MARCH 2012

KSA CEMENT SECTOR

POSITIVE OUTLOOK, BUT VALUATION FAIR

This is an extract of our published report, the full version of which can be found on the ncbc.com website

We expect the strong demand seen in 2011 to continue in 2012, driven by strong government spending and elevated economic activity. However, the on-going fuel supply concerns could cause a further delay of new capacity in the short term. As a result, we expect prices to remain high. Currently, we are Neutral on all the stocks under our coverage, however, on a relative basis Southern Cement and Saudi Cement are our top picks.

- **We remain neutral on the sector; revise demand outlook upwards:** We remain Neutral on all the Saudi Cement stocks under our coverage. Our price targets for all companies under coverage have increased by an average of 14.1% due to higher cement prices and the strong demand outlook. Moreover, we revise our demand growth estimates upwards to reflect current market fundamentals. We expect demand growth of 10.8% in 2012 and a CAGR growth of 6.3% to 2015.
- **Southern Cement and Saudi Cement are our top picks in the sector:** Although we are Neutral on all cement stocks under our coverage, relatively our top picks are Southern Cement and Saudi Cement. The key reason for this is their spare capacity and high stock levels which will enable them to take advantage of the strong demand and constrained supply in KSA.
- **Management feedback indicates demand is shifting to the western region**: Based on our meetings with cement companies, distributors and ready-mix companies, key feedback includes; 1) market activity is shifting from the central region to the western region in the Kingdom 2) fuel shortage remains the key supply constraint 3) demand outlook remains strong due largely to governments projects.
- **Positive outlook on growth, but priced-in:** We expect demand to grow by 10% in 2012 and 8% in 2013 driven by the increasing government spending on infrastructure projects combined with private projects. We expect 15.5% net income growth for stocks under coverage in 2012 and CAGR of 6.3% to 2015. However, we believe the stocks have already priced-in these growth levels with the sector multiple up 28% in the last 12 months to 14.8x against the 3 years historical average of 12.8x.

Exhibit 1: Saudi cement companies – Valuation matrix

	Rating	TP (SR)	MCap $mn	Stock perf (%) Mar	Stock perf (%) YTD	P/E (x) `12	EV/ EBITDA `12	P/BV (x) `12	EV/ton 12E $	DY (%) `12	ROE (%) `s12
Southern Cem (SPCC)	N	99.5	3,701	0.0	17.2	13.1	11.1	4.9	515	6.3	38.6
Yamamah Cem (YSCC)	N	55.8	2,812	(8.0)	11.4	12.4	9.5	3.1	416	7.7	24.9
Saudi Cem (SCC)	N	82.7	3,708	2.0	22.6	13.1	11.5	4.1	470	6.6	31.7
Qassim Cem (QCC)	N	81.4	2,085	1.8	18.8	13.3	11.7	3.9	517	6.6	29.5
Yanbu Cem (YCC)	N	75.2	1,949	0.7	9.4	13.1	10.7	2.3	399	4.3	18.6
Eastern Cem (EPCC)	N	59.1	1,573	8.7	23.4	14.3	11.0	2.6	480	5.8	18.8
Arabian Cem* (ACC)	NC		1,195	3.7	25.8	11.5	9.1	1.7	283	3.5	13.2
Al Jouf Cem (TCC)	NC		666	5.5	28.0	29.8	14.3	1.8	331	0.0	6.3
Tabuk Cem* (TCC)	NC		641	1.5	21.4	14.9	10.5	2.1	360	4.7	12.3

Source: NCBC Research, All prices as of March13, 2012, * On a TTM basis
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

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NCBC Investment Ratings

OVERWEIGHT: Target price represents expected returns in excess of 15% in the next 12 months

NEUTRAL: Target price represents expected returns between -10% and +15% in the next 12 months

UNDERWEIGHT: Target price represents a fall in share price exceeding 10% in the next 12 months

PRICE TARGET: Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company