NCB CAPITAL

Cement Monthly

JUNE 2010

KSA Cement Sector

Domestic clinker sales aiding numbers

Sales of cement in KSA remained weak, up only 11.8% YoY, the second lowest growth figure in 16 months. However, due to increased sales of clinker in KSA and continued growth of cement exports, the overall sector cement and clinker sales increased by a reasonable 18.7% YoY in May-10.

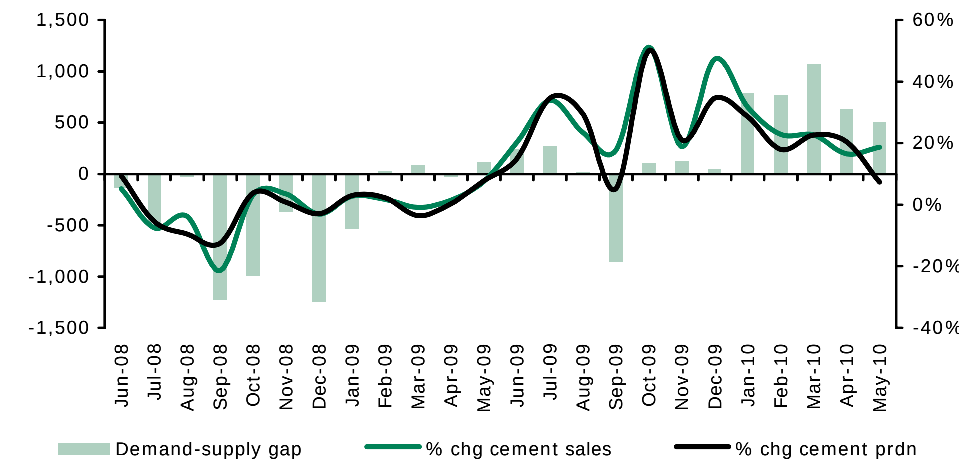
Sales: Total cement and clinker sales including exports for May-10 stood at 4.12 million tons, reporting an increase of 18.7% YoY and 5% MoM.

Exports: Cement exports stood at 112,000 tons in May-10, up 41.8% YoY. On a MoM basis, cement exports also grew 7% from 105,000 tons in Apr-10.

Production: In May-10 cement production decreased by 4.9% MoM to 3.73 million tons. However, clinker production increased by 10% MoM to 3.62 million tons.

Stock: Clinker stock as a percentage of domestic cement sales decreased to 223% from 233% in April-10 and the high of 481% in Sep-09.

Chart of the month: Cement demand continues to outstrip clinker production, reversing the trend of the past 18 months



Source: Yamama Cement, NCBC Research

Exhibit 1: Saudi cement companies – Valuation matrix

Company	Rating	MCap $mn	Stock perf (%) May	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	2,533	(3.2)	1.9	13.6	10.6	4.1	389.7	7.4	28.4
Saudi Cem (SCC)	N	1,818	(16.9)	15.8	10.4	9.4	2.4	251.7	5.2	20.3
Yamama Cem (YSCC)	OW	1,820	(11.5)	6.5	10.8	8.1	2.3	283.2	6.9	20.2
Qassim Cem (QCC)	N	1,682	(6.6)	2.2	11.8	9.6	3.7	387.0	7.1	29.1
Yanbu Cem (YCC)	N	1,206	(7.0)	(11.3)	10.5	7.8	2.0	251.6	7.0	17.3
Eastern Cem (EPCC)	N	983	(8.6)	(13.7)	9.4	7.3	2.0	268.0	7.0	18.6
Arabian Cem* (ACC)	NC	805	(17.2)	(14.0)	8.6	9.5	1.3	210.7	5.3	13.0
Tabuk Cem* (TCC)	NC	424	(5.4)	(9.0)	12.4	6.0	1.5	202.4	7.1	11.2

Source: NCBC Research, All prices as of June 20, 2010, * On a TTM basis
N: Neutral, UW: Underweight, OW: Overweight, NC: Not Covered

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Please refer to the last page for important disclaimer

