NCB CAPITAL

Cement Monthly

OCTOBER 2010

KSA Cement Sector

Ramadan timing supports sales

With Ramadan finishing 10 days earlier in September, this had a positive impact on Sep-10 data with domestic cement sales up 15.5% YoY, the highest growth in the past 6 months. But with clinker production also high, inventory as a % of monthly sales rose to 389%, the highest in a year.

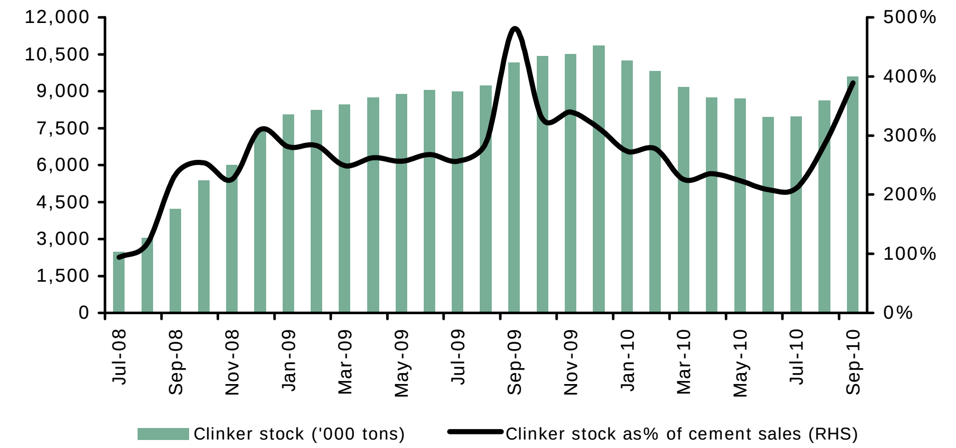
Sales: Domestic cement sales grew by 15.5% YoY to 2.35 mn tons. Total cement and clinker sales for Sep-10 stood at 2.61 mn tons, up 21.5% YoY.

Exports: Cement exports stood at 118,000 tons in Sep-10, up 43.9% YoY but down 11.9% MoM from 134,000 tons in Aug-10.

Production: In Sep-10 cement production increased 15.1% YoY to 2.52 mn tons. Additionally, clinker production increased by 13.1% YoY to 3.40 mn tons.

Market share: Private players' domestic cement market share was down 0.5% MoM to 21.8%, but up 0.5% MoM to 24.6% when including clinker and exports.

Chart of the month: Inventory at highest levels since 2009



Source: Yamama Cement, NCBC Research

Exhibit 1: Saudi cement companies – Valuation matrix

Company	Rating	MCap $mn	Stock perf (%) Sep	Stock perf (%) YTD	P/E (x) '10	EV/EBITDA '10	P/BV (x) '10	EV/ton 10E $	DY (%) '10	ROE (%) TTM
Southern Cem (SPCC)	UW	2,402	0.8	(4.1)	13.1	10.2	3.6	368.6	7.8	28.0
Yamama Cem (YSCC)	OW	1,829	1.0	7.1	10.3	7.9	2.2	284.7	6.9	21.0
Saudi Cem (SCC)	N	1,798	(1.1)	14.8	10.2	9.2	2.2	249.4	5.2	20.5
Qassim Cem (QCC)	N	1,502	(2.2)	(10.1)	11.1	8.8	3.1	343.3	8.0	27.9
Yanbu Cem (YCC)	N	1,138	(0.7)	(16.3)	10.4	7.6	1.8	236.7	7.4	16.6
Eastern Cem (EPCC)	N	994	0.7	(13.1)	10.8	8.4	1.9	271.3	6.9	16.7
Arabian Cem* (ACC)	NC	780	1.1	(16.1)	8.3	9.3	1.2	205.9	5.5	13.0
Al Jouf Cem (TCC)	NC	434	N/A	25.0	N/A	N/A	N/A	N/A	N/A	N/A
Tabuk Cem* (TCC)	NC	436	0.8	(6.2)	12.8	6.2	1.4	210.0	6.9	11.2

Source: NCBC Research, All prices as of October 20, 2010, * On a TTM basis
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

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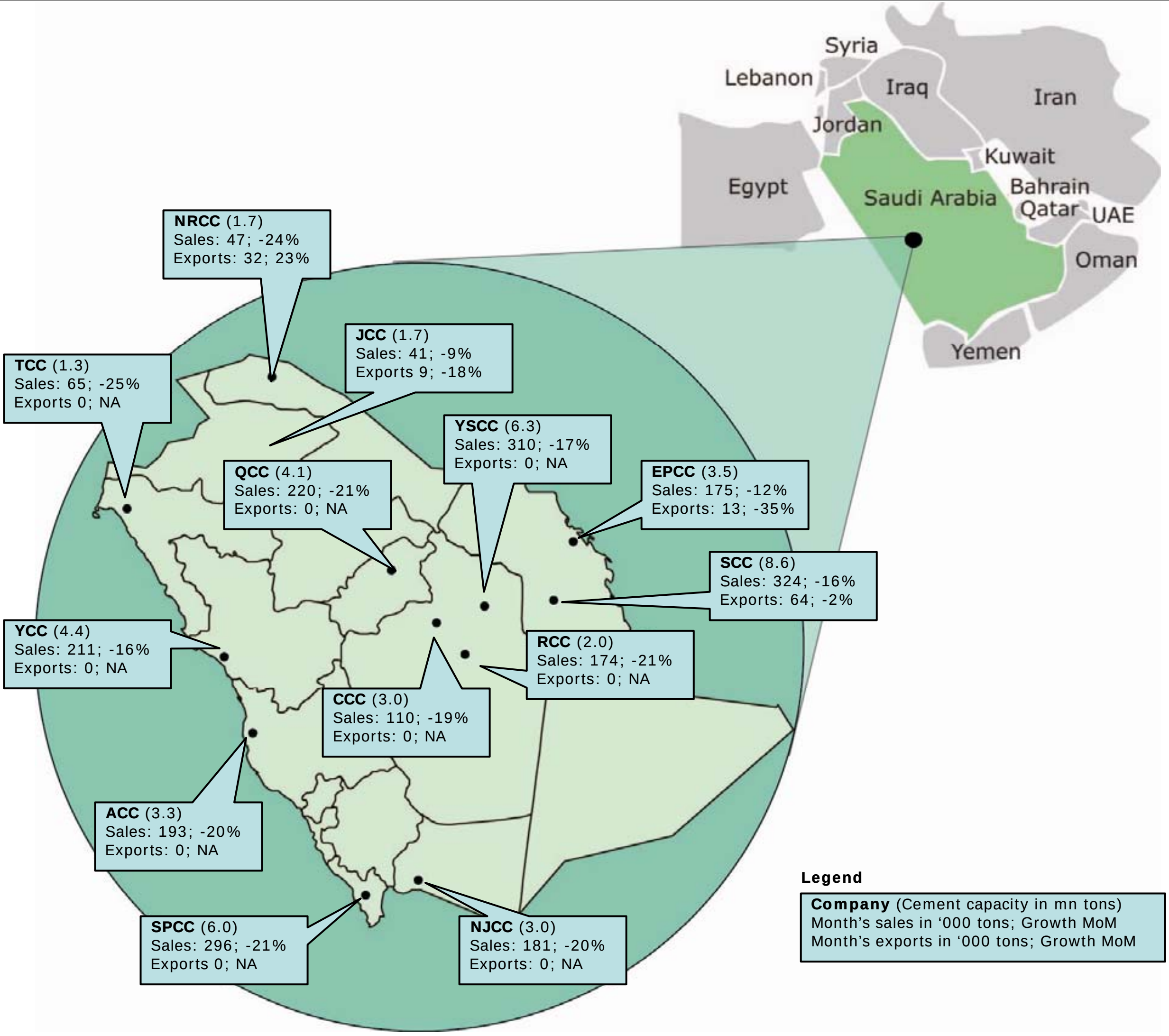
Industry snapshot

