NCB CAPITAL

EQUITY RESEARCH

February 2009

Cement Monthly

Saudi Arabia Cement Sector

January: A new dawn

Domestic cement dispatches in Saudi Arabia jumped 22% in Jan-09 attaining growth levels last seen in May-08. While all companies posted positive sales growth for the month, inventory buildup continued albeit at a slower pace. Clinker stock as a percentage of cement sales stood at 281% in Jan-09.

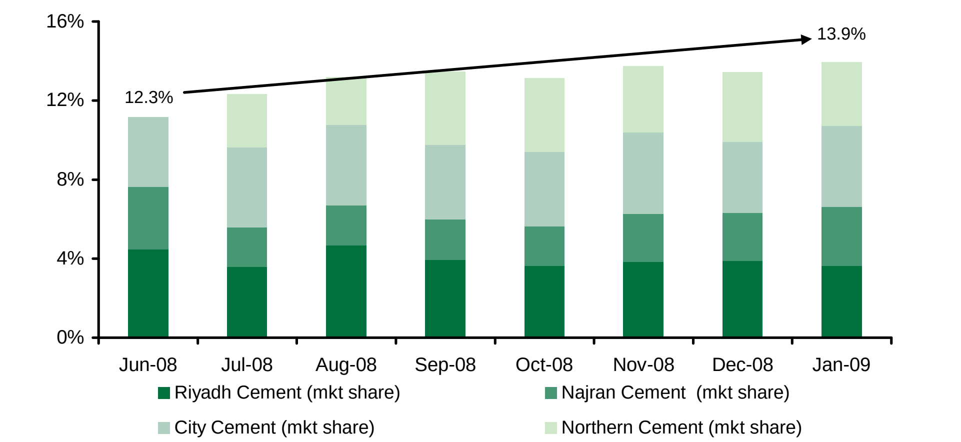
Sales: Domestic cement dispatches in Saudi Arabia stood at 2.8mt in Jan-09, rising 21.9% sequentially, and 15.2% YoY. However, cement exports from the Kingdom remained below the quota.

Production: In Jan-09, Saudi Arabia produced 2.9mt of cement, up 17.9% MoM and 3.0% on a YoY basis. Clinker production remained above the 3.0mt mark for the month.

Stock: Cement industry in the KSA continues to face inventory build-up with increased capacity and export restrictions. Clinker stock as a percentage of cement sales stood at 281% in Jan-09. Among listed firms, **Saudi Cement Co had the highest clinker stock as a percentage of cement deliveries (342%) and the highest cement stock as a percentage of cement deliveries (53%).** Clinker stock stands at 8mt, while cement stock was 0.75mt.

Market shares: All listed companies are losing market share; new private players have captured 13.9% share in the domestic market in Jan-09.

Chart of the month: New players gain foothold in domestic market



Source: Yamama Cement, NCBC Research

Exhibit 1: Saudi cement companies – Valuation matrix

Company	M-Cap	Stock perf (%)		P/E (x)	EV/ EBITDA	P/BV (x)	EV/ton 08	DY (%)	ROE (%)	ROA (%)
	$ mn	Jan-09	2008	TTM	TTM	*	$	07	TTM	TTM
Southern Cem (SPCC)	1,802	3.2	(45.8)	8.5	7.1	2.9	275	9.3	34.2	28.3
Saudi Cem (SCC)	1,345	(11.7)	(53.7)	8.1	8.7	1.8	185	10.1	23.8	14.3
Yanbu Cem (YCC)	1,287	11.1	(56.9)	8.6	6.4	2.0	307	10.9	26.2	22.8
Yamama Cem (YSCC)	1,175	(4.0)	(63.4)	7.2	5.3	1.5	183	9.2	22.7	16.9
Qassim Cem (QCC)	985	(0.9)	(54.4)	7.3	5.5	2.2	214	7.7	31.6	24.0
Eastern Cem (EPCC)	932	7.4	(54.5)	8.0	6.6	1.9	281	14.8	23.9	18.5
Arabian Cem (ACC)	692	2.5	(66.4)	8.1	8.3	1.1	251	11.9	13.8	10.8
Tabuk Cem (TCC)	467	1.5	(51.6)	11.2	7.1	1.7	257	12.9	14.2	11.9

Source: NCBC Research, All prices as of February 18, 2009 * P/BV based on latest available book value

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Please refer to the last page for important disclaimer

