27 DECEMBER 2010

KSA CEMENT SECTOR

OUTLOOK IMPROVING

Although we remain cautious on the KSA cement sector, we believe the outlook is better than in our previous update. Our ratings remain the same with Yamamah our only overweight and Southern our only underweight. Given the concerns of the sector, the 11.2x 2011 P/E for the sector is broadly fair. As highlighted in a previous note, we believe the 2022 World Cup in Qatar will result in minimal short term benefits for the sector.

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

- In this report we update our six covered cement stocks based on the latest monthly data, financial results as well as sector developments. We highlight our revised estimates for the upcoming years, as well our new fair value estimates for each stock.
- Yamamah Cement remains our only overweight with Southern Cement, despite underperforming the TASI by 12% since our underweight rating, remaining as our only underweight as we believe its 19% 2011P/E premium compared to its peers is unjustified. The remaining four stocks under coverage, Saudi, Yanbu, Qassim and Eastern Cement all remain on a Neutral rating.
- There are minimal changes to our price targets for most of the companies. The notable exception is Eastern Cement where our PT has increased by 3.5% to SR44.8 due to higher sales volumes expected in the outer years. Our PT on Southern Cement falls by 2% to SR58.6 due to poor sales volume.
- Although we remain cautious on the sector, we believe the outlook for the listed companies is stronger than in our last sector update in August 2010. The primary reason for this is that the incremental market share being taken by non-listed private cement companies has slowed down significantly, and if this continues, we believe the listed companies will take a bigger share of the new demand in 2011, than has been the case over the past three years.
- In our view, the main positive of the sector remains the high dividends, with yields for 2010 around the 7% mark.

Exhibit 1: Saudi cement companies – Valuation matrix

	Rating	TP (SR)	MCap $mn	Stock perf (%) Nov	Stock perf (%) YTD	P/E (x) '11	EV/ EBITDA '11	P/BV (x) '11	EV/ton 10E $	DY (%) '11	ROE (%) TTM
Southern Cem (SPCC)	UW	58.6	2,355	(2.0)	(6.0)	13.1	9.8	3.8	361.0	7.9	28.0
Yamamah Cem (YSCC)	OW	60.5	1,884	(4.2)	10.8	10.4	7.8	2.4	294.7	6.7	21.0
Saudi Cem (SCC)	N	47.8	2,043	(0.7)	36.4	11.4	10.1	2.4	288.8	4.4	20.5
Qassim Cem (QCC)	N	68.2	1,496	(2.0)	(9.0)	11.4	9.0	3.2	348.0	7.9	27.9
Yanbu Cem (YCC)	N	41.5	1,200	1.5	(10.7)	11.1	7.5	1.8	253.5	6.9	16.6
Eastern Cem (EPCC)	N	44.8	1,088	(1.9)	(5.6)	11.1	8.5	2.0	295.6	6.4	16.7
Arabian Cem* (ACC)	NC	N/A	799	0.6	(12.4)	10.5	9.6	1.2	212.3	5.3	13.0
Al Jouf Cem (TCC)	NC	N/A	425	(4.0)	23.5	N/A	N/A	1.3	N/A	N/A	N/A
Tabuk Cem* (TCC)	NC	N/A	448	0.3	(3.1)	10.9	6.2	1.6	219.5	6.7	11.2

Source: NCBC Research. All prices as of December 22, 2010, * On a TTM basis
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

Farouk Miah
f.miah@ncbc.com
+966 2 690 7717

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Kindly send all mailing list requests to research@ncbc.com

Head of Research	Brokerage website	Corporate website
Eiji Aono e.aono@ncbc.com +966 2690 7786	www.alahlitadawul.com www.alahlibrokerage.com	www.ncbc.com

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