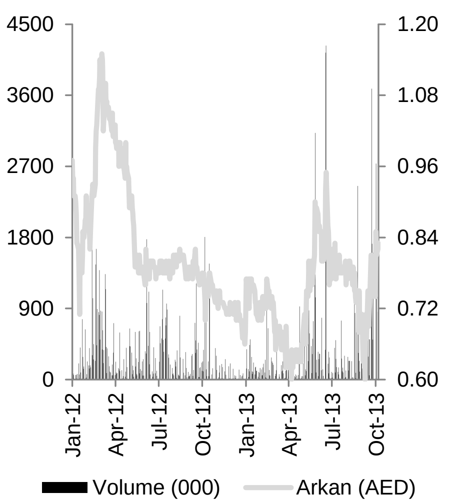
Bloomberg Code:	ARKAN UH
Reuters Code:	ARKN.AD
CMP (6th October 2013):	0.82
O/S (mn)	1,750.0
Market Cap (AED mn):	1,435.0
Market Cap (USD mn):	390.7
P/E 2014e (x):	18.3
P/BV 2014e (x):	0.8

Price Performance 1-Yr

High (AED):	1.0
Low (AED):	0.6
Average Volume ('000):	368

	1m	3m	12m
Absolute (%)	30.2	-1.2	6.5
Relative (%)	9.3	6.1	46.0

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Increase in cost restricts bottom line growth**
- **Presence in Abu Dhabi to act as a savior**
- **Dry Mortar & Lime plant to be operational in 2014 & 2015 respectively**
- **TP revised to AED0.95/share; Arkan trading below book value**

Arkan Building Materials recorded a QoQ and YoY drop of 18.9% and 57.8% respectively in the net income during 2Q13. Unlike many other cement companies which remained in losses during 2Q13 in UAE cement sector, Arkan posted a much decent set of numbers. With expectations of improvement in UAE market in coming years, improvement in regional markets and prospects of UAE getting the World Expo we expect the company to do well. However, 2013 and 2014 would be lean years and we expect things to pick pace in 2015 and onwards. We have revised the fair value to AED0.95/share, which is 16.0% above the current market price. Company's stock has underperformed the market and other peer companies. At current market price the stock is trading at PE and P/Bv of 18.3x and 0.8x for 2014. We recommend a BUY rating for the stock.

Increase in cost restricts bottom line growth

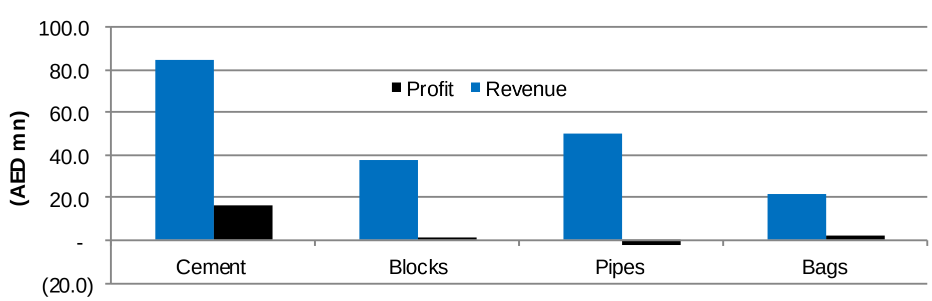
Despite reporting higher revenue, Arkan recorded a QoQ and YoY drop of 18.9% and 57.8% respectively in the net income during 2Q13. Revenue growth was recorded at 1.7% and 6.9% on YoY and QoQ basis respectively. However the growth was much lower than the growth recorded on cost front. Cost of sales went up by 11.0% and 8.0% on YoY and QoQ basis respectively. Nevertheless, unlike many other cement companies which remained in losses during 2Q13 in UAE cement sector, Arkan posted a much decent set of numbers and with expectations of improvement in UAE market in coming years we expect it to be the lead beneficiary in the sector.

(AED 000)	2Q12	1Q13	2Q13	YoY	QoQ
Sales Revenue	98,540	93,731	100,190	1.7%	6.9%
Cost of Sales	(74,325)	(76,391)	(82,470)	11.0%	8.0%
Gross Profit	**24,215**	**17,340**	**17,720**	**-26.8%**	**2.2%**
Operating Profit	1,597	(4,056)	(4,649)	-391.1%	14.6%
Net Profit	**18,477**	**9,625**	**7,806**	**-57.8%**	**-18.9%**
Gross Margin	***24.6%***	***18.5%***	***17.7%***	-	-
Operating Margin	***1.6%***	***-4.3%***	***-4.6%***	-	-
Net Margin	***18.8%***	***10.3%***	***7.8%***	-	-

Source: Company Reports

As of 1H13, cement business leads both on revenue and net income front. It contributed 43.7% to the revenue and 96.4% to the profit. Blocks segment also contributed positively to the revenue and profit at 19.4% and 7.4% respectively.

Revenue & Profit - 1H13



Source: Company Reports

Bags business contribution to the revenue and net income remained at 11.1% and 11.1% respectively. While pipe business added 25.9% to the revenue, its contribution to the bottom line remained negative at 10.8%. Within pipe business, GRP pipes remained in loss while the PVC added positively to the bottom line. Going forward, we expect all its segments to add positively to the bottom line of the company. Exports to regional markets would also be actively looked at once World Cup related activities in Qatar go ahead with full pace while imports in Saudi Arabia have already opened to the tune of 10mn tons annually.

