Cement Monthly

SEPTEMBER 2010

KSA Cement Sector

Ramadan has severe impact on sales

With Ramadan commencing some 11 days earlier this year, this had a severe impact on Aug-10 data with domestic cement sales down 5.7%, the first YoY fall since Sep-08. Despite this, clinker production was up 11.8% YoY, leading to inventory levels rising sharply to 286% of monthly sales.

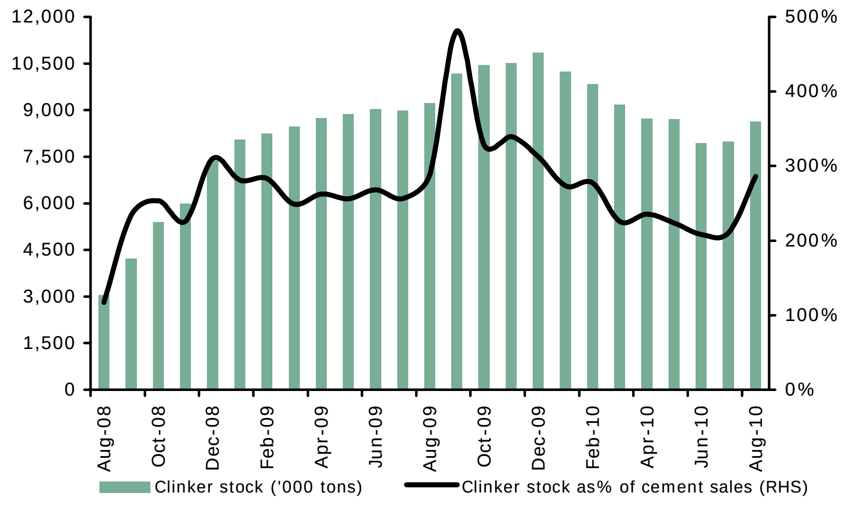
Sales: Domestic cement sales decreased by 5.7% YoY to 2.88 mn tons. Total cement and clinker sales for Aug-10 stood at 3.16 mn tons, down 2.6% YoY.

Exports: Cement exports stood at 134,000 tons in Aug-10, down 2.2% YoY and 16.3% on MoM from 160,000 tons in Jul-10.

Production: In Aug-10 cement production declined 21.6% MoM to 3.05 million tons. However, clinker production grew 4.4% MoM to 3.60 million tons.

Market share: Private players' domestic market share was up a marginal 0.1% MoM to 22.3%. Al Jouf Cement reported a domestic market share of 1.6%.

Chart of the month: Inventory levels increase for the first time in four months



Source: Yamama Cement, NCBC Research

Exhibit 1: Saudi cement companies – Valuation matrix

Company	Rating	MCap $mn	Stock perf (%) Aug	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	2,477	0.8	(1.1)	13.5	10.6	3.7	380.6	7.5	28.0
Yamama Cem (YSCC)	OW	1,874	(2.9)	9.7	10.6	8.1	2.3	291.8	6.7	21.0
Saudi Cem (SCC)	N	1,830	(0.2)	16.9	10.3	9.3	2.2	253.1	5.1	20.5
Qassim Cem (QCC)	N	1,574	(2.6)	(5.8)	11.6	9.3	3.2	360.8	7.6	27.9
Yanbu Cem (YCC)	N	1,175	(1.2)	(13.6)	10.8	7.9	1.9	244.8	7.2	16.6
Eastern Cem (EPCC)	N	1,045	(3.0)	(8.6)	11.3	8.8	2.0	285.8	6.6	16.7
Arabian Cem* (ACC)	NC	771	(5.1)	(17.0)	8.3	9.2	1.2	204.4	5.5	13.0
Al Jouf Cem (TCC)	NC	470	N/A	35.5	N/A	N/A	N/A	N/A	N/A	N/A
Tabuk Cem* (TCC)	NC	439	(0.3)	(5.7)	12.8	6.2	1.5	211.5	6.8	11.2

Source: NCBC Research, All prices as of September 27, 2010, * On a TTM basis
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