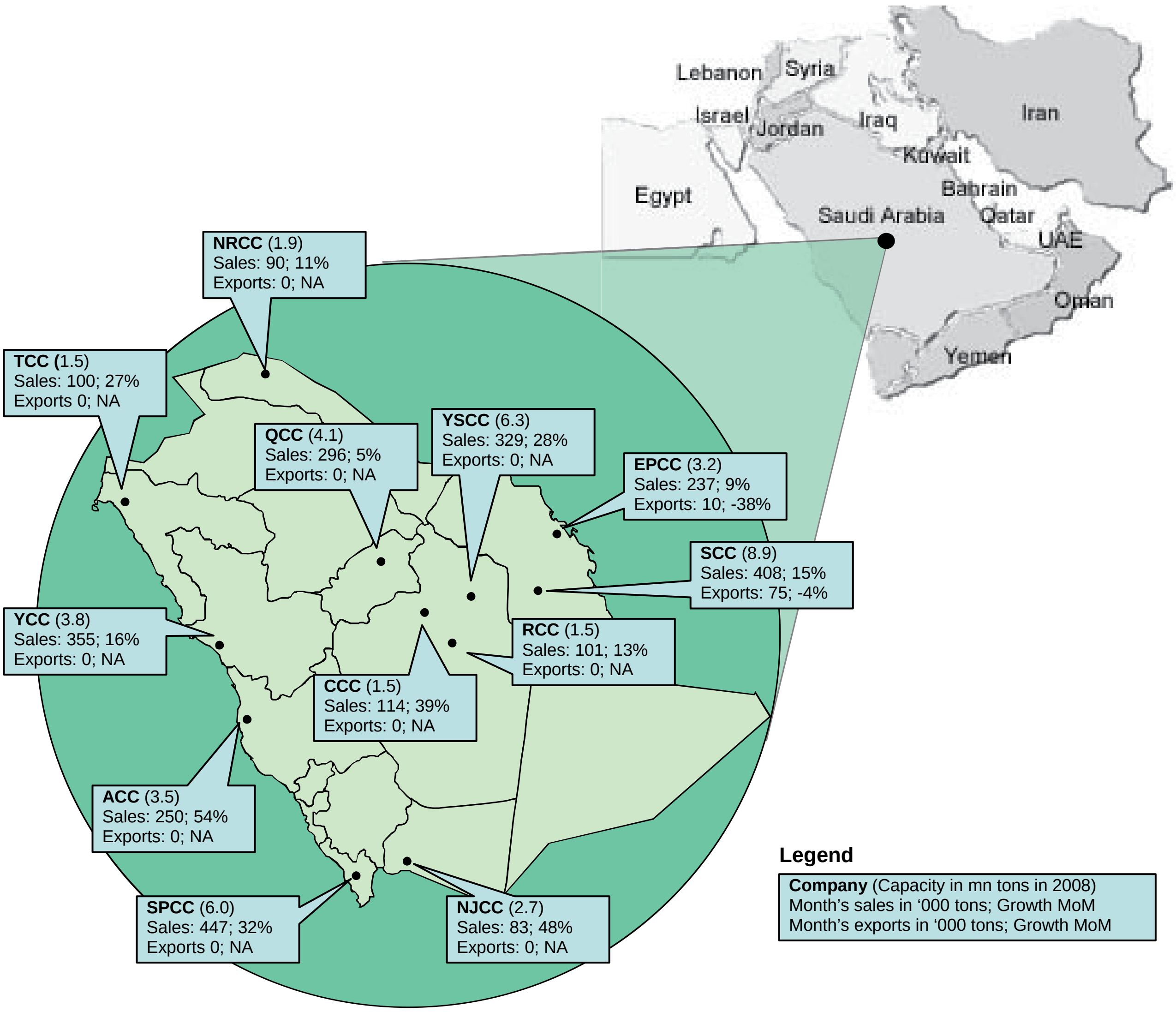
Industry snapshot

The Kingdom of Saudi Arabia (KSA) has 12 cement companies with an estimated annual production capacity of approximately 44mt.

In Jan-09, all companies reported an increase in sales volume, albeit on a lower base. Cement dispatches during the month expanded to 2.89mt from 2.39mt in Dec-08.

Export sales from the country continue to be below the 100,000 ton mark. Saudi Cement maintains its dominance; the company accounted for 88% of export sales from the Kingdom in Jan-09, up from 83% in Dec-08.

Exhibit 2: January at a glance



Source: Yamama Cement, NCBC Research

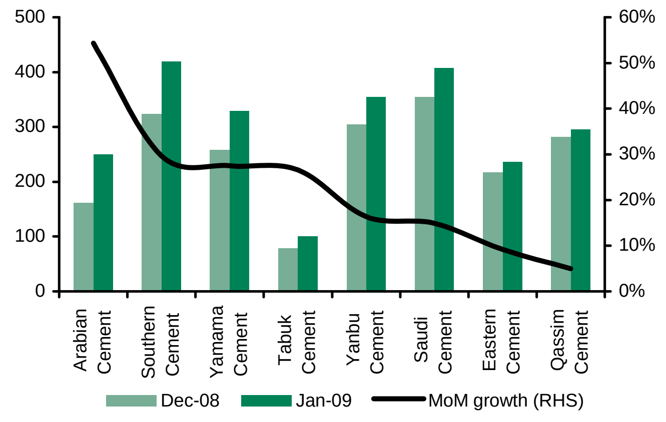
CCC – City Cement, NJCC – Najran Cement, RCC – Riyadh Cement, NRCC – Northern Region Cement

Domestic sales

In Jan-09, cement sales in Saudi Arabia increased 21.9% sequentially, and 15.2% YoY. Companies (both listed and private) collectively sold 2.81mt of cement in the domestic market, compared to 2.30mt in Dec-08.

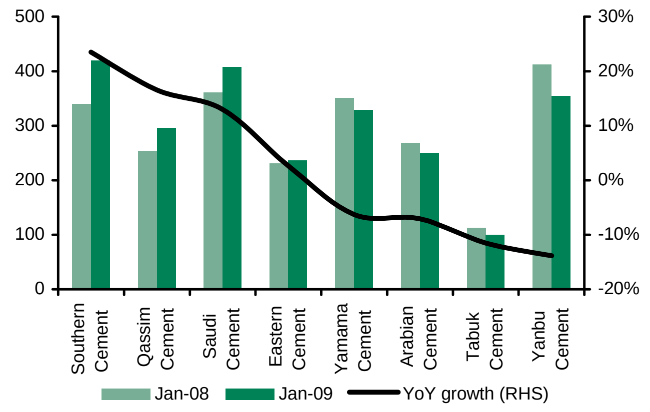
Companies that showed exceptional growth, both on a MoM and YoY basis, include: Southern Cement, Saudi Cement and Najran Cement.

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



Source: Yamama Cement, NCBC Research

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



Source: Yamama Cement, NCBC Research

Cement demand in the western part of the Kingdom has witnessed a decline. Both the companies operating in the western region – Yanbu Cement and Arabian Cement – clocked 5.7% lesser volumes (combined) in 2008 versus that in 2007.

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

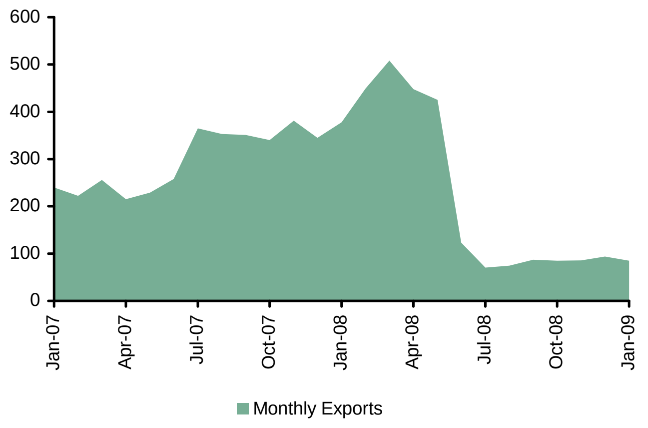
Exports

Cement sales outside the Kingdom stood at 85,000 tons in Jan-09, as against 375,000 tons in Jan-08. The decline is explained by the government restriction on sale of cement outside the country.