Dry mortar plant to start commercial production by end 2014

Arkan started working on its new dry mortar plant in 2011. The project was designed to commence commercial production by 2013, however, as the construction market went through a series of low demand period they project was delayed and the new starting date would be 1Q15, The project is designed to have a production capacity of 1,000tpd and the construction cost was estimated at AED100mn (USD27.2mn) in 2011. The new facility, spread over more than 57,000sq.m, will be Arkan's first dry mortar plant in Al Mafraq UAE. Construction at the site has started, and the unit is scheduled to be fully operational by the end of 2014. Raw materials required for production are sand, limestone, cement and hydrated lime. Arkan has hands on approach on most of the raw materials as it already operates a cement plant.

Potential competitors of the company are:

- Plaxit Dry Mortars L.L.C - Abu Dhabi
- RAKfix Dry Mortars L.L.C - Ras Al Khaimah
- Dubai Plaster Co. L.L.C - Ras Al Khaimah

We have come to know from our sources that the current prevailing prices of Dry Mortar are AED250-300/ton (dry mix plaster with silo and machine). Hence to be on the conservative side our 2015 and onwards price ranges between AED260-270/ton.

Lime plant to become operational in 2015

Arkan initiated work on the lime plant side by side with Dry Mortar plant. The plant which was initially planned to come online by mid-2013 is expected to come online in 2015. The plant capacity is 900tpd (600 quick-lime + 300 dolo-lime). The plant will be located within Al Ain Industrial Park. The plant will produce high quality quick lime and hydrated lime using 100 per cent indigenous raw materials and will primarily cater to the growing demand for industrial lime for construction and chemicals industries in the UAE and wider region. As an essential chemical, lime (burnt and hydrated) is used extensively across industries, including in steel, environmental effluents, agro-food, paper and construction.

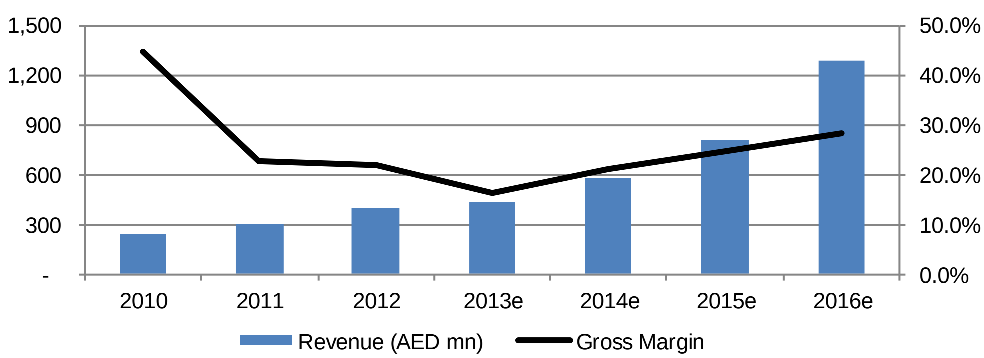
Potential competitors of the company are:

- NOORA – Ras Al Khaimah
- CMI – Oman
- GEERCO, Saudi Arabia

Current prevailing prices of Lime are AED270-300/ton. Hence to be on the conservative side our 2015 and onwards price ranges between AED300-320/ton.

Revenue to increase at a CAGR of 34% during 2012-16

Arkan which is currently operating at low cement utilization levels is expected to witness higher cement demand once World Cup related activities in Qatar take steam and higher cement demand trend continues in Saudi Arabia. The demand can further increase if World Expo is announced to be held in Dubai. The new business i.e. Dry Mortar and Lime would also start to add to the topline of the company by 2014 onwards. All these factors combined are expected to grow the revenue at a CAGR of 34% during 2012-16.



Source: Arkan & Global Research

Target price revised to AED0.95/share; we recommend a BUY

We have revised the fair value to AED0.95/share, which is 16.0% above the current market price. All the factors mentioned above are expected to contribute positively to the top and bottom line of the company. Company's stock performance has underperformed the market and other peer companies. At current market price the stock is trading at PE and P/Bv of 18.3x and 0.8x for 2014. We recommend a **BUY** rating for the stock.