Farouk Miah
f.miah@ncbc.com
+966 2690 7717

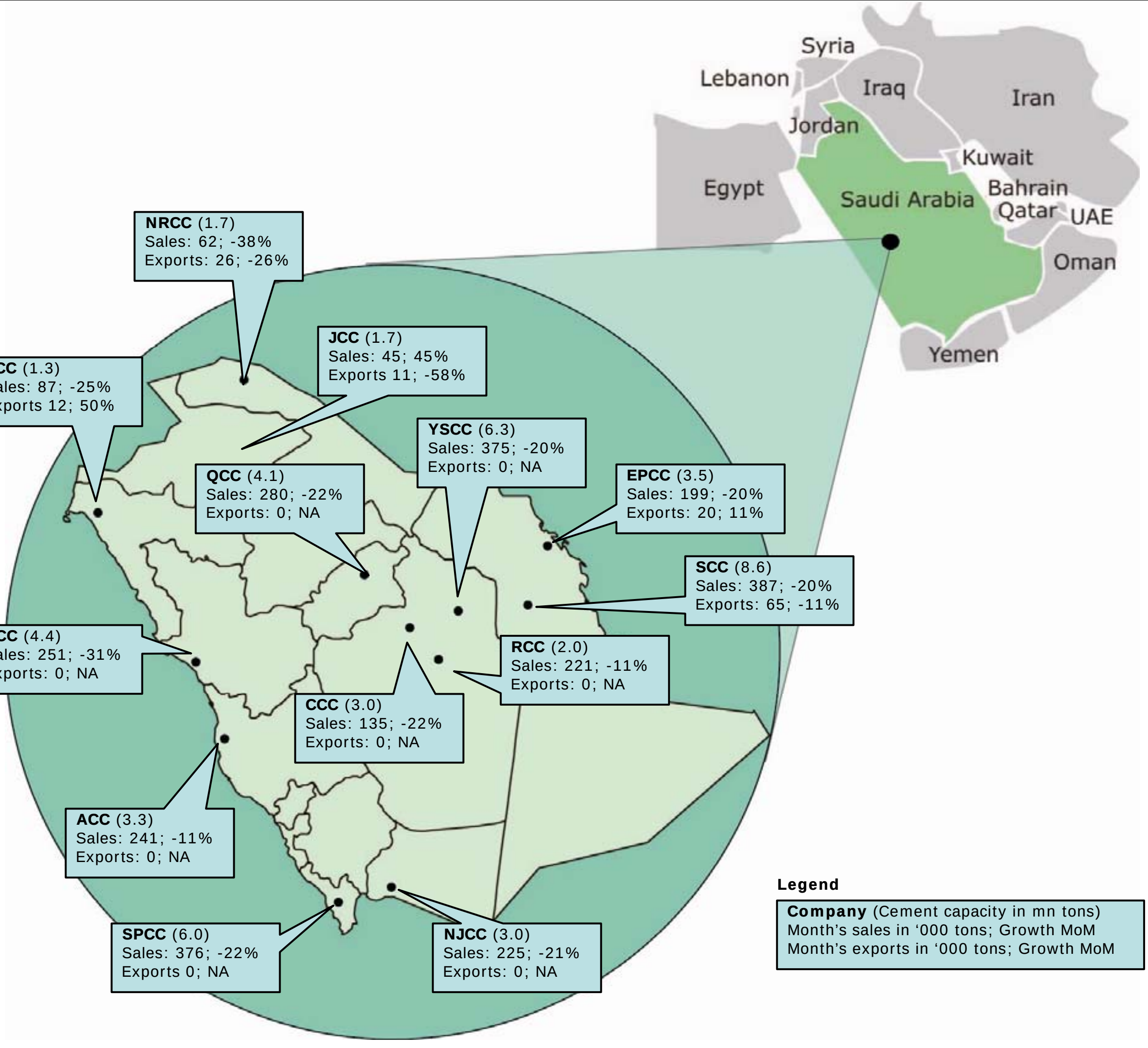
Industry snapshot

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

In Aug-10, total cement sales in KSA stood at 2.88 million tons versus 3.06 million tons in Aug-09 and 3.63 million tons in Jul-10. Domestic Clinker sales in Aug-10 stood at 45,000 tons compared to 47,000 tons in Jul-10 and 33,000 tons in Aug-09.

In Aug-10, cement and clinker exports stood at 134,000 tons and 93,000 tons respectively. Five companies exported cement during the month-Saudi Cement, Eastern Province Cement, Tabuk Cement, Northern Region Cement and Al Jouf Cement.

Exhibit 2: August-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

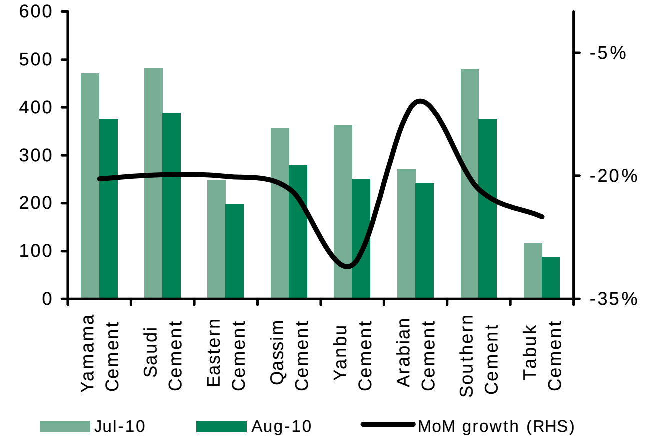
Domestic sales

In Aug-10 domestic sales of cement was down 5.7% YoY to 2.88mn tons, the first fall in sales for the sector since Sep-08. The performance of the private players was a key support to the sector performance; the four private companies saw a 22% YoY increase in domestic cement sales against a 11% fall for the listed companies; the second consecutive month of negative YoY growth since the end of 2008.

On a MoM basis, total domestic cement and clinker sales declined 20% compared to the 3.68 million tons in Jul-10. Eastern Cement reported the biggest YoY fall of 24%; Saudi Cement reported the best figures in domestic sales volumes, down 1.3% YoY.

Exhibit 3: Domestic cement sales– MoM

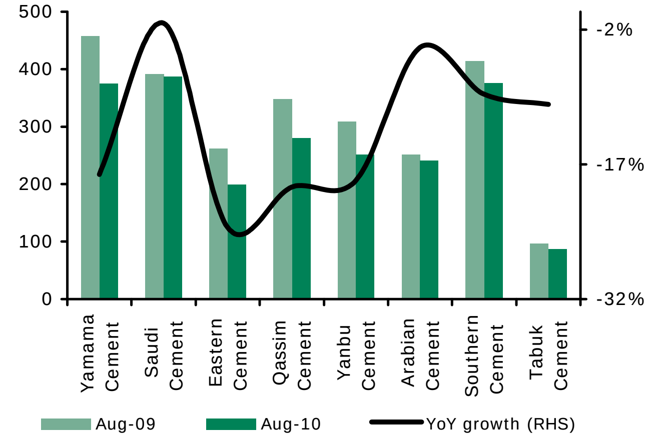
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 4: Domestic cement sales– YoY

('000 tons)



Source: Yamama Cement, NCBC Research

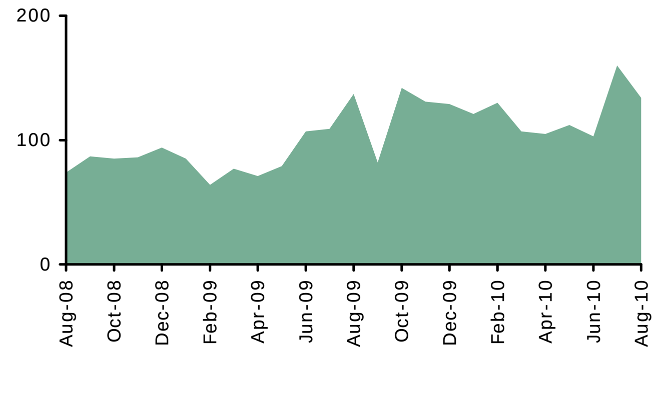
(Please refer to the Appendix on Page 9 for company-specific charts.)