The Kingdom of Saudi Arabia (KSA) has 13 cement companies with an estimated annual cement production capacity of 49 mn tons.

In Sep-10, total cement sales in KSA stood at 2.35 mn tons versus 2.03 mn tons in Sep-09 and 2.88 mn tons in Aug-10. Domestic Clinker sales in Sep-10 stood at 48,000 tons compared to 45,000 tons in Aug-10 and 3,000 tons in Sep-09.

In Sep-10, cement and clinker exports stood at 118,000 tons and 99,000 tons respectively. Four companies exported cement during the month-Saudi Cement, Eastern Province Cement, Northern Region Cement and Al Jouf Cement.

Exhibit 2: September-2010 at a glance



Source: Yamama Cement, NCBC Research. NB: Data refers to domestic cement sales and cement exports only
CCC – City Cement, NJCC – Najran Cement, RCC – Riyadh Cement, NRCC – Northern Region Cement

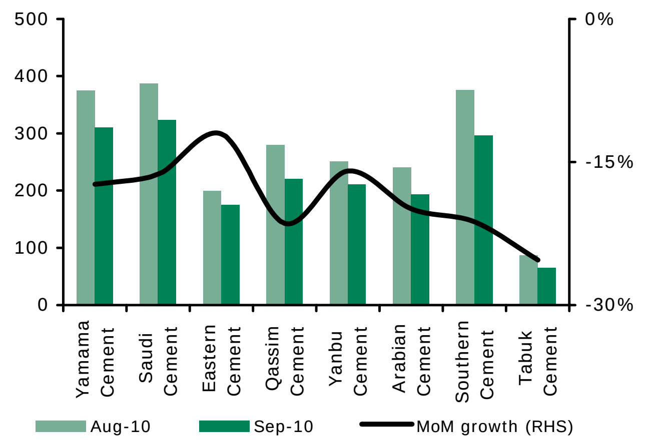
Domestic sales

In Sep-10 domestic sales of cement was up 15.5% YoY to 2.35 mn tons, the highest growth since March-10. Both private and listed companies supported the sales growth; while the four private companies saw a 41% YoY increase in domestic cement sales, the listed firms reported a 10% growth in sales.

On a MoM basis, total domestic cement and clinker sales declined 18% compared to the 2.93 mn tons in Aug-10. Arabian Cement reported the biggest YoY increase of 34%; Eastern Cement reported the biggest decline YoY at 14%.

Exhibit 3: Domestic cement sales– MoM

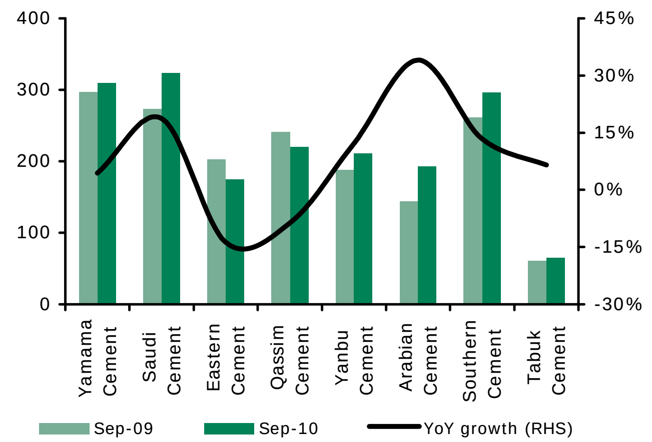
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 4: Domestic cement sales– YoY

('000 tons)



Source: Yamama Cement, NCBC Research

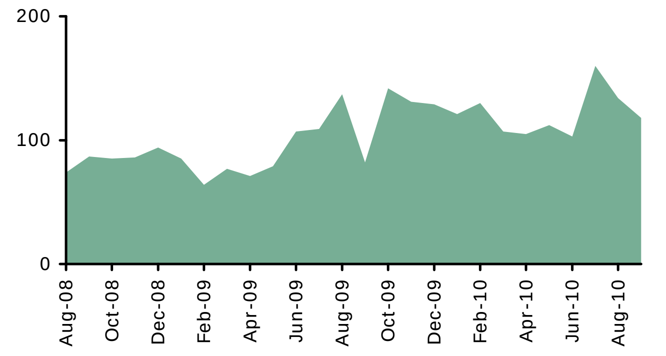
(Please refer to the Appendix on Page 9 for company-specific charts.)