In Jan-09, Saudi Cement and Eastern Province Cement sold 75,000 tons and 10,000 tons of cement, each outside the Kingdom.

Discussions with industry players reveal that there is the possibility that the Saudi Ministry of Commerce and Industry may soon lift the ban on cement exports.

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



Source: Yamama Cement, NCBC Research

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

Source: Yamama Cement, NCBC Research

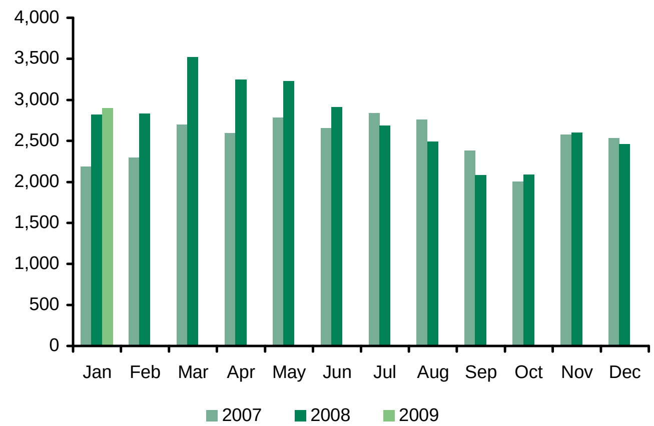
Production

Cement production in Saudi Arabia has failed to keep pace with clinker production. At 18.6mt, clinker production in the second half of 2008 was nearly 30% higher than the cement production of 14.4mt during the same period. The gap reduced to 18.1% in Jan-09, largely due to increased production/sale of cement, and lower clinker output.

In Jan-09, cement production in Saudi Arabia expanded by 17.9% MoM and 3.0% YoY, respectively. Over the same period, clinker production reduced 6.2% MoM, but was up 27.5% YoY.

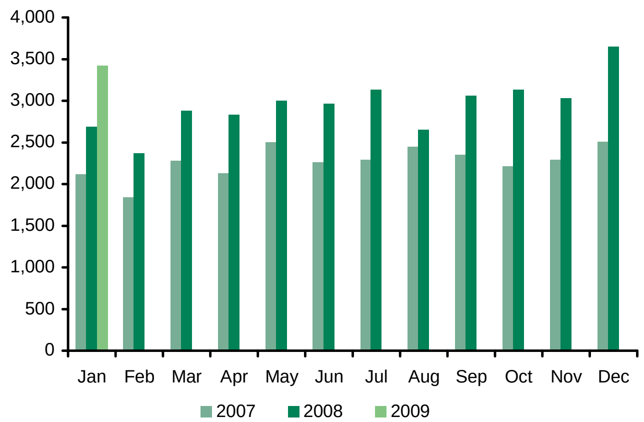
The clinker production of 3.6mt in Dec-08 was the highest achieved by the industry; it has fallen to 3.42mt in Jan-09.

Exhibit 7: Cement production ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 8: Clinker production ('000 tons)



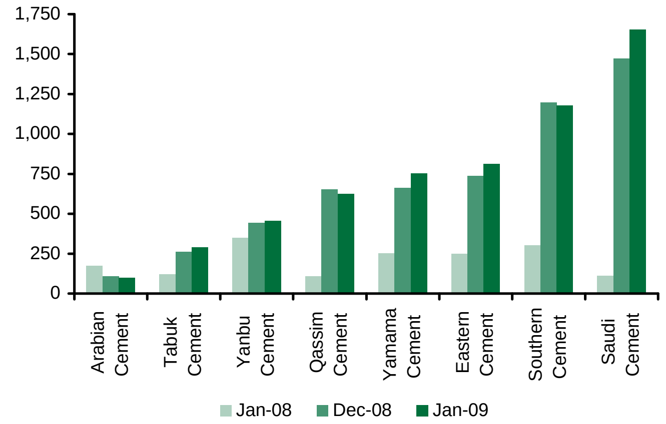
Source: Yamama Cement, NCBC Research

Companies that contributed significantly to the growth in cement production include – Saudi Cement (31% MoM), Southern Cement (26%), and Yamama Cement (-13%) and Arabian Cement (30%).

Inventory / stock

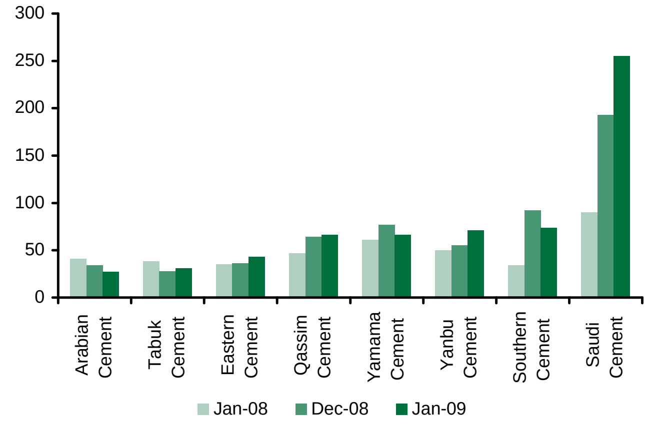
Stockpiling of clinker at the manufacturer level seems to be continuing in Saudi Arabia. Most companies are stocking large quantities of clinker, a trend witnessed since May-08. At the end of Jan-09, clinker stock was higher by 9.1% MoM, a deceleration compared to the 23.2% growth rate achieved in Dec-08.