Exports

The Kingdom's cement exports decreased to 134,000 tons in Aug-10 compared to 160,000 tons in Jul-10 and 137,000 tons in Aug-09. However, clinker exports went up to 93,000 tons in Aug-10 from 75,000 tons in Jul-10. Clinker exports in Aug-09 came to 12,000 tons.

Exhibit 5: KSA's total cement exports

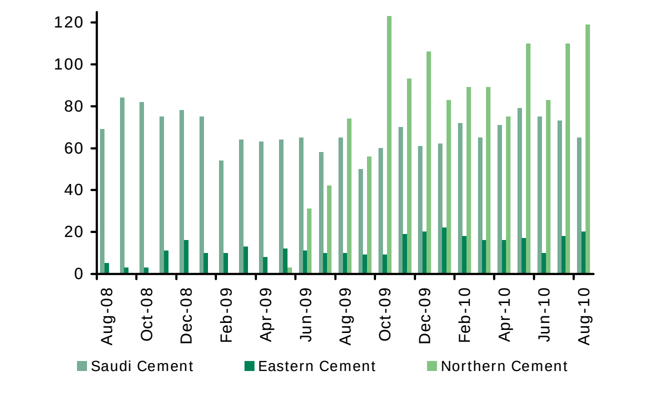
Units (mn 000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 6: Exports by SCC, EPCC and NRCC

('000 tons)



Source: Yamama Cement, NCBC Research

In Aug-10, Saudi Cement, Eastern Province Cement, Northern Region Cement, Tabuk Cement and Al Jouf Cement exported cement. Saudi Cement's exports decreased to 65,000 tons in Aug-10 against 73,000 tons in Jul-10. Exports increased marginally at Eastern and Tabuk whilst falling at Northern Cement. Al Jouf Cement exports decreased to 11,000 tons in Aug-10 against 26,000 in Jul-10. Northern Region Cement continues to remain the only exporter of clinker in KSA and exported 93,000 tons during the month compared to 75,000 tons in Jul-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 3.05 million tons of cement in Aug-10, down 5.5% YoY and 21.6% MoM.

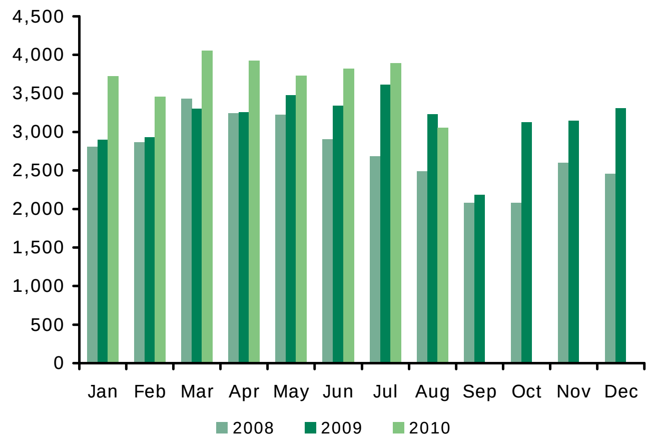
All of the listed companies reported decline in cement production on a MoM basis. On a YoY basis, Saudi Cement, among the listed firms, was the only company to report increase in production at 7.7%.

Clinker production increased 11.8% on a YoY basis and 4.4% on MoM basis in Aug-10. Southern Cement had the worst performance in terms of clinker production, down 22% YoY.

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

Exhibit 7: Cement production

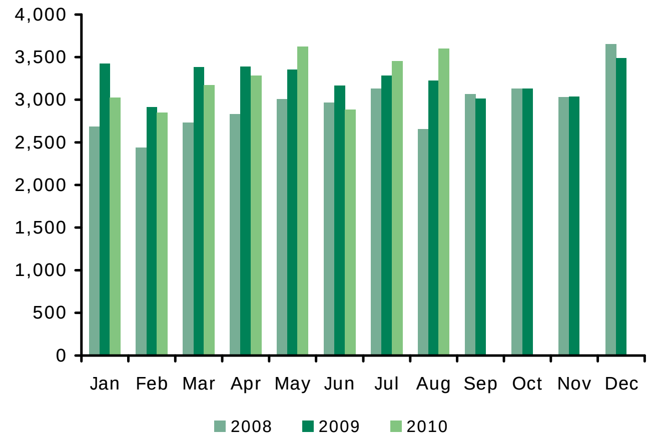
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 8: Clinker production

('000 tons)



Source: Yamama Cement, NCBC Research

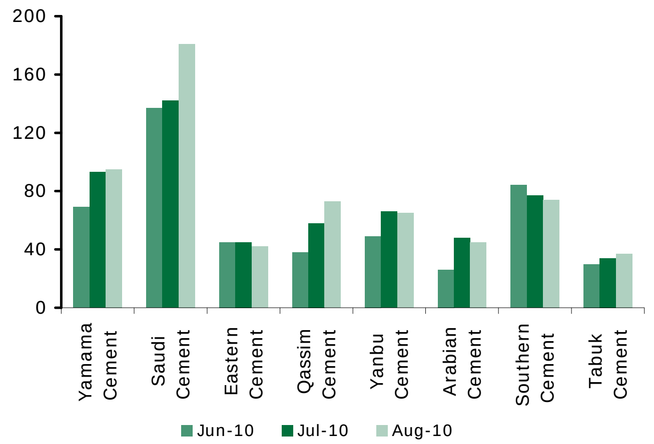
Inventory / stock

Clinker stock at the manufacturer level increased 8.1% MoM to 8.63 million tons, as a result of a rise in clinker production coupled with poor cement sales. On a YoY basis, clinker stock decreased by 6.5%.

Cement stock was down by 13.7% on a YoY basis due to the decrease in production, but was up 4.9% on a MoM basis.