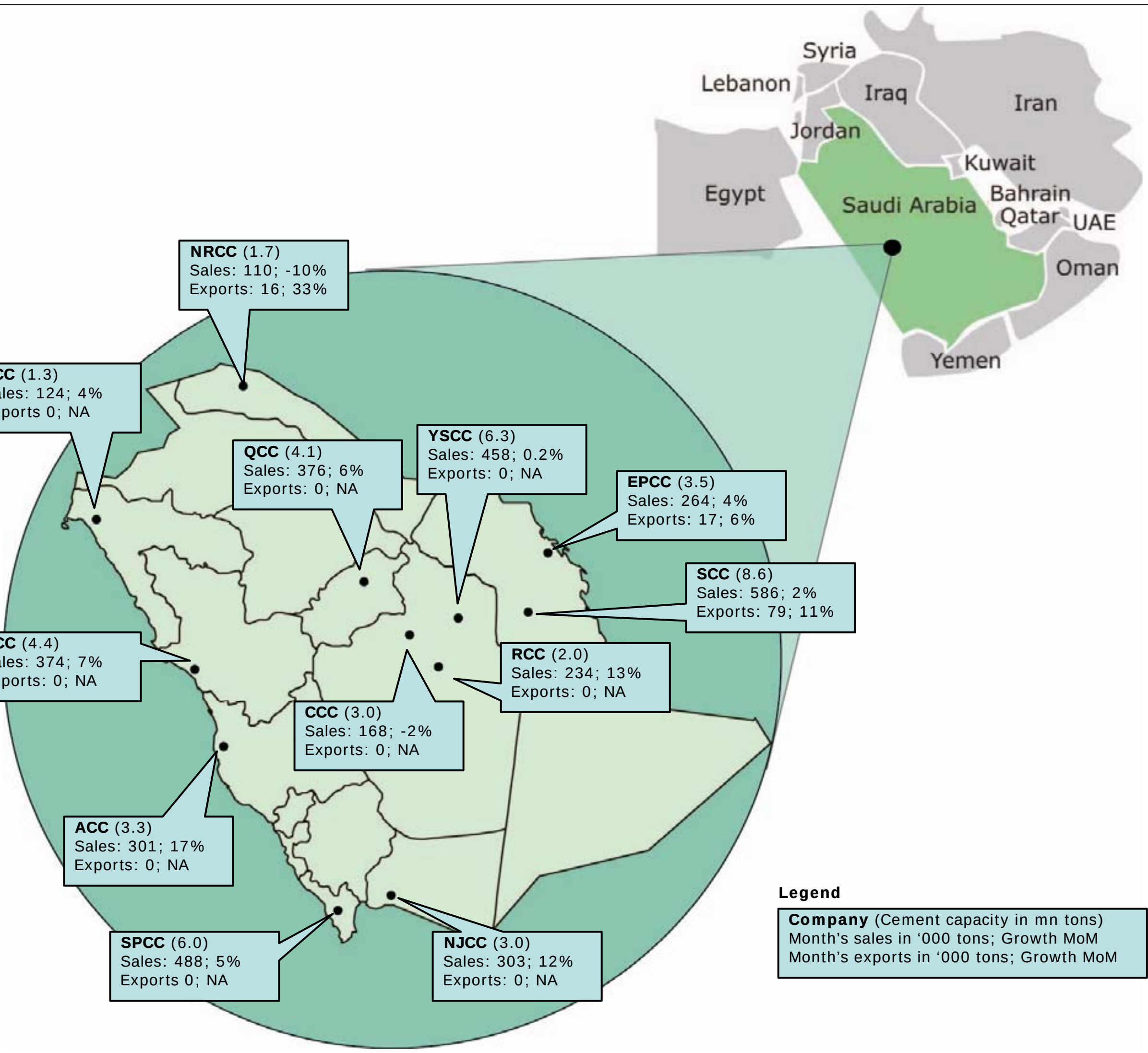
Industry snapshot

The Kingdom of Saudi Arabia (KSA) has 12 cement companies with an estimated annual cement production capacity of 48 million tons.

In May-10, total cement sales in KSA stood at 3.79 million tons versus 3.61 million tons in April-10 and 3.39 million tons in May-09. Domestic Clinker sales in May-10 stood at 128,000 tons compared to 140,000 tons in Apr-10 and 7,000 tons in May-09.

In May-10, cement and clinker exports stood at 112,000 tons and 94,000 tons respectively. Four companies exported cement during the month-Saudi Cement, Eastern Province Cement and Northern Region Cement.

Exhibit 2: May-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

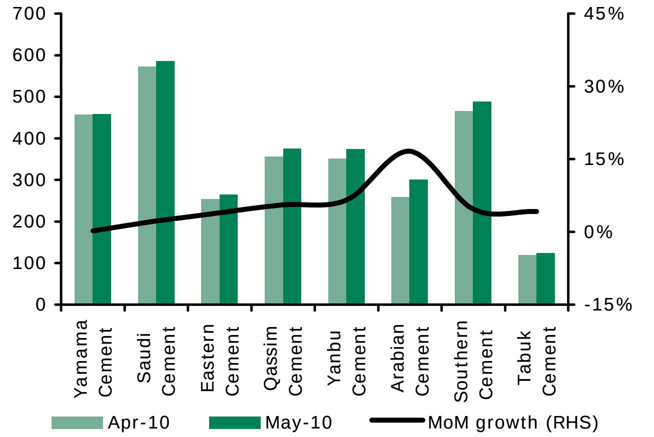
Domestic sales

In May-10, cement and clinker sales in Saudi Arabia were up 15.4% YoY to 3.91 mn tons compared to 3.39 mn tons in May-09. However, there was a big discrepancy between cement and clinker; domestic cement sales went up 11.8% YoY to 3.79 mn tons, but clinker sales increased manyfold (1729%) YoY from 7k tons to 128k tons.

On a MoM basis, total domestic cement and clinker sales grew by 5% compared to the 3.75 million tons in April-10. Most companies reported YoY increase in volumes with Najran the best with volumes up 109% YoY. Both Saudi and Eastern Cement also reported a good 37% increase in domestic sales on YoY basis with Yamama reporting a mild growth at 3%. Yanbu and Northern were the only two companies that witnessed fall in sales volumes.

Exhibit 3: Domestic cement sales– MoM

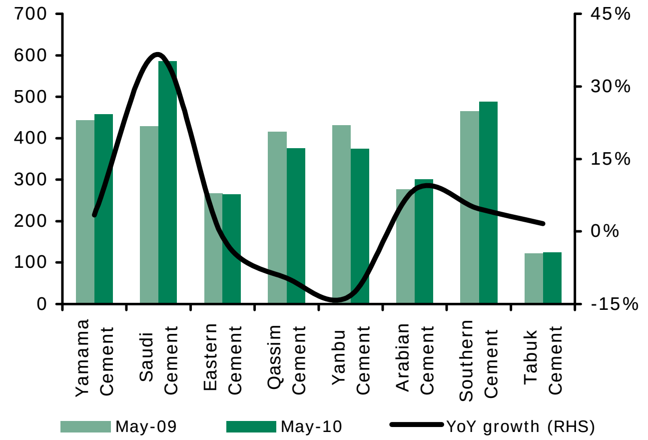
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 4: Domestic cement sales– YoY

('000 tons)



Source: Yamama Cement, NCBC Research

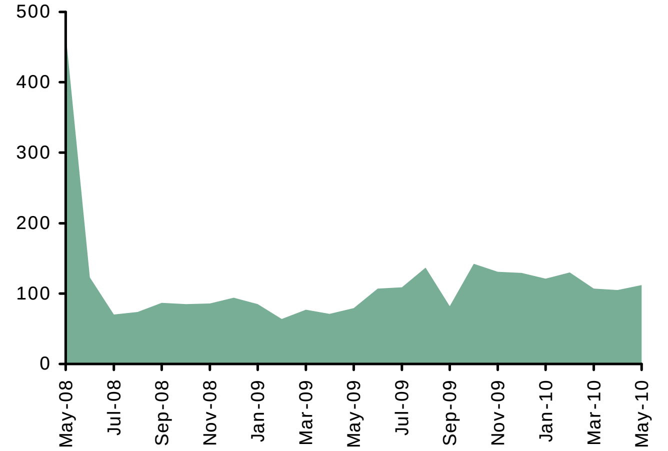
(Please refer to the Appendix on Page 9 for company-specific charts.)