Exhibit 9: Clinker stock ('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 10: Cement stock ('000 tons)

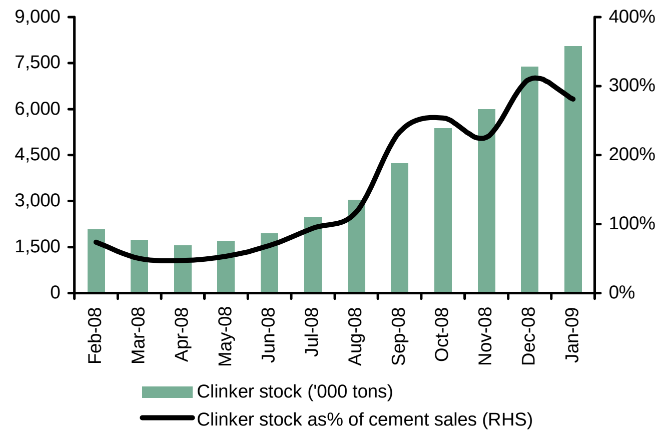


Source: Yamama Cement, NCBC Research

Total clinker stock of the industry stood at 8.1mt in Jan-09, or just short of 3 months' cement sales. Company-wise position for clinker stock is varied. **While Arabian Cement has the lowest clinker stock as a % of sales ratio of 40%, the figure for Saudi Cement stands at 342%, or 3.5 months' cement sales in clinker stock.**

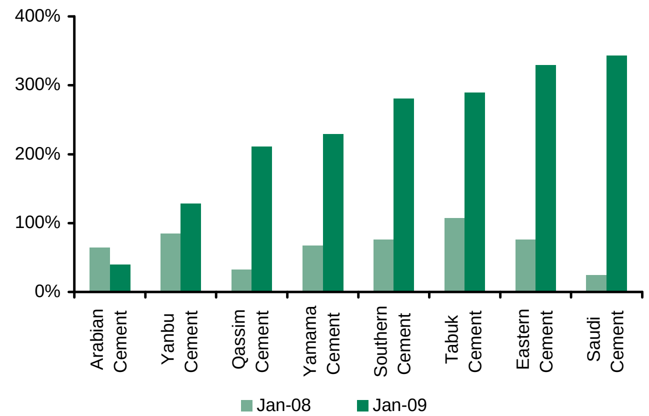
Given the shorter shelf life of cement over clinker, companies prefer to stock clinker over cement.

Exhibit 11: Clinker stock



Source: Yamama Cement, NCBC Research

Exhibit 12: Clinker stock (as % of sales)



Source: Yamama Cement, NCBC Research

Market share

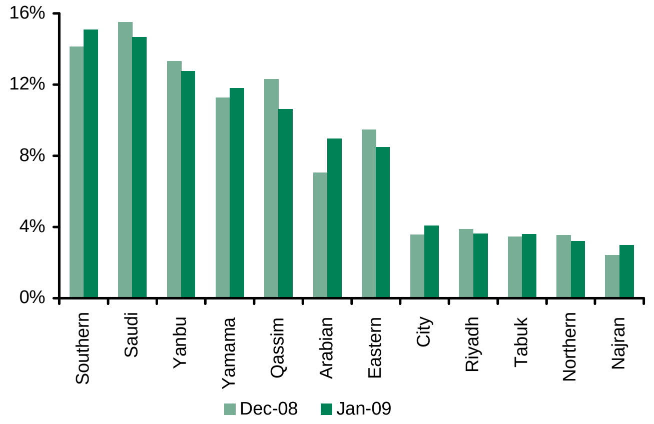
In Jan-09, six companies lost domestic market share in favor of the other six. **Arabian Cement was the biggest gainer this month.** Other companies that managed to improve their market share by a wide margin include – Southern Cement and Yamama Cement.

Winners: Arabian Cement (1.9%), Southern Cement (0.9%), Yamama Cement (0.6%), Najran Cement (0.5%), City Cement (0.5%), and Tabuk (0.1%)

Losers: Qassim Cement (-1.7%), Eastern Cement (-1.0%), Saudi Cement (-0.8%), Yanbu Cement (-0.6%), Northern Cement (-0.3%), and Riyadh Cement (-0.3%)

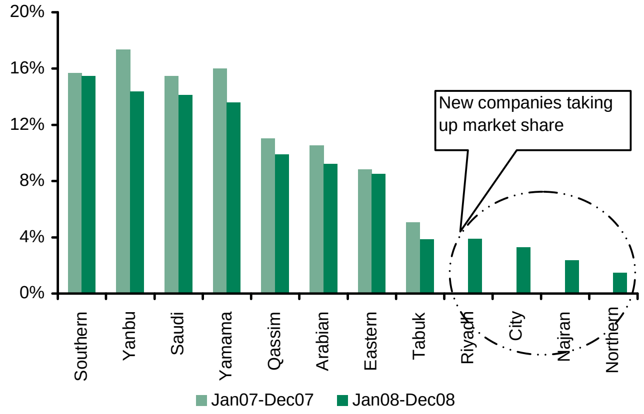
New companies – Riyadh Cement, Najran Cement, City Cement and Northern Cement – have managed to increase their market share at the expense of the traditional players. The new players were responsible for 11.1% of the total cement sales in 2008.

Exhibit 13: Domestic market share – cement sales



Source: Yamama Cement, NCBC Research

Exhibit 14: Domestic market share – cement sales (2008/2007)



Source: Yamama Cement, NCBC Research

Valuation

Cement companies in Saudi Arabia have been witnessing a decline in their share prices. As of 18 Feb 2009, the cement sector is down 0.8% YTD, vis-à-vis a fall of 0.6% in the Saudi benchmark index TASI. The decline in 2009 comes after a fall of ~50% in 2008. As a result of this, the valuation multiples of cement companies have contracted to a large extent.