Exhibit 9: Cement stock

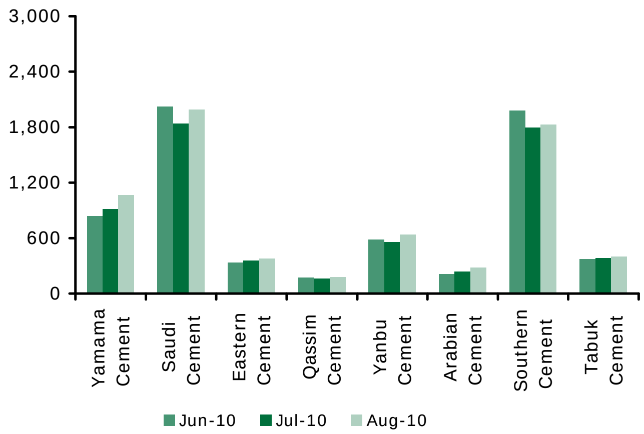
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 10: Clinker stock

('000 tons)

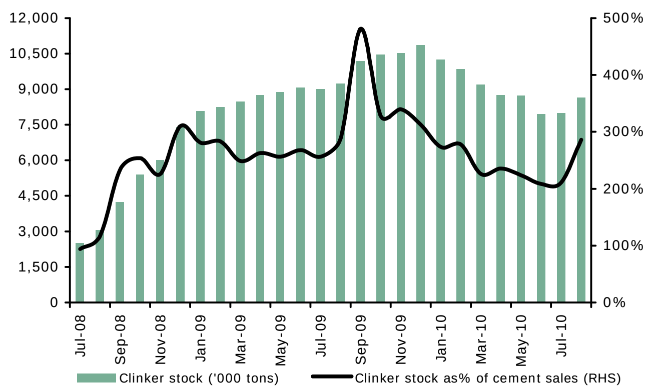


Source: Yamama Cement, NCBC Research

Clinker stock as a percentage of sales increased to 286% compared to 211% in Jul-10. Company wise, Qassim Cement continues to hold the lowest clinker stock at 63% as a percentage of Aug-10 sales. On the other hand, among the listed companies, Southern Cement continued as holder of the highest clinker stock percentage at 486% of Aug-10 sales compared to 374% in Jul-10.

Exhibit 11: Clinker stock

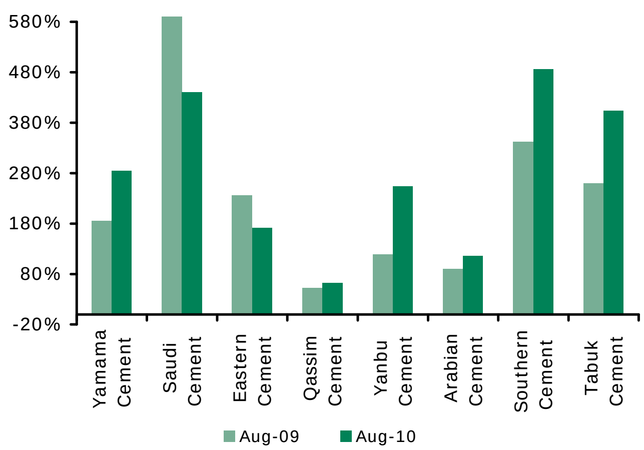
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 12: Clinker stock

(as % of sales)



Source: Yamama Cement, NCBC Research

Market share

In Aug-10, seven companies lost domestic cement market share to six companies. Arabian Cement was the biggest listed gainer of the month increasing its share by 0.89% to 8.36%. On the other hand, Yanbu Cement was the biggest loser of the month with market share falling by 1.30% to 8.7%. 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 0.71% in Aug-10.

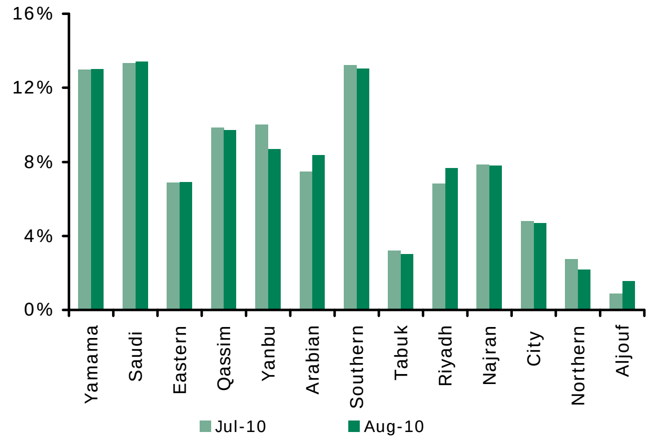
Gainers: Yamama Cement (0.02%), Saudi Cement (0.11%), Eastern Cement (0.04%), Arabian Cement (0.89%), Riyadh Cement (0.83%) and Al Jouf Cement (0.71%).

Decliners: Qassim Cement (-0.13%), Yanbu Cement (-1.30%), Southern Cement (-0.19%), Tabuk Cement (-0.18%), Najran Cement (-0.05%), City Cement (-0.12%) and Northern Cement (-0.61%)

The private player's market share for domestic cement sales grew 0.05% MoM to 22.3% in Aug-10 and up from 17.2% in Aug-09. If we include exports and sales of clinker, private player market share is at an all time high of 24.1%.

Exhibit 13: Domestic market share – cement sales

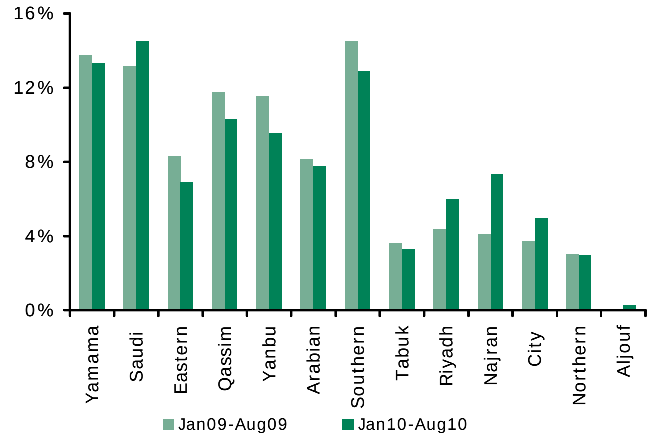
MoM



Source: Yamama Cement, NCBC Research

Exhibit 14: Domestic market share – cement sales

YTD



Source: Yamama Cement, NCBC Research

Valuation

As of 27 September 2010, the cement sector index was up just 0.2% YTD, versus the TASI which is up 5.4% during the same period. Exhibit 15 shows the valuation multiples of all listed cement companies in the Kingdom.