Exports

The Kingdom's cement exports decreased to 118,000 tons in Sep-10 compared to 134,000 tons in Aug-10 but up from 82,000 tons in Sep-09. However, clinker exports went up to 99,000 tons in Sep-10 from 93,000 tons in Aug-10. Clinker exports in Sep-09 came to 33,000 tons.

Exhibit 5: KSA's total cement exports

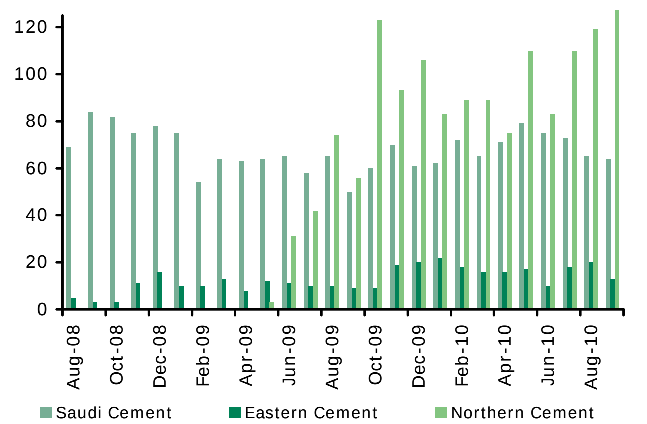
Units (mn 000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 6: Exports by SCC, EPCC and NRCC

('000 tons)



Source: Yamama Cement, NCBC Research

In Sep-10, Saudi Cement, Eastern Province Cement, Northern Region Cement and Al Jouf Cement exported cement. Saudi Cement's exports remained flat at 64,000 tons in Sep-10. Exports increased at Northern whilst falling at Al Jouf and Eastern. Al Jouf Cement exports decreased to 9,000 tons in Sep-10 against 11,000 in Aug-10. Northern Region Cement continues to remain the only exporter of clinker in KSA and exported 99,000 tons during the month compared to 93,000 tons in Aug-10. We believe most of the exports by Northern Cement is to Jordan. Given the imminent start of a 25 dinar per ton import tax into Jordan, these clinker exports by Northern may be limited going forward.

Production

Saudi Arabia produced 2.52 mn tons of cement in Sep-10, up 15.1% YoY but down 17.5% MoM.

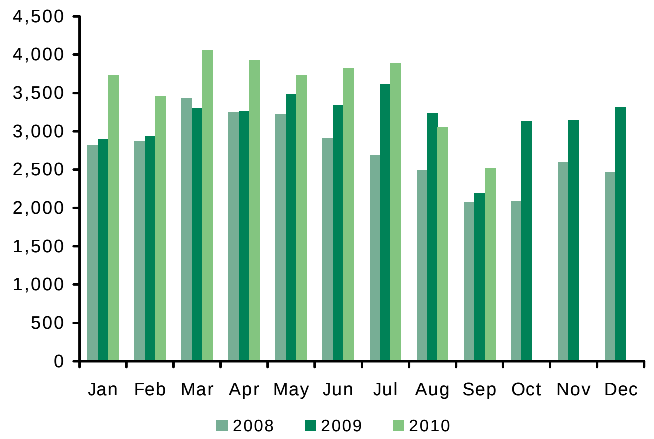
Except Al Jouf, all of the listed companies reported a decline in cement production on a MoM basis. On a YoY basis, Arabian Cement, among the listed firms, reported the highest increase in production at 36.3%, while Qassim Cement fell by 11%.

Clinker production increased 13.1% on a YoY basis but down 5.5% on MoM basis in Sep-10. Qassim Cement had the worst performance in terms of clinker production, down 25% YoY.

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

Exhibit 7: Cement production

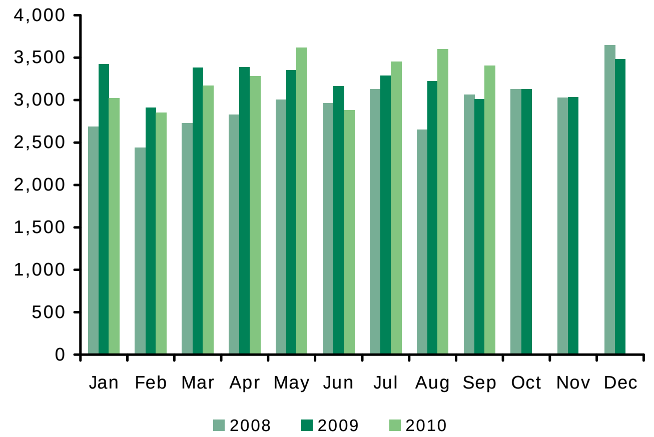
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 8: Clinker production

('000 tons)



Source: Yamama Cement, NCBC Research

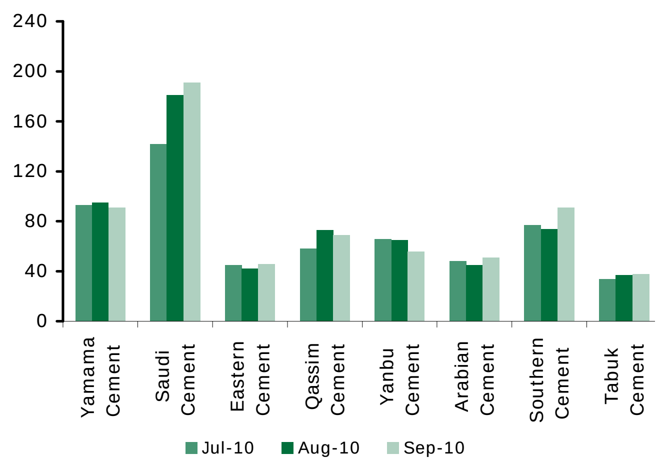
Inventory / stock

Clinker stock at the manufacturer level increased by 11.2% MoM to 9.60 mn tons, as a result of poor cement sales on MoM basis. On a YoY basis, clinker stock decreased by 5.7%.

Cement stock was down by 0.5% on a YoY basis due to the combination of higher production and increased sales YoY, but was up 7.2% on a MoM basis.