Financial Statement

	(AED mn)	2010	2011	2012	2013e	2014e	2015e	2016e
Profit & Loss Statement	Sales Revenue	245	303	397	435	581	808	1,287
	Cost of Sales	(136)	(235)	(311)	(364)	(460)	(610)	(921)
	Gross Profit	**109**	**68**	**86**	**71**	**121**	**199**	**365**
	General & Administrative Expense	(73)	(96)	(105)	(83)	(110)	(154)	(244)
	Operating Profit	**36**	**(28)**	**(19)**	**(12)**	**11**	**45**	**121**
	Non-Core Income	(2)	15	13	11	13	15	18
	Share of Profit from Associates	18	13	9	5	5	6	6
	Net Financing Income	1	(1)	(2)	(4)	2	2	3
	Other Expenses	(0)	(5)	-	-	-	-	-
	Taxation	-	-	-	-	-	-	-
	Net Profit	**53**	**20**	**47**	**46**	**76**	**114**	**171**
Balance Sheet	Cash and Bank Balance	65	93	135	154	160	213	299
	Receivables and Prepayments	89	167	199	286	302	399	494
	Inventories	78	178	215	227	239	301	408
	Investments at Fair Value	51	0	0	0	0	0	0
	Long Term Investments	287	271	274	281	289	284	292
	Goodwill	128	128	128	128	128	128	128
	Other Intangible Assets	170	161	153	147	141	135	130
	Property, Plant and Equipment	1,722	1,967	2,133	2,123	2,099	2,074	2,031
	Non-Current Assets	2,308	2,528	2,688	2,680	2,657	2,621	2,581
	Total Assets	**2,591**	**2,967**	**3,240**	**3,350**	**3,363**	**3,538**	**3,785**
	Payables & Accruals	71	91	101	119	159	244	405
	Medium Term Loans	273	295	-	-	-	-	-
	Long Term Loans	652	579	1,136	1,249	1,187	1,187	1,127
	Paid -up Capital	1,750	1,750	1,750	1,750	1,750	1,750	1,750
	Legal Reserve	43	45	50	55	62	74	91
	Capital Reserve	4	4	4	4	4	4	4
	Investment Revaluation Reserve	(76)	(83)	(81)	(79)	(79)	(79)	(79)
	Retained Earnings	(128)	(109)	(67)	(26)	43	146	300
	Owners Account	0	0	0	0	0	0	0
	Shareholders Equity	1,594	1,607	1,656	1,704	1,780	1,894	2,066
	Total Equity & Liability	**2,591**	**2,967**	**3,240**	**3,350**	**3,363**	**3,538**	**3,785**
Cash Flow	Cash Flow from Operating Activities	121	36	(14)	32	150	111	207
	Cash Flow from Investing Activities	(220)	(97)	(201)	(57)	(40)	(35)	(35)
	Cash Flow from Financing Activities	78	89	257	45	(104)	(23)	(86)
	Net Cash Movement	(21)	28	42	19	6	53	86
	Net Cash at End	**65**	**93**	**135**	**154**	**160**	**213**	**299**
Ratio Analysis	Current Ratio (x)	4.0	4.8	5.5	5.6	4.4	3.8	3.0
	Quick Ratio (x)	2.9	2.9	3.3	3.7	2.9	2.5	2.0
	Gross Profit Margin (%)	44.6%	22.5%	21.7%	16.3%	20.9%	24.6%	28.4%
	Operating Profit Margin (%)	14.8%	-9.2%	-4.8%	-2.7%	1.9%	5.6%	9.4%
	Net Profit Margin (%)	21.7%	6.7%	11.8%	10.5%	13.2%	14.1%	13.3%
	Return on Average Assets (%)	2.1%	0.7%	1.5%	1.4%	2.3%	3.3%	4.7%
	Return on Average Equity (%)	3.4%	1.3%	2.9%	2.7%	4.4%	6.2%	8.7%
	Debt / Equity (x)	0.58	0.54	0.69	0.73	0.67	0.63	0.55
	Cash Return On Capital Invested (%)	5.1%	3.4%	5.5%	6.1%	7.6%	9.6%	11.8%
	EV/Ton (AED)	2,152.0	462.6	397.7	459.2	446.9	437.2	410.9
	Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	EV/Revenues (x)	8.87	8.42	5.52	5.82	4.24	2.98	1.76
	EV/EBITDA (x)	26.77	46.08	23.85	24.53	18.25	13.27	9.25
	EPS (AED)	0.03	0.01	0.03	0.03	0.04	0.07	0.10
	Book Value Per Share (AED)	0.91	0.92	0.95	0.97	1.02	1.08	1.18
	Market Price (AED) *	0.75	1.01	0.68	0.82	0.82	0.82	0.82
	Market Capitalization (AED mn)	1,312.5	1,767.5	1,190.0	1,435.0	1,435.0	1,435.0	1,435.0
	P/E Ratio (x)	24.7	87.0	25.3	31.4	18.8	12.6	8.4
	P/BV Ratio (x)	0.8	1.1	0.7	0.8	0.8	0.8	0.7

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing price on ADX on October 06, 2013*

RAK Cement Company (RAKCC)

SELL
Target Price
AED0.84

Market Data

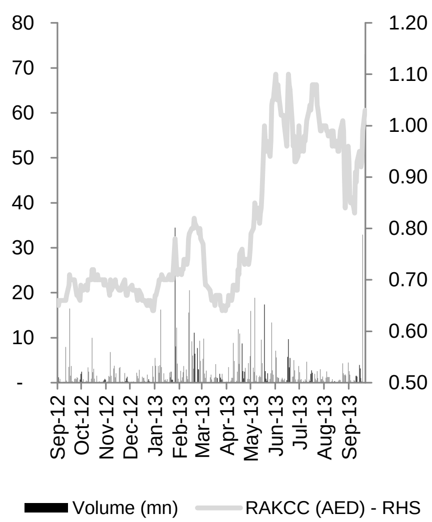
Bloomberg Code:	RAKCC UH
Reuters Code:	RAKCC.AD
CMP (6th October 2013):	0.98
O/S (mn)	508.2
Market Cap (AED mn):	498.0
Market Cap (USD mn):	135.6
P/E 2014e (x):	N/M
P/BV 2014e (x):	0.7

Price Performance 1-Yr

High (AED):	1.2
Low (AED):	0.6
Average Volume ('000):	3,570

	1m	3m	12m
Absolute (%)	14.0	0.0	44.9
Relative (%)	9.3	6.1	46.0

Price Volume Performance



Source: Reuters

Hettish Karmani
Manager Research
hkumar@global.com.kw
Tel: (965) 2295-1281

- **Unexpected shutdown drops the income by a hefty 39% in 2Q13**
- **Increase in cement grinding capacity by 150tph on the cards**
- **Company plans to set up ready mix concrete plant**
- **TP upgraded to OMR0.84/share; SELL maintained; 12M price up 44.9%**

UAE equity market tremendous performance was mirrored completely by RAKCC stock price but the same was not true on the financial front. During 1H13 company remained in losses and we expect the losses to continue in 2013 and 2014. Absence of expansion plans and lesser contribution from associates also limits our view on the company.