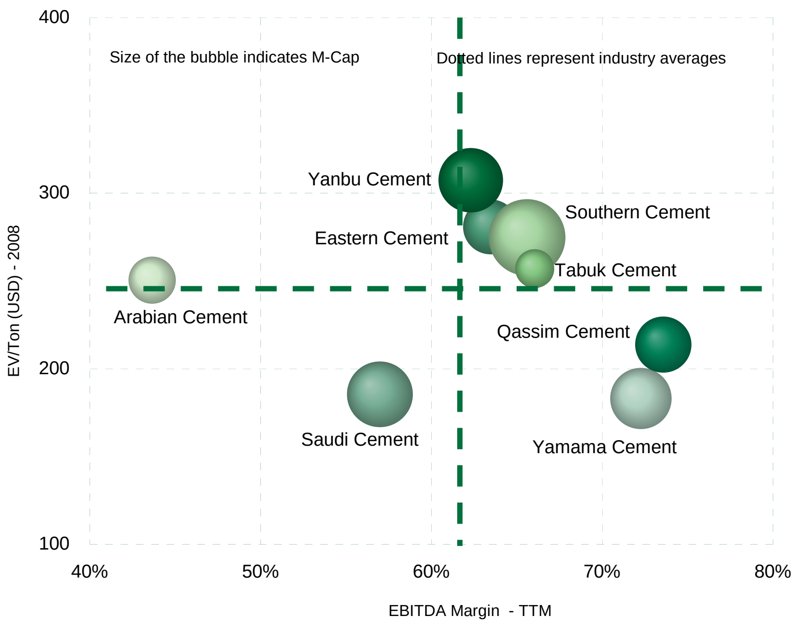
Exhibit 15: Saudi cement companies – Valuation matrix

Company	Reuters	M-Cap $ mn	Stock Performance (%) Jan-09	Stock Performance (%) 2008	P/E (x) TTM	EV/ EBITDA TTM	P/BV (x) *	EV/ton 08 $	DY (%) 07	ROE (%) TTM	ROA (%) TTM
Southern Cement	3050.SE	1,802	3.2	(45.8)	8.5	7.1	2.9	275	9.3	34.2	28.3
Saudi Cement	3030.SE	1,345	(11.7)	(53.7)	8.1	8.7	1.8	185	10.1	23.8	14.3
Yanbu Cement	3060.SE	1,287	11.1	(56.9)	8.6	6.4	2.0	307	10.9	26.2	22.8
Yamama Cement	3020.SE	1,175	(4.0)	(63.4)	7.2	5.3	1.5	183	9.2	22.7	16.9
Qassim Cement	3040.SE	985	(0.9)	(54.4)	7.3	5.5	2.2	214	7.7	31.6	24.0
Eastern Cement	3080.SE	932	7.4	(54.5)	8.0	6.6	1.9	281	14.8	23.9	18.5
Arabian Cement	3010.SE	692	2.5	(66.4)	8.1	8.3	1.1	251	11.9	13.8	10.8
Tabuk Cement	3090.SE	467	1.5	(51.6)	11.2	7.1	1.7	257	12.9	14.2	11.9

Source: NCBC Research, All prices as of February 18, 2009 * P/BV based on latest available book value

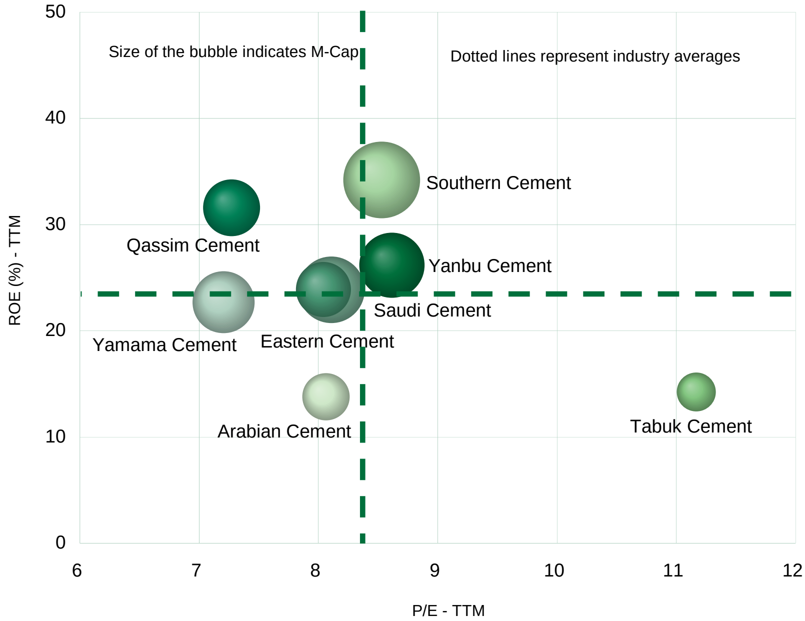
The following exhibits depict the current valuation of cement companies listed in Saudi Arabia.

Exhibit 16: EV per ton vs. EBITDA margin



Source: NCBC Research

Exhibit 17: P/E vs. ROE



Source: NCBC Research

Annexures

Annexure 1- Production and dispatches

Exhibit 18: Cement production and dispatches ('000 tons)