Exhibit 9: Cement stock

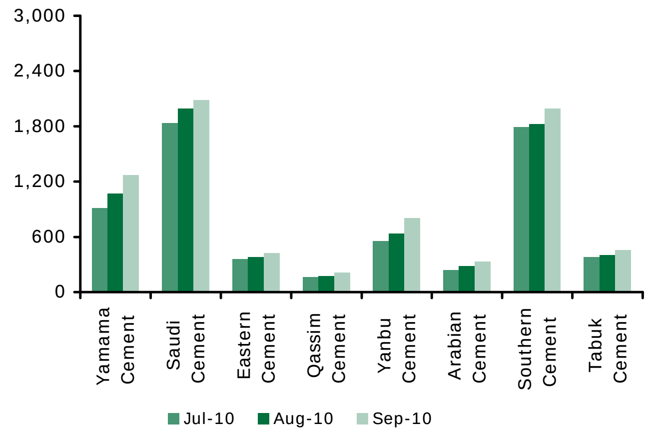
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 10: Clinker stock

('000 tons)

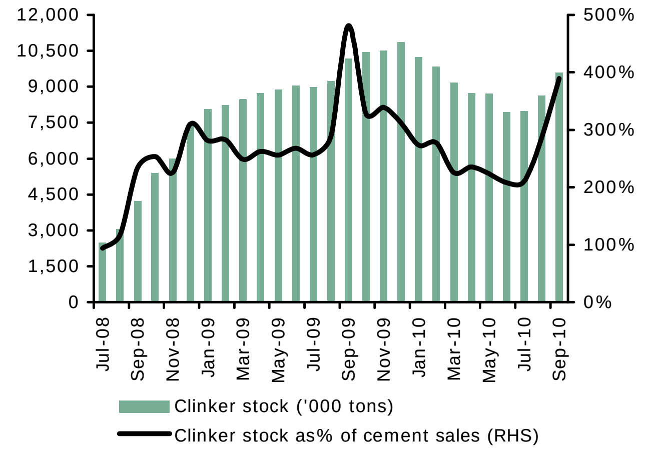


Source: Yamama Cement, NCBC Research

Clinker stock as a percentage of sales increased to 389% compared to 286% in Aug-10. Company wise, Qassim Cement continues to hold the lowest clinker stock at 96% as a percentage of Sep-10 sales. On the other hand, among the listed companies, Tabuk Cement overtook Southern Cement as the holder of the highest clinker stock percentage at 705% of Sep-10 sales compared to 404% in Aug-10.

Exhibit 11: Clinker stock

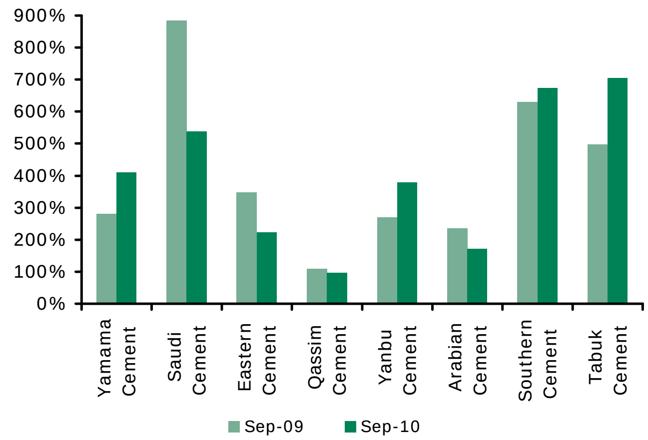
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 12: Clinker stock

(as % of sales)



Source: Yamama Cement, NCBC Research

Market share

In Sep-10, six companies lost domestic cement market share to seven companies. Eastern Cement was the biggest listed gainer of the month increasing its share by 0.56% MoM to 7.46%. On the other hand, Southern Cement was the biggest loser of the month with market share falling by 0.43% MoM to 12.61%. One of the main reasons behind the falling shares of most companies is due to the growth of Al Jouf Cement firm which increased its domestic share by 0.19% MoM in Sep-10, as well as the strong gains by Eastern and Saudi Cement (up 0.39% MoM)

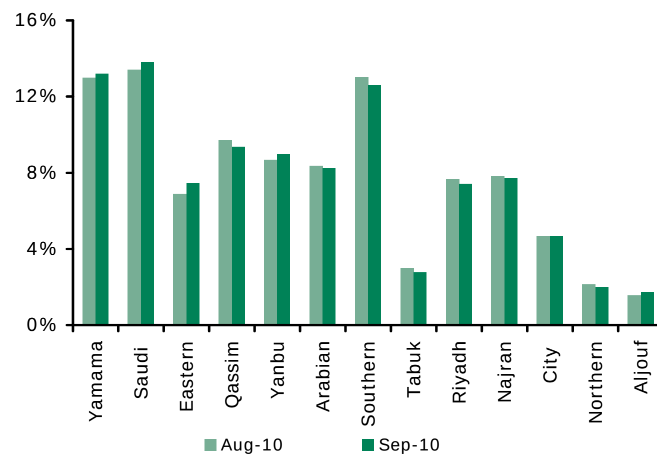
Gainers: Eastern Cement (0.56%), Saudi Cement (0.39%), Yanbu Cement (0.29%), Al Jouf Cement (0.19%) and City Cement (0.01%), Yamama Cement (0.21%)

Decliners: Southern Cement (-0.43%), Qassim Cement (-0.34%), Tabuk Cement (-0.25%), Riyadh Cement (-0.25%), Northern Cement (-0.15%), Arabian Cement (-0.13%) and Najran Cement (-0.09%)

The private player's market share for domestic cement sales fell 0.5% MoM to 21.8% in Sep-10 and up from 17.9% in Sep-09. If we include exports and sales of clinker, private player market share is at an all time high of 24.6%.

