Saudi Arabia Cement Sector

Go West

With Northern Region Cement Company (NRCC) being granted permission to export surplus cement, we believe companies located in the West stand to benefit from a more balanced demand-supply scenario in the Kingdom. We remain Neutral on Yamama Cement and Underweight on Eastern Province Cement.

- **NRCC to export:** Reports indicate that NRCC would be allowed to export cement at SR200 per ton. Based on our discussions with industry players, we believe this to be erroneous. Although NRCC has been granted permission to export, we are of the view that this would be under the following conditions :
  - The company would need to meet domestic provincial/regional (Northern) demand in KSA at a domestic price of SR200 per ton
  - The company ought to maintain a certain portion of the domestic provincial/regional demand as inventory
  - It would be able to export at prices that will not be controlled by restrictions. In fact, it would be difficult to implement or monitor restrictions on export prices
- We believe NRCC has agreed to these conditions, given the poor domestic demand in the northern region. Companies in the north were keen about the possibility of exporting to Jordan and Iraq before the export ban came into force. The Ministry of Commerce is still in discussions with other cement companies in the Kingdom. It is possible that export will be allowed at the company level on conditions that would different for each company
- **Realizations to fall by 15-20%:** Saudi Arabian cement companies reported their highest-ever monthly sales volume (domestic) in March 2009. Average price realizations for the industry improved QoQ to SR239 per ton in 1Q-09, from SR234 per ton in 4Q-08. A price of SR200 per ton would directly slash realizations by 15-20%
- **Western companies will likely benefit:** Discussions with industry players reveal that in the past, companies with poor domestic demand at the province level dumped cement in other provinces at exceptionally low prices. The recent development of NRCC being allowed to export we believe would create more space for domestic companies and improve the demand-supply situation in the Kingdom. We believe that companies such as Arabian Cement and Yanbu Cement, which are located in areas with strong demand potential, particularly in the West, are likely to benefit
- **We remain Neutral on YSCC and Underweight on EPCC:** We continue to maintain our Neutral rating on Yamama Cement (YSCC) and Underweight rating on Eastern Cement (EPCC). YSCC trades at a P/E (TTM) of 11.0, EV/EBITDA (TTM) of 9.0 and an EV/ton (08 capacity) of USD236, against the industry average of 11.4, 8.8, and USD297 respectively. EPCC trades at a P/E (TTM) of 10.8, EV/EBITDA (TTM) of 7.7 and an EV/ton (08 capacity) of USD317