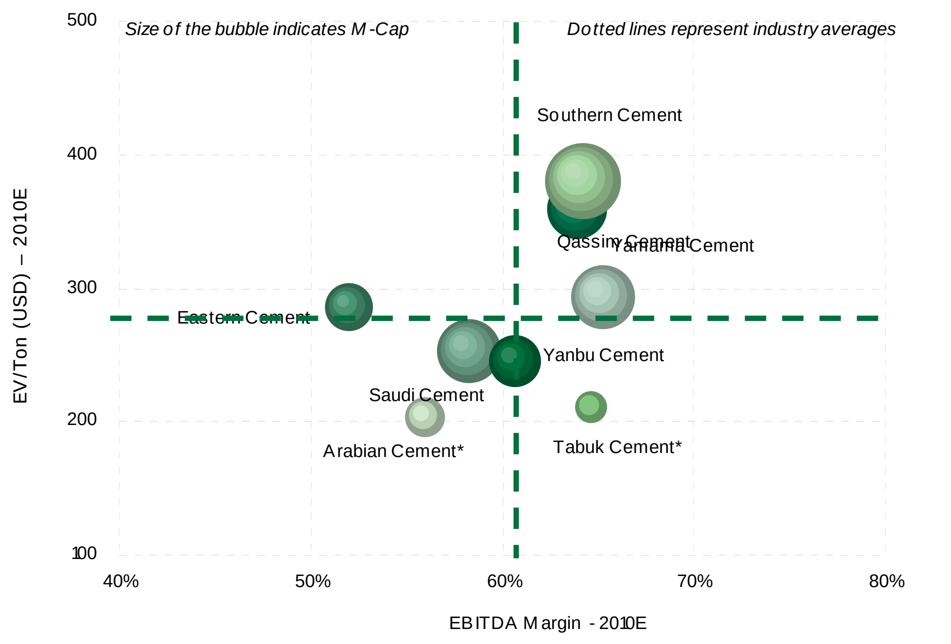
Exhibit 15: Saudi cement companies – Valuation matrix

Company	Reuters	Rating	M-Cap $ mn	Stock perfor. (%) Aug-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	2,477	0.8	(1.1)	13.5	10.6	3.7	380.6	7.5	28.0	24.5
Yamama Cement	3020.SE	Overweight	1,874	(2.9)	9.7	10.6	8.1	2.3	291.8	6.7	21.0	17.8
Saudi Cement	3030.SE	Neutral	1,830	(0.2)	16.9	10.3	9.3	2.2	253.1	5.1	20.5	13.2
Qassim Cement	3040.SE	Neutral	1,574	(2.6)	(5.8)	11.6	9.3	3.2	360.8	7.6	27.9	23.0
Yanbu Cement	3060.SE	Neutral	1,175	(1.2)	(13.6)	10.8	7.9	1.9	244.8	7.2	16.6	14.2
Eastern Cement	3080.SE	Neutral	1,045	(3.0)	(8.6)	11.3	8.8	2.0	285.8	6.6	16.7	14.8
Arabian Cement*	3010.SE	NC	771	(5.1)	(17.0)	8.3	9.2	1.2	204.4	5.5	13.0	7.7
Al Jouf Cem (TCC)	3091.SE	NC	470	N/A	35.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tabuk Cement*	3090.SE	NC	439	(0.3)	(5.7)	12.8	6.2	1.5	211.5	6.8	11.2	9.5

Source: NCBC Research, All prices as of September 27, 2010, * On a TTM basis

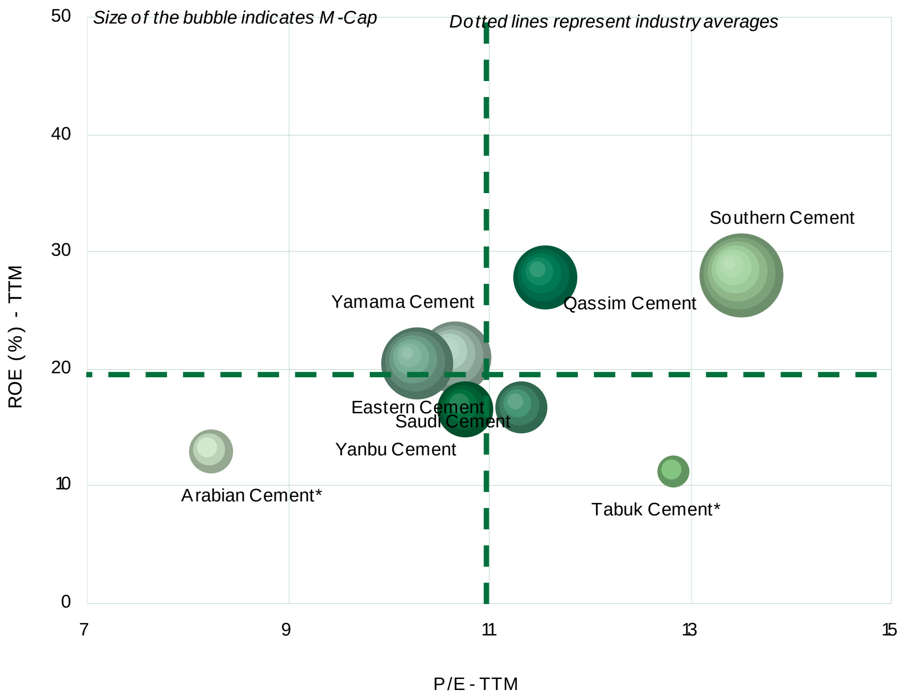
Exhibits 16 and 17 capture the current valuation of Saudi cement companies.