Exhibit 13: Domestic market share – cement sales

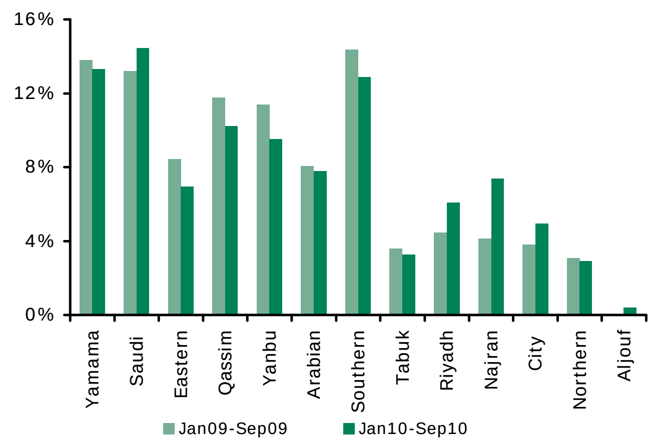
MoM



Source: Yamama Cement, NCBC Research

Exhibit 14: Domestic market share – cement sales

YTD



Source: Yamama Cement, NCBC Research

Valuation

As of 20 October 2010, the cement sector index was down 2.5% YTD, versus the TASI which is up 1.8% during the same period. Exhibit 15 shows the valuation multiples of all listed cement companies in the Kingdom.

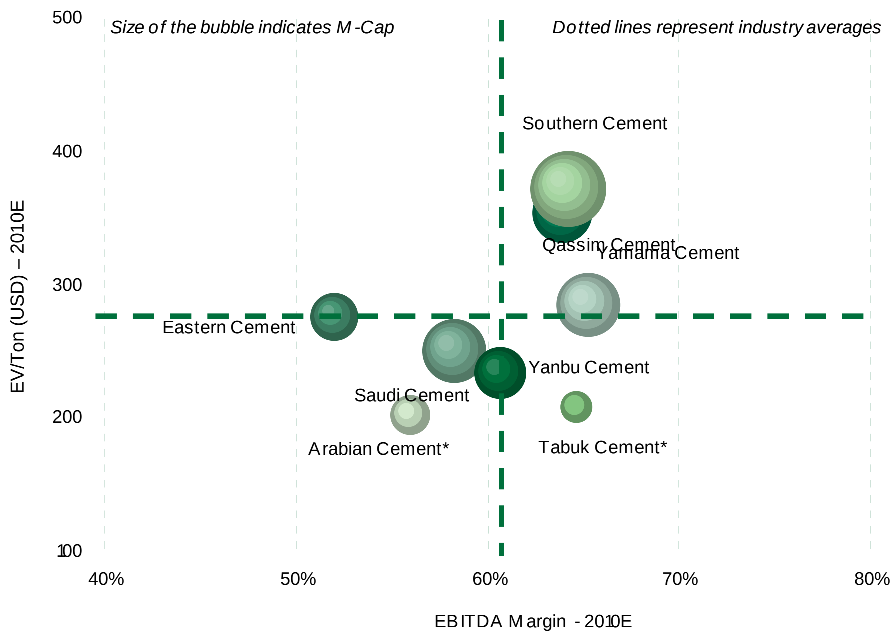
Exhibit 15: Saudi cement companies – Valuation matrix

Company	Reuters	Rating	M-Cap $ mn	Stock perfor. (%) Sep-10	YTD	P/E (x) '10	EV/ EBITDA '10	P/BV (x) Latest	EV/ton 10E $	DY (%) '10	ROE (%) '10	ROA (%) '10
Southern Cement	3050.SE	Underweight	2,402	0.8	(4.1)	13.1	10.2	3.6	368.6	7.8	28.0	24.5
Yamama Cement	3020.SE	Overweight	1,829	1.0	7.1	10.3	7.9	2.2	284.7	6.9	21.0	17.8
Saudi Cement	3030.SE	Neutral	1,798	(1.1)	14.8	10.2	9.2	2.2	249.4	5.2	20.5	13.2
Qassim Cement	3040.SE	Neutral	1,502	(2.2)	(10.1)	11.1	8.8	3.1	343.3	8.0	27.9	23.0
Yanbu Cement	3060.SE	Neutral	1,138	(0.7)	(16.3)	10.4	7.6	1.8	236.7	7.4	16.6	14.2
Eastern Cement	3080.SE	Neutral	994	0.7	(13.1)	10.8	8.4	1.9	271.3	6.9	16.7	14.8
Arabian Cement*	3010.SE	NC	780	1.1	(16.1)	8.3	9.3	1.2	205.9	5.5	13.0	7.7
Al Jouf Cem (TCC)	3091.SE	NC	434	N/A	25.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tabuk Cement*	3090.SE	NC	436	0.8	(6.2)	12.8	6.2	1.4	210.0	6.9	11.2	9.5

Source: NCBC Research, All prices as of October 20, 2010, * On a TTM basis

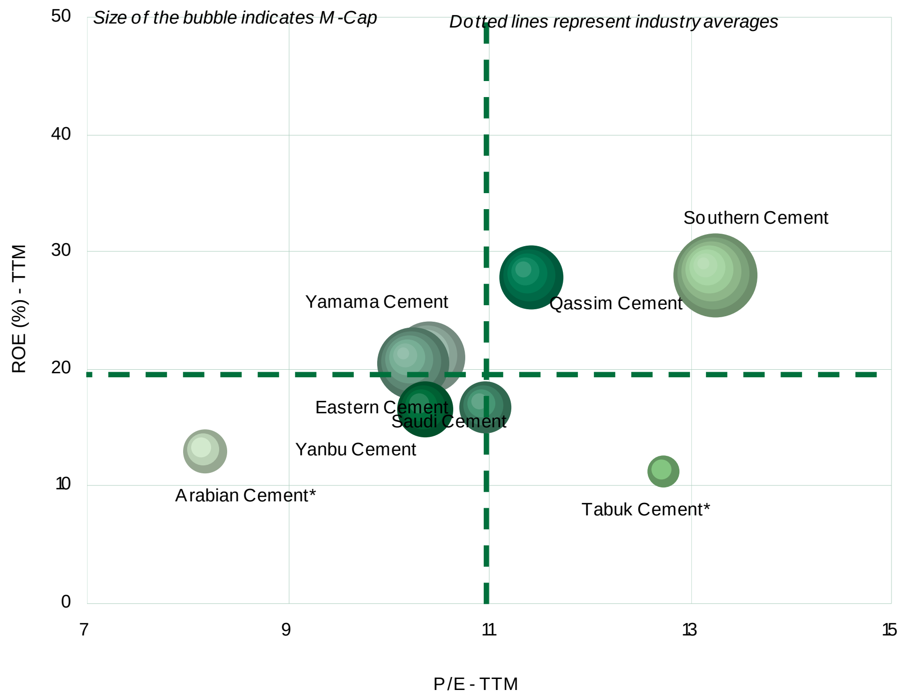
Exhibits 16 and 17 capture the current valuation of Saudi cement companies.