Disappointing 2Q13 results; 3Q13 expected to remain in losses

RAKCC reported disappointing set of results for 2Q13, in which the company reported a small profit of AED0.58mn compared to AED5.46mn in the same quarter last year. However the profit fared better than the previous quarter of 2013, in which the company reported a loss of AED2.2mn. On a YoY basis the margins were cut to half from 12.1% to 6.0% while were significantly better than previous quarter margins of 1.3%. Company has shifted its paradigm on the export and roughly 25% of the revenue was contributed by it. Unlike sale of cement, clinker sales continued to increase as many grinding mills in the neighboring countries are importing the raw materials and grinding it off for sale in their local market. Clinker sales during 1H13 jumped by 15.6% to AED48.1mn compared to AED41.6mn earlier.

Revenue to increase at a CAGR of 5.4% during 2012-16

RAKCC revenue is expected to an increase at a CAGR of 5.4% during 2012-16, owing to expectation of better outlook of UAE cement market post the recovery of the real and construction segment. Apart from that the better visibility is also because of opening up of various exports avenues regionally. The decent 5.4% growth also falls in because of expectation of improvement in prices while on the volume front the growth will be limited because of absence of any expansion plans. On the margins front we expect the situation to improve going forward and to remain in the range of 3-7% during 2013-16 compared to -5.0-3.0% reported during 2010-12.

Profit from associate and investment income to support the bottom-line

Apart from company's investment in REEM Ready Mix, RAKCC other investment total AED21.6mn, of which majority chunk is invested in a financing company amounting to AED9.7mn. Second highest investment is in the aviation sector which accounts for AED7.9mn. Rest of the amounting which is around AED3.9mn is being put in Petroleum Company. Majority of the investments are unquoted and over the year their values have gone down as well. However with tremendous growth in equity markets of UAE in 2013 we expect the return from investment in unquoted instruments also to improve and support the bottom line of the company. On the other hand its return from investment in associate was negative in last five quarters before 2Q13. RAKCC made a profit of AED273k in 2Q13 compared to a loss of AED533k in 1Q13. Going forward, we expect Reem Ready Mix to remain in the positive zone and contribute positively to the bottom-line of the company during 2013-16.

Target price revised to AED0.84/share; SELL recommended

We have revised the fair value upward to AED0.84/share, which is 14.2% below the current market price. Hike in the fair value resulted largely because of better visibility of UAE market and the new export avenues identified regionally. Company's share price has increased heftily post the tremendous growth in equity markets of UAE. The same has been reflected in the price of RAKCC and we believe most of the positive are already factored in the stock price, reflected in its 44.9% appreciation over the last one year. Thus, we recommend a **SELL** rating for the stock.