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)

			% chg		% chg	(Jan-Aug)		% chg
Description	**Aug-10**	**Aug-09**	**YoY**	**Jul -10**	**MoM**	**2010**	**2009**	**YoY**
Production								
Cement	3,053	3,230	(5.5)	3,893	(21.6)	29,665	26,060	13.8
Clinker	3,602	3,222	11.8	3,451	4.4	25,882	26,126	(0.9)
Domestic Sales								
Cement	2,884	3,058	(5.7)	3,628	(20.5)	28,612	25,327	13.0
Clinker	45	33	36.4	47	(4.3)	552	259	113.1
Company-wise Production								
Yamama Cement	377	452	(16.6)	495	(23.8)	3,847	3,472	10.8
Saudi Cement	491	456	7.7	561	(12.5)	4,762	3,885	22.6
Eastern Cement	216	270	(20.0)	267	(19.1)	2,115	2,192	(3.5)
Qassim Cement	295	364	(19.0)	377	(21.8)	2,972	2,958	0.5
Yanbu Cement	250	336	(25.6)	380	(34.2)	2,727	2,943	(7.3)
Arabian Cement	238	254	(6.3)	292	(18.5)	2,202	2,072	6.3
Southern Cement	373	399	(6.5)	473	(21.1)	3,654	3,648	0.2
Tabuk Cement	102	116	(12.1)	128	(20.3)	973	928	4.8
Al Jouf Cement	49	N/A	N/A	73	N/A	122	N/A	N/A
Others	662	583	13.6	847	(21.8)	6,291	3,962	58.8
Company-wise Domestic Sales								
Yamama Cement	375	458	(18.1)	471	(20.4)	3,809	3,481	9.4
Saudi Cement	387	392	(1.3)	483	(19.9)	4,149	3,332	24.5
Eastern Cement	199	262	(24.0)	249	(20.1)	1,973	2,104	(6.2)
Qassim Cement	280	348	(19.5)	357	(21.6)	2,948	2,974	(0.9)
Yanbu Cement	251	309	(18.8)	363	(30.9)	2,733	2,928	(6.7)
Arabian Cement	241	251	(4.0)	271	(11.1)	2,215	2,061	7.5
Southern Cement	376	414	(9.2)	480	(21.7)	3,685	3,668	0.5
Tabuk Cement	87	97	(10.3)	116	(25.0)	947	920	2.9
Al Jouf Cement	45	N/A	N/A	31	N/A	76	N/A	N/A
Others	643	527	22.0	807	(20.3)	6,077	3,859	57.5

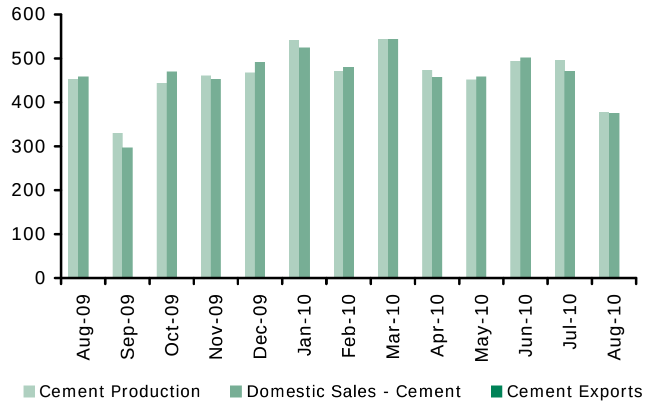
Source: Yamama Cement, NCBC Research

Appendix 2 - Chart gallery – Company data

YAMAMA CEMENT (YSCC)

Exhibit 19: Production and sales

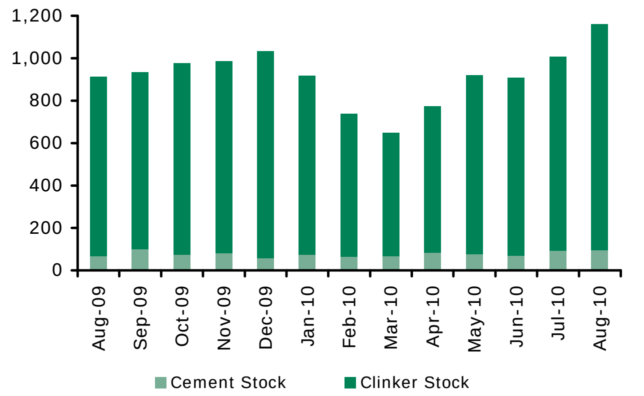
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 20: Stock - Cement and clinker

('000 tons)

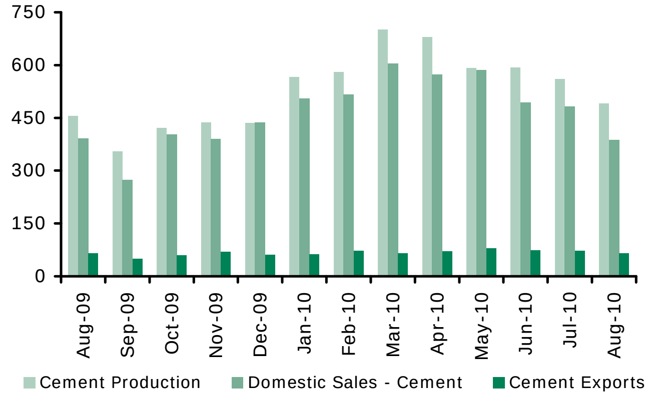


Source: Yamama Cement, NCBC Research

SAUDI CEMENT (SCC)

Exhibit 21: Production and sales

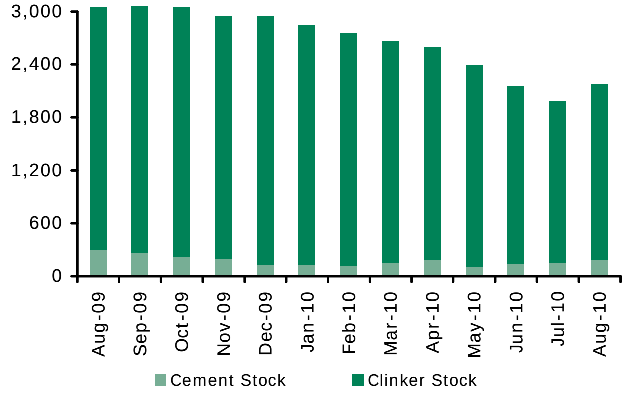
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 22: Stock - Cement and clinker