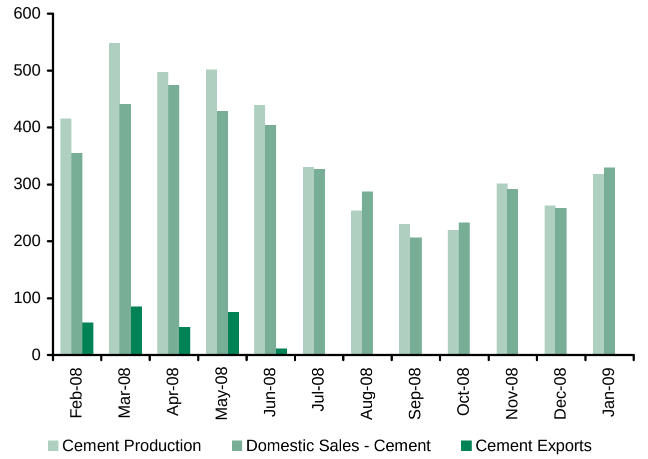
Description	Jan-09	Jan-08	% chg YoY	Dec-08	% chg MoM	2008 (Jan-Dec)	2007	% chg YoY
Production								
Cement	2,899	2,815	3.0	2,459	17.9	32,941	30,290	8.8
Clinker	3,425	2,686	27.5	3,650	(6.2)	35,391	27,251	29.9
Dispatches								
Cement	2,868	2,815	1.9	2,384	20.3	32,715	30,330	7.9
Clinker	27	3	800.0	15	80.0	163	257	(36.6)
Cement Production								
Southern Cement	318	374	(15.0)	262	21.4	4,372	4,653	(6.0)
Saudi Cement	555	470	18.1	425	30.6	5,366	5,276	1.7
Yamama Cement	254	325	(21.8)	227	11.9	3,108	3,482	(10.7)
Yanbu Cement	298	340	(12.4)	285	4.6	3,219	3,464	(7.1)
Qassim Cement	371	402	(7.7)	329	12.8	4,292	4,620	(7.1)
Eastern Cement	243	275	(11.6)	187	29.9	2,742	2,824	(2.9)
Arabian Cement	401	372	7.8	317	26.5	4,901	4,613	6.2
Tabuk Cement	103	116	(11.2)	81	27.2	1,149	1,358	(15.4)
Others	356	141	152.5	346	2.9	3,792	0	NA
Cement Dispatches								
Southern Cement	329	377	(12.7)	258	27.5	4,359	4,628	(5.8)
Saudi Cement	483	459	5.2	433	11.5	5,252	5,304	(1.0)
Yamama Cement	247	325	(24.0)	233	6.0	3,107	3,491	(11.0)
Yanbu Cement	296	334	(11.4)	282	5.0	3,196	3,460	(7.6)
Qassim Cement	355	412	(13.8)	305	16.4	4,298	4,651	(7.6)
Eastern Cement	250	269	(7.1)	162	54.3	2,755	2,829	(2.6)
Arabian Cement	420	400	5.0	324	29.6	4,916	4,607	6.7
Tabuk Cement	100	113	(11.5)	79	26.6	1,156	1,360	(15.0)
Others	388	126	207.9	308	26.0	3,676	0	NA

Source: Yamama Cement, NCBC Research

Annexure 2 - Chart gallery – Company data

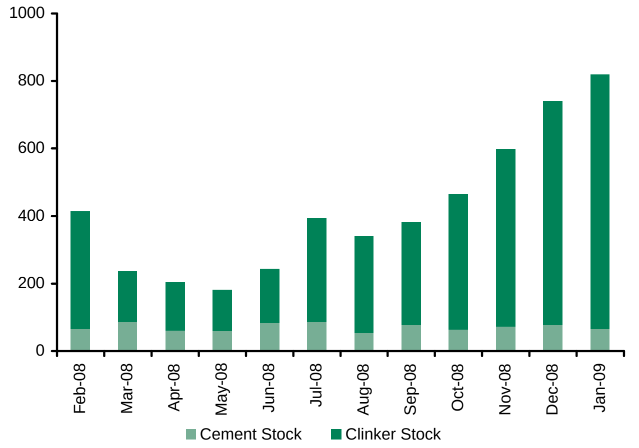
Yamama Cement (YSCC)

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



Source: Yamama Cement, NCBC Research

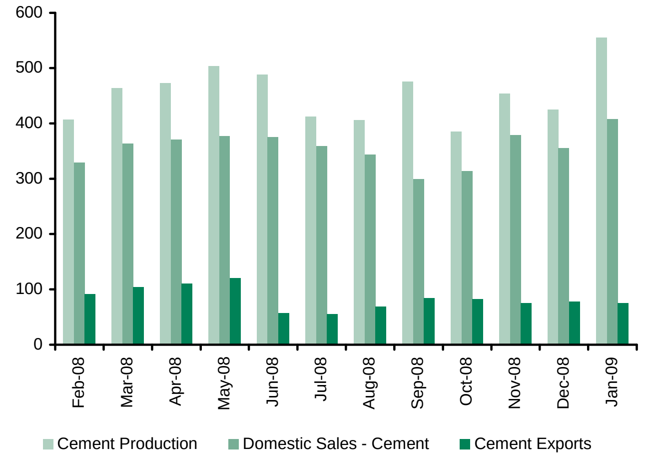
Exhibit 20: Stock - Cement and clinker (in ‘000 tons)



Source: Yamama Cement, NCBC Research

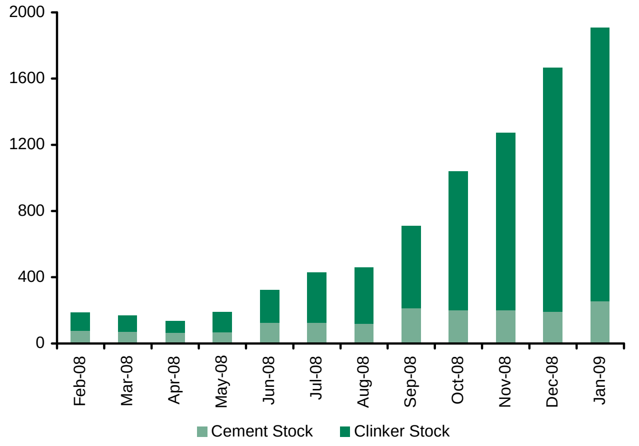
Saudi Cement (SCC)

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



Source: Yamama Cement, NCBC Research

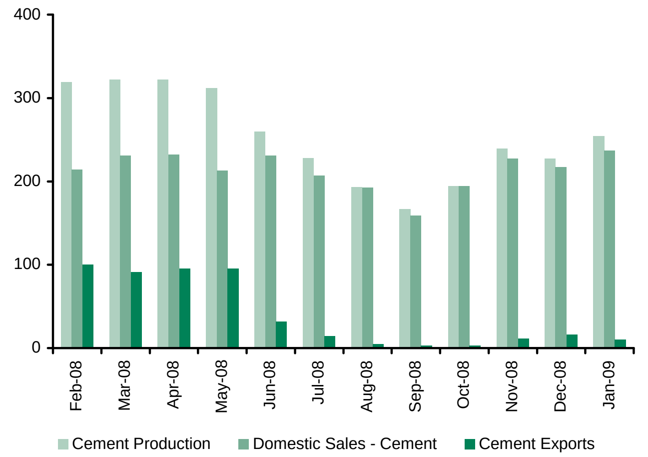
Exhibit 22: Stock - Cement and clinker (in ‘000 tons)