Financial Statement

	(AED mn)	2010	2011e	2012	2013e	2014e	2015e	2016e
Profit & Loss Statement	Net Sales Revenue	227.4	191.5	218.9	248.6	253.6	260.8	270.4
	Cost of Sales	(223.2)	(201.8)	(213.2)	(239.9)	(242.2)	(245.1)	(251.5)
	Gross Profit	**4.2**	**(10.3)**	**5.8**	**8.7**	**11.4**	**15.6**	**18.9**
	General & Administrative Expense	(12.9)	(13.5)	(14.6)	(16.6)	(17.0)	(17.4)	(18.1)
	Operating Profit	**(8.8)**	**(23.8)**	**(8.9)**	**(7.9)**	**(5.5)**	**(1.8)**	**0.8**
	Other Income	(0.3)	1.5	3.3	3.9	4.3	4.7	5.2
	Share of Result of Associates	5.4	2.7	(1.4)	0.5	0.7	1.0	1.3
	Financial Charges	(0.2)	(0.3)	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)
	Profit Before Taxation	**(3.9)**	**(20.0)**	**(7.3)**	**(4.0)**	**(1.1)**	**3.4**	**6.9**
	Taxation	-	-	-	-	-	-	-
	Net Profit	**(3.9)**	**(20.0)**	**(7.3)**	**(4.0)**	**(1.1)**	**3.4**	**6.9**
Balance Sheet	Cash and Bank Balance	44.8	48.8	55.9	41.8	40.7	43.9	60.9
	Receivables and Prepayments	67.9	56.6	49.5	56.5	57.7	59.3	54.1
	Inventories	62.2	64.6	72.0	82.2	82.9	83.9	82.7
	Other Assets	19.8	27.2	33.4	34.0	34.7	35.4	36.1
	Investments	91.3	94.0	74.3	78.0	81.9	86.0	90.3
	Capital Spare Parts	-	-	-	-	-	-	-
	Gross Fixed Assets	761.8	790.2	792.5	812.5	832.5	852.5	872.5
	Less: Accumulated Depreciation	252.1	280.1	308.2	332.8	358.1	383.9	410.3
	Net Fixed Assets	509.7	510.1	484.2	479.6	474.4	468.6	462.1
	Total Assets	**795.6**	**801.1**	**769.2**	**772.1**	**772.3**	**777.1**	**786.2**
	Loans	-	-	4.4	4.1	3.9	3.7	3.5
	Payables	27.7	53.0	42.5	49.3	50.4	51.7	53.7
	Others	3.2	3.4	2.8	3.1	3.4	3.8	4.2
	Paid-up Capital	484.0	484.0	484.0	484.0	484.0	484.0	484.0
	Statutory Reserve	63.1	63.1	63.1	63.1	63.1	63.1	63.1
	Voluntary Reserve	62.2	62.2	62.2	62.2	62.2	62.2	62.2
	Retained Earnings	155.7	135.7	132.8	128.8	127.8	131.2	138.0
	Cumulative Change in Inv. in Shares	(0.3)	(0.3)	(22.5)	(22.5)	(22.5)	(22.5)	(22.5)
	Shareholders Equity	764.7	744.7	719.5	715.5	714.5	717.9	724.8
	Total Equity & Liability	**795.6**	**801.1**	**769.2**	**772.1**	**772.3**	**777.1**	**786.2**
Cash Flow	Cash Flow from Operating Activities	22.6	31.4	4.4	9.8	23.0	27.5	41.5
	Cash Flow from Investing Activities	(9.6)	(27.2)	(1.4)	(23.7)	(23.9)	(24.1)	(24.3)
	Cash Flow from Financing Activities	(59.9)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
	Net Cash at End	(46.9)	3.9	2.7	(14.1)	(1.1)	3.2	17.0
	Net Cash at End	**44.8**	**48.8**	**55.9**	**41.8**	**40.7**	**43.9**	**60.9**
Ratio Analysis	Current Ratio (x)	7.0	3.7	4.5	4.0	4.0	4.0	4.1
	Quick Ratio (x)	4.8	2.5	3.0	2.5	2.4	2.5	2.6
	Gross Profit Margin (%)	1.8%	-5.4%	2.6%	3.5%	4.5%	6.0%	7.0%
	Operating Profit Margin (%)	-3.8%	-12.4%	-4.1%	-3.2%	-2.2%	-0.7%	0.3%
	Net Profit Margin (%)	-1.7%	-10.4%	-3.3%	-1.6%	-0.4%	1.3%	2.5%
	Return on Average Assets (%)	-0.5%	-2.5%	-0.9%	-0.5%	-0.1%	0.4%	0.9%
	Return on Average Equity (%)	-0.5%	-2.6%	-1.0%	-0.6%	-0.1%	0.5%	1.0%
	Debt / Equity (x)	-	-	0.01	0.01	0.01	0.01	0.00
	Cash Return On Capital Invested (%)	2.5%	0.6%	2.4%	2.9%	3.5%	4.1%	4.7%
	EV/Ton (AED)	328.8	224.1	234.8	397.0	397.8	394.7	379.1
	Dividend Yield (%)	11.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	EV/Revenues (x)	1.59	1.29	1.18	1.76	1.73	1.67	1.54
	EV/EBITDA (x)	18.67	57.72	15.20	20.70	17.74	14.60	12.32
	EPS (AED)	(0.01)	(0.04)	(0.02)	(0.01)	(0.00)	0.01	0.01
	Book Value Per Share (AED)	1.58	1.54	1.49	1.48	1.48	1.48	1.50
	Market Price (AED) *	0.84	0.61	0.64	0.98	0.98	0.98	0.98
	Market Capitalization (AED mn)	406.6	295.2	309.8	474.3	474.3	474.3	474.3
	P/E Ratio (x)	N/M	N/M	N/M	N/M	N/M	139.8	69.0
	P/BV Ratio (x)	0.5	0.4	0.4	0.7	0.7	0.7	0.7

Source: Company Reports & Global Research

** Market price for 2013 and subsequent years as per closing price on ADX on October 06, 2013*

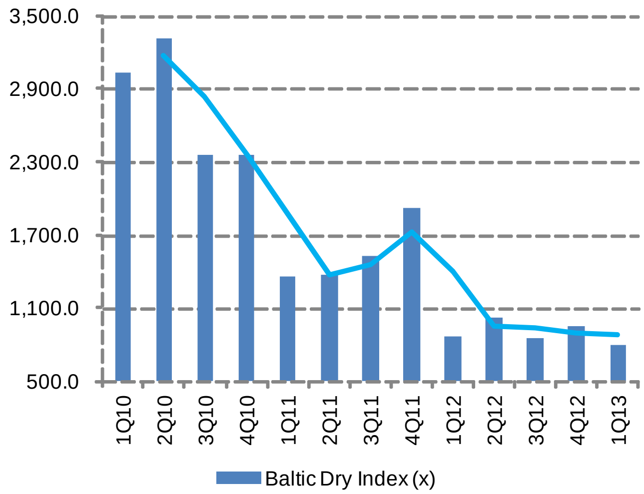
APPENDIX

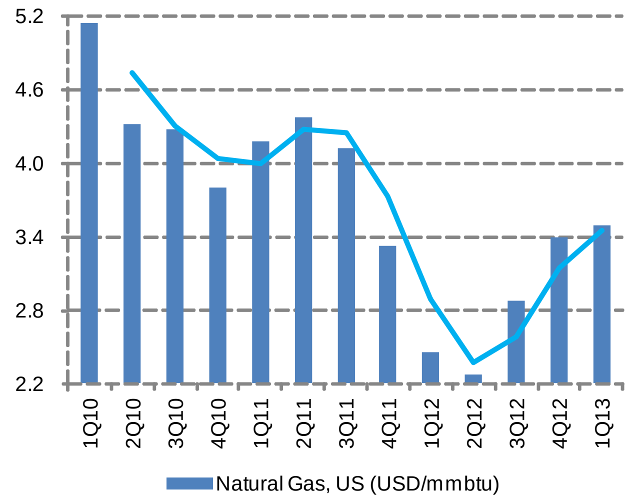
GCC Cement Sector Current & Future Capacity