Exhibit 16: EV per ton vs. EBITDA margin



Source: NCBC Research, * is on TTM basis

Exhibit 17: P/E vs. ROE



Source: NCBC Research, * is on TTM basis

Appendices

Appendix 1- Cement Production and Sales

Exhibit 18: Cement production and KSA sales ('000 tons)

Description	Sep-10	Sep-09	% chg YoY	Aug -10	% chg MoM	(Jan-Sep) 2010	(Jan-Sep) 2009	% chg YoY
Production								
Cement	2,519	2,189	15.1	3,053	(17.5)	32,184	28,249	13.9
Clinker	3,404	3,010	13.1	3,602	(5.5)	29,286	29,136	0.5
Domestic Sales								
Cement	2,347	2,032	15.5	2,884	(18.6)	30,959	27,359	13.2
Clinker	48	3	1,500.0	45	6.7	600	262	129.0
Company-wise Production								
Yamama Cement	306	330	(7.3)	377	(18.8)	4,153	3,802	9.2
Saudi Cement	398	354	12.4	491	(18.9)	5,160	4,239	21.7
Eastern Cement	192	207	(7.2)	216	(11.1)	2,307	2,399	(3.8)
Qassim Cement	216	242	(10.7)	295	(26.8)	3,188	3,200	(0.4)
Yanbu Cement	202	191	5.8	250	(19.2)	2,929	3,134	(6.5)
Arabian Cement	199	146	36.3	238	(16.4)	2,401	2,218	8.3
Southern Cement	313	265	18.1	373	(16.1)	3,967	3,913	1.4
Tabuk Cement	66	59	11.9	102	(35.3)	1,039	987	5.3
Al Jouf Cement	58	N/A	N/A	49	N/A	180	N/A	N/A
Others	569	395	44.1	662	(14.0)	6,860	4,357	57.4
Company-wise Domestic Sales								
Yamama Cement	310	297	4.4	375	(17.3)	4,119	3,778	9.0
Saudi Cement	324	273	18.7	387	(16.3)	4,473	3,605	24.1
Eastern Cement	175	203	(13.8)	199	(12.1)	2,148	2,307	(6.9)
Qassim Cement	220	241	(8.7)	280	(21.4)	3,168	3,215	(1.5)
Yanbu Cement	211	188	12.2	251	(15.9)	2,944	3,116	(5.5)
Arabian Cement	193	144	34.0	241	(19.9)	2,408	2,205	9.2
Southern Cement	296	261	13.4	376	(21.3)	3,981	3,929	1.3
Tabuk Cement	65	61	6.6	87	(25.3)	1,012	981	3.2
Al Jouf Cement	41	N/A	N/A	45	N/A	117	N/A	N/A
Others	512	364	40.7	643	(20.4)	6,589	4,223	56.0

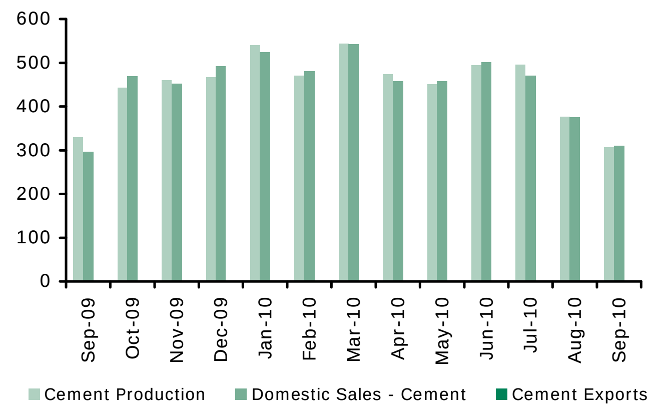
Source: Yamama Cement, NCBC Research

Appendix 2 - Chart gallery – Company data

YAMAMA CEMENT (YSCC)

Exhibit 19: Production and sales

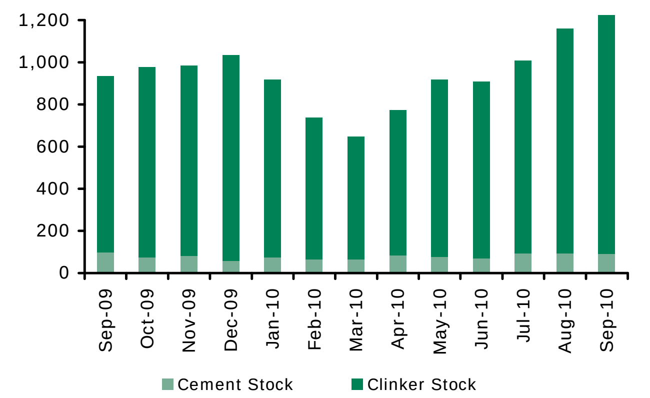
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 20: Stock - Cement and clinker

('000 tons)

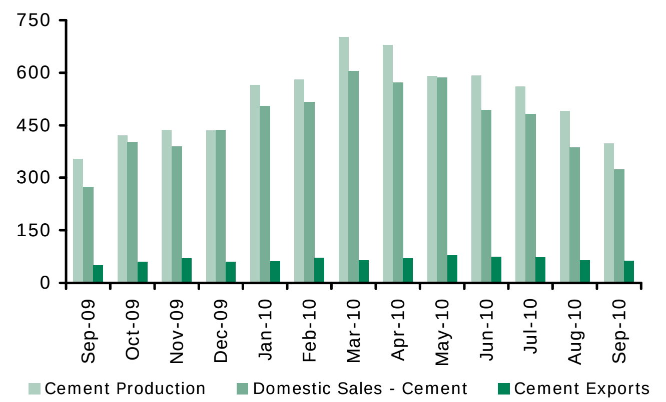


Source: Yamama Cement, NCBC Research

SAUDI CEMENT (SCC)