Source: Yamama Cement, NCBC Research

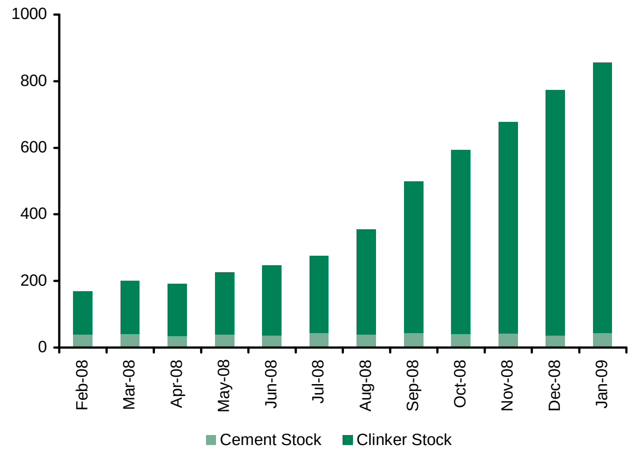
Eastern Province Cement (EPCC)

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



Source: Yamama Cement, NCBC Research

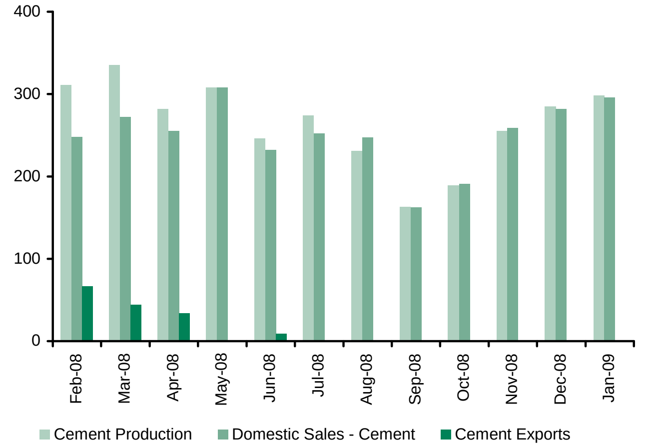
Exhibit 24: Stock - Cement and clinker (in ‘000 tons)



Source: Yamama Cement, NCBC Research

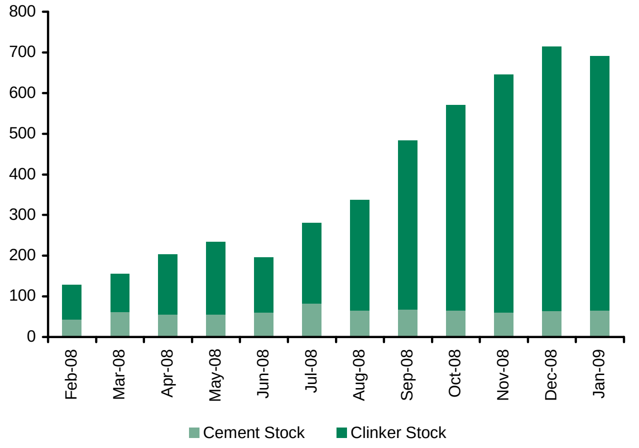
Qassim Cement (QCC)

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



Source: Yamama Cement, NCBC Research

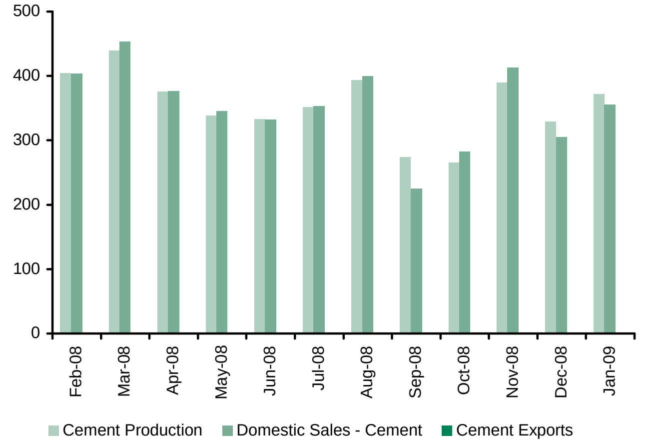
Exhibit 26: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

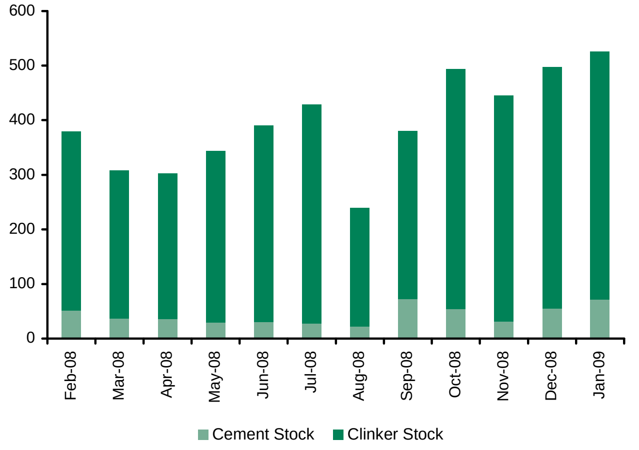
Yanbu Cement (YCC)