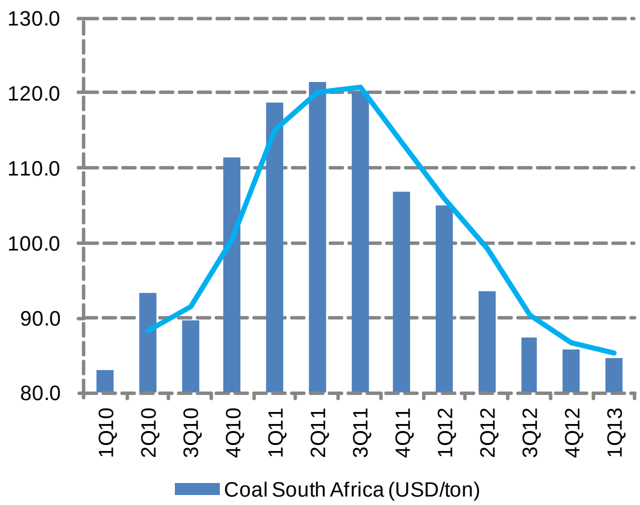
(mtpa)	2008	2009	2010	2011	2012e	2013e	2014e
UAE							
Listed Companies	19.8	19.8	19.8	19.8	24.3	24.3	24.3
Unlisted Companies	10.4	13.2	14.0	14.9	16.1	16.7	16.7
Total UAE	30.1	32.9	33.7	34.7	40.4	41.0	41.0
KSA							
Listed Companies	37.4	37.4	47.0	47.0	49.4	53.7	55.1
Unlisted Companies	2.5	3.5	7.1	8.1	8.1	8.1	8.1
Total KSA	39.9	40.9	54.1	55.1	57.5	61.8	63.2
Kuwait							
Listed Companies	2.5	2.5	2.5	2.5	5.4	5.4	5.4
Unlisted Companies	-	-	-	-	-	1.0	1.0
Total Kuwait	2.5	2.5	2.5	2.5	5.4	6.4	6.4
Oman							
Listed Companies	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Unlisted Companies	-	-	0.8	0.8	0.8	0.8	0.8
Total Oman	5.4	5.4	6.2	6.2	6.2	6.2	6.2
Qatar							
Listed Companies	2.8	5.9	5.9	5.9	5.9	5.9	5.9
Unlisted Companies	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Qatar	3.1	6.2	6.2	6.2	6.2	6.2	6.2
Bahrain							
Listed Companies	-	-	-	-	-	-	-
Unlisted Companies	0.5	0.5	1.5	1.5	1.5	1.5	1.5
Total Bahrain	0.5	0.5	1.5	1.5	1.5	1.5	1.5
GCC							
Listed Companies	**67.8**	**71.0**	**80.6**	**80.5**	**90.4**	**94.7**	**96.1**
Unlisted Companies	**13.7**	**17.5**	**23.6**	**25.6**	**26.7**	**28.3**	**28.3**
Total GCC	**81.5**	**88.4**	**104.2**	**106.1**	**117.1**	**123.0**	**124.4**
Listed Companies (% of Total)	**83.2%**	**80.3%**	**77.3%**	**75.9%**	**77.2%**	**77.0%**	**77.2%**
Un-Listed Companies (% of Total)	**16.8%**	**19.7%**	**22.7%**	**24.1%**	**22.8%**	**23.0%**	**22.8%**

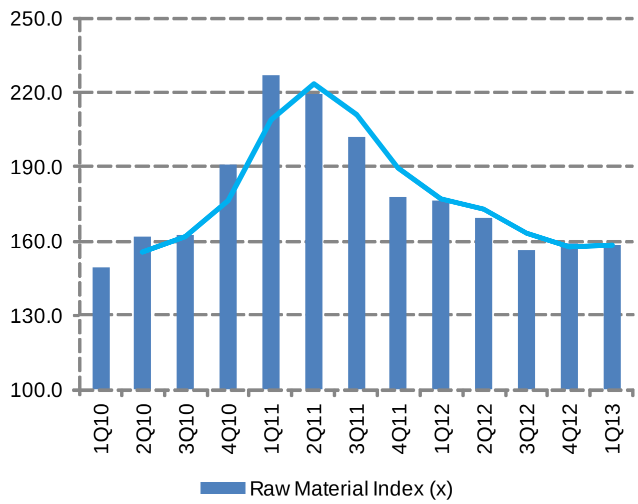
Source: Company Reports & Global Research