('000 tons)

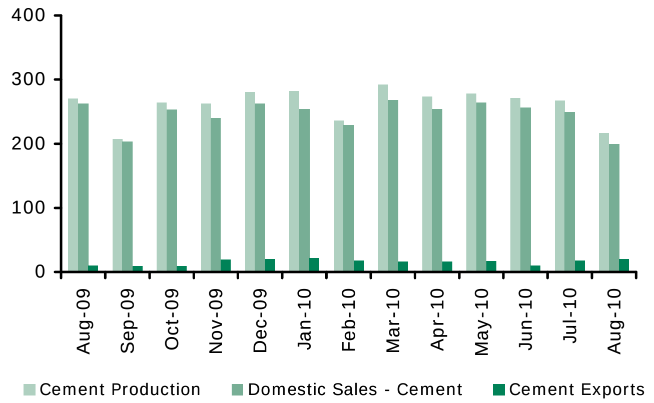


Source: Yamama Cement, NCBC Research

EASTERN PROVINCE CEMENT (EPCC)

Exhibit 23: Production and sales

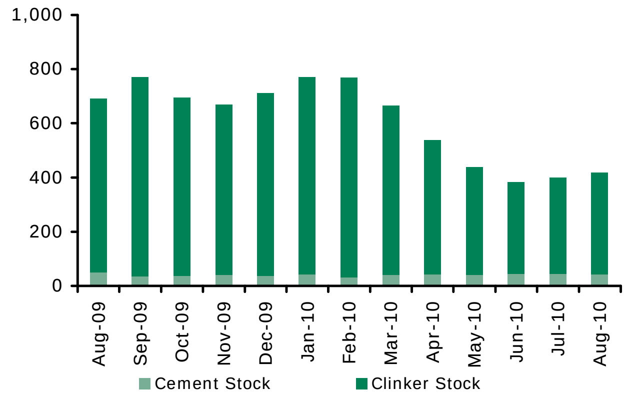
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 24: Stock - Cement and clinker

Units ('000 tons)

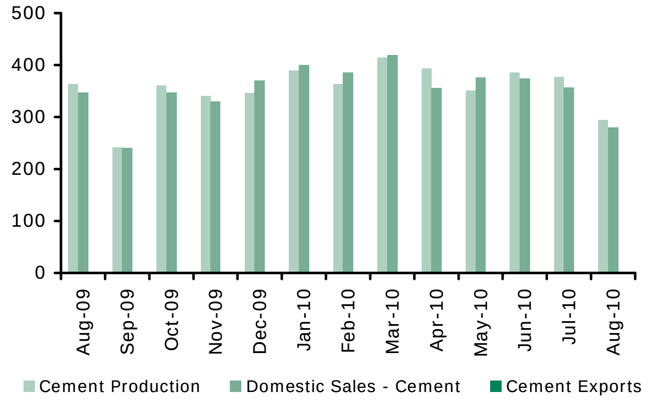


Source: Yamama Cement, NCBC Research

QASSIM CEMENT (QCC)

Exhibit 25: Production and sales

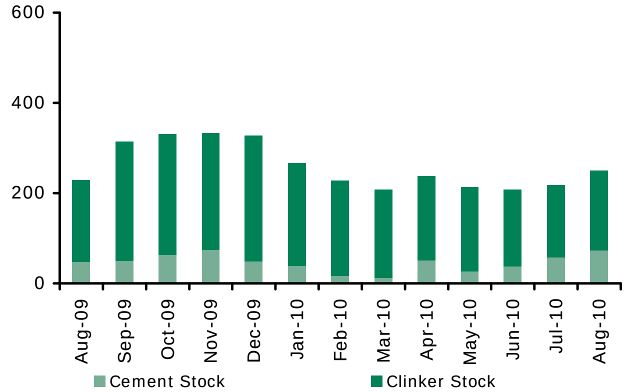
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 26: Stock - Cement and clinker

('000 tons)

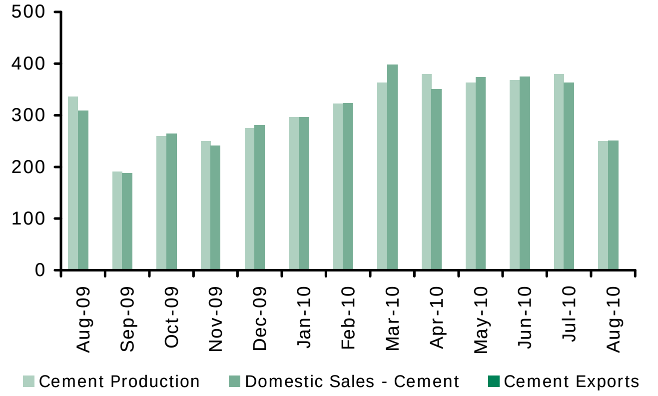


Source: Yamama Cement, NCBC Research

YANBU CEMENT (YCC)

Exhibit 27: Production and sales

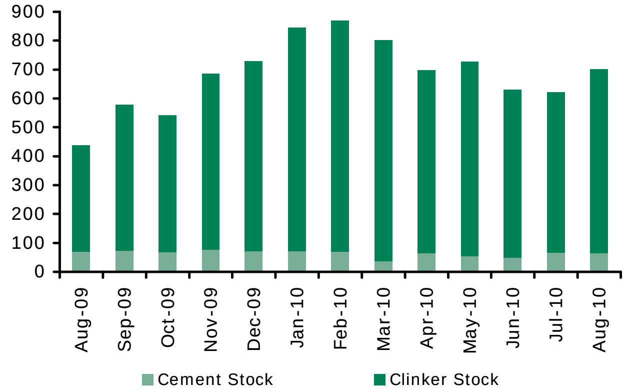
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 28: Stock - Cement and clinker