Exhibit 21: Production and sales

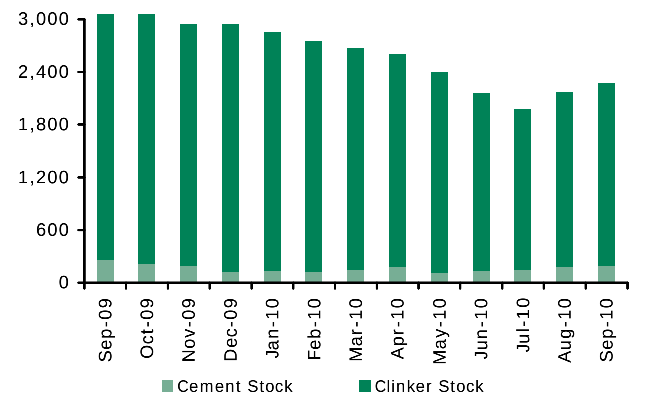
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 22: Stock - Cement and clinker

('000 tons)

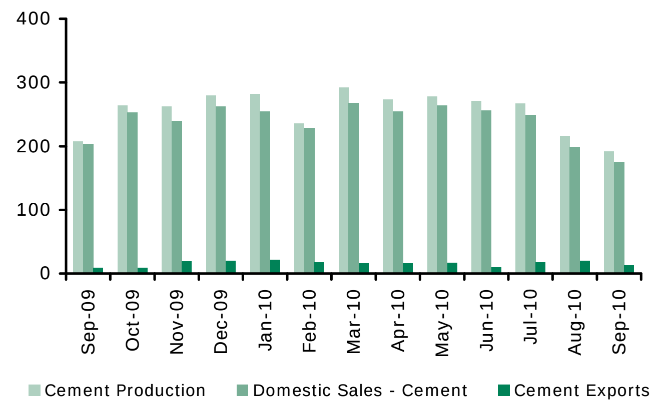


Source: Yamama Cement, NCBC Research

EASTERN PROVINCE CEMENT (EPCC)

Exhibit 23: Production and sales

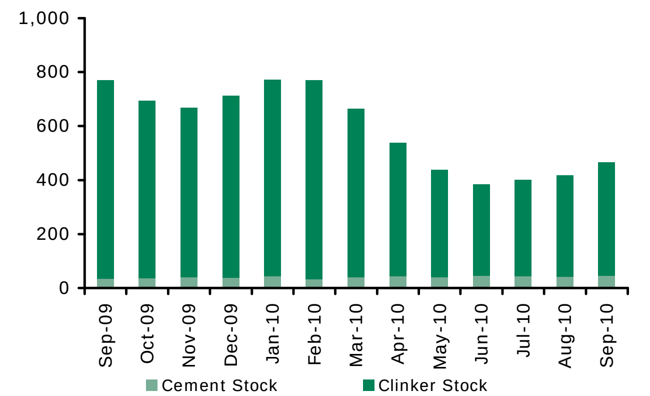
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 24: Stock - Cement and clinker

Units ('000 tons)

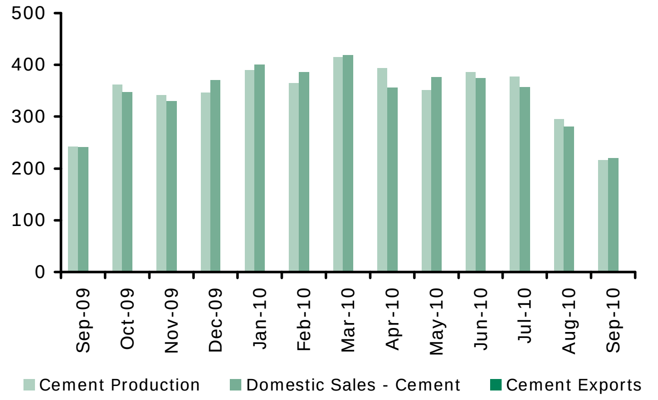


Source: Yamama Cement, NCBC Research

QASSIM CEMENT (QCC)

Exhibit 25: Production and sales

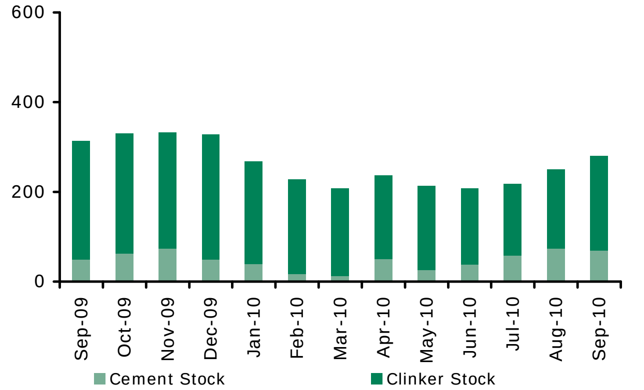
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 26: Stock - Cement and clinker

('000 tons)

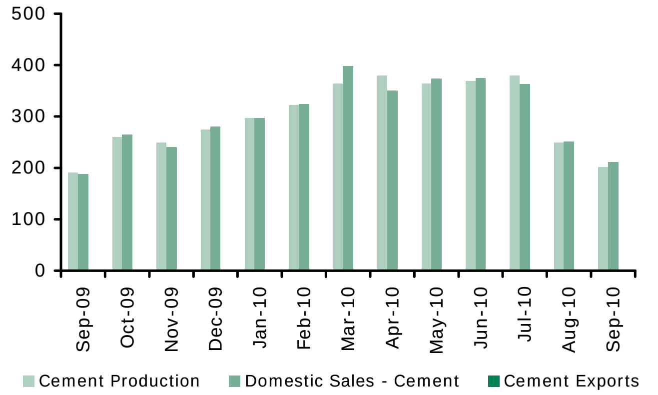


Source: Yamama Cement, NCBC Research

YANBU CEMENT (YCC)

Exhibit 27: Production and sales

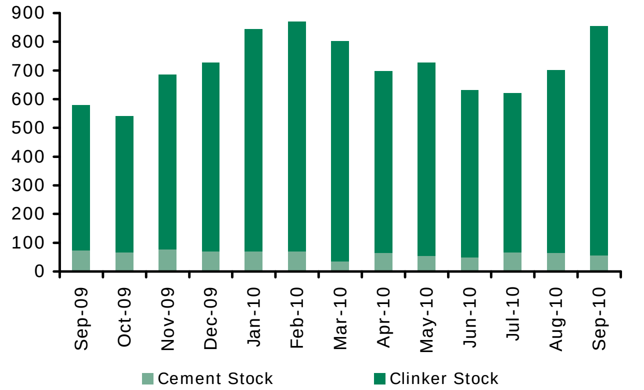
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 28: Stock - Cement and clinker