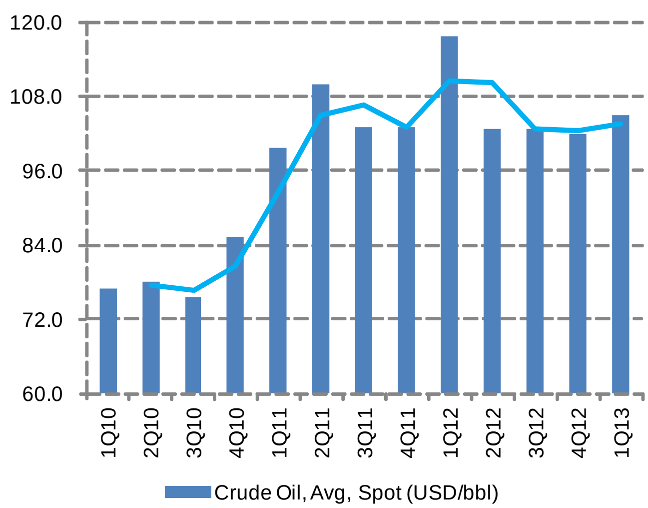
Factors Influencing Cement Prices

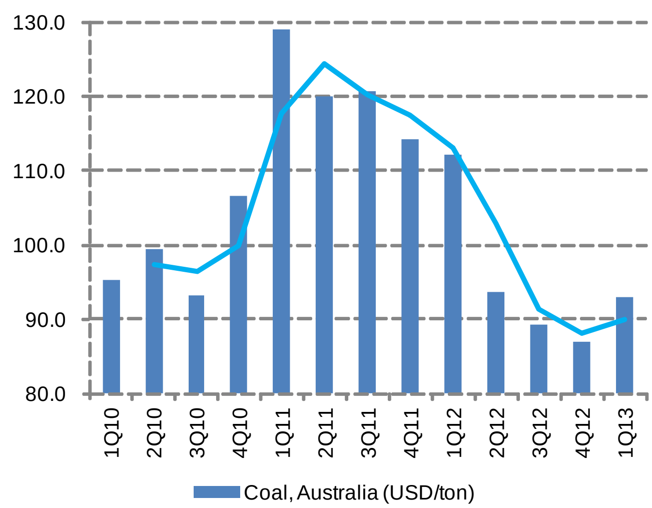












Source: World Bank Pink Sheets & Bloomberg

Country Ratios

(Unit / Country)	1Q11	1H11	9M11	2011	1Q12	1H12	9M12	2012	1Q13
Gross Margins (%)									
Saudi Arabia	55.0%	53.3%	53.3%	53.1%	55.5%	54.5%	53.5%	53.5%	57.0%
Oman	40.7%	38.2%	36.5%	35.9%	35.2%	34.3%	33.8%	34.0%	45.7%
UAE	7.8%	7.1%	4.8%	4.7%	10.5%	11.8%	11.4%	10.2%	9.3%
Kuwait	33.0%	27.1%	26.2%	25.1%	22.7%	21.7%	21.2%	20.2%	21.7%
Qatar	40.9%	39.4%	42.9%	44.4%	42.5%	41.7%	42.9%	44.6%	49.1%
Weighted Average of GCC	**40.5%**	**39.6%**	**40.2%**	**40.0%**	**43.7%**	**43.1%**	**42.1%**	**39.9%**	**43.8%**
Non-Core Income as % of PAT									
Saudi Arabia	2.9%	2.5%	2.3%	2.4%	2.0%	2.6%	2.9%	2.8%	1.7%
Oman	7.6%	1.8%	0.0%	3.6%	7.6%	6.9%	5.2%	6.1%	3.2%
UAE	163.6%	123.6%	387.0%	419.3%	89.7%	54.4%	63.3%	89.0%	110.8%
Kuwait	-72.3%	-2.2%	-3.3%	2.0%	17.0%	13.6%	15.2%	15.5%	21.1%
Qatar	15.3%	17.5%	14.5%	17.8%	17.2%	12.3%	10.3%	8.2%	12.5%
Weighted Average of GCC	**4.0%**	**6.5%**	**7.3%**	**7.9%**	**7.4%**	**6.5%**	**6.8%**	**7.4%**	**8.7%**
ROE (%)									
Saudi Arabia	5.9%	12.0%	16.6%	21.1%	7.3%	14.0%	18.7%	23.4%	7.6%
Oman	3.7%	6.2%	8.7%	11.1%	5.0%	9.1%	12.1%	15.3%	6.1%
UAE	0.2%	0.7%	0.4%	-0.4%	0.8%	2.0%	2.6%	2.7%	1.0%
Kuwait	2.0%	4.8%	6.1%	7.9%	3.3%	6.4%	7.9%	9.8%	3.5%
Qatar	3.4%	6.2%	9.0%	12.2%	3.8%	7.0%	9.8%	13.0%	4.1%
Weighted Average of GCC	**3.6%**	**7.5%**	**10.7%**	**13.7%**	**5.0%**	**9.7%**	**13.0%**	**15.9%**	**5.3%**
ROA (%)									
Saudi Arabia	4.3%	8.7%	12.5%	16.2%	5.4%	10.5%	14.5%	18.5%	5.8%
Oman	2.3%	4.1%	5.9%	7.6%	3.4%	6.3%	8.6%	11.1%	4.3%
UAE	0.2%	0.5%	0.3%	-0.3%	0.6%	1.4%	1.9%	1.9%	0.7%
Kuwait	1.3%	3.2%	4.0%	5.2%	2.1%	3.9%	4.8%	5.9%	2.1%
Qatar	2.2%	4.6%	6.7%	9.1%	2.7%	5.1%	7.3%	9.6%	2.9%
Weighted Average of GCC	**2.6%**	**5.5%**	**8.0%**	**10.4%**	**3.7%**	**7.1%**	**9.8%**	**11.9%**	**3.8%**
Debt as % of Assets									
Saudi Arabia	15.1%	12.8%	16.7%	15.2%	15.2%	14.1%	13.9%	12.3%	12.3%
Oman	23.5%	23.8%	22.6%	21.0%	21.7%	21.6%	20.6%	19.5%	20.4%
UAE	14.4%	14.5%	13.4%	15.5%	15.2%	16.1%	15.5%	18.1%	18.4%
Kuwait	25.6%	26.1%	26.3%	26.7%	24.6%	28.0%	28.8%	29.7%	30.8%
Qatar	29.1%	21.0%	20.9%	19.7%	20.3%	20.2%	19.2%	18.5%	18.2%
Weighted Average of GCC	**18.0%**	**15.9%**	**16.7%**	**16.2%**	**16.2%**	**15.8%**	**15.4%**	**13.8%**	**13.8%**
Liabilities as % of Assets									
Saudi Arabia	27.1%	27.4%	24.3%	23.1%	26.1%	25.2%	22.1%	20.8%	23.8%
Oman	37.7%	34.6%	32.9%	31.0%	32.8%	32.9%	28.8%	27.7%	28.6%
UAE	23.1%	23.7%	24.8%	25.2%	25.9%	27.2%	26.9%	28.9%	30.5%
Kuwait	33.1%	33.9%	34.0%	34.8%	35.6%	39.3%	38.7%	39.2%	40.2%
Qatar	34.6%	26.4%	25.9%	25.1%	27.4%	26.4%	25.4%	26.0%	27.5%
Weighted Average of GCC	**28.2%**	**27.4%**	**25.2%**	**24.5%**	**26.6%**	**26.4%**	**24.3%**	**25.4%**	**27.7%**
Equity as % of Assets									
Saudi Arabia	72.9%	72.6%	75.7%	76.9%	73.9%	74.8%	77.9%	79.2%	76.2%
Oman	62.3%	65.4%	67.1%	69.0%	67.2%	69.9%	71.2%	72.3%	71.4%
UAE	76.9%	76.3%	75.2%	74.8%	74.1%	72.8%	73.1%	71.1%	69.5%
Kuwait	66.9%	66.1%	66.0%	65.2%	64.4%	60.7%	61.3%	60.8%	59.8%
Qatar	65.4%	73.6%	74.1%	74.9%	72.6%	73.6%	74.6%	74.0%	72.5%
Weighted Average of GCC	**71.8%**	**72.6%**	**74.8%**	**75.5%**	**73.4%**	**73.8%**	**75.7%**	**74.6%**	**72.3%**