('000 tons)

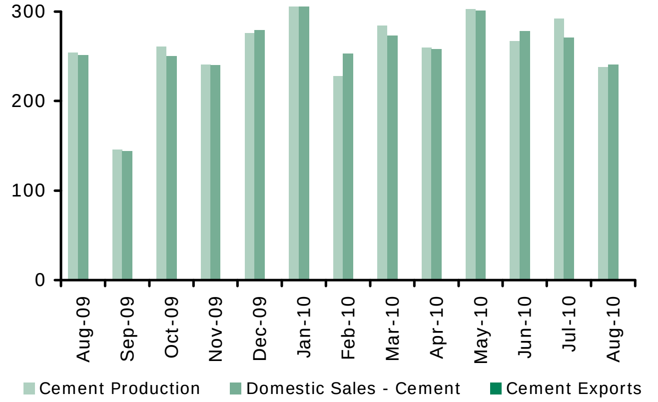


Source: Yamama Cement, NCBC Research

ARABIAN CEMENT (ACC)

Exhibit 29: Production and sales

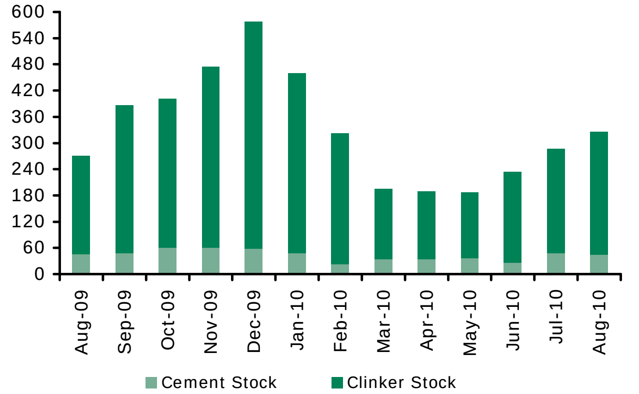
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 30: Stock - Cement and clinker

('000 tons)

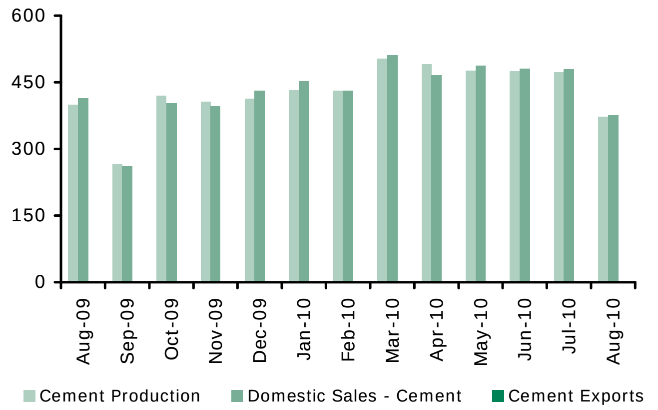


Source: Yamama Cement, NCBC Research

SOUTHERN PROVINCE CEMENT (SPCC)

Exhibit 31: Production and sales

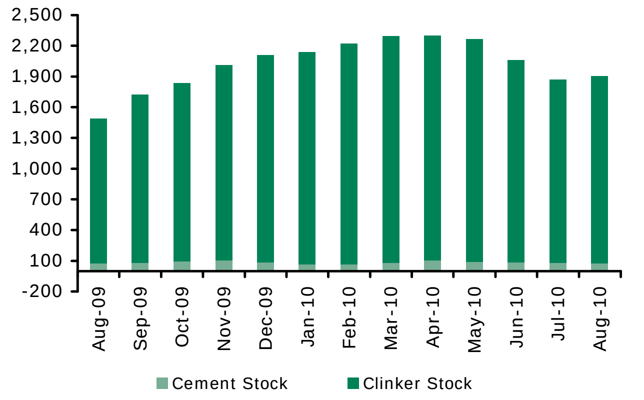
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 32: Stock - Cement and clinker

('000 tons)

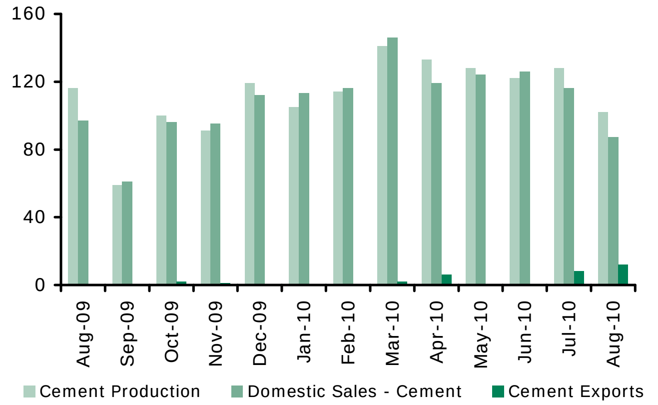


Source: Yamama Cement, NCBC Research

TABUK CEMENT (TCC)

Exhibit 33: Production and sales

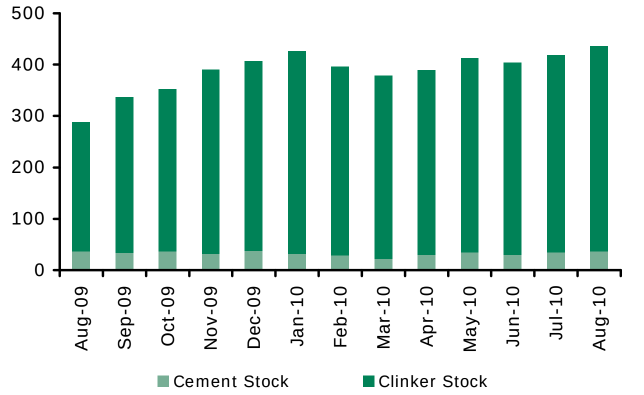
('000 tons)



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		

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

Head of Research	Eiji Aono	e.aono@ncbc.com	+966 2 690 7786

Brokerage website www.alahlitadawul.com / www.alahlibrokerage.com

Corporate website www.ncbc.com