('000 tons)

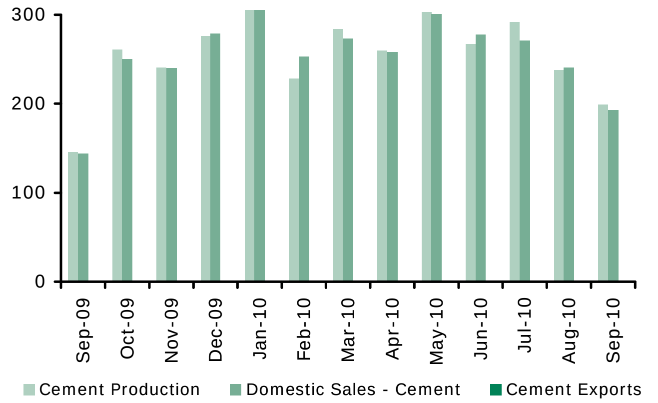


Source: Yamama Cement, NCBC Research

ARABIAN CEMENT (ACC)

Exhibit 29: Production and sales

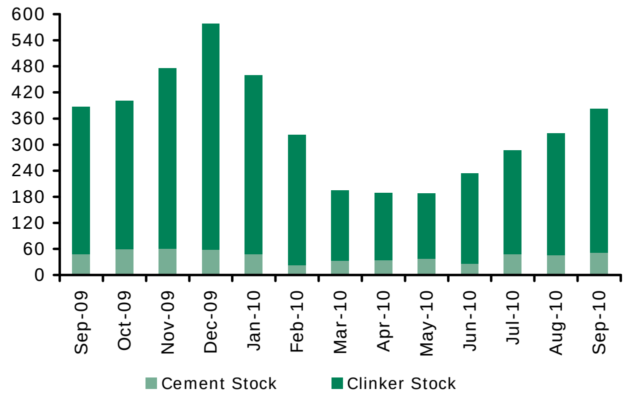
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 30: Stock - Cement and clinker

('000 tons)

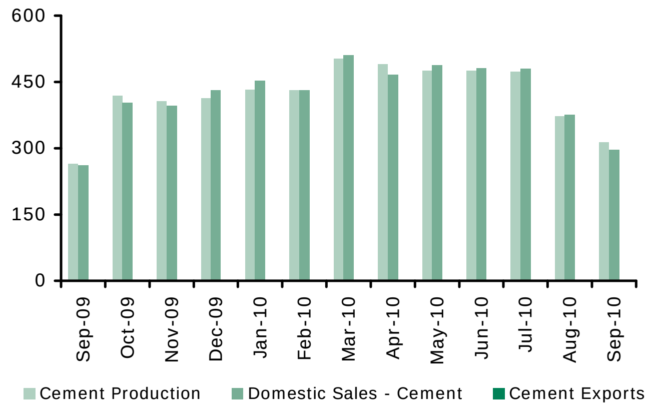


Source: Yamama Cement, NCBC Research

SOUTHERN PROVINCE CEMENT (SPCC)

Exhibit 31: Production and sales

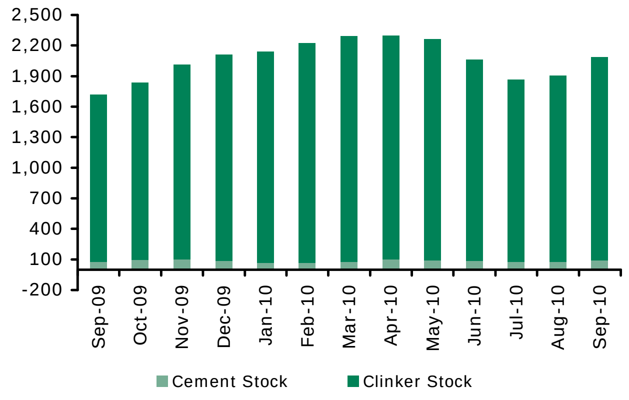
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 32: Stock - Cement and clinker

('000 tons)

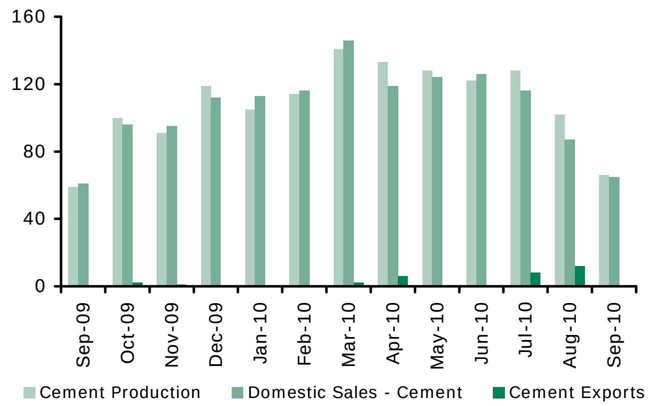


Source: Yamama Cement, NCBC Research

TABUK CEMENT (TCC)

Exhibit 33: Production and sales

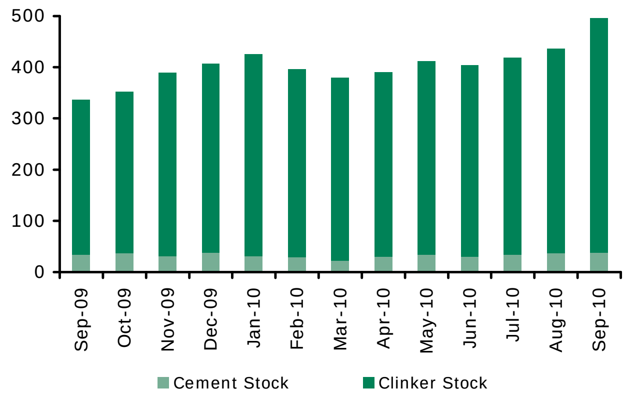
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 34: Stock - Cement and clinker

('000 tons)



Source: Yamama Cement, NCBC Research

Glossary – Abbreviations used

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

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