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



Source: Yamama Cement, NCBC Research

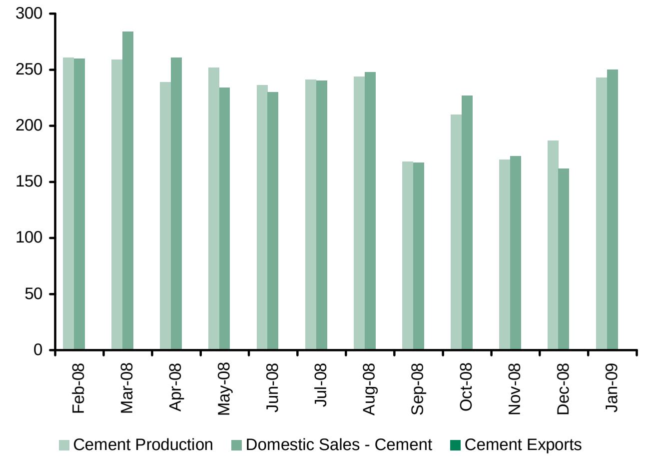
Exhibit 28: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

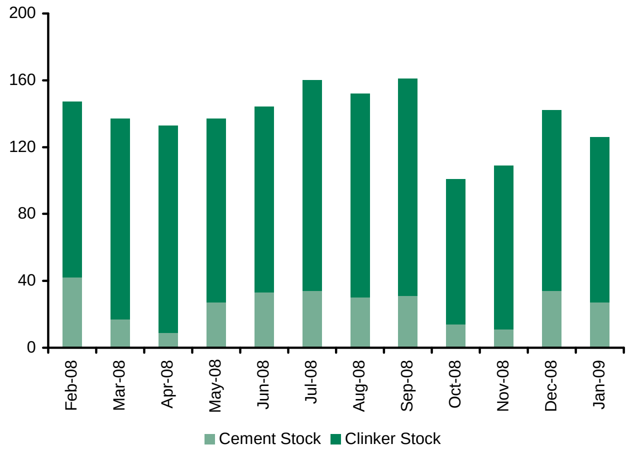
Arabian Cement (ACC)

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



Source: Yamama Cement, NCBC Research

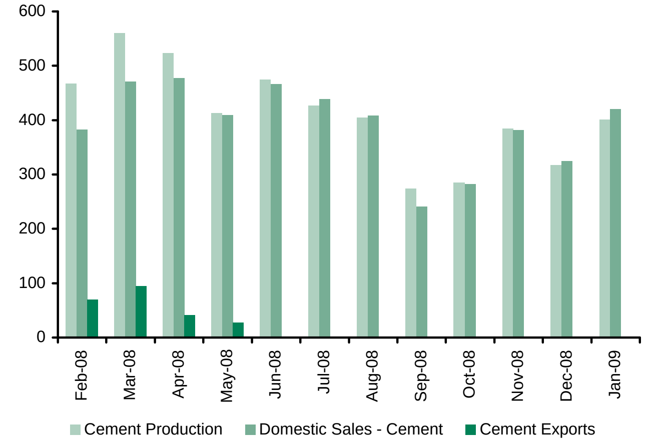
Exhibit 30: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

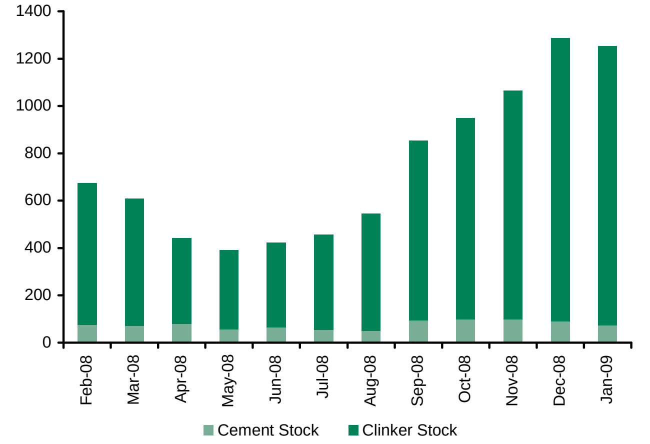
Southern Province Cement (SPCC)

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



Source: Yamama Cement, NCBC Research

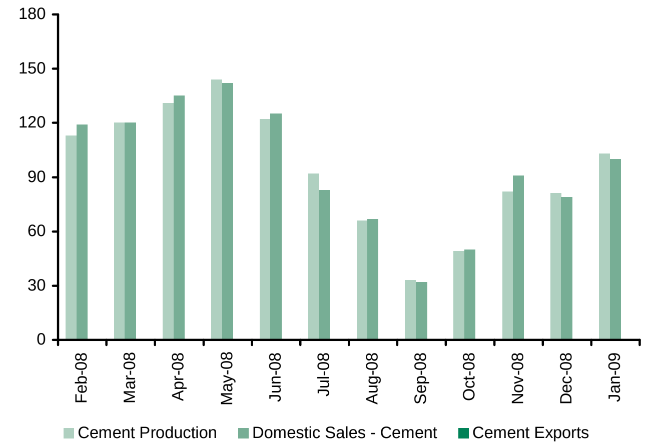
Exhibit 32: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

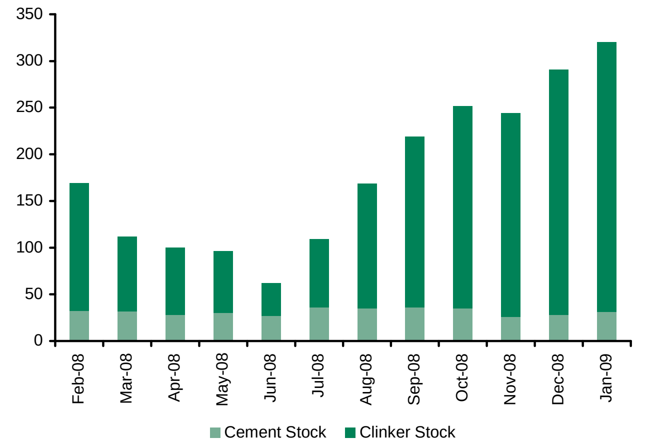
Tabuk Cement (TCC)

Exhibit 33: Production and sales (in '000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 34: Stock - Cement and clinker (in '000 tons)



Source: Yamama Cement, NCBC Research

Glossary – Abbreviations used

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