Exports

The Kingdom's cement exports increased to 112,000 tons in May-10 compared to 105,000 tons in April-10 and up a significant 42% YoY from 79,000 tons in May-09. Additionally, clinker exports increased to 94,000 tons in May-10 compared to 63,000 tons in April-10. Companies did not export clinker at all in May-09.

Exhibit 5: KSA's total cement exports

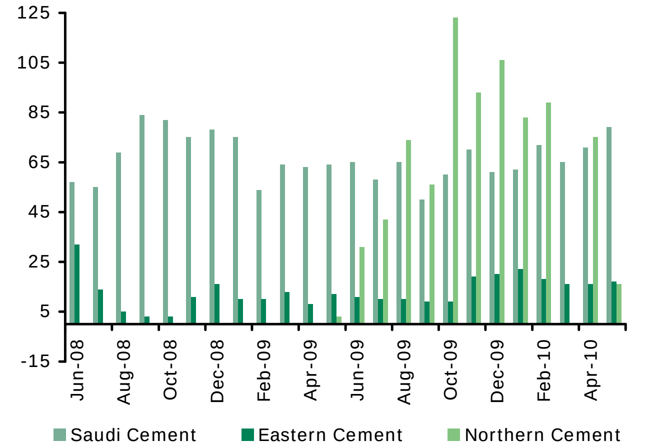
Units (mn 000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 6: Exports by SCC, EPCC and NRCC

('000 tons)



Source: Yamama Cement, NCBC Research

In May-10, Saudi Cement, Eastern Province Cement and Northern Region Cement exported cement. Saudi Cement exports increased to 79,000 tons in May-10 against 71,000 tons in April-10. Northern Region Cement continues to remain the only exporter of clinker in KSA and exported 94,000 tons during the month compared to 63,000 tons in April-10.

Production

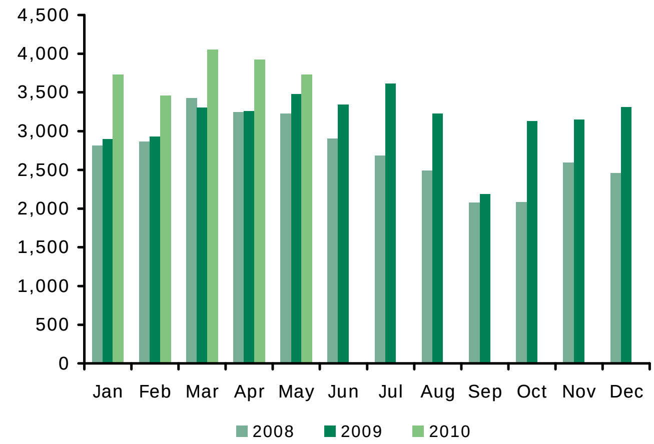
Saudi Arabia produced 3.73 million tons of cement in May-10, up 7.3% YoY but down 4.9% MoM from 3.93 million tons in April-10. Furthermore, clinker production grew 7.9% on YoY and was up 10% on MoM basis May-10.

All the companies reported decreases in cement production on a MoM basis except Eastern, Arabian and Najran. On a YoY basis, Saudi Cement, among the listed firms, reported the highest increase at 14%.

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

Exhibit 7: Cement production

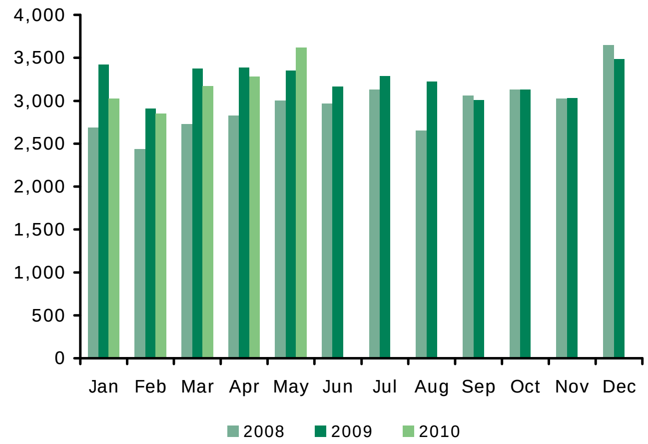
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 8: Clinker production

('000 tons)



Source: Yamama Cement, NCBC Research

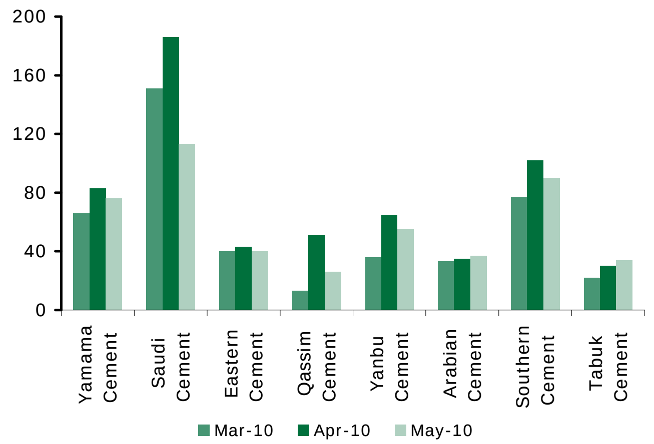
Inventory / stock

Clinker stock at the manufacturer level decreased for the fifth consecutive month by 0.3% MoM to 8.71 million tons, as a result of a decline in clinker production. On a YoY basis, clinker stock decreased by 1.8%.

Cement stock decreased by 5.0% on a YoY basis due to the decrease in production. It also decreased significantly on a MoM basis, up 21.9%.

