GCC Cement Sector, *building strong foundation…*

26 May 2022

Company	Rating
Oman Cement Co. (OCOI)	Accumulate
Raysut Cement Co. (RCCI)	Hold
Qatar National Cement Co.	Buy

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- **Ongoing sustainable strong economic recovery and improving fiscal balance amid rising energy prices bode well for the construction sector**
- **Strong mega projects pipeline under "Vision 2040" for Oman and "Vision 2030" for Qatar to ensure higher demand for construction materials such as cement**
- **Favorable demographics and rapid urbanization to drive housing demand, aiding the cement sector**
- **Domestic cement producers, given their dominant market position, stand to benefit from the recovery in the construction activities**

We re-initiate our coverage on the GCC Cement Sector with three companies (two Omani and one Qatari) – **Oman Cement Co. (OCOI, Oman), Raysut Cement Co. (RCCI, Oman), and Qatar National Cement Co. (QNCC, Qatar)**. Overall, our view on the sector is positive, considering the sustainable economic recovery, improving sector dynamics underpinned by expected revival in the construction activities and favorable demographics led housing demand. We have used a combination of different valuation methodologies (DCF, DDM and peer-group P/E and EV/EBITDA multiples) with equal weights assigned to the respective methods used. We will continue expanding our coverage to include more cement companies over time.

- **Economic recovery underway, positive for the construction sector and thereby boosting cement sector outlook.** Omani and Qatari economies remained under pressure over the past few years due to weak energy prices and pandemic led slowdown in economic activity. Post reopening of economies and a sharp rebound in energy prices ensure sustainable economic recovery and thereby easing pressure on government finances as well as boosting employment opportunities. These bode well for the construction activities, translating into favorable demand outlook for the cement sector.
- **Strong mega projects pipeline of construction projects provides demand visibility for the cement sector.** To diversify their economies away from hydrocarbons, both Oman and Qatar have laid out long-term strategic goals with construction sector likely to receive major boost from the government. The announced big ticket sized projects pipeline reflects the government's commitment towards the construction sector. That said, strong construction spending is likely to drive the demand for cement which should benefit the local cement producers.
- **Domestic cement producers well positioned to benefit from the positive sector outlook.** To meet the growing demand, both through government spending as well as housing-related demand, the domestic cement companies aim to increase production capacity as well as improve utilizations to cater the incremental cement demand in the region. Accordingly, expected higher sales volume along with steady realizations should ensure healthy financial performance going forward.

We have a favorable view on all the three companies on the back of their leading market positions, higher cement demand on revival in construction activities, expansion plans to meet incremental demand, cost-control initiatives, and likely less pressure from cheap imports from neighboring countries.

Name	Last Px (LC)	Target Price (LC)	Upside / (Downside) (%)	Current P/E (x)	P/E'22e, (x)	ROA'22e, (%)	ROE'22e, (%)	Cash Div Yield, %
Oman Cement Co	0.25	**0.30**	17.1%	11.5	14.5	2.8%	3.9%	3.9%
Raysut Cement Co	0.16	**0.17**	7.1%	na	na	-3.5%	-11.0%	0.0%
Qatar National Cement Co	5.00	**6.30**	26.0%	14.2	12.4	7.7%	8.5%	5.9%
Average				**12.9**	**13.5**	**2.3%**	**0.5%**	**3.3%**

Source: Bloomberg, U Capital Research; LC – Local Currency; na-not applicable; Last price as on 26 May 2022

GCC Cement Sector

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Valuation

We have used DCF, DDM, P/E-based valuation, and EV/EBITDA multiple with equal weightage assigned to each of them to derive the target price for each cement company. For DCF and DDM, we have used a 5-year explicit forecast period (2022-26) and afterward have assumed a 2% terminal growth rate. We have then calculated the present value of future cash flows/dividends (Enterprise Value/Fair Value) using the weighted average cost of capital (WACC). After arriving at the enterprise value, we have made the required adjustments such as net debt, minorities, investments, pension obligations to derive equity value for the company.

For the relative valuation, we have considered average 1Y TTM of relevant peers due to unavailability of forward data. Then we have adjusted these multiples by giving a premium or discount, wherever required, to reflect our assessment of each company's future financial performance, and recent as well as expected movement in their valuation multiples. The adjusted P/E and EV/EBITDA multiples are then multiplied by the forecasted FY22 EPS and EBITDA, respectively. However, RCCI's valuation methodology is slightly different from the other two companies, as the company has aggressive capex plans, which we expect to complete by FY27e.Thus, we expect the company to remain at loss till FY26e. Hence, for RCCI we have used P/B-based valuation and DCF (7-year explicit forecast period)

Valuation

	OCOI	RCCI	QNCC
(Currency)	*OMR*	*OMR*	*QAR*
DCF (Equal Weight)			
PV of Free Cash Flow (mn)			
Sum of PV of FCFs	-64.9	-232.6	941.5
Terminal	207.1	560.4	3702.2
Total PV of Excess Returns	140.9	337.5	2528.7
Equity value (mn)	96.1	33.9	4416.8
Target Price	***0.29***	***0.17***	***6.76***
DDM (Equal Weight)			
PV of Dividends (mn)			
Sum of PV of FCFs (Year 1 to 5)	18.3		997.1
Terminal	125.6		4905.5
Total PV of Excess Returns	85.4		3350.5
Fair value (mn)	103.7		4347.7
Target Price	***0.31***		***6.65***
Assumptions			
Risk Free Rate (%)	5.4%	5.4%	2.4%
Adjusted Beta	0.7	0.9	0.7
Risk Premium (%)	6.5%	6.5%	8.9%
Cost of Equity (COE) (%)	10.0%	10.9%	8.6%
WACC (%)	8.7%	8.0%	8.6%
Outstanding Shares (mn)	330.9	200.0	653.5
Relative Valuation (Equal weight)	*P/E*	*P/B*	*P/E*
Target multiple for 2022e	17.00	0.35	14.80
EPS/BVPS 2022e	0.02	0.51	0.41
Target Price	***0.30***	***0.18***	***6.03***
EV/EBITDA based Relative Valuation (Equal weight)			
Target EV/EBITDA multiple for 2022e	5.50		8.00
EBITDA 2022e (mn)	13.86		353.74
Target Price	***0.29***		***5.78***
Weighted Average Target Price	**0.30**	**0.17**	**6.30**
Current Market Price	*0.25*	*0.16*	*5.00*
Upside/(Downside), %	17.1%	7.1%	26.0%
Recommendation	**Accumulate**	**Hold**	**Buy**

Source: Company Filings, Bloomberg, U Capital Research *FCF values: Year 1 to 5 for OCOI & QNCC; Year 1 to 7 for RCCI

Risks to Valuation

Key downside risks to our valuations include:

- Fall in realization prices may restrict revenue growth during the forecasted period
- Slow pick-up of construction activities may lead to lack of cement demand

Key upside risks to our valuations include:

- More-than-expected increase in realization prices/cement demand.
- Better-than-expected improvement in operating efficiencies.

Sensitivity Analysis

Our TP for **Oman Cement** is sensitive to +/- 0.5% changes to terminal growth or in WACC assumptions (changes about +/-6%). Our TP is also not sensitive to +/-0.5x changes in the target EV/EBITDA multiple, affecting our TP by less than +/-2% with every change.

Oman Cement

WACC \ Terminal growth	1.0%	1.5%	2.0%	2.5%	3.0%
7.7%	0.30	0.32	0.34	0.36	0.38
8.2%	0.29	0.30	0.32	0.33	0.35
8.7%	0.27	0.29	**0.30**	0.31	0.33
9.2%	0.26	0.27	0.28	0.30	0.31
9.7%	0.25	0.26	0.27	0.28	0.29

EV/EBITDA multiple \ 2022e EBITDA (OMR mn)	39	89	139	189	239
4.5x	0.29	0.29	0.29	0.29	0.29
5.0x	0.29	0.29	0.29	0.29	0.29
5.5x	0.30	0.30	**0.30**	0.30	0.30
6.0x	0.30	0.30	0.30	0.30	0.30
6.5x	0.31	0.31	0.31	0.31	0.31

Our TP for **Raysut Cement** is sensitive to +/- 0.1% changes to terminal growth or in WACC assumptions (changes about +/-9%). Our TP is also sensitive to +/-0.05x changes in the target P/B multiple, affecting our TP by about +/-9% with every change.

Raysut Cement

WACC \ Terminal growth	1.8%	1.9%	2.0%	2.1%	2.2%
7.8%	0.18	0.20	0.21	0.23	0.25
7.9%	0.16	0.18	0.19	0.21	0.23
8.0%	0.15	0.16	**0.17**	0.19	0.21
8.1%	0.13	0.14	0.16	0.17	0.19
8.2%	0.11	0.13	0.14	0.15	0.17

P/B multiple \ 2022e BVPS (OMR)	0.3	0.4	0.5	0.6	0.7
0.3x	0.12	0.14	0.15	0.16	0.17
0.3x	0.13	0.15	0.16	0.18	0.19
0.4x	0.14	0.16	**0.17**	0.19	0.21
0.4x	0.15	0.17	0.19	0.21	0.23
0.5x	0.15	0.18	0.20	0.22	0.24

Our TP for **Qatar National Cement** is slightly sensitive to +/- 0.5% changes to terminal growth or in WACC assumptions (changes about +/-4%). Our TP is also not sensitive to +/-0.5x changes in the target EV/EBITDA multiple, not affecting our TP with every change.

Qatar National Cement

WACC \ Terminal growth	1.0%	1.5%	2.0%	2.5%	3.0%
7.6%	6.40	6.60	6.84	7.12	7.47
8.1%	6.18	6.35	6.55	6.78	7.06
8.6%	5.99	6.14	**6.30**	6.50	6.73
9.1%	5.82	5.95	6.09	6.26	6.45
9.6%	5.68	5.79	5.91	6.05	6.21

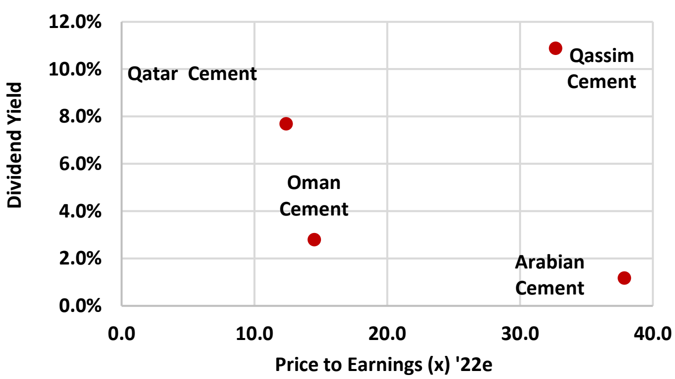
EV/EBITDA multiple \ 2022e EBITDA (QAR mn)	254	304	354	404	454
7.0x	6.17	6.17	6.17	6.17	6.17
7.5x	6.24	6.24	6.24	6.24	6.24
8.0x	6.30	6.30	**6.30**	6.30	6.30
8.5x	6.37	6.37	6.37	6.37	6.37
9.0x	6.44	6.44	6.44	6.44	6.44

Peer Group Valuation

Name	Mkt Cap (LC mn)	Last Px (LC)*	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	P/E'22, (x)	ROA'22, (%)	ROE'22, (%)	Div Yield' 22, (%)
Cement									
YAMAMA CEMENT CO*	6,257.3	30.90	-12	18	19	46.0	2.2%	3.2%	na
QASSIM CEMENT*	7,200.0	80.00	0	4	6	32.8	10.9%	12.5%	2.5%
ARABIAN CEMENT CO*	1,249.8	3.30	-16	-21	-27	31.8	1.2%	4.1%	na
TABUK CEMENT CO*	1,456.2	16.18	-9	-8	-7	na	0.2%	0.3%	1.5%
OMAN CEMENT CO	84.4	0.25	0	9	4	14.5	2.8%	3.9%	3.9%
RAYSUT CEMENT CO	32.6	0.16	1	-11	-34	na	-3.5%	-11.0%	0.0%
QATAR NATIONAL CEMENT CO	3,269.6	5.00	-1	-19	-2	12.4	7.7%	8.5%	5.9%
Average						**27.5**	**3.1%**	**3.1%**	**2.8%**
Median						**31.8**	**2.2%**	**3.9%**	**2.5%**

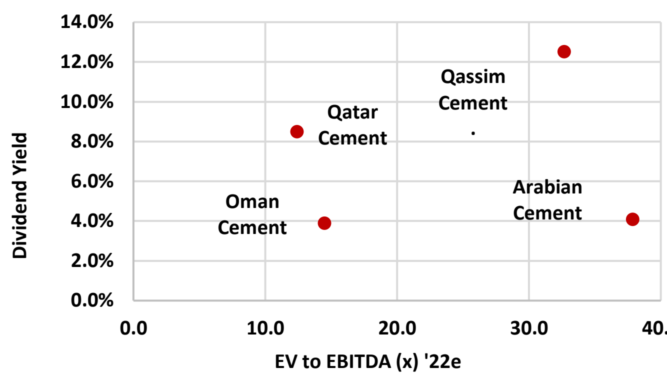
Source: Bloomberg, U Capital Research, values as of 26 May 2022, *na- not available, *current data for the non-covered companies

Fig. 1: Cement - Price to Earnings & Dividend Yield



Source: Bloomberg, U Capital Research, as of 26 May 2022

Fig. 2: Cement - EV to EBITDA & Dividend Yield



Source: Bloomberg, U Capital Research, as of 26 May 2022

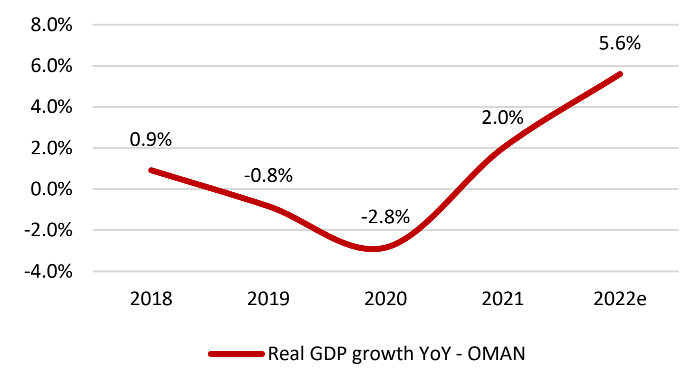
Macro-economic & Sector Overview

Economic growth shifting into a higher gear

After remaining under pressure in the past few years, due to weak energy prices and further exacerbated by pandemic led lockdowns, Oman and Qatar economies have started showing signs of recovery aided by improving demand conditions amid the removal of pandemic related restrictions in 2021. Further, a sharp rebound in energy prices especially crude oil and natural gas, which are key revenue contributors for Oman and Qatar, also supported the economies.

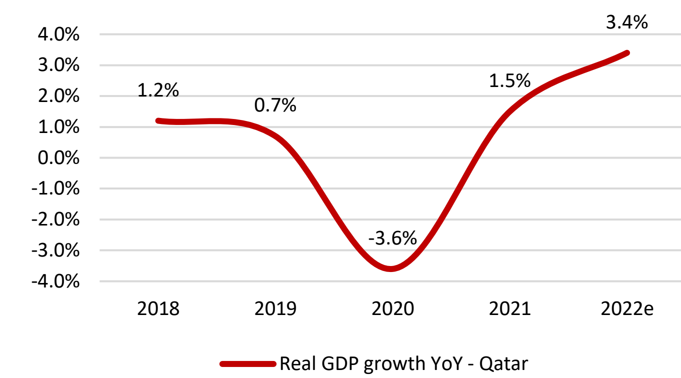
IMF expects higher GDP growth for Oman at 5.6% in 2022, primarily aided by a rise in crude oil prices as well as a gradual recovery in demand. However, as we go forward, the IMF assesses this rate to slow down before picking up again from 2025. In our opinion, this growth seems achievable due to Omani's government's focus on non-oil sectors, as a part of vision 2040, to be the core contributors to GDP. For Qatar, IMF projects GDP to grow at 3.4% in 2022 driven by the significant increase in natural gas price in 2022, increased spending due to the FIFA world cup 2022 and further aided by the lifting of the blockade by other GCC countries.

Fig. 3: Oman GDP likely to grow strongly in 2022



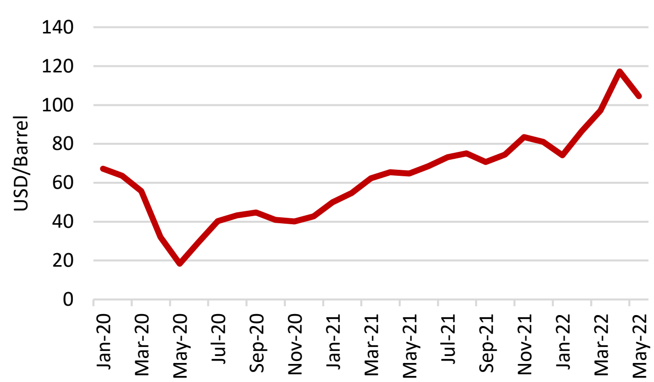
Source: IMF, U Capital Research

Fig. 4: Qatar poised for continued economic recovery in 2022



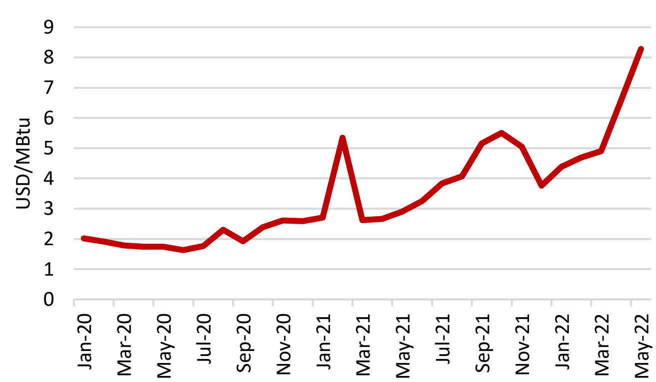
Source: IMF, U Capital Research

Fig. 5: Rising oil prices improving fiscal position of Oman



Source: ***EIA, U Capital Research***

Fig. 6: Rise in natural gas price driving Qatar economy



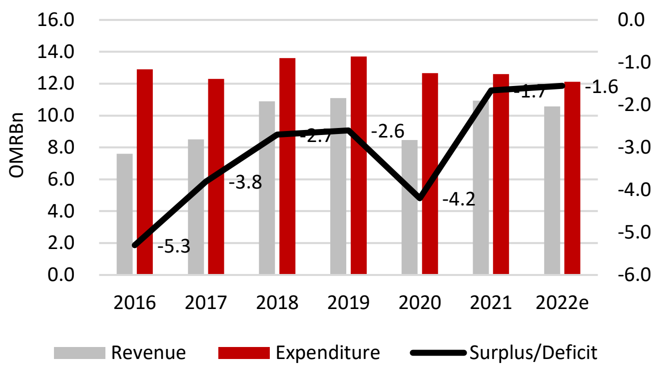
Source: EIA, U Capital Research

Improving fiscal balance to boost government spending

Most GCC countries witnessed budgetary pressures due to a significant impact on the revenues amid a sharp decline in energy prices in the past few years. This led to austerity measures which resulted in a further impact on investment spending as well as consumption across the region. However, energy prices, mainly crude oil and natural gas have shown a sharp recovery since Q2 2020 (on basis of average price) supported by the OPEC+ production cut agreement, gradual demand recovery post Covid-era, geopolitical issues, and logistics challenges. Higher energy prices increased the government revenues, thus easing fiscal pressures notably which is evident in

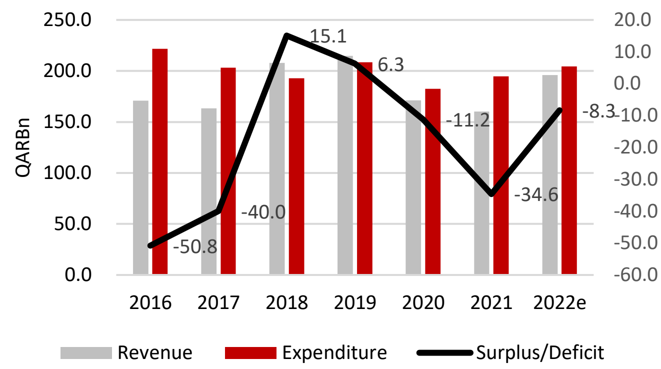
2021 actual performance and likely higher government revenues for 2022. The 2022 budget for Qatar and Oman is based on an oil price assumption of USD 55 per barrel and USD 50 per barrel, respectively. Both budgets reflect a conservative policy in revenue estimation as the Brent crude price is consolidating above USD 100 and is expected to remain near or above USD 100 for the year 2022. Accordingly, Oman and Qatar economies are expected to witness a significant improvement in their fiscal positions in 2022.

Fig. 7: Oman fiscal budget



Source: ***Ministry of Finance Oman, U Capital Research***

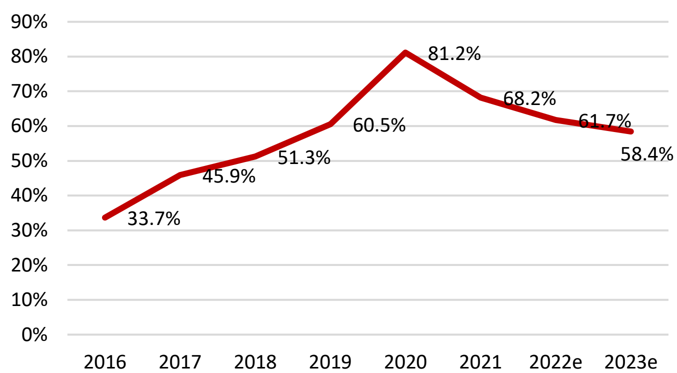
Fig. 8: Qatar fiscal budget



Source: ***Ministry of Finance Qatar, U Capital Research***

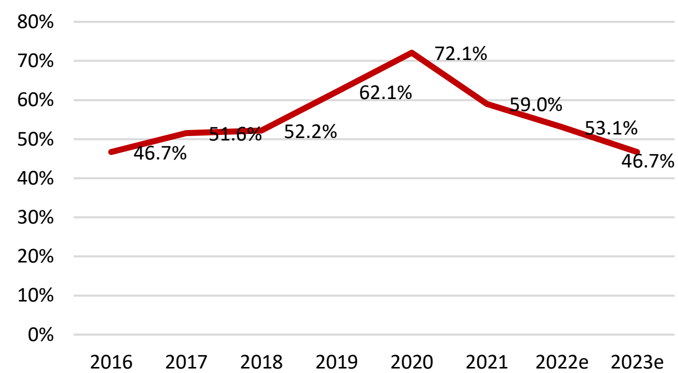
Further, general government gross debt as a % of GDP is expected to decline for both Oman as well as Qatar, mainly driven by higher fiscal revenue. This will provide further room to raise spending across sectors, and with a focus on non-oil industries and construction, which bodes well for the cement demand in the region.

Fig. 9: General govt. gross debt as % of Oman GDP



Source: *IMF*, ***U Capital Research***

Fig. 10: General govt. gross debt as % of Qatar GDP



Source: IMF, U Capital Research

Construction sector growth looks promising underpinned by planned mega projects

Similar to other GCC countries, both Oman and Qatar have been focusing on diversifying their economies to reduce their dependence on energy prices and to raise contribution from the non-oil sector. To fulfill these objectives, these countries have laid out long-term strategic plans under "Vision 2040" for Oman and "Vision 2030" for Qatar. Construction is the core focus area of these plans and is likely to receive a major boost from the government in the coming years. In addition, focus on privatization to further support the investments in the construction sector.

Below are the some of the big-ticket projects which would help the governments to achieve their long-term goals:

Major projects in Oman

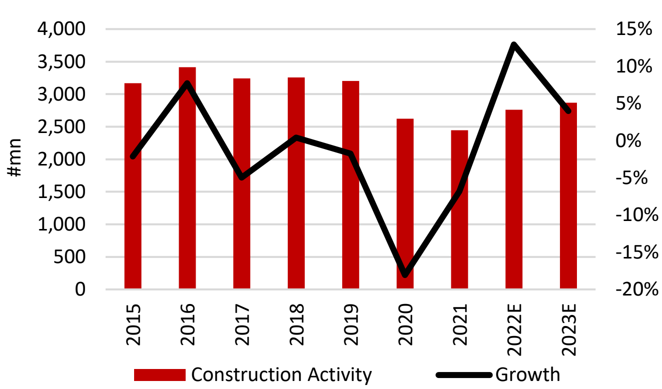
The construction industry in Oman is forecast to grow by 11.1% to reach OMR 2,620mn in 2022. The growth momentum is expected to continue over the forecast period, recording a CAGR of 6.9% to reach OMR 3,357mn by 2026, implying a healthy demand for building and construction materials such as cement.

Source: Business wire, U capital Research

Projects	Description	Project Value (USD bn)
Sino-Oman Industrial City in Duqm	The project is about the development of an industrial city, the creating ground-breaking strategy is about 11.8 square kilometers of land inside the Special Economic Zone by Duqm's port (Sezad). The proposed industrial city will be home to Duqm's second oil refinery, having a world-scale processing capacity of 230,000 barrels per day-commerce	10.7
Khazaen Economic City	Khazaen Economic City is the latest integrated economic city to be developed in the Wilayat of Barka in the South Al Batinah Governorate. Khazaen land port contract and the Khazaen Central Market for vegetables & fruits have already attracted the largest logistic companies in the Sultanate	6.7
Hayy Al Sahil project	Hayy Al Sahil project will enhance the utilization of the fishing port by developing a floating dock for yachts, which will facilitate visitors' movement across Muscat's tourist ports and other tourist ports in Oman	1.0
Tourism Space	Naseem al Sabah Project is an upcoming ITC development with 96 housing units, a marina with berths for 75 boats, and a sales gallery. Ras al Hadd eco-themed resort will be in Ras Al Hadd, near Sur, over an area of 1,971,823 sqm with 488 residential units, a commercial center, a heritage village, and a marina. It will also include a wildlife park and marine park	10.5

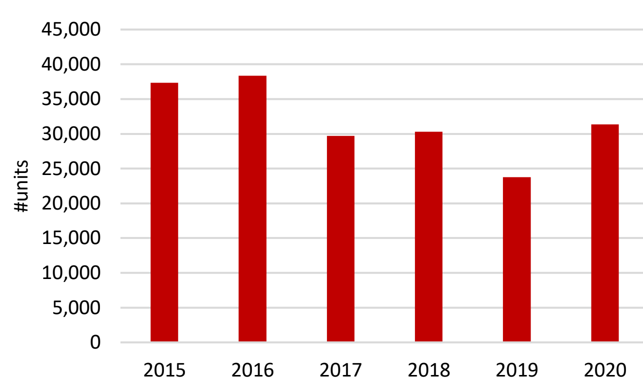
Source: Media articles, U capital Research

Fig. 11: Construction activity growth in Oman



Source: NCSI Oman, U capital Research

Fig. 12: Building permits in Oman



Source: NCSI Oman, U capital Research

Major projects in Qatar

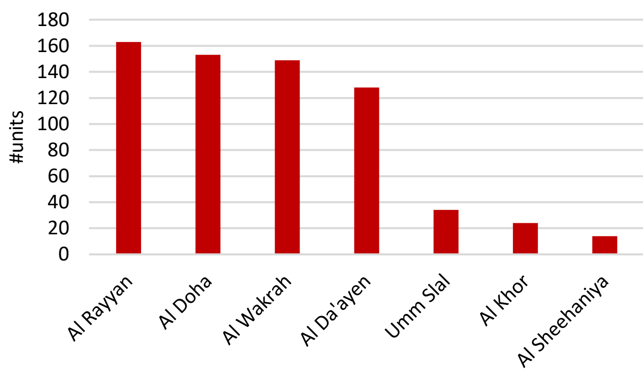
The Qatar construction market size was valued at USD 45.2bn in the year 2021. The market is expected to grow at a CAGR of >3% during the period 2023-26. Under the Qatar National Vision 2030, the country is set to award an estimated USD 85bn worth of planned projects in the coming years. Out of these proposed projects (but un-awarded), about USD 9.1bn worth of projects are under study, while about USD 31.7bn worth of projects are at some stage of tendering, and USD 44bn projects are in the designing stage. About USD 12.1bn worth of projects are planned or underway in the oil and gas project market. Upstream projects account for the lion's share (about 55%) of the country's oil and gas projects.

Projects	Description	Project Value (USD bn)	Duration
Marina Mall @Lusail City	The shopping center is being developed within the Marina district of the 37km² Lusail City, approximately 15km from Doha. The mall will feature 248 retail units, cinemas, and a family entertainment center.	0.27	30 months
Qatar North Field Expansion	E The expansion will handle liquid products from 4 new LNG trains. The NFE project will most likely boost Qatar's LNG production capacity from 77 MTPA to 110 MTPA. Also, the North Field South (NFS) project will increase Qatar's LNG production capacity further to 126 MTPA.	0.50	36 months
Qatar-UAE Natural Gas pipeline	This pipeline begins in Qatar and ends in Taweelah in the UAE The constructor and operator of the project is Dolphin Energy.	7.0	60 months
Water Security Mega Reservoirs Project (Kahramaa)	This project will provide 7 days of water storage by building pumping stations at 5 locations and expects to have a total storage capacity of 3,800mn gallons of water.	~4.0	48 months
Lusail City	Lusail City will be built in the southern part of the municipality of Al Dayeen which can accommodate 450,000 people. It will cover 38 sq. kilometers	45.0	60 months

Source: Hapondo, U Capital Research

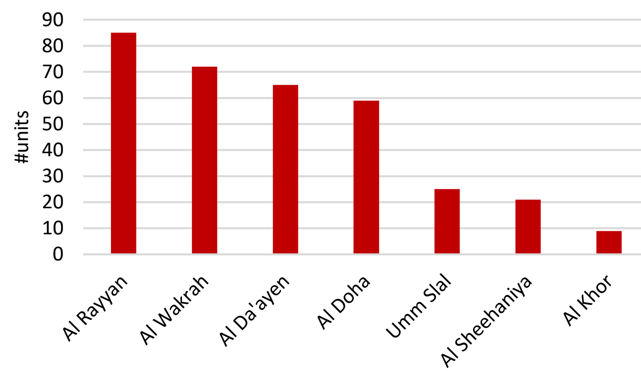
Moreover, the government has increased the building permits and certificates in 2022 focusing on its plan to develop the tourism industry in Qatar.

Fig. 13: Building Permits in Qatar (April 2022)



Source: Planning and statistics Authority, Qatar, U Capital research

Fig. 14: Building completion certificates in Qatar (April 2022)



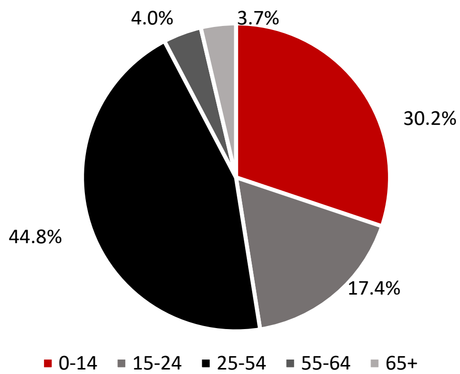
Source: Planning and statistics Authority, Qatar, U Capital research

That said, expected strong construction spending is likely to boost demand for the building and construction materials including Cement which should benefit key local producers.

Favorable demographics and rapid urbanization to push housing demand higher

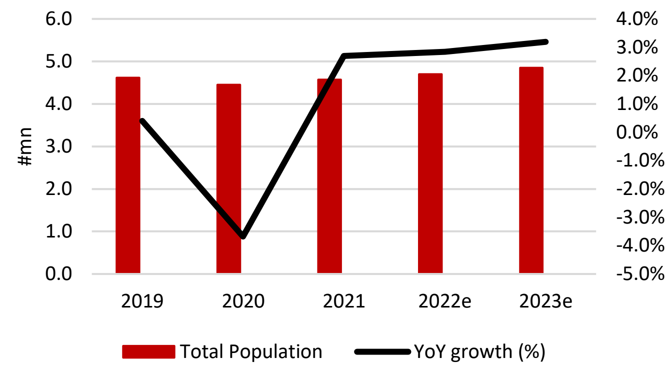
All regional countries including Oman and Qatar enjoy a favorable demographic profile at the back of the rising and young population. In the 25–54 years age group, Oman has 44.8% of its total population whereas Qatar has more than 70% of its residents in this age group, as per the mid-2020 population estimate. IMF forecasts the population of both countries to grow at an average rate of ~2-3% during 2022. A young and growing population generally drives urbanization and lowers the household size (thereby increasing the number of households). Further, the growing focus on localization of jobs in public as well as in private sectors along with rising women participation in the labor force may lead to the higher disposable income of the local population. This coupled with government affordable housing programs should positively drive demand for houses which is positive for the domestic cement companies.

Fig. 15: Oman has a young population



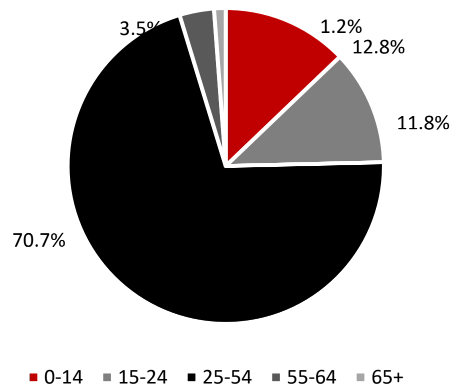
Source: IndexMundi, U Capital Research. *as per the mid-2020 census

Fig. 16: Omani population continues expanding at a ~3% CAGR



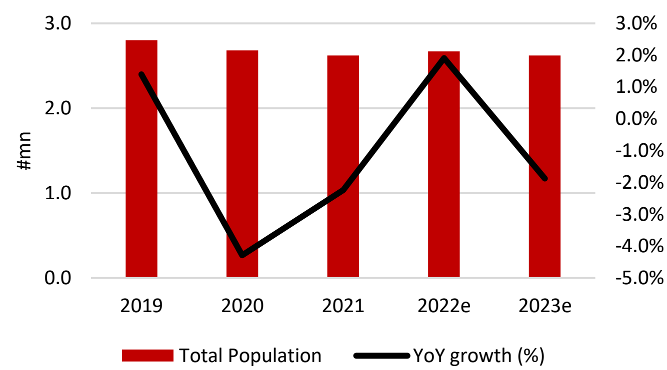
Source: IMF, U Capital Research

Fig. 17: > 70% Qatar population fall in the 25-54 age group



Source: IndexMundi, U Capital Research. *as per the mid-2020 census

Fig. 18: FIFA 2022 world cup to drive population in Qatar in 2022



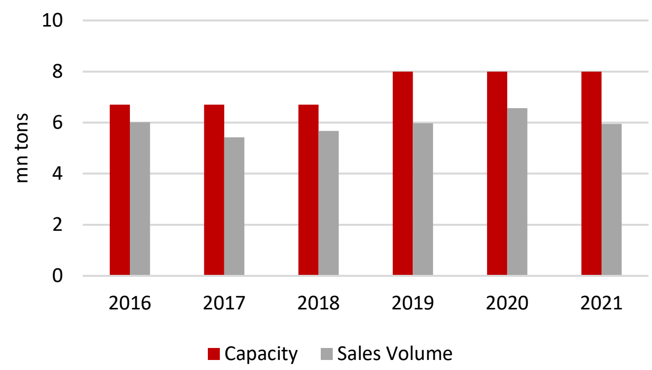
Source: IMF, U Capital Research

Domestic cement companies adding production capacity to cater likely higher demand

The Sultanate of Oman has been looking to increase cement production, particularly around the Duqm Port area. The additional capacity will be needed to support planned infrastructure projects in Oman. Thus, both the biggest cement players in Oman, Raysut Cement and Oman Cement, have aggressive capacity expansion plans; where Raysut's aims to triple its capacity in the coming years while Oman Cement's capacity will be almost doubled by FY24e. However, the purpose of expansion for both the companies is quite different; Raysut, being a major export-driven player, looks to expand to become a leading cement manufacturer globally along with meeting the domestic demand, while Oman Cement's next step is to make its domestic output more efficient and be self-sufficient in Oman to cater to local cement demand.

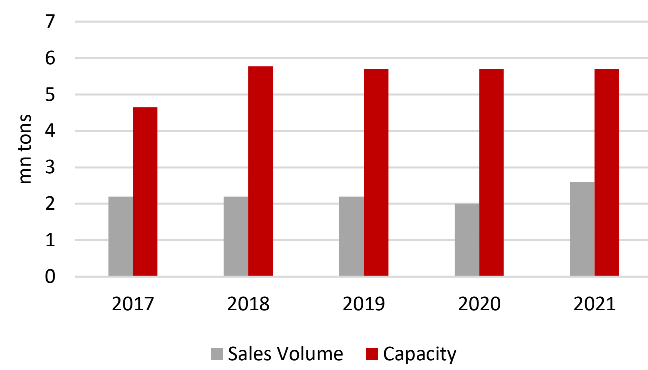
On the other hand, Qatar National Cement, being a national cement giant in Qatar, has maintained its capacity and does not have any expansion plans currently. Going ahead, we expect the company to restart the operations of its 2 plants, which are currently closed from April 2020 amid pandemic, and thus the company will be able to cater to the increased cement demand in the improving construction activities.

Fig. 19: Listed Omani cement companies' capacity and sales volume



Source: Company data, U Capital Research

Fig. 20: Qatar National Cement Co. capacity and sales volume



Source: Company data, U Capital Research

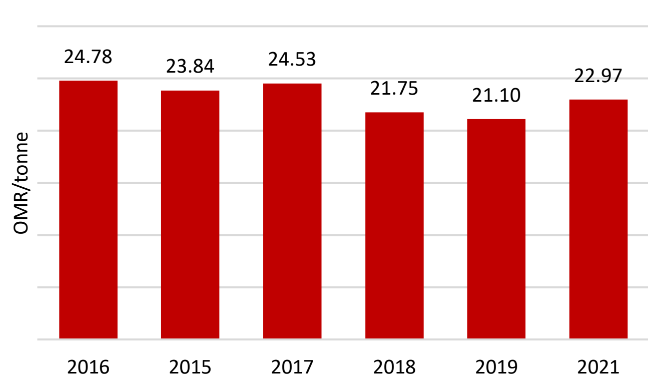
Oman Cement's sales volume had declined by -0.9% in the last 5 years, while Raysut's export sales to Africa, the Middle East, and Asian countries had led the overall sales volume to grow by 5% during the same period. Going ahead, we believe the Oman Cement and Raysut's sales volume to grow at a CAGR of 18.5% and 21.0%, respectively over FY2021-26e. In Qatar, we believe QNCC will have healthy sales volume CAGR of 10.7% during FY2021-26e, after 8.7% growth over the last 3 years. These strong volume growth projections are coincided with the likely higher demand in these countries owing to pick up in the construction activities post Covid-era.

Average realization price likely to remain range bound

Oman had witnessed a continued downtrend of cement average realization prices (~OMR 24.5/tonne in 2017 to ~OMR 22.9/tonne in 2021) on the back of the ongoing dumping of cement products from neighboring countries, especially from UAE. We believe the cement prices have likely bottomed out, mainly due to higher raw material prices and increased freight charges, which will force these neighboring countries to increase their cement prices. This will be positive for domestic cement manufacturers in Oman, especially Oman Cement, being a pure domestic player. Thus, going ahead, we expect the average cement realization prices to improve, although not significantly due to intense competition faced by local cement manufacturers.

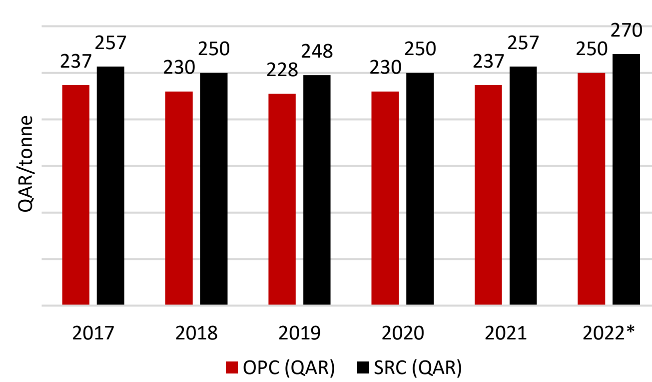
In Qatar, the cement prices are controlled by the Qatari Government. From 2017-19, the OPC and SRC average prices had been at ~QAR 230/tons and ~QAR250/tons respectively. Thereafter in 2021, due to an increase in energy prices, the average prices have increased to QAR 237/tons for OPC and QAR 257/tons for SRC. We expect these prices to remain constant going ahead.

Fig. 21: Average cement prices in Oman



Source: Company Data, U Capital Research

Fig. 22: Average cement prices in Qatar



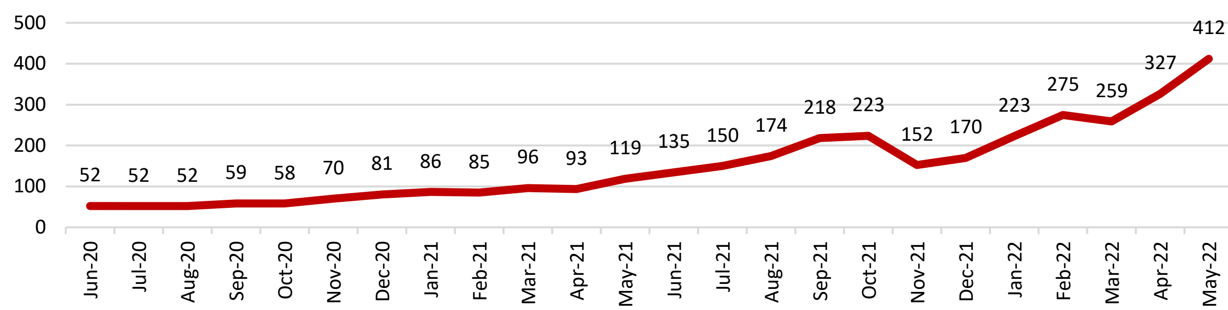
*Source: Ashghal, U Capital Research *5-months average prices*

Imports may take a hit on higher input costs and focus on localization

Historically, there has been a supply-demand mismatch in Oman, as the local cement players, mainly Raysut and Oman Cement have capacity constraints to cater to the local cement demand of the region. Thus, Oman has been majorly dependent on imported cement to meet its requirements. Now, with the government infrastructure program in place and aggressive capacity expansion plans for both the listed major cement players, we believe this supply-demand gap will start getting narrower year on year with Oman likely reaching its self-sufficiency goal in the medium term. In addition, Oman's neighboring cement manufacturers have suffered greatly due to high input costs, especially the energy prices like coal, which surged ~5x times in 2021 itself. Thus, the foreign competitors will now **not** be able to supply the cement in Oman at such cheap prices, which will be a thing to cheer for both Oman Cement and Raysut.

Qatar has been a leader in the supply of natural gas to the world, thus a surge in natural gas prices, which is negative for other cement manufacturers worldwide due to an increase in input prices, will not be that impactful to Qatar-based cement manufacturers, having a competitive advantage. This is majorly because the Qatari Government controls the natural gas and limestone prices, a major component of cement production. Thereby, we don't expect the price volatility in input costs will impact Qatar cement manufacturers and thus we believe our coverage company, QNCC to witness improvement in margins going ahead.

Fig. 28: Newcastle coal price (USD/tonne)



Source: EIA, U Capital Research

SWOT Analysis for GCC (Oman and Qatar) Cement Sector

Strengths

1. Domestic companies stand to be the key beneficiary from likely higher demand from government and infra projects given their dominant market position
2. Increase in housing demand will support top-line growth
3. Aggressive expansion of capacity provides revenue visibility

Weaknesses

1. Heavy reliance on government and private sectors infrastructure
2. Intense competition due to dumping of excess supply at a lower price mainly from the UAE-based producers
3. Lower presence and exposure to global markets

Opportunities

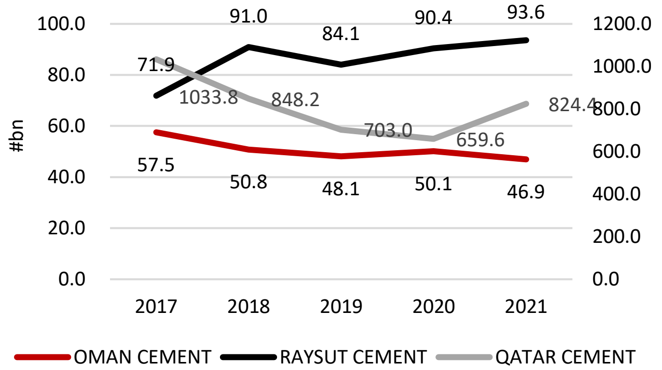
1. The major boost in infra spending amid higher energy prices will lead to higher demand for the cement sector
2. Profitability is likely to be improved driven by increased capacity and better utilization levels
3. Shift to alternate and solar power for energy use is likely to maximize operating margins
4. Easing of Covid-19 restrictions and further progress on the government's structural reforms should drive investments

Threats

1. Downside in oil and natural gas prices can lead to lower GDP and government spending
2. Excess cheap supply from UAE will add to pricing pressure
3. Economic slowdown adversely affects the construction activity and hence the cement industry
4. Rising cases of Monkeypox epidemic could lead to slower economic activity

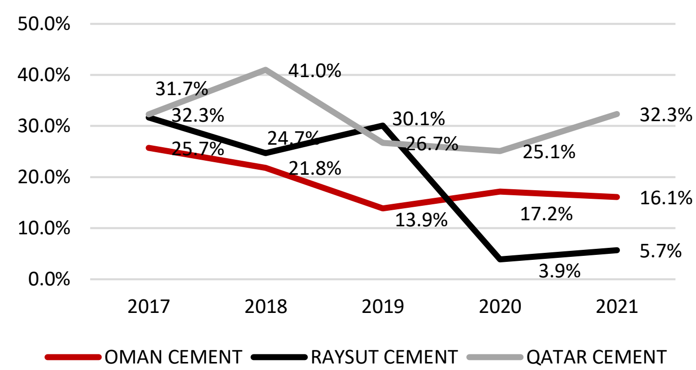
Financial snapshot

Fig. 29: Revenue



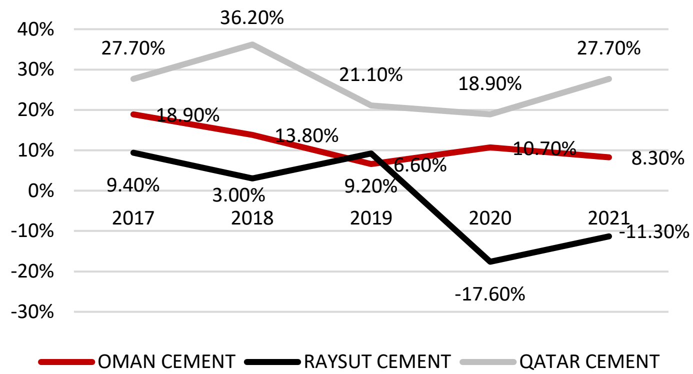
Source: Company Data, U Capital Research

Fig. 30: Gross Profit Margins



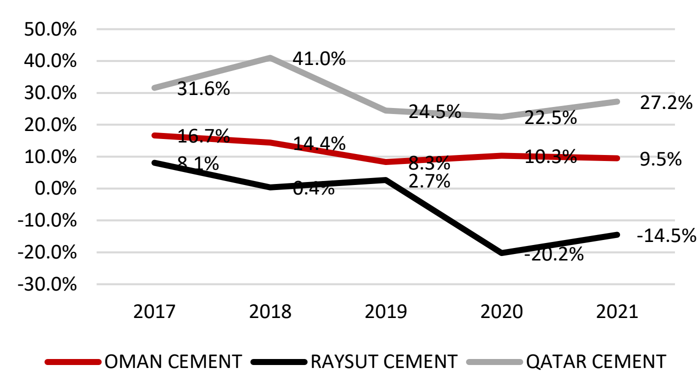
Source: Company Data, U capital Research

Fig. 31: Operating Margins



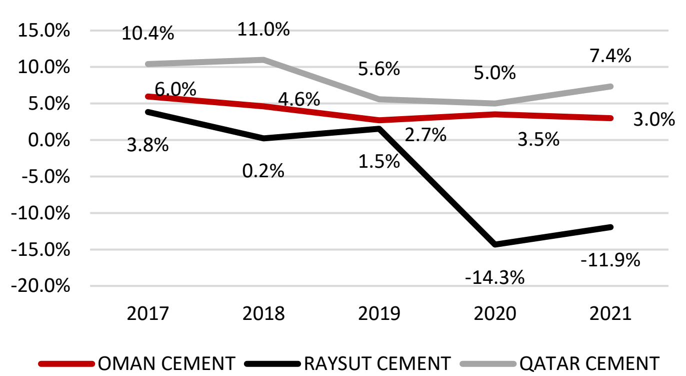
Source: Company Data, U Capital Research

Fig. 32: Net Margins



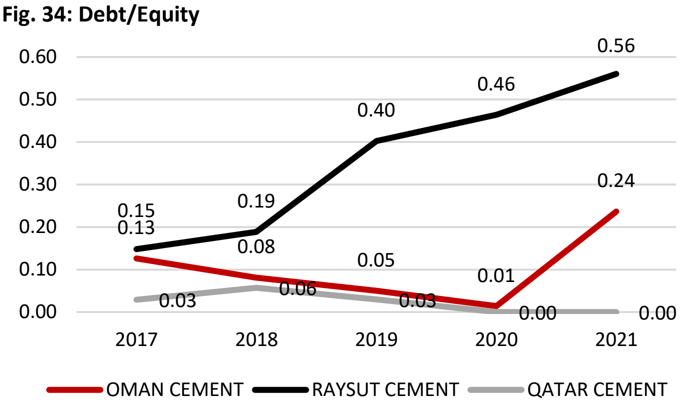
Source: Company Data, U capital Research

Fig. 33: ROE



Source: Company Data, U Capital Research

Fig. 34: Debt/Equity



Source: Company Data, U capital Research

Oman Cement

Target Price: OMR 0.30
Upside: 17.1%

Recommendation	**Accumulate**
Bloomberg Ticker	OCOI OM
Current Market Price (OMR)	0.25
52wk High / Low (OMR)	0.260/0.220
12m Average Vol. (000)	138.0
Mkt. Cap. (USD/OMR Mn)	219/84
Shares Outstanding (mn)	330.87
Free Float (%)	32%
3m Avg Daily Turnover (OMR'000)	38.5
6m Avg Daily Turnover (OMR'000)	43.2
P/E'22e (x)	14.5
EV/EBITDA'22e (x)	4.4
Dividend Yield '22e (%)	3.9%
Price Performance:	
1 month (%)	2
3 month (%)	11
12 month (%)	6

Source: Bloomberg, valued as of 26 May 2022

Source: Bloomberg

- **Company well placed to benefit from likely recovery in the domestic construction sector**
- **Expected additional production capacity and better utilizations amid steadily improving realizations to support top-line growth and earnings**
- **High input costs to weigh on margins in near term, however, likely to improve on better efficiencies in the medium term**
- **Debt to remain at comfortable level providing further room for future growth projects**

We re-initiate coverage on Oman Cement Company (OCOI) and assign an **Accumulate** rating with a target price of OMR 0.30 per share, offering an upside of 17.1% on the current stock price of OMR 0.25. Currently, the stock trades at a P/E of 14.5x AND EV/EBITDA of 4.4x, based on our FY22 estimates. We believe the multiple does not correctly factor in the growth opportunities the company has in the medium-long term. The near-term brownfield expansion ~5,000tpd, followed by the new ~10,000tpd kiln line, being the largest in Oman, shows its progress to cater to huge domestic cement demand in the coming years on the recent government plans for a huge infrastructure programme. This capacity enhancement will not only increase its domestic production, but also will help to improve its market share in Oman.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) Discounted Cash Flow (DCF), (ii) Relative Valuation (using P/E and EV/EBITDA multiple) and (iii) DDM. Key downside risks to our valuation include i) Fall in realization prices ii) concentration risks-as the company mainly operates in Oman, iii) slow pick-up of construction activities, leading to lack of cement demand, iv) delay in capex plans. Key upside risks to our valuation include i) better-than-estimated realization prices of cement, ii) higher-than-expected increase in cement demand in Oman, and iii) more-than-expected improvement in operating efficiency.

Organic growth story: i) OCOI to increase its growth pace by improving capacity from 3.6mt in FY21 to 6.2mt by FY24e, ii) Company to work at maximum capacity utilization this year due to acute shortage cement supply in the region, iii) Revenue estimated to grow ~21% during FY21-26e, led by increase in volumes sold, iv) Realization prices to support the growth story going ahead due to increase in input cost globally, v) Margins to remain subdued until the commission of new plants vi) debt burden forecasted is not a concern for the company vii) expected to continue paying dividend

Financial and valuation summary:

	FY18	FY19	FY20	FY21	FY22e	FY23e
Revenues (OMR mn)	50.8	13.4	11.6	11.1	12.0	48.1
Net income (OMR mn)	7.3	1.5	0.8	0.4	1.3	4.0
Gross margin	21.8%	13.9%	17.2%	16.1%	16.6%	16.7%
Net profit margin	14.4%	8.3%	10.3%	9.5%	8.4%	8.7%
RoE	4.6%	2.7%	3.5%	3.0%	3.9%	4.0%
FCF (OMR/share)	0.02	0.01	0.02	0.01	0.01	(0.22)
DPS (OMR/share)	0.03	0.02	0.01	0.01	0.01	0.01
P/E	13.6x	19.4x	15.6x	18.3x	14.5x	14.0x
EV/EBITDA	7.0x	7.5x	5.3x	5.2x	4.4x	9.7x

Source: Company Reports, U Capital Research **P/E and EV/EBITDA from 2022 onwards calculated on price of 26/05/2022*

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Likely revival in construction activities bodes well for the domestic cement companies

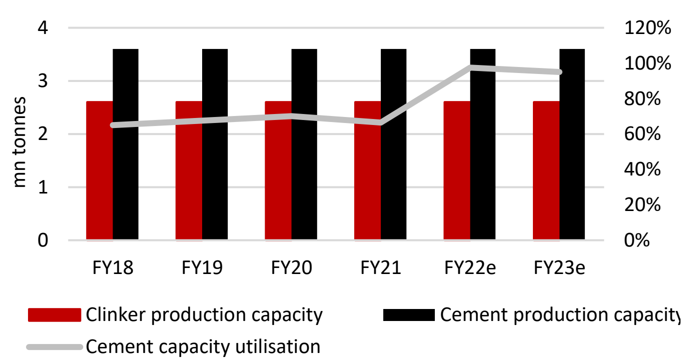
The construction sector had been under pressure in Oman in the past few years owing to decline in government revenues amid low oil prices and further exacerbated by pandemic led lockdowns. The overall economic situation has started improving recently, largely driven by improving fiscal situation given the sharp rebound in crude oil prices and supported by pick up in economy activity post reopening. Furthermore, expense consolidation efforts at the Government level as well as introduction of measures like VAT are supporting revenues. These developments augur well for the construction sector as new infrastructure projects are likely to get awarded along with speed up of the ongoing projects. That said, cement being the core material for any construction project, is likely to see strong demand in the coming years, directly benefiting the domestic cement companies like Oman Cement.

Healthy utilizations and incremental capacity to aid volume growth amid demand recovery

Currently, there is an acute shortage of cement in some regions due to decreased imports; simultaneously, some local companies are halting productions either due to high input costs or having capacity constraints. Nevertheless, OCOI readily have arrangements in place to take advantage of this situation and instantly plans to increase its production by 10% in this quarter. Further, in FY22e we expect the company to have maximum capacity utilizations of >97%, followed by ~95% utilization in FY23e.

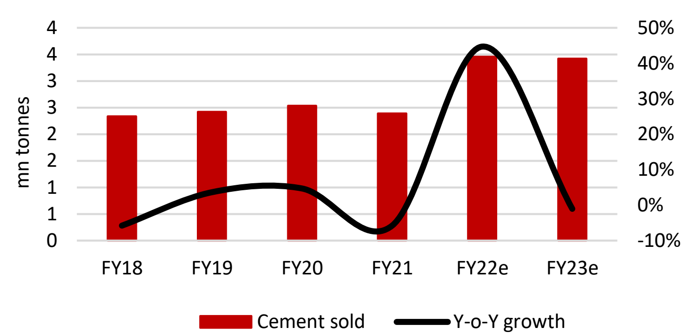
Currently, the company has 2.6mta and 3.6mta production capacity of clinker and cement, respectively. While the demand for cement is expected to remain buoyant in Oman, to meet the growing demand and to increase the market share, OCOI plans to increase its production drastically. With this localized approach, OCOI intends to improve its production capacity and establish a new production line in the existing factory in Muscat, with a production capacity of 10,000tpd of clinker, largest in the country, in addition to the modernization of its production line 3 to achieve a 25% increase in production capacity to 5,000tpd of clinker. Overall, the company's production will increase from the current 8,700tpd to 15,000tpd by FY24e.

Fig. 35: Capacity utilization to reach at its maximum level



Source: Company Reports, U Capital Research

Fig. 36: Volume likely to grow on demand optimism



Source: Company Reports, U Capital Research

We believe the demand for cement is here to stay for next 4-5 years, where the company's incremental capacity will be utilized. Overall, with the growing market presence, OCOI stands to benefit from these changing dynamics and accordingly, we expect the company's sales volume to grow at a CAGR of 18.5% over FY21-26e from 2.4mta sold in FY21 to 5.6mta by FY26e. Solid volume growth in 1QFY22 of ~48% YoY, further, supports our view.

Moderate recovery in realizations coupled with strong volumes to drive revenues

Oman cement is the second largest cement producer in Oman, having facilities in Muscat. The company's performance has been laggard in the last 5 years with a CAGR of -5.0% over FY17-21. This is majorly attributed to the continuous decrement in per tonne realization prices of cement in Oman from OMR 23.2/tonne in FY17 to OMR 19.7/tonne in FY21, signifying a de-growth of -4.1% during the same period.

The company has been facing pricing pressure due to import of cements from other countries, at cheaper prices, leading to a decrease in realization per tonne. Going ahead, we expect, due to sharp rebound of oil prices and increase in freight charges, imported cement

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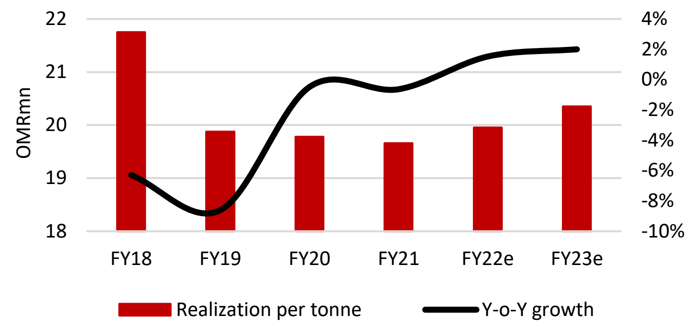
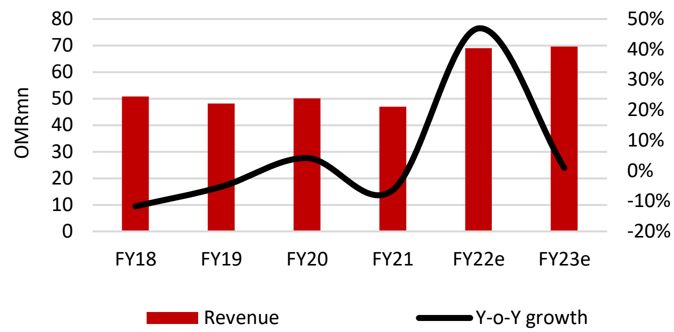
prices should improve in FY22e, benefitting the indigenous companies like Oman Cement. However, due to intense competition in this commoditized market in Oman, we believe the company's realization per tonne in cement prices to improve merely by 1.9% CAGR over FY21-26e to OMR 21.6/tonne by FY26e.

Fig. 37: Company's realization to improve moderately



Source: Company Reports, U Capital Research

Fig. 38: revenue to pick-up on the back of growing demand



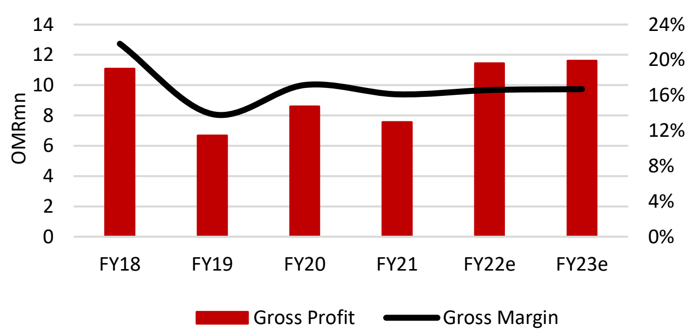
Source: Company Reports, U Capital Research

Consequently, we believe the company's revenue should bounce back by 20.8% CAGR over FY21-26e, largely driven by strong growth in the sales volume amid improving demand scenario while moderate improvement in realizations to further support the top-line growth trajectory in the coming years.

High input costs may weigh on margins in near-term…

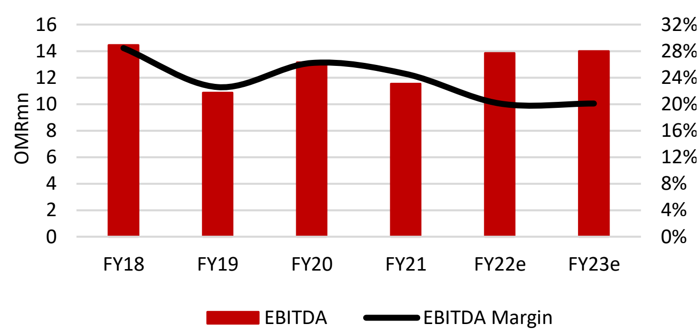
The cement companies in Oman are witnessing high input costs continuously since last few years, which started with a major hike in gas prices back in 2015, followed by a progressive increase in prices every year till date. Subsequently, in 2017, the companies suffered the revised hike in electricity tariff which further led to increased costs for the local cement manufacturers. Last year, there has been sharp surge in coal prices globally, which is exerting inflationary pressure, mainly on neighboring UAE cement companies. This would be positive for the local cement manufacturers in Oman, due to reduced competition faced owing to cheap cement imports from such a prolonged period. Certainly, the brunt of increased input costs is to be borne by Oman cement manufacturers as well and OCOI is nowhere an exception to this. Another factor is the higher depreciation due to increased capacity of the manufacturing plants which will additionally impact the gross margins till FY24e.Thus, we believe the company's gross margins will hover around ~16% levels from FY22e-24e.

Fig. 39: Gross margin to consolidate near 16% in near-term



Source: Company Reports, U Capital Research

Fig. 40: EBITDA margin to remain under pressure



Source: Company Reports, U Capital Research

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…however, likely improved operating efficiencies to enhance margins in the medium term

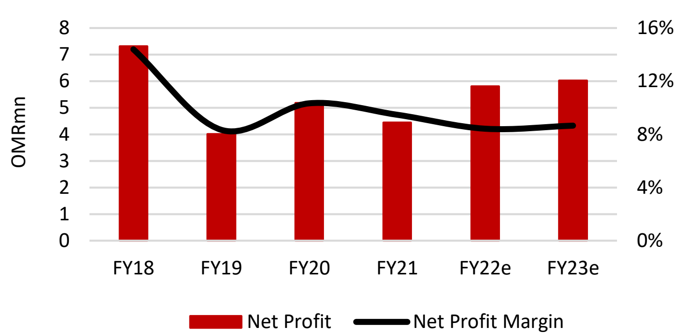
One of the key issues at a cement facility is the dust, which creates huge problems for air-cooled compressors. To eliminate this issue, OCOI has installed a dedicated compressor room with dual filtration screeds, because of which there has been reduction in maintenance and energy costs by ~30%. Thus, the company is focusing on such innovative solutions that deliver reliability and leads to energy efficiency, thereby an improvement in overall margins in the coming years

Over the medium term, we expect the company's gross margin will steadily increase to 19.5% by FY26e due to certain factors i) improved price scenario and ii) OCOI's continued efforts in saving energy costs (a major cost component in cement production) using appropriate raw material mix as well as alternate/cheap sources of energy. Further, the EBITDA margins should remain at ~20% levels till FY24e before improving to ~24% by FY26e. However, the margins projected are lower than the historic levels of FY17/18 as we believe going ahead the company's strategy will be to focus more on increasing its customer base, have high number of project awards to gain market share and thus may go slow on pricing front in comparison to earlier years.

Earnings likely to recover on higher revenues despite margin pressure

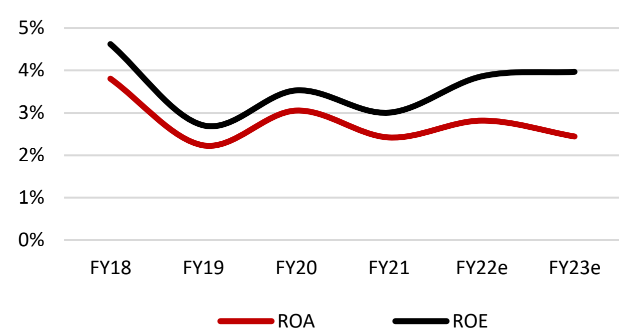
Although a check in administration expenses will help the company to increase its operating profit from OMR 3.9mn in FY21 to OMR 16.5mn by FY26e, a growth of 33.4% over FY21-26e; the company's financial cost will be a damper during the same period, where due to increased debt of OMR 35mn in the current year and further expected of OMR 70mn debt by FY23e, the company's finance cost will drastically increase from OMR 0.1mn in FY21 to OMR 3.7mn in FY26e. This will further translate into slower net profit growth of 8.6% to OMR 5.7mn by FY24e. Beyond FY24e, the company's net profit should grow faster to give an overall CAGR of 21.5% over FY21-26e.

Fig. 41: NPM to further get impacted due to high finance costs



Source: Company Reports, U Capital Research

Fig. 42: Return ratios to improve from FY24e onwards



Source: Company Reports, U Capital Research

Balance sheet to remain healthy despite recent leverage position

The company has always maintained its D/E ratio and has remained below 0.1x, with the only exception being in FY21, where OCOI has borrowed OMR 35mn for its aggressive growth expansion plans. Thus, in FY21 the company's D/E ratio has steeply increased to 0.2x, still being at comfortable level in comparison to its peer, Raysut Cement. We expect the company to raise ~USD 300mn via debts to fund its capex programme. We believe the high debt is not a matter of concern in the medium-long term as the company's dynamic pricing approach and increasing market share will lead to increased earnings in the coming years. Accordingly, we believe the company's D/E ratio will increase to 0.7x till FY23e followed by a decreasing trend to reach 0.6x by FY26e and the interest coverage ratio to reach to 4.4x by FY26e.

On the working capital management font, it has been a tough time for OCOI; the WC requirements has consistently risen since FY17, and the cash conversion cycle has increased from 146 days in FY17 to 275 days to FY21. Mainly in FY21, due to dumping of imported cement at unbelievable low prices, the company seems to have struggled in selling its cement products, which led to sharp increase in stockpile up. Going ahead, we believe the company will take advantage of the acute shortage of cement in Oman and thus will be able to manage its inventory efficiently. This will lead to acquainting customers with the company's quality cement products in comparison to the imported products, which will gradually work in favor of the company. With effective stock management and improved sales, the cash conversion cycle should come down to 220 days by FY26e.

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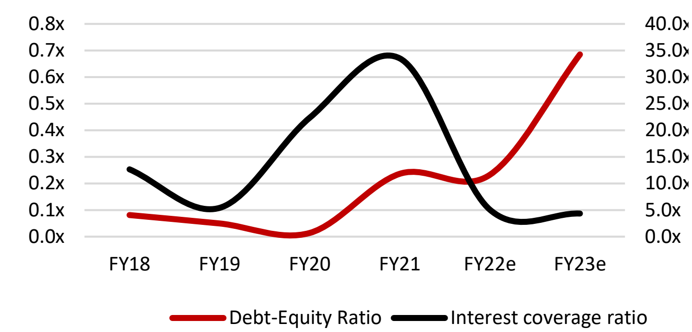
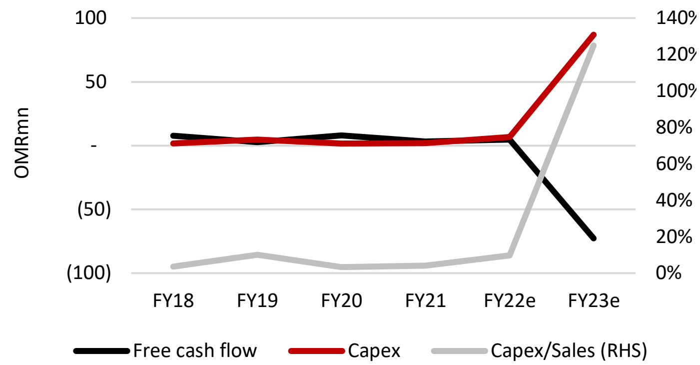
Fig. 43: Debt/Equity to increase sharply in FY23e



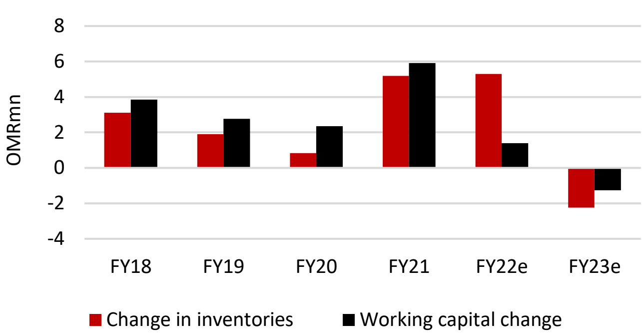
Source: Company Reports, U Capital Research

Fig. 44: Maximum capex to be done in FY23e



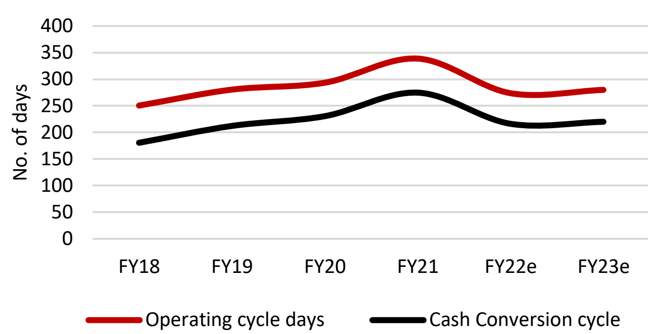
Source: Company Reports, U Capital Research

Fig. 45: WC requirement is expected to peak in FY22e



Source: Company Reports, U Capital Research

Fig. 46: Cash conversion cycle to improve going forward



Source: Company Reports, U Capital Research

Assigning an Accumulate rating on the back of improved performance going ahead

We assign a **Accumulate** rating on the stock with a target price of OMR 0.30, implying an upside of 17.1%. The operating conditions for the company have started improving and the 1Q22 result is a testimony to this, where the company's top-line has grown by 44% YoY, although on a lower base. Also, addressing the current acute cement shortage scenario, the company reveals that it can instantly increase its production capacity by 10% in this quarter to meet the growing local demand. With the aggressive capex plan in place, the company aims to achieve the maximum benefit from the government's biggest infrastructure development plans and cater to the pick-up in local demand. This shows the company's focus to mainly become self-reliant in the coming years; thus, we believe going ahead the company's market share should continuously improve. With improved industry prospects for indigenous cement manufacturers and OCOI's right-action plan during the challenging period will lead to higher returns for the shareholders. Although we believe, the company will keep the dividend constant in the next 3 years due to its growth plan; to compensate the same, the company will start paying higher dividends from FY25e onwards, leading to 20.0% CAGR growth over FY21-26e.

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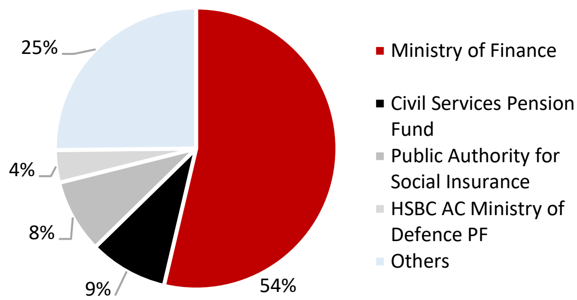
About OCOI

Oman Cement Company SAOG (OCOI) was established in the year 1978. OCOI manufactures cement such as Ordinary Portland Cement (OPC), Moderate Sulphate Resistant Cement (MSRC), Sulphate Resistant Cement (SRC), Portland Limestone (PLC) and Oil well cement class of grade “A” and “G” and such other products. The company now source all the raw materials required for production from within the region.

Fig. 47: OCOI’s Shareholding Structure



Source: Bloomberg, 26 May 2022

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Key financials

In OMR mn, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Sales	48	50	47	69	70	84
Cost of sales	(41)	(42)	(39)	(58)	(58)	(70)
Gross profit	**7**	**9**	**8**	**11**	**12**	**14**
Depreciation and amortization	8	8	8	8	8	10
General and administrative expenses	(3)	(3)	(4)	(5)	(5)	(6)
Operating profit	**3**	**5**	**4**	**6**	**6**	**7**
Other Income	1	0	0	0	0	0
Finance costs	0	1	1	0	0	(1)
Income before tax	**5**	**6**	**5**	**7**	**7**	**7**
Income tax	(1)	(1)	(1)	(1)	(1)	(1)
Net income for equity shareholders	**4**	**5**	**4**	**6**	**6**	**6**
Balance Sheet						
Inventories	25	25	30	36	33	40
Trade and other receivables	10	10	11	14	13	16
Cash and bank balances	3	7	57	59	54	19
Property and equipment	112	105	100	99	178	202
Right-of-use assets	1	1	1	1	1	1
Total assets	**174**	**166**	**202**	**211**	**282**	**282**
Loans and borrowings	7	2	35	35	105	100
Trade and other payables	8	7	7	11	10	12
Lease liabilities	1	1	1	1	1	1
Total liabilities	**25**	**19**	**54**	**60**	**129**	**126**
Share capital	33	33	33	33	33	33
Retained earnings	82	80	81	84	87	89
Equity Attributable to Shareholders	**148**	**147**	**148**	**151**	**153**	**156**
Cash Flow Statement						
Net cash generated from operating activities	7	11	8	12	15	8
Net cash generated from investing activities	7	4	13	(7)	(87)	(34)
Net cash (used in) provided by financing activities	(15)	(12)	30	(3)	67	(9)
Cash and cash equivalents at the end of the period	**3**	**7**	**57**	**59**	**54**	**19**
Key Ratios						
Gross margin (%)	13.9%	17.2%	16.1%	16.6%	16.7%	16.1%
EBITDA margin (%)	22.6%	26.2%	24.6%	20.1%	20.1%	20.6%
Operating margin (%)	6.6%	10.7%	8.3%	8.8%	8.9%	8.8%
Net margin (%)	8.3%	10.3%	9.5%	8.4%	8.7%	6.8%
ROA	2.2%	3.1%	2.4%	2.8%	2.4%	2.0%
ROE	2.7%	3.5%	3.0%	3.9%	4.0%	3.7%
Current Ratio (x)	3.2	5.9	2.2	2.3	0.9	0.7
Capex/Sales	10.1%	3.3%	4.1%	9.7%	125.0%	40.0%
Debt-Equity Ratio (x)	0.05	0.01	0.24	0.23	0.69	0.64
EPS	0.01	0.02	0.01	0.02	0.02	0.02
BVPS	0.45	0.44	0.45	0.45	0.46	0.47
DPS	0.02	0.01	0.01	0.01	0.01	0.01
Dividend Payout Ratio	164.9%	63.8%	74.4%	57.0%	54.9%	58.1%
Dividend Yield (%)	8.5%	4.1%	4.1%	3.9%	3.9%	3.9%
P/E (x)	19.4	15.6	18.3	14.5	14.0	14.8
P/BV (x)	0.5	0.6	0.5	0.6	0.6	0.5
EV/EBITDA (x)	7.5	5.3	5.2	4.4	9.7	9.6
Price as at period end*	0.24	0.25	0.25	0.25	0.25	0.25

Source: Company Reports, U Capital Research *Current market price is used for forecast periods

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Rasyut Cement

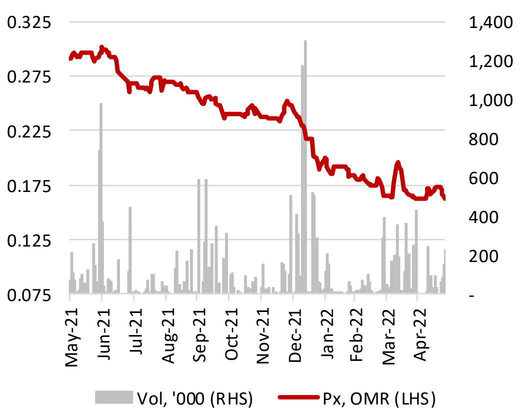
Target Price: OMR 0.17/share
Upside: 7.1%

Recommendation	**Hold**
Bloomberg Ticker	RCCI OM
Current Market Price (OMR)	0.16
52wk High / Low (OMR)	0.310/0.160
12m Average Vol. (000)	95.7
Mkt. Cap. (USD/OMR Mn)	85/33
Shares Outstanding (mn)	200.00
Free Float (%)	60%
3m Avg Daily Turnover (OMR'000)	15.2
6m Avg Daily Turnover (OMR'000)	20.5
P/E'22e (x)	NM
EV/EBITDA'22e (x)	0.3
Dividend Yield '22e (%)	0.0%

Price Performance:	
1 month (%)	1
3 month (%)	(11)
12 month (%)	(44)

Source: Bloomberg, valued as of 26 May 2022

Price-Volume Performance



Source: Bloomberg

- **Biggest capacity plans coincide with its ambition to further expand its footprints globally**
- **Revenue to grow at a higher rate driven by increased sales volume amid improvement in local demand and likely strong exports**
- **Despite higher top-line, margins may remain under pressure on higher cost base**
- **Leverage to increase significantly to fund capex requirements**

We re-initiate coverage on Raysut Cement Company (Raysut) and assign a **Hold** rating to the stock with a target price of OMR 0.17/share, offering an upside of 7.1%. Currently, the stock trades at P/B of 0.3x, based on our FY22 estimates. The company is under the big expansion plans currently, and we expect the expansion to continue till FY27e, where the company's cement production capacity will be almost tripled from its current capacity of 7.4 MTPA. The company will achieve this capacity, both through organic and inorganic growth. Also, due to the long gestation period, we have forecasted our numbers till FY28e to arrive at the current target price. Although we expect the company's top-line to grow at a CAGR of 20.7% during FY21-28e due to growing contribution from export market, we expect the company's bottom-line to remain under pressure due to high-cost base and increased financial costs on higher debt levels during the maximum forecasted period.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/B multiple). Key downside risks to our valuation include i) Fall in realization prices ii) slow pick-up of construction activities, leading to lack of cement demand, iii) delay in ramping up production capacity. Key upside risks to our valuation include i) Lower-than-expected raw material costs, ii) better-than-estimated realization prices of cement, iii) higher-than-expected increase in cement demand in Oman and iv) more-than-expected improvement in operating efficiency.

Highly levered: Raysut is one of the largest regional cement producers, i) having more tilt towards export market, ii) aims to become a leading cement company globally, thus is currently setting up plants both in Oman and other regions iii) margins to remain impacted due to higher cost base, iv) huge capex to be funded wholly by external borrowings, v) leading to weak cash flows vi) expects no dividend payment throughout the forecasted period.

Financial and valuation summary:

	FY18	FY19	FY20	FY21	FY22e	FY23e
Revenues (OMR mn)	91.0	84.1	90.4	93.6	94.5	121.7
Net income (OMR mn)	0.3	2.3	(18.3)	(13.6)	(11.3)	(12.5)
Gross margin	24.7%	30.1%	3.9%	5.7%	8.4%	10.5%
Net profit margin	0.4%	2.7%	-20.2%	-14.5%	-11.9%	-10.2%
RoE	0.2%	1.5%	-14.3%	-11.9%	-11.0%	-13.0%
FCF (OMR/share)	(0.06)	(0.18)	(0.10)	(0.01)	(0.44)	(0.33)
DPS (OMR/share)	0.01	-	-	-	-	-
P/E (x)	NM	37.7x	NM	NM	NM	NM
P/B (x)	0.5x	0.6x	0.5x	0.4x	0.3x	0.4x

Source: Company Reports, U Capital Research **P/E and P/B from 2022 onwards calculated on price of 26/05/2022*

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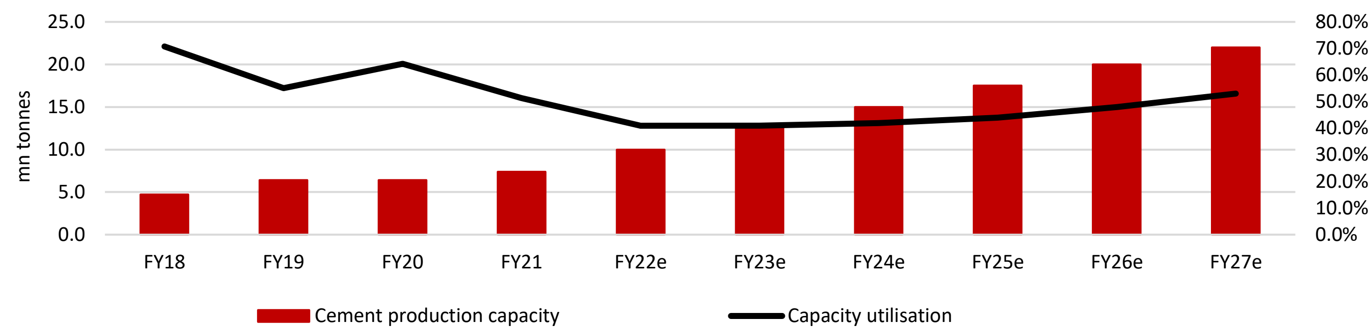
Expanding capacity, both organically and through M&A, provides revenue growth visibility

Raysut aims to become one of the leading companies globally in cement manufacturing and thus has an aggressive capacity expansion plan in place. The company has recently increased its capacity by 1 MTPA by developing a new plant in Duqm. This has led to a current capacity of 7.4 MTPA till FY21. As a part of its global expansion, Raysut also announced developing a new greenfield project in Georgia with 1.2 MTPA capacity via its wholly owned subsidiary, Pioneer Cement Industries. Lately, the company had a major takeover of Lafarge Holcim's cement plant in the Maldives to be closer to Indian markets, followed by investing USD 40mn in a new grinding unit in East Africa.

Raysut looks at the market opportunities globally and thus dovetailed itself to grow both organically and inorganically. By FY22e, the company plans for a global capacity of 10 MTPA and 22 MTPA in the near future. However, on a conservative basis, we have assumed a gradual increase in production capacity reaching 22 MTPA by 2027e.

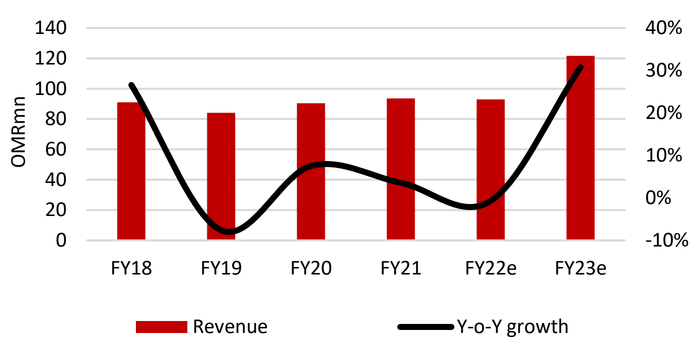
Fig. 48: Production capacity to increase while ramp-up will take time



Source: Company Reports, U Capital Research

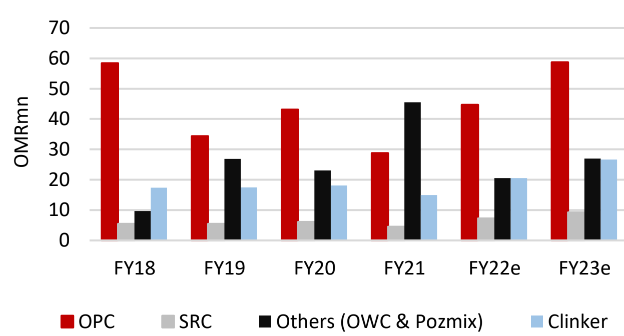
That said, expanding capacity amid favorable demand dynamics provides healthy top-line growth visibility in the medium to long-term. Overall, we believe the company's revenue to grow by 20.7% CAGR from OMR 93.6mn in FY21 to OMR 349.4mn in FY28e, driven by an increase in volumes by 19.7% CAGR during the same period. Due to a higher tilt towards other GCC and global markets, the company will be able to see an uptrend in its realization prices, far better than its competitor Oman Cement, with an expectation of ~OMR 26/tonne by FY28e.

Fig. 49: Revenue to pick up from FY22e onwards



Source: Company Reports, U Capital Research

Fig. 50: Product-wise revenue segmental break-up

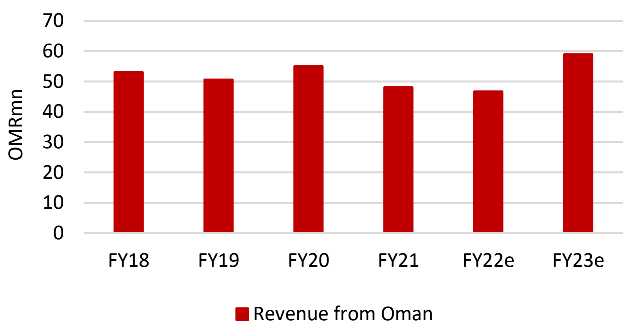


Source: Company Reports, U Capital Research

Likely pickup in demand amid improving construction activities to drive local revenues

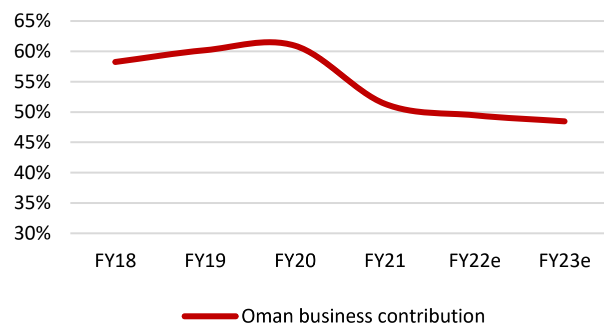
Raysut Cement is a prominent cement producer in Oman, having a total cement production capacity of 7.4 MTPA. as of FY21. However, the cement capacity utilization remains at a lower level, with 51.3% (as per our calculations) in FY21. This was mainly due to a lack of local demand for cement as the construction activities took a toll due to the pandemic and weakness in crude oil prices. Meanwhile, the cement prices remained under pressure as UAE companies have been dumping their cement products in Oman at cheaper prices, making it difficult for local companies like Raysut to compete with them. This had led to the company's revenues in Oman to drop by 12.7% YoY to OMR 48.1mn in FY21.Going ahead, we expect Oman's business to remain healthy due to improving infrastructure developments in the region and thus the Oman's business revenue should grow at a CAGR of 17.9% over FY21-26e to OMR 151.8mn in FY26e. However, we expect this segment's business revenue to contribute lower to the total revenues in the coming years, decreasing from 51.4% in FY21 to 43.5% in FY26e.

Fig. 51: Oman business revenues likely to grow on higher demand



Source: Company Reports, U Capital Research

Fig. 52: Oman business contribution to decrease going forward



Source: Company Reports, U Capital Research

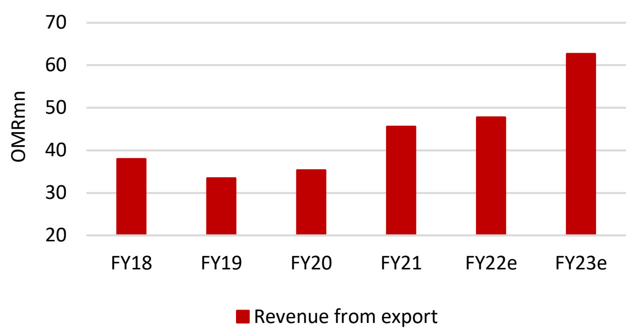
Continued focus on increasing exports to target markets to further aid revenues

The company's savior became the export market, due to which the company's overall realization prices grew from OMR 19.4/tonne in FY20 to OMR 24.1/tonne in FY21.Revenue from export markets (comprising Europe, Africa, and Asia) grew by 28.9% YoY to OMR 45.5mn in FY21 while overall sales increased by 3.6% YoY to OMR 93.6mn in FY21. Consequently, the export division contribution in total revenues increased to 48.6% in FY21 from 39.1% in FY20.

Going ahead, we believe the company will pay more attention to utilizing its existing resources at its optimum level, and thus may look for more export-related opportunities. This will also be a good strategy for the company to diversify away from the local cement price pressure and hence focus more on growing profitability in the longer term. Aligning to this strategy, the company is going to launch new cement types in OPC and PLC range, catering to newer markets in India and Europe.

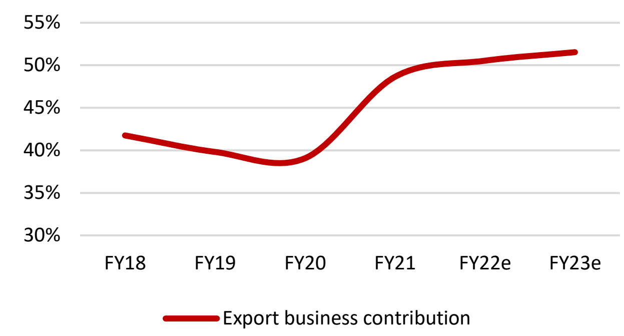
To further meet the global standards, the company had recently received CE and NF certifications, the two stringent global quality norms, validating the company's adherence to EU standards in cement production. Currently, Raysut exports ~0.24 MTPA to India and is looking to acquire plants in India to increase its participation in the growing market. Thus, we believe the company's revenue contribution from the export market to grow from 48.6% in FY21 to 56.5% in FY28e.

Fig. 53: Export market to contribute >50% going forward



Source: Company Reports, U Capital Research

Fig. 54: Product-wise revenue segmental break-up

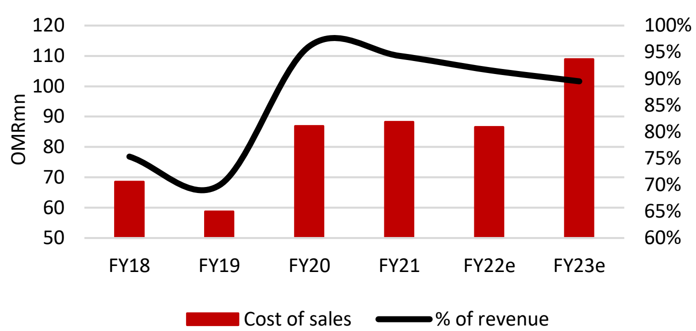


Source: Company Reports, U Capital Research

Gross margin to improve from low base, however, unlikely to reach historical levels in near-term

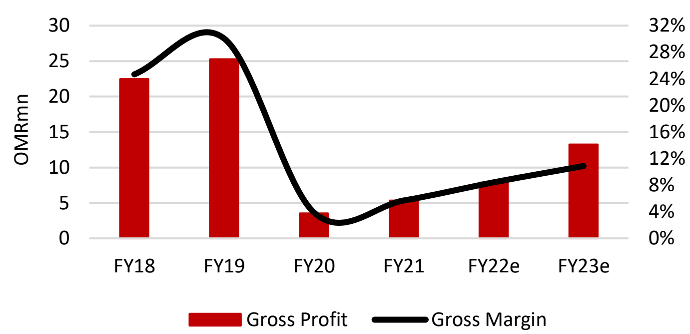
Due to the spike in gas and coal prices globally, the cement companies' manufacturing costs have gone up drastically in the last 2 years, which also led Raysut's costs to grow at a CAGR of 15.8% over FY17-21. This had pressurized gross margins to a great extent and especially in the last 2 years, the margins plunged from 30.1% in FY19 to 5.7% in FY21.

Fig. 55: Cost of sales as % of revenues to improve…



Source: Company Reports, U Capital Research

Fig. 56: …leading to an increase in gross margins going ahead



Source: Company Reports, U Capital Research

Raysut is in the process to install a 9MW waste heat recovery system in its main plant in Sallah, Oman. This plant will contribute significantly to the company's ambitious targets of reducing power consumption by 25-30%, thus making the manufacturing process more energy efficient. Thus, we expect that going ahead although the company's production will increase, due to lower energy costs and other cost savings measures, the company will be able to expand gross margins gradually to reach ~15% by FY25e and ~24% levels by FY28e.

Continue to incur operating losses on higher costs base, although may break-even in 2025

The company has been incurring operating losses since Q1 2020 largely due to faster rise in costs relative to sales growth mainly driven by steep increase in raw materials costs, higher energy costs and relatively higher SGA expenses. Going forward, with expected higher sales growth and improvement in gross margins, we expect operating losses to come down gradually and may reach break-even point by 2025.

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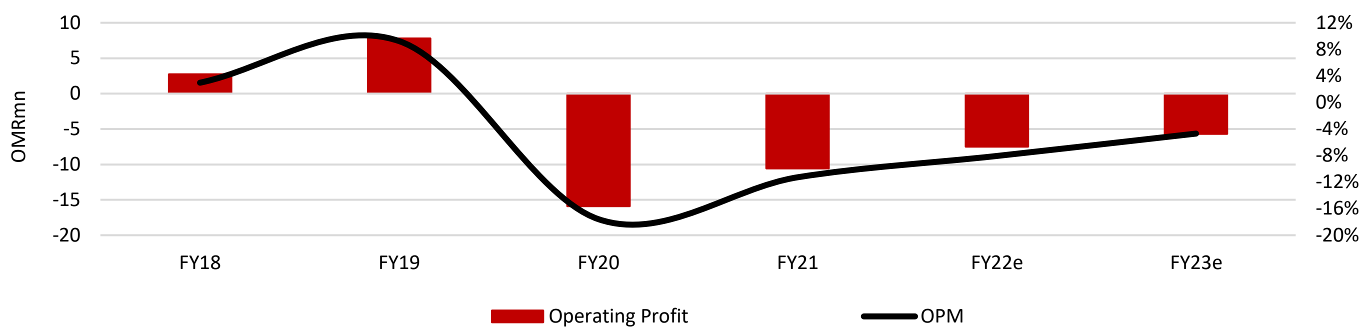
Fig. 57: Operating margins will take time to return to their historical levels

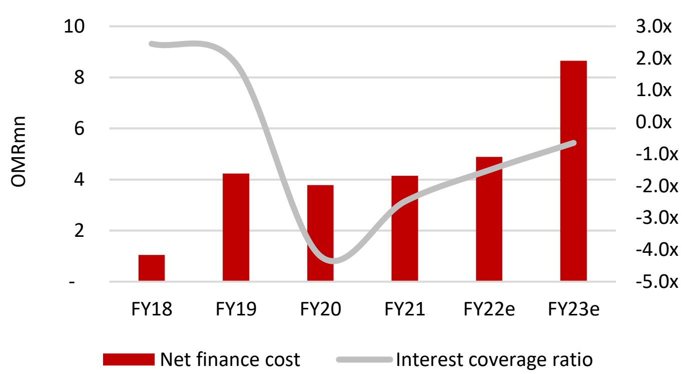


Source: Company Reports, U Capital Research

High financing costs to further weigh on profitability

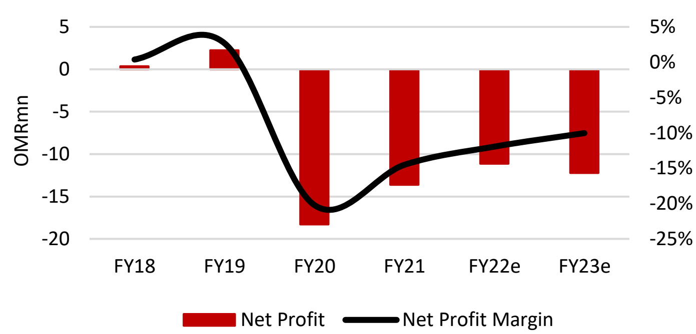
While the company is aiming to expand its production capacity which is positive in our view amid positive demand outlook, this will also lead to significant increase in debt levels to fund the huge capex investments. This along with rising interest rates environment (recently the Central Bank of Oman increased interest rates by 50bps with more likely to come to contain inflation) could increase the financial costs burden significantly. Accordingly, this will keep bottom-line under pressure in the medium term unless there is steep decline in raw material costs.

Fig. 58: Finance costs likely to rise on higher debt and increasing interest rates…



Source: Company Reports, U Capital Research

Fig. 59: …pressuring bottom-line in the mid-term



Source: Company Reports, U Capital Research

Shifting from low levered to a highly levered company

Raysut's debt-equity ratio has been on an increasing trend since FY17, although at the comfortable levels with a D/E ratio of 0.6x in FY21. Going ahead, we expect the company to borrow OMR 375mn from FY22-FY28e to fund its ambitious capacity expansion plans which would take D/E ratio to ~4.8x by 2025e. Besides this, the company is struggling to generate free cash flows and thus resorted to short-term debts for its working capital requirements, especially since FY19. As the company will take time to generate substantial cash flows, we believe the leverage will be on the higher side till FY25e, with a gradual shift from long-term borrowings to short-term borrowings requirements to fund the working capital.

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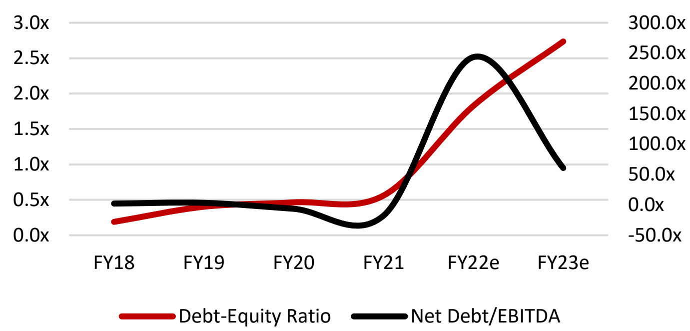
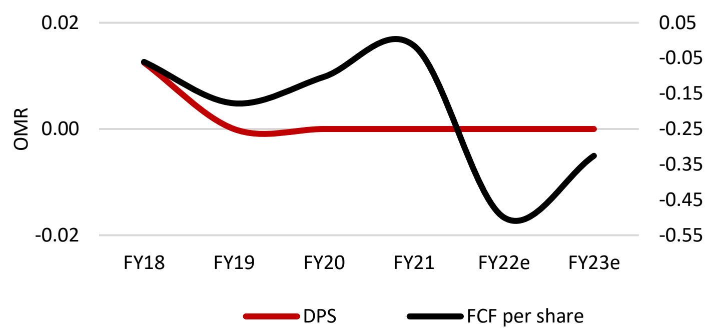
Fig. 60: Leverage remains high



Source: Company Reports, U Capital Research

Fig. 61: FCF to remain under pressure with no dividend payouts



Source: Company Reports, U Capital Research

Raysut has not paid dividends since FY19 due to its aggressive growth plans. We believe the company will continue to not pay dividends in our projected period as the company will preferably choose to make its books lighter by repaying its debts.

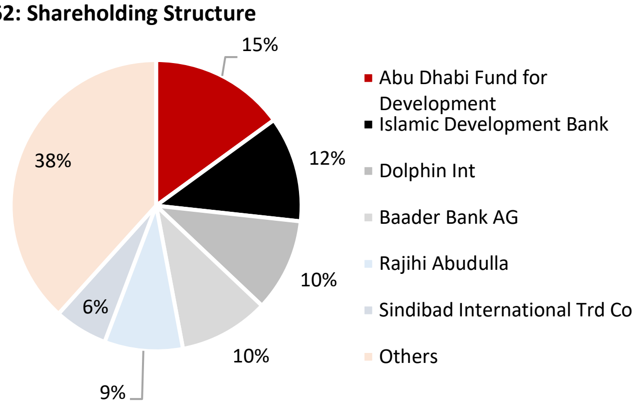
Assign Hold rating

Raysut Cement is one of the largest cement producers in the region, and it further aims to become a leading company in cement production globally. This led the company to firmly grasp the need for expansion of its capacities. With the slow pick-up in local demand, Raysut has started looking at export opportunities, In FY21, exports already reached ~50% of its revenue and we believe the contribution from exports will further outweigh the domestic sales, and thus the company will be able to have higher realization prices per tonne of cement compared to its peers. However, higher cost base including operating as well as financing costs will continue to pressure profitability and cash flows in the medium-term. Hence, we don't expect the company to pay dividends to its shareholders at least in the next few years. Accordingly, we value the stock by assigning a **Hold** rating, with a target price of OMR 0.17, an upside potential of 7.1% from the current market price.

About Raysut Cement

Raysut Cement Company, founded in 1981, is the largest producer of cement in Oman with clinker and cement manufacturing assets in Oman, Yemen, UAE, and recently acquired LH Maldives. The company has a diversified product range of ready-mix concrete and other cement products to meet a broad range of customer needs.

Fig. 62: Shareholding Structure



Source: Bloomberg, 26 May 2022

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Key financials

In OMR mn, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Sales	84	90	94	94	122	155
Cost of sales	(59)	(87)	(88)	(87)	(109)	(135)
Gross profit	**25**	**4**	**5**	**8**	**13**	**20**
Depreciation and amortization	10	7	7	9	10	12
General and administrative expenses	(14)	(14)	(8)	(9)	(10)	(12)
Operating profit	**8**	**-16**	**-11**	**-8**	**-6**	**-2**
Other Income	-1	0	1	(0)	-	-
Finance costs	-4	-4	-4	(5)	(8)	(11)
Income before tax	**3**	**-20**	**-14**	**-13**	**-15**	**-13**
Income tax	(1)	2	1	1	2	2
Net income for equity shareholders	**2**	**-18**	**-14**	**-11**	**-12**	**-11**
Balance Sheet						
Inventories	33	34	30	30	36	41
Trade and other receivables	26	25	25	25	33	38
Cash and bank balances	1	1	1	2	2	2
Property and equipment	114	115	116	203	249	296
Right-of-use assets	22	7	6	6	5	5
Total assets	**255**	**234**	**230**	**317**	**377**	**434**
Loans and borrowings	59	59	64	163	225	285
Trade and other payables	22	22	29	29	29	32
Lease liabilities	22	7	7	7	7	7
Total liabilities	**109**	**106**	**116**	**214**	**287**	**354**
Share capital	20	20	20	20	20	20
Retained earnings	96	77	64	53	40	29
Equity Attributable to Shareholders	**146**	**128**	**114**	**103**	**90**	**79**
Cash Flow Statement						
Net cash generated from operating activities	2	11	6	3	2	9
Net cash generated from investing activities	-18	-12	-7	(95)	(55)	(57)
Net cash (used in) provided by financing activities	7	1	0	93	54	49
Cash and cash equivalents at the end of the period	**-3**	**1**	**1**	**2**	**2**	**2**
Key Ratios						
Gross margin (%)	30.1%	3.9%	5.7%	8.4%	10.5%	12.9%
EBITDA margin (%)	20.6%	-9.9%	-3.8%	1.0%	3.2%	6.4%
Operating margin (%)	9.2%	-17.6%	-11.3%	-8.2%	-5.2%	-1.1%
Net margin (%)	2.7%	-20.2%	-14.5%	-11.9%	-10.2%	-7.0%
ROA	0.9%	-7.8%	-5.9%	-3.5%	-3.6%	-2.7%
ROE	1.5%	-14.3%	-11.9%	-11.0%	-13.0%	-12.9%
Current Ratio (x)	1.0	0.8	1.0	0.8	0.8	0.9
Capex/Sales	44.0%	14.5%	7.9%	101.0%	46.1%	37.2%
Debt-Equity Ratio (x)	0.40	0.46	0.56	1.59	2.49	3.59
EPS	0.01	-0.09	-0.07	-0.06	-0.06	-0.05
BVPS	0.73	0.64	0.57	0.51	0.45	0.40
DPS	0	0	0	0	0	0
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (x)	37.7	NM	NM	NM	NM	NM
P/BV (x)	0.6	0.5	0.4	0.3	0.4	0.4
EV/EBITDA (x)	9.6	NM	NM	NM	68.7	32.7
Price as at period end*	0.43	0.35	0.25	0.16	0.16	0.16

Source: Company Reports, U Capital Research *Current market price is used for forecast periods

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Qatar National Cement

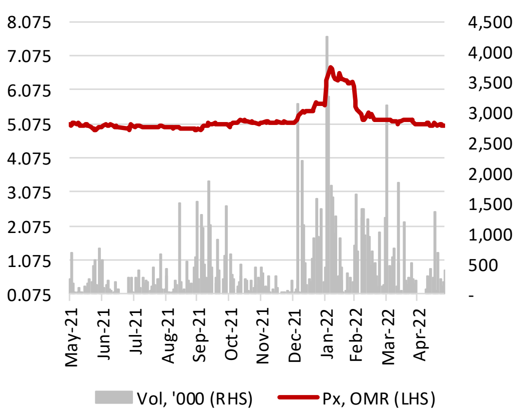
Target Price: QAR 6.3/share
Upside: 26.0%

Recommendation	Buy
Bloomberg Ticker	QNCD QD
Current Market Price (QAR)	5.00
52wk High / Low (QAR)	6.770/4.880
12m Average Vol. (000)	427.3
Mkt. Cap. (USD/QAR Mn)	8,501/3,270
Shares Outstanding (mn)	653.53
Free Float (%)	95%
3m Avg Daily Turnover (OMR'000)	2,924.4
6m Avg Daily Turnover (OMR'000)	3,232.2
P/E'22e (x)	12.4
EV/EBITDA'22e (x)	7.3
Dividend Yield '22e (%)	5.9%

Price Performance:	
1 month (%)	(1)
3 month (%)	(19)
12 month (%)	-

Source: Bloomberg, valued as of 26 May 2022

Price-Volume Performance



Source: Bloomberg

- **Market leader in Qatar with >50% of domestic cement production capacity**
- **Volumes to grow on the back of improving construction activating post covid era, driving top-line growth amid stable realized prices**
- **Margins to maintain uptrend aided by input cost advantage and better operating efficiencies**
- **Debt-free company with ample cash on its books; dividend yield to continue remain healthy**

We initiate coverage on Qatar National Cement (QNCC) and assign a **Buy** rating to the stock with a target price of QAR 6.3/share, offering an upside of 26.0%. Currently, the stock trades at a P/E of 12.4x and EV/EBITDA of 7.3x, based on our FY22 estimates. With improving macro environment on the back of surge in natural gas prices in Qatar, the government's spending is expected to increase with likely higher allocation towards infrastructure and construction sectors. QNCC, being a market leader in Qatar, is well position to be benefitted from these tailwinds. Thus, we expect company's cement volumes to grow at a CAGR of ~11% during FY21-26e. Further, we expect the margins to grow steadily, generating healthy cash flows and paying consistently higher dividends during the forecasted period.

Investment Thesis

Valuation and risks: Our target price is based on blended valuation methodologies – (i) Discounted Cash Flow (DCF), (ii) Relative Valuation (using P/E and EV/EBITDA multiple) and (iii) DDM. Key downside risks to our valuation include i) Fall in realization prices ii) concentration risks-as the company mainly operates in Qatar, iii) slow pick-up of construction activities, leading to lack of cement demand, and iv) delay in restarting of plants 4 and 5. Key upside risks to our valuation include i) better-than-estimated realization prices of cement, ii) higher-than-expected increase in cement demand in Qatar, iii) more-than-expected improvement in operating efficiency, and iv) higher than expected dividend payouts.

Strong Fundamentals: We hold positive view on the company primarily on account of i) Its resilient performance during challenging environment ii) Expected higher revenues driven by volume amid strong demand outlook iii) Margins to remain firm amid controlled raw material and energy prices, iv) Healthy cash flows on improving profitability and efficient working capital management and limited capex requirements, v) Cash-rich company with no debts on its books, and vi) Solid dividend payout, offering solid dividend yield of ~6% in FY22e.

Financial and valuation summary:

	FY18	FY19	FY20	FY21	FY22e	FY23e
Revenues (QAR mn)	848.2	213.1	164.3	161.2	164.6	703.0
Net income (QAR mn)	347.8	66.5	33.7	29.3	42.7	172.2
Gross margin	41.0%	26.7%	25.1%	32.3%	33.2%	33.3%
Net profit margin	41.0%	24.5%	22.5%	27.2%	31.4%	31.2%
RoE	11.0%	5.6%	5.0%	7.4%	8.5%	9.2%
FCF (QAR/share)	0.20	0.07	0.50	0.81	0.34	0.35
DPS (QAR/share)	0.50	0.30	0.20	0.30	0.30	0.36
P/E (x)	11.2x	21.4x	18.3x	14.8x	12.3x	11.2x
EV/EBITDA (x)	7.5x	11.1x	9.0x	7.7x	7.2x	6.7x

Source: Company Reports, U Capital Research **P/E and P/B from 2022 onwards calculated on price of 26/05/2022*

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Qatar National Cement acts as a barometer of the Qatari cement industry, being a major player

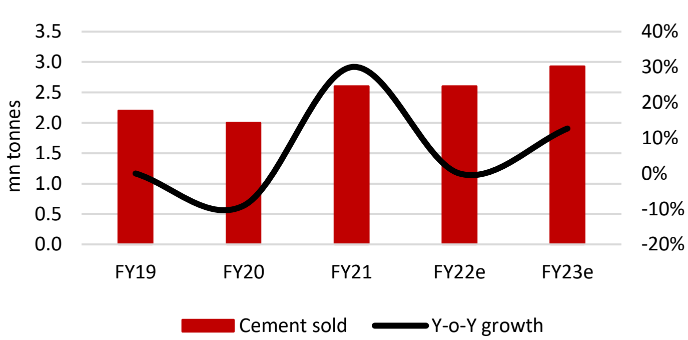
Qatar National Cement Company (QNCC) was the only clinker and cement producer in Qatar, with ~80% market share till 2010. Then with the emergence of local cement producers, the Qatari cement industry has now become an oligopoly, with majorly 3 players Qatar National Cement, Al Khalija and Al Jabora, driving the cement sector. QNCC is the largest producer of Ordinary Portland Cement (OPC), Sulphate-Resistant Cement (SRC), hydrated lime, calcined lime, and washed sand in Qatar. Although there are 3 major players currently, QNCC still holds >50% of the market share in the cement industry in Qatar, and we believe the company will continue enjoying a dominant position in the future.

Volume growth to drive top-line while realization prices to remain broadly constant

Qatar has been spending heavily on infrastructure as part of its strategy to increase revenue contribution from non-oil sectors in a bid to lower dependence on energy prices. From the last few years, various projects related to 'FIFA World Cup 2022' has been leading the construction spending in Qatar which are nearing completion now. Going forward, the construction projects pipeline looks healthy underpinned by launch of various mega projects (Lusail City project, Qatar-UAE Natural Gas pipeline and Water Security Mega Reservoirs Project among others) under "Qatar National Vision 2030". However, most of these projects got delayed or postponed in past two years due to pandemic and are likely to pick up pace in the coming years in the post pandemic era. In addition, the next big growth driver for the construction sector is the planned higher budgeted spending for 2022 with focus on infrastructure. All these developments augur well for the demand of construction materials such as cement. QNCC, being a leading cement player in the country, stands to be the key beneficiary in the foreseeable future.

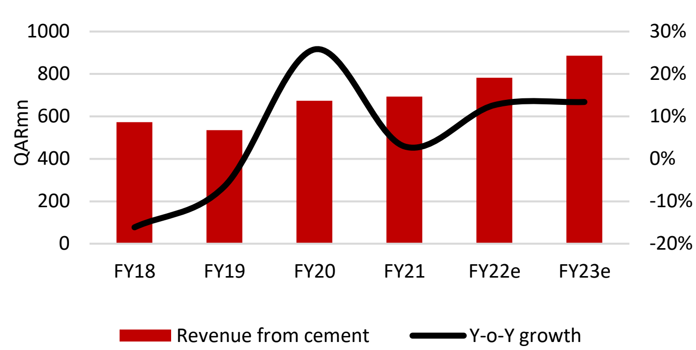
The company's total cement production capacity is 19,000TPD, however, the company has stopped operating plant 4 and 5 from April 2020 due to demand weakness amid the pandemic. This reduced the company's operating production capacity to around 8,500TPD (as per our calculations). With the pickup in demand from pandemic lows, the company's sales volume increased by ~30% in 2021, taking existing plants utilization to maximum levels. Given this backdrop and likely sustained healthy demand, we expect plant 4 to start from 2023 and plant 5 from 2024 on a conservative basis, ensuring adequate available capacity to cater the demand without much capex requirements in the coming years. Overall, we believe the QNCC's cement volumes to grow at a CAGR of 10.7% during FY21-26e, from 2.6mn tonnes in FY21 to 4.3mn tonnes by FY26e. Moreover, the washing sand segment will also have a volume growth of 1.3% CAGR over the same forecasted period.

Fig. 63: Cement volumes to pick-up from FY23e…



Source: Company Reports, U Capital Research

Fig. 64: …leading to a rise in revenues for the next 5 years



Source: Company Reports, U Capital Research

On selling prices side, cement prices mostly remain range bound in Qatar, owing to the government's control on prices. OPC and SRC bulk prices have maintained a cap of QAR 250/tonne and QAR 270/tonne, respectively in the last 5 years. The company has increased its cement price twice in the last 2 years, once in 2020 and another in September 2021, which is well reflected in the increase in cement revenue by ~26% YoY in FY21. Going ahead, we believe the company has limited scope to further raise prices due to Qatari Government's price regulations and thus we have forecasted the company's blended cement prices to remain constant at ~QAR 267/tonne during FY21-26e. The company's washing sand prices have also remained constant at ~QAR 22.5/tonne for the last two years and similar levels are likely in the forecasting period.

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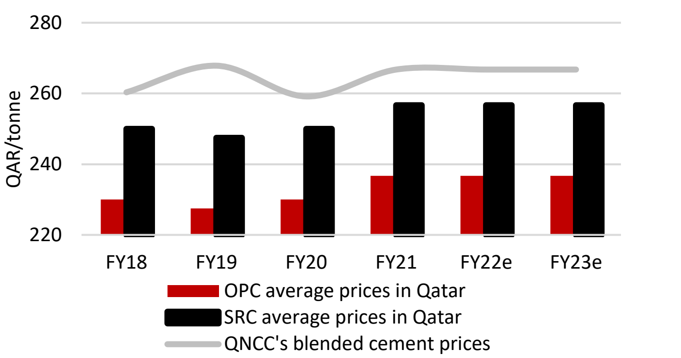
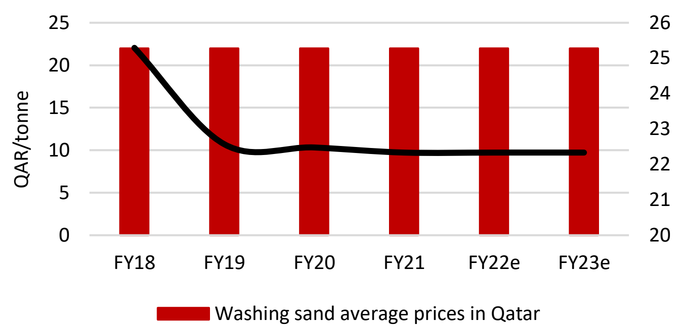
Fig. 65: Cement prices expected to remain constant after price hike



Source: Company Reports, U Capital Research, *assumed operating 300 days

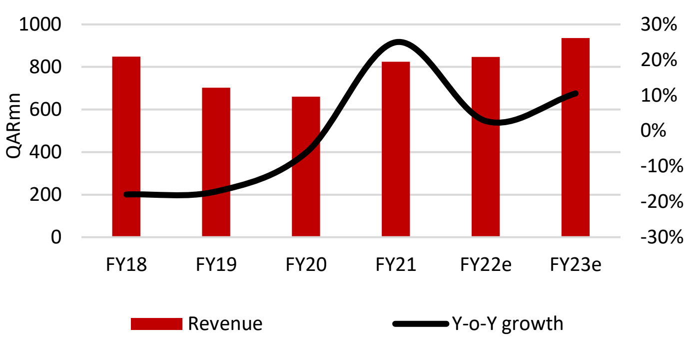
Fig. 66: Washing sand prices hovered around QAR 22/ton throughout



Source: Company Reports, U Capital Research, *assumed operating 300 days

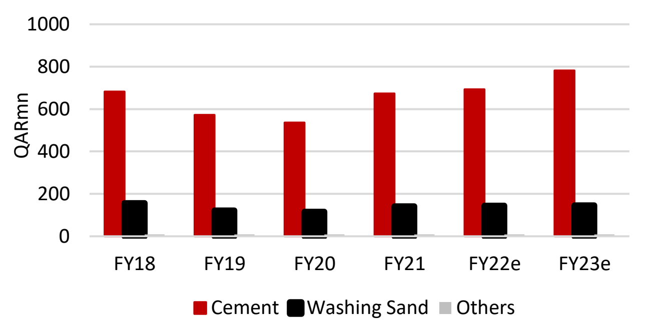
That said, given the expected strong volume growth amid broadly stable price realizations, we expect the company's cement revenue to grow at a CAGR of ~11% from QAR 674mn in FY21 to QAR 1,156mn by FY26e. Consequently, we expect cement contribution to revenue to increase from 82% in FY21 to 88% by FY26e. Meanwhile, we expect revenue contribution from washing sand to decline from 17% in FY21 to 11% by FY26e, with revenue of QAR 150mn by FY26e. Overall, we expect the top-line to grow by 9.8% during FY21-26e from QAR 824mn in FY21 to QAR 1,315mn by FY26e, against a -5.5% CAGR during FY17-21.

Fig. 67: Revenue in the coming years will be supported by…



Source: Company Reports, U Capital Research

Fig. 68: …increasing contribution from cement business



Source: Company Reports, U Capital Research

Increasing input costs are not worrisome due to constant government support…

Globally, there has been a sharp surge in energy prices, both in natural gas and coal, impacting the margins heavily for cement companies. However, Qatari cement companies remained mostly immune from increasing pressure of raw material and energy costs versus other GCC countries like Oman. This was attributed to two major reasons: 1) Qatari government controls the prices of raw materials, such as limestone and natural gas and 2) Qatar is the major producer of natural gas, and the local companies, like QNCC, have long-term contracts with the government in the supply of both limestone and natural gas. Thus, the domestic cement producers have competitive advantage by procuring raw materials at a relatively cheaper price (even in the rising cost scenario) compared to its regional peers. Also, QNCC's manufacturing units are in Umm Bab, close to rich raw materials deposits and ~82km from Doha, which help the company to cut down its transportation costs.

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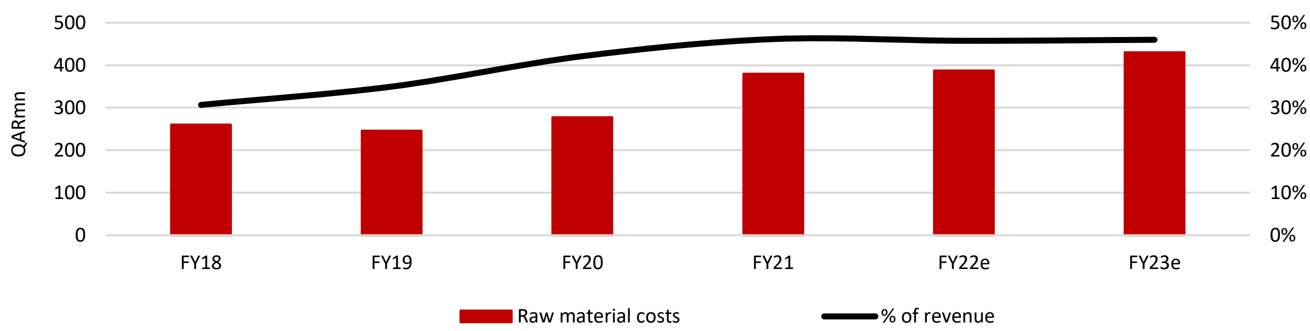
Fig. 69: After rising raw material costs till FY21, the costs should follow a moderate growth

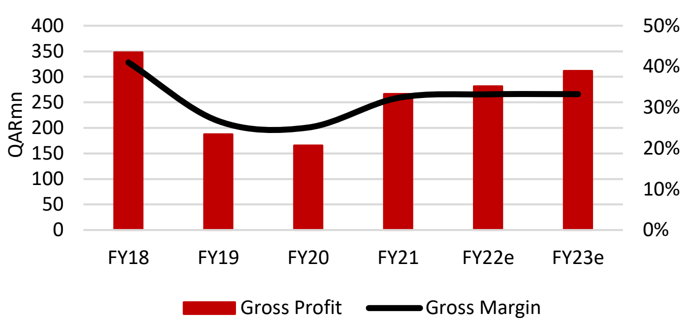


Source: Company Reports, U Capital Research

…ensuring margins resiliency during high inflationary periods

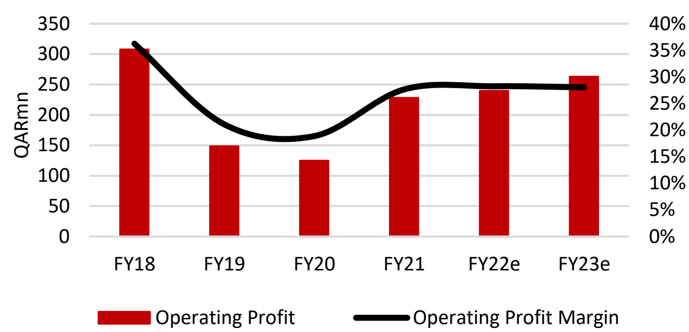
These controlled input costs by the Qatari government have resulted in decent gross margins for the Qatari cement companies. For instance, QNCC's gross margins improved from ~25% in FY20 to ~32% in FY21 despite the steep surge in energy prices. Thus, going ahead we believe strong volume growth driven by improving demand amid healthy realized prices should support QNCC margins. Accordingly, we expect QNCC's gross margins to increase steadily from 32.3% in FY21 to 34.8% in FY26e.

Fig. 70: Gross Profit margins to remain healthy



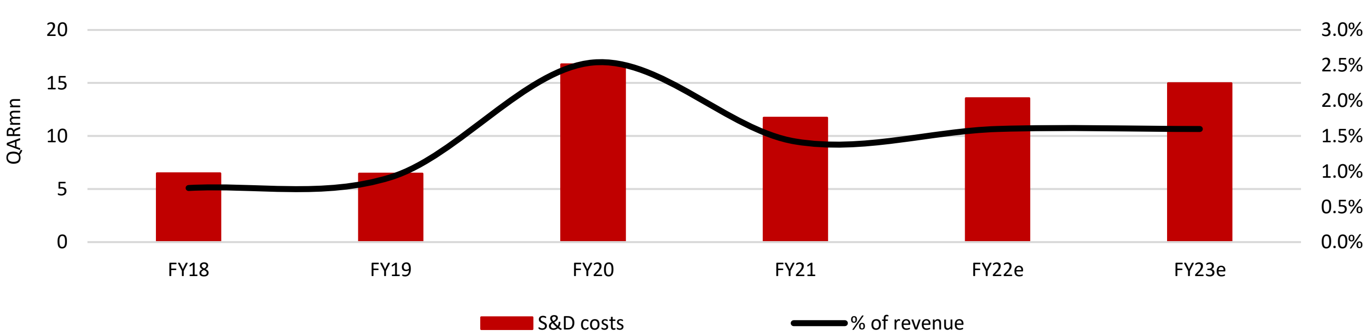
Source: Company Reports, U Capital Research

Fig. 71: Operating margins to increase steadily



Source: Company Reports, U Capital Research

Fig. 72: S&D costs should remain at constant levels (~1.6% of the revenue) in the near-term



Source: Company Reports, U Capital Research

Further, QNCC has historically been giving huge discounts on cement which were charged under S&D expenses, resulting in impact on operating profit and margins. However, the company has stopped these generous discounts since July 2021 amid rising input costs. However, we believe with the pickup of demand going forward, QNCC may go for discounts (although not significant) to

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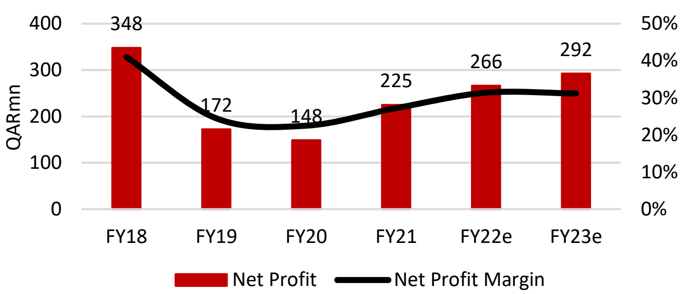
grab more market share. Accordingly, we expect improvement at operating margin level could be relatively softer compared to rise in gross margins. Overall, we expect the operating margins to increase to 29.2% in FY26e from 27.7% in FY21.

Profitability to grow on higher revenues and better margins

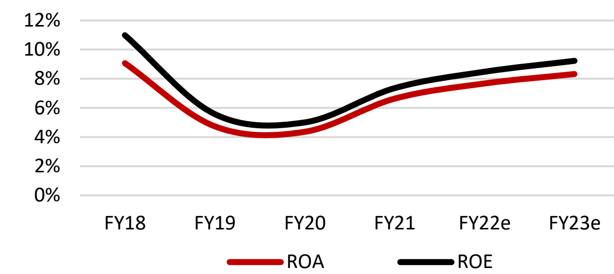
Given the company's debt free status and no major capex plans in near future, we don't foresee any financial burden on the company in the coming years. That said, given the expected growth in revenues along with decent improvement in margins, QNCC's profitability is expected to grow at a CAGR of ~14% during FY21-26e. This will lead ROE improving from 7.4% in FY21 to 12.4% by FY26e.

Fig. 73: Higher operating profit leading to higher bottom-line



Source: Company Reports, U Capital Research

Fig. 74: return ratios to see an uptrend going forward

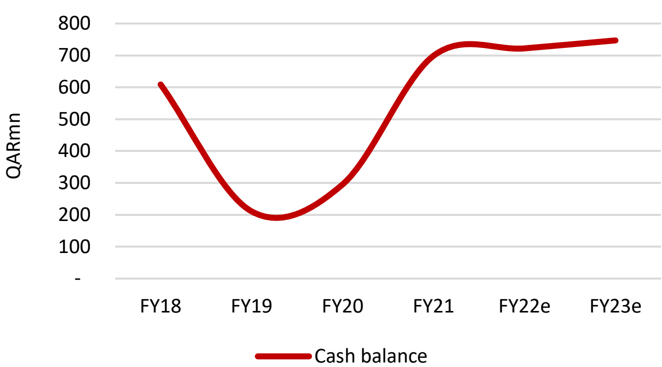


Source: Company Reports, U Capital Research

Cash-rich company with unleveraged book…

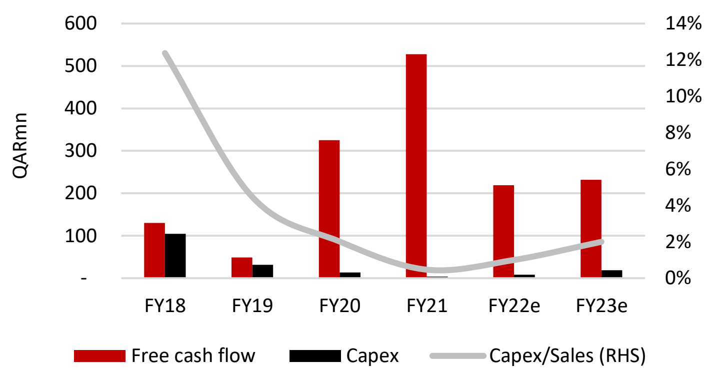
Many cement companies have been facing liquidity issues since the beginning of pandemic and have started relying on debt to fund its working capital. However, QNCC, being a cash rich company, is well positioned to fund its operations through internal accruals and generate healthy FCF. With no immediate capacity expansion plans in place (the current capacity to adequate to meet rising cement demand in the medium term), we believe the company will continue to enjoy the debt-free balance sheet during FY21-26e.

Fig. 75: Cash balance to remain at higher levels…



Source: Company Reports, U Capital Research

Fig. 76: …leading to sufficient FCF in the coming years



Source: Company Reports, U Capital Research

…rewarding the shareholders with high dividends

QNCC has one of the robust dividend policies in the industry with the average dividend payout ratio of more than 90% in the last five years. With the improving macro scenario, we expect the company to continue generating strong cash flows during FY21-26e. Given the limited capex requirements and healthy balance sheet, the company will continue rewarding its shareholders with increasing dividend payments (6% dividend yield in 2022e).

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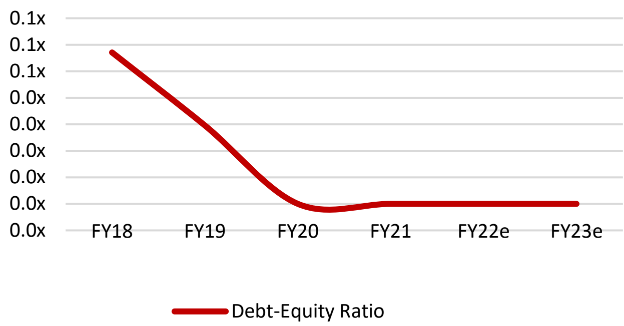