Source: Company Reports & Global Research

Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research have been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Arabian Cement Company	BUY	ARCCO AB	3010.SE	SAR73.00	1,10
Eastern Province Cement Company	HOLD	EACCO AB	3080.SE	SAR57.75	1,10
Qassim Cement Company	HOLD	QACCO AB	3040.SE	SAR84.00	1,10
Saudi Cement Company	HOLD	SACCO AB	3030.SE	SAR107.75	1,10
Yamama Cement Company	BUY	YACCO AB	3020.SE	SAR53.25	1,10
Yanbu Cement Company	HOLD	YNCCO AB	3060.SE	SAR74.25	1,10
Oman Cement Company	HOLD	OCOI OM	OCCO.OM	OMR0.784	1,10
Raysut Cement Company	SELL	RCCI OM	RAYC.OM	OMR1.995	1,10
Qatar National Cement Company	BUY	QNCD QD	QANC.QA	QAR102.0	1,10
Arkan Building Materials Company	BUY	ARKAN UH	ARKN.AD	AED0.82	1,10
RAK Cement Company	SELL	RAKCC UH	RAKCC.AD	AED0.98	1,10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
2. The company being researched holds more than 5% stake in Global Investment House.
3. Global Investment House makes a market in securities issued by this company.
4. Global Investment House acts as a corporate broker or sponsor to this company.
5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.
6. An employee of Global Investment House serves on the board of directors of this company.
7. Within the past year, Global Investment House has managed or co-managed a public offering for this company, for which it received fees.
8. Global Investment House has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three month.
10. Please see special footnote below for other relevant disclosures.

Global Research: Equity Ratings Definitions

Global Rating	Definition
STRONG BUY	Fair value of the stock is >20% from the current market price
BUY	Fair value of the stock is between +10% and +20% from the current market price
HOLD	Fair value of the stock is between +10% and -10% from the current market price
SELL	Fair value of the stock is < -10% from the current market price

Disclaimer

Global Investment House
Website: www.globalinv.net
Global Tower
Sharq, Al-Shuhada Str.
Tel. + (965) 2 295 1000
Fax. + (965) 2 295 1005
P.O. Box: 28807 Safat, 13149 Kuwait

Research
Faisal Hasan, CFA
(965) 2295-1270
fhasan@global.com.kw

Wealth Management
Rasha Al-Qenaei
(965) 2295-1380
alqenaei@global.com.kw

Brokerage
Fouad Fahmi Darwish
(965) 2295-1700
fdarwish@global.com.kw

Global Kuwait
Tel: (965) 2 295 1000
Fax: (965) 2 295 1005
P.O.Box 28807 Safat, 13149 Kuwait

Global Bahrain
Tel: (973) 17 210011
Fax: (973) 17 210222
P.O.Box 855 Manama, Bahrain

Global UAE
Tel: (971) 4 4477066
Fax: (971) 4 4477067
P.O.Box 121227 Dubai, UAE

Global Egypt
Tel: (202) 24189705/06
Fax: (202) 22905972
24 Cleopatra St., Heliopolis, Cairo

Global Saudi Arabia
Tel: (966) 1 2994100
Fax: (966) 1 2994199
P.O. Box 66930 Riyadh 11586, Kingdom of Saudi Arabia

Global Jordan
Tel: (962) 6 5005060
Fax: (962) 6 5005066
P.O.Box 3268 Amman 11180, Jordan

Global Wealth Manager
E-mail: contactus@global.com.kw
Tel: (965) 1-804-242