Exhibit 9: Cement stock

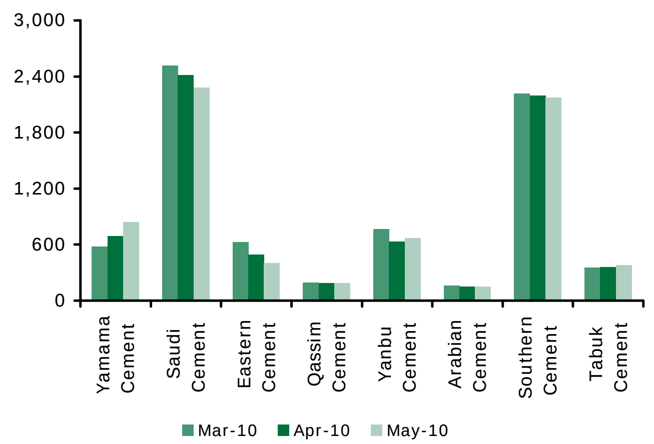
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 10: Clinker stock

('000 tons)

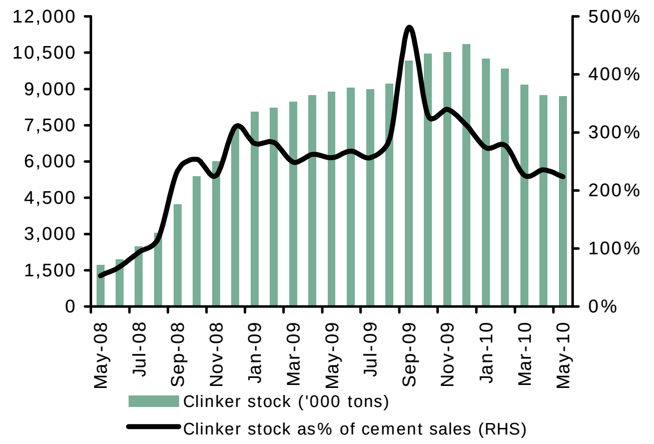


Source: Yamama Cement, NCBC Research

Clinker stock as a percentage of sales decreased to 224% compared to 236% in Apr-10. Company wise, Qassim Cement continues to hold the lowest clinker stock at 50% as a percentage of May-10 sales. On the other hand, among the listed companies, Southern Cement continued as holder of the highest clinker stock percentage at 445% of May-10 sales compared to 471% in Apr-10.

Exhibit 11: Clinker stock

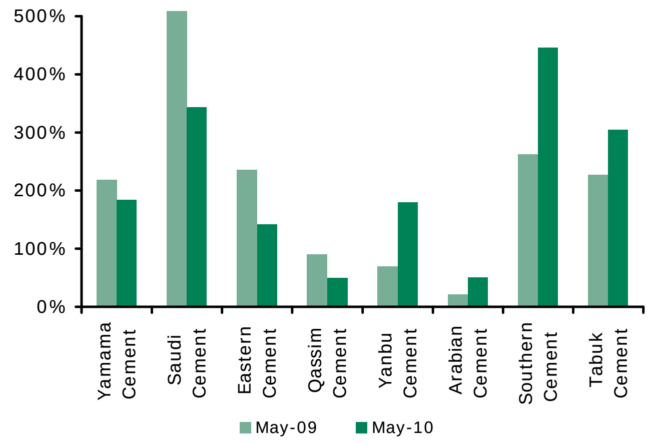
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 12: Clinker stock

(as % of sales)



Source: Yamama Cement, NCBC Research

Market share

In May-10, five companies lost domestic market share to seven companies. Arabian Cement was the biggest gainer of the month increasing its share by 0.79%. On the other hand, Yamama Cement was the biggest loser of the month with market share falling by 0.58%.

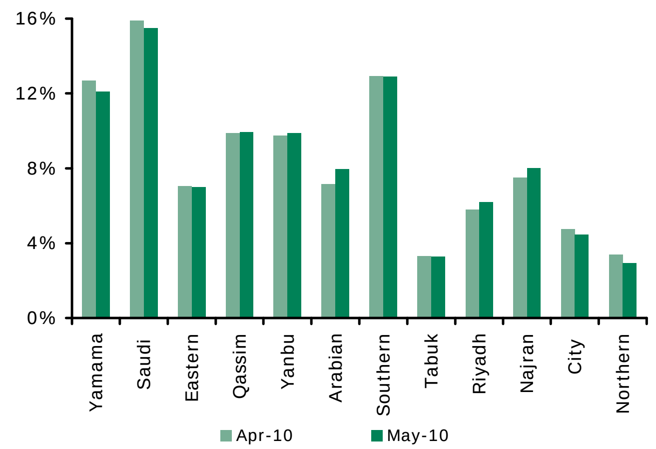
Winners: Najran Cement (0.51%), Arabian Cement (0.79%), Riyadh Cement (0.41%), Qassim Cement (0.06%), Yanbu Cement (0.14%)

Losers: Southern Cement (-0.04%), Northern Cement (-0.48%), Saudi Cement (-0.42%), Eastern Cement (-0.07%), Tabuk Cement (-0.03%), Yamama Cement (-0.58%), City Cement (-0.31%),

The private player's market share increased to 21.5% from 15.8% a year ago and 21.4% in Apr-10.

Exhibit 13: Domestic market share – cement sales

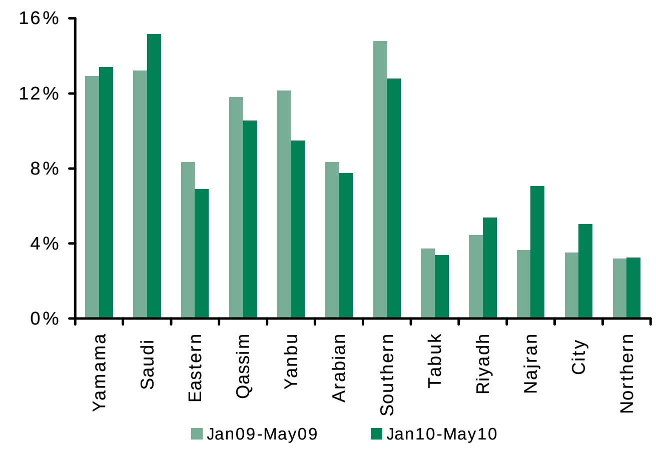
MoM



Source: Yamama Cement, NCBC Research

Exhibit 14: Domestic market share – cement sales

YTD



Source: Yamama Cement, NCBC Research

Valuation

As of 20 June 2010, the cement sector index was up a marginal 0.4% YTD, versus TASI which was up 4.8% during the same period. Exhibit 15 shows the valuation multiples of all listed cement companies in the Kingdom.