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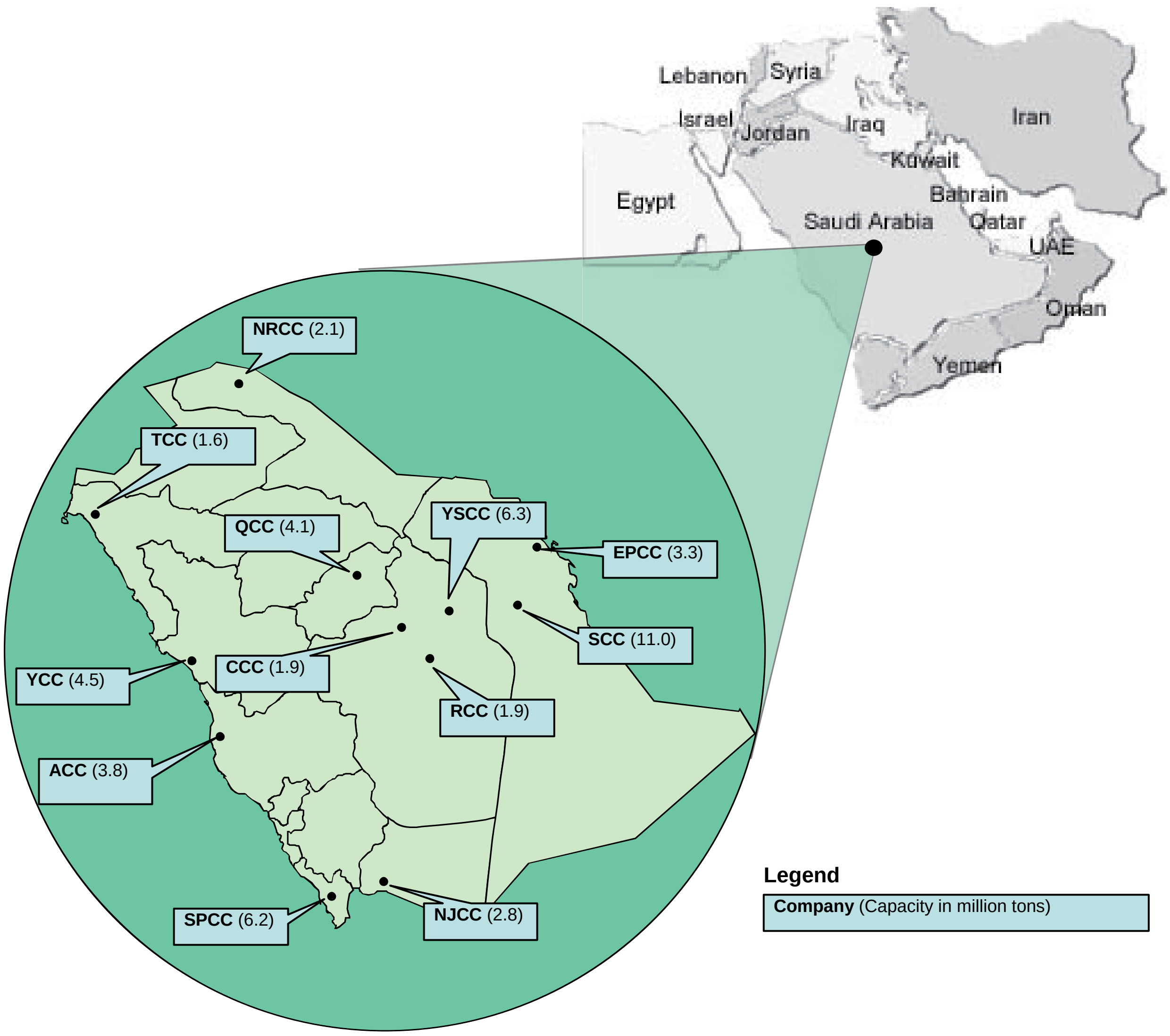
Figure 1: Saudi cement companies – Valuation matrix

Company	Reuters	M-Cap $ mn	Stock performance (%) YTD	Stock performance (%) 2008	P/E (x) TTM	EV/ EBITDA TTM	P/BV (x) *	EV/ton 08 $	DY (%) 08	ROE (%) TTM	ROA (%) TTM
Southern Cement	3050.SE	2,224	25.3	(46.6)	11.0	9.0	3.7	334	8.4	32.5	28.1
Saudi Cement	3030.SE	1,798	14.3	(60.2)	11.2	11.1	2.5	191	5.3	22.4	13.2
Yamama Cement	3020.SE	1,507	19.4	(65.1)	10.5	7.0	2.1	236	4.8	19.5	15.4
Qassim Cement	3040.SE	1,418	40.9	(55.4)	10.6	8.2	2.8	318	6.8	29.0	22.3
Yanbu Cement	3060.SE	1,409	23.8	(56.9)	9.7	7.2	2.5	283	8.0	24.9	22.5
Eastern Cement	3080.SE	1,084	16.0	(56.4)	10.8	7.7	2.4	317	6.4	20.5	16.7
Arabian Cement	3010.SE	1,032	50.9	(67.9)	12.5	11.5	1.7	408	6.2	13.4	9.4
Tabuk Cement	3090.SE	553	13.9	(54.6)	14.8	8.8	1.9	291	6.5	12.7	10.9

Source: NCBC Research, All prices as of May 13, 2009 * P/BV based on latest available book value

Figure 2: Saudi Arabia Cement Map



Source: NCBC Research
SPCC – Southern Province Cement, SCC – Saudi Cement, QCC – Qassim Cement, YCC - Yanbu Cement, ACC – Arabian Cement, TCC- Tabuk Cement, CCC – City Cement, NJCC – Najran Cement, RCC – Riyadh Cement, NRCC – Northern Region Cement

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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