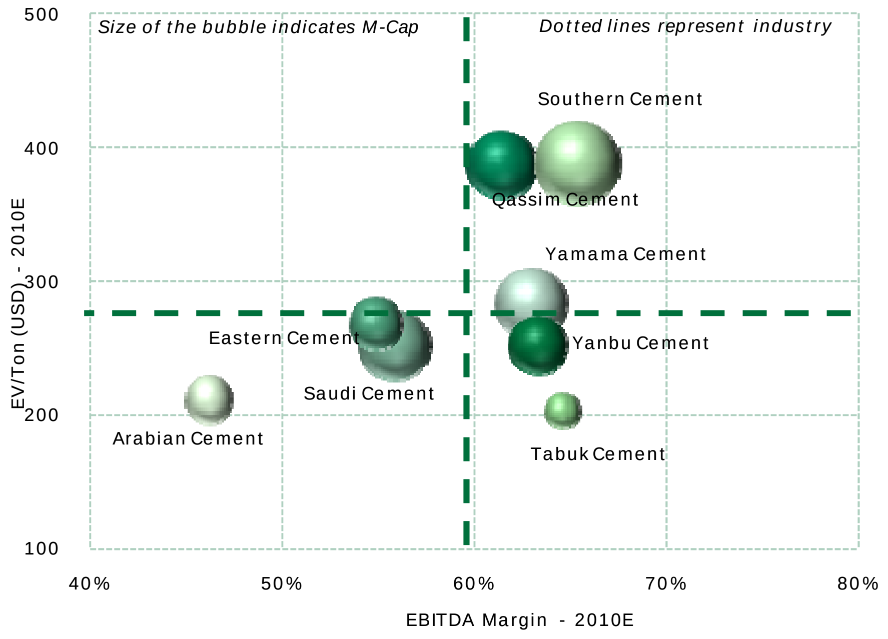
Exhibit 15: Saudi cement companies – Valuation matrix

Company	Reuters	Rating	M-Cap $ mn	Stock perfor. (%) May-10	Stock perfor. (%) 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	2,533	(3.2)	1.9	13.6	10.6	4.1	389.7	7.4	28.4	24.9
Saudi Cement	3030.SE	Neutral	1,818	(16.9)	15.8	10.4	9.4	2.4	251.7	5.2	20.3	13.0
Yamama Cement	3020.SE	Overweight	1,820	(11.5)	6.5	10.8	8.1	2.3	283.2	6.9	20.2	17.1
Qassim Cement	3040.SE	Neutral	1,682	(6.6)	2.2	11.8	9.6	3.7	387.0	7.1	29.1	24.0
Yanbu Cement	3060.SE	Neutral	1,206	(7.0)	(11.3)	10.5	7.8	2.0	251.6	7.0	17.3	14.8
Eastern Cement	3080.SE	Neutral	983	(8.6)	(13.7)	9.4	7.3	2.0	268.0	7.0	18.6	16.5
Arabian Cement*	3010.SE	NC	805	(17.2)	(14.0)	8.6	9.5	1.3	210.7	5.3	13.0	7.7
Tabuk Cement*	3090.SE	NC	424	(5.4)	(9.0)	12.4	6.0	1.5	202.4	7.1	11.2	9.5

Source: NCBC Research, All prices as of June 20, 2010, * On a TTM basis

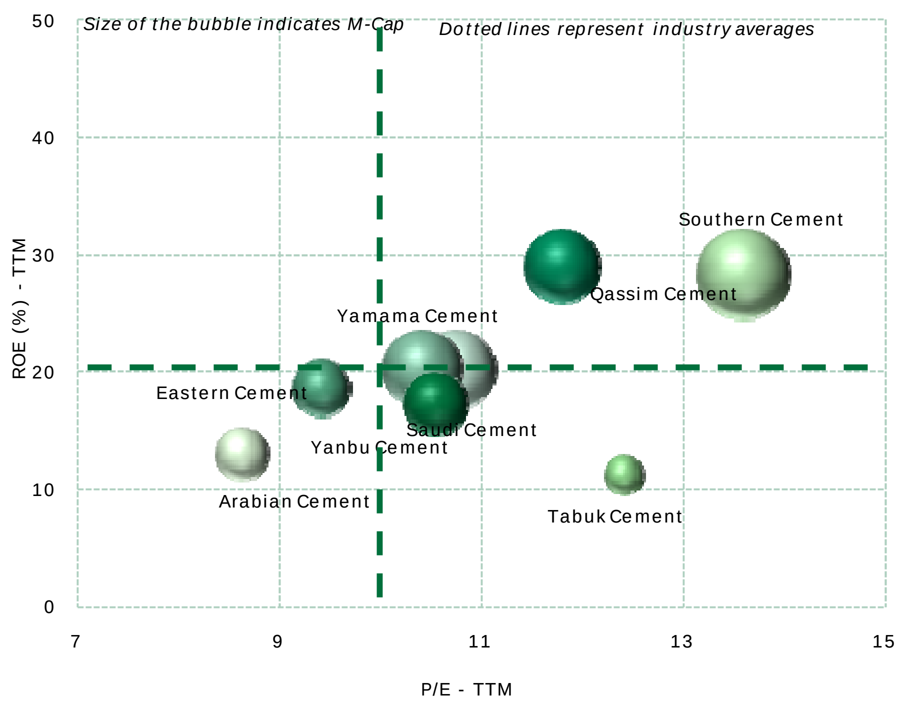
Exhibits 16 and 17 capture the current valuation of Saudi cement companies.

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-May)		% chg
Description	**May-10**	**May-09**	**YoY**	**Apr -10**	**MoM**	**2010**	**2009**	**YoY**
Production								
Cement	3,733	3,478	7.3	3,925	(4.9)	18,894	15,876	19.0
Clinker	3,691	3,353	7.9	3,281	10.3	15,947	16,453	(3.1)
Domestic Sales								
Cement	3,786	3,385	11.8	3,605	5.0	18,390	15,603	17.9
Clinker	128	7	1728.6	140	(8.6)	412	147	180.3
Company-wise Production								
Yamama Cement	451	426	5.9	474	(4.9)	2,481	1986	24.9
Saudi Cement	591	518	14.1	679	(13.0)	3,117	2428	28.4
Eastern Cement	278	280	(0.7)	273	1.8	1,361	1360	0.1
Qassim Cement	351	410	(14.4)	394	(10.9)	1,914	1800	6.3
Yanbu Cement	364	444	(18.0)	380	(4.2)	1,728	1900	(9.1)
Arabian Cement	303	272	11.4	260	16.5	1,405	1281	9.7
Southern Cement	476	472	0.8	491	(3.1)	2,333	2294	1.7
Tabuk Cement	128	133	(3.8)	133	(3.8)	621	587	5.8
Others	791	523	51.2	841	(5.9)	3,934	2237	75.9
Company-wise Domestic Sales								
Yamama Cement	458	443	3.4	457	0.2	2462	2017	22.1
Saudi Cement	586	429	36.6	573	2.3	2785	2059	35.3
Eastern Cement	264	267	(1.1)	254	3.9	1269	1302	(2.5)
Qassim Cement	376	416	(9.6)	356	5.6	1937	1842	5.2
Yanbu Cement	374	431	(13.2)	351	6.6	1744	1894	(7.9)
Arabian Cement	301	277	8.7	258	16.7	1425	1299	9.7
Southern Cement	488	466	4.7	466	4.7	2348	2306	1.8
Tabuk Cement	124	122	1.6	119	4.2	618	581	6.4
Others	815	534	52.6	771	5.7	3,802	2,303	65.1

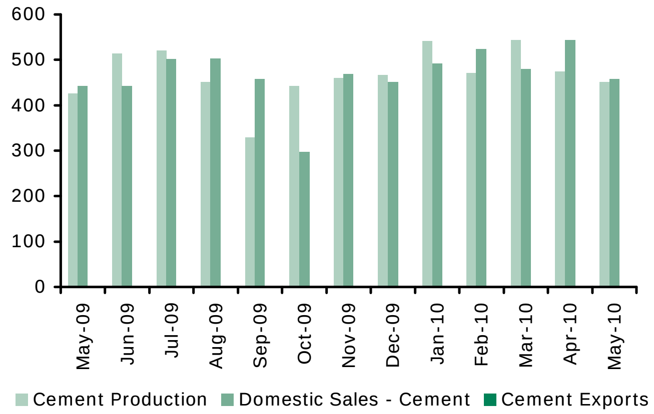
Source: Yamama Cement, NCBC Research

Appendix 2 - Chart gallery – Company data

YAMAMA CEMENT (YSCC)

Exhibit 19: Production and sales

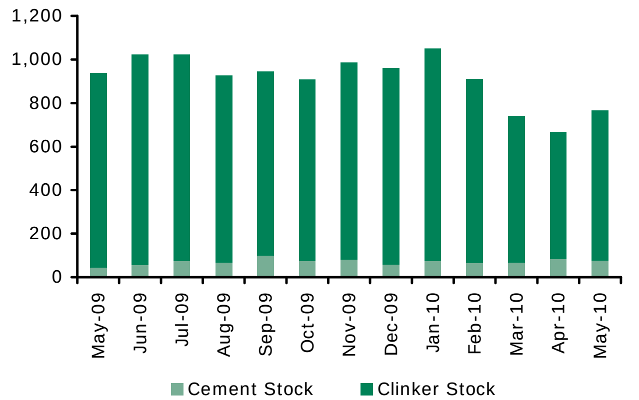
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 20: Stock - Cement and clinker

('000 tons)

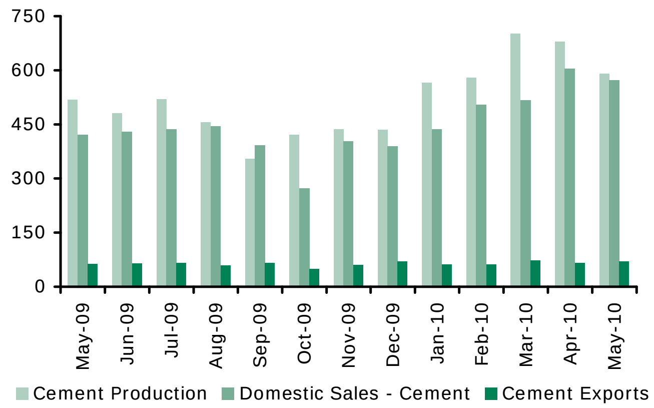


Source: Yamama Cement, NCBC Research

SAUDI CEMENT (SCC)

Exhibit 21: Production and sales

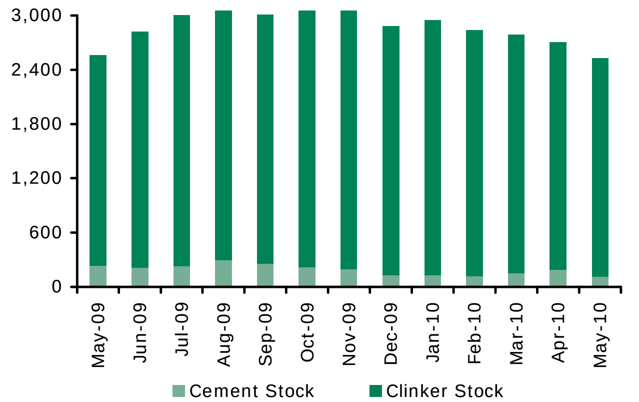
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 22: Stock - Cement and clinker

('000 tons)

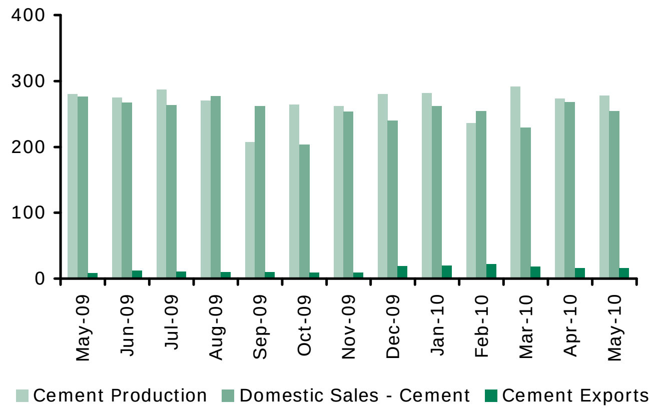


Source: Yamama Cement, NCBC Research

EASTERN PROVINCE CEMENT (EPCC)

Exhibit 23: Production and sales

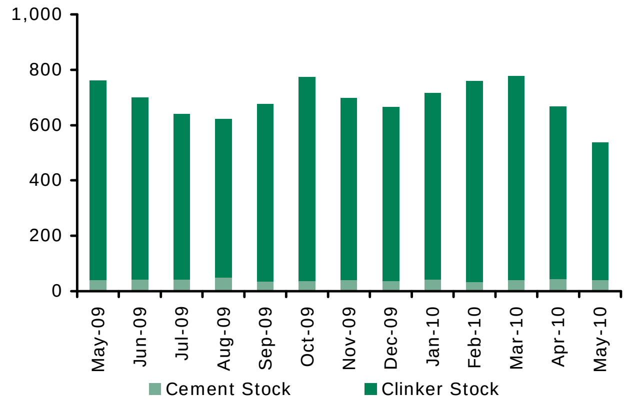
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 24: Stock - Cement and clinker

Units ('000 tons)

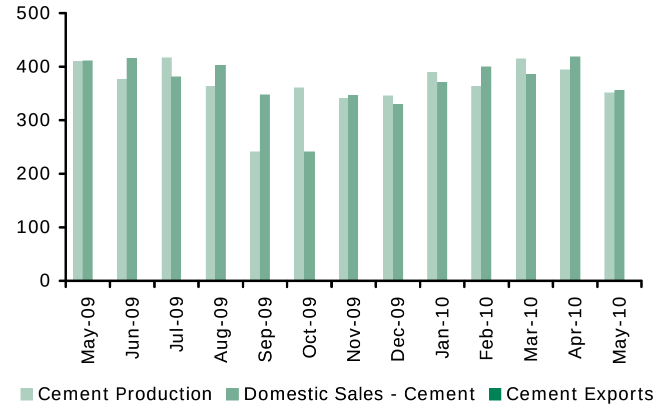


Source: Yamama Cement, NCBC Research

QASSIM CEMENT (QCC)

Exhibit 25: Production and sales

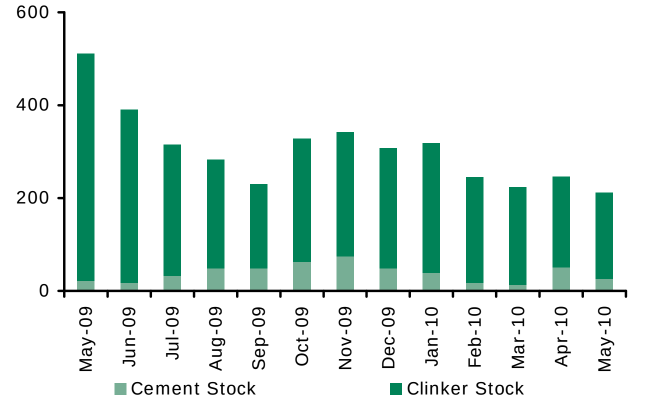
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 26: Stock - Cement and clinker

('000 tons)

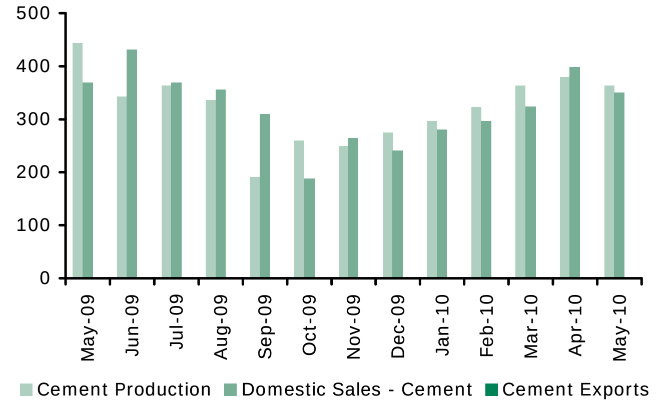


Source: Yamama Cement, NCBC Research

YANBU CEMENT (YCC)

Exhibit 27: Production and sales

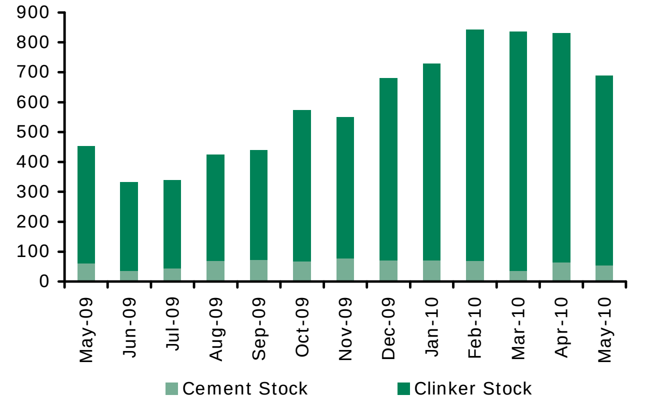
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 28: Stock - Cement and clinker

('000 tons)

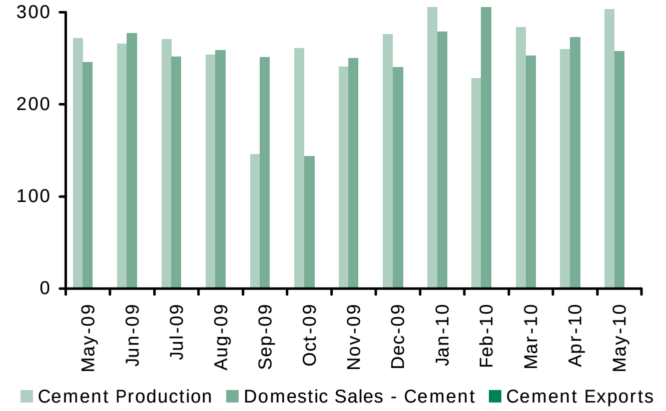


Source: Yamama Cement, NCBC Research

ARABIAN CEMENT (ACC)

Exhibit 29: Production and sales

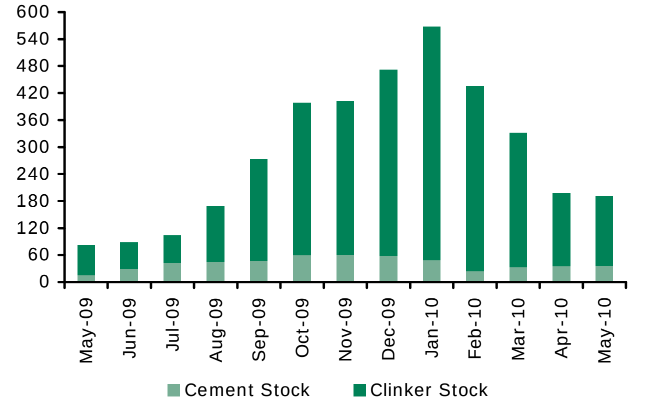
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 30: Stock - Cement and clinker

('000 tons)

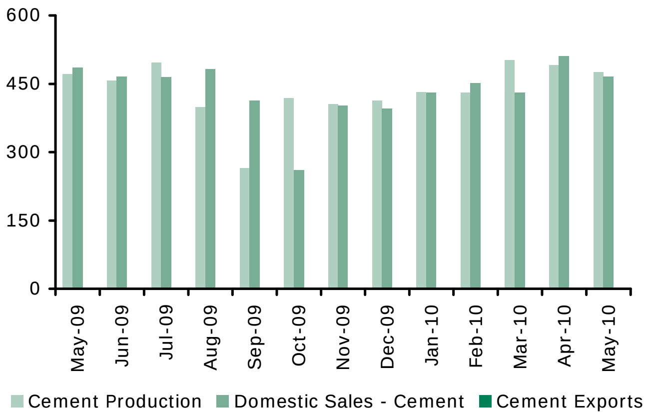


Source: Yamama Cement, NCBC Research

SOUTHERN PROVINCE CEMENT (SPCC)

Exhibit 31: Production and sales

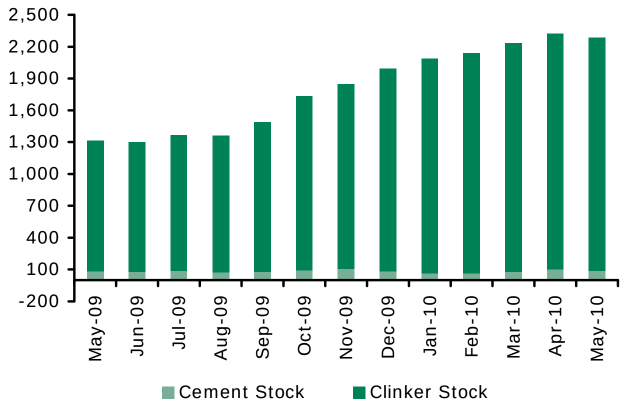
('000 tons)



Source: Yamama Cement, NCBC Research

Exhibit 32: Stock - Cement and clinker

('000 tons)

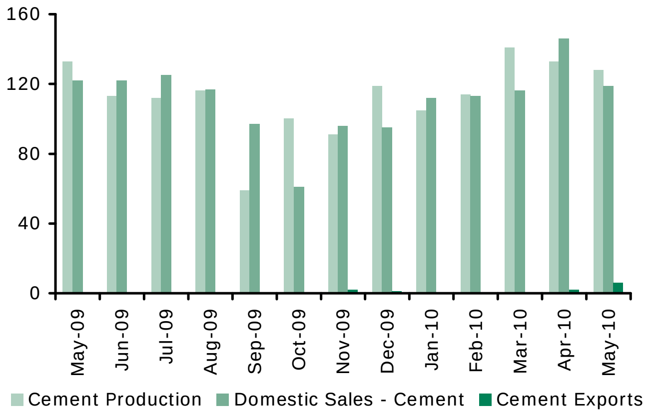


Source: Yamama Cement, NCBC Research

TABUK CEMENT (TCC)

Exhibit 33: Production and sales

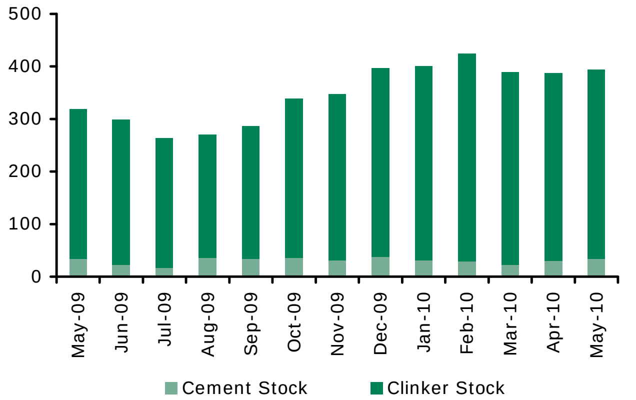
('000 tons)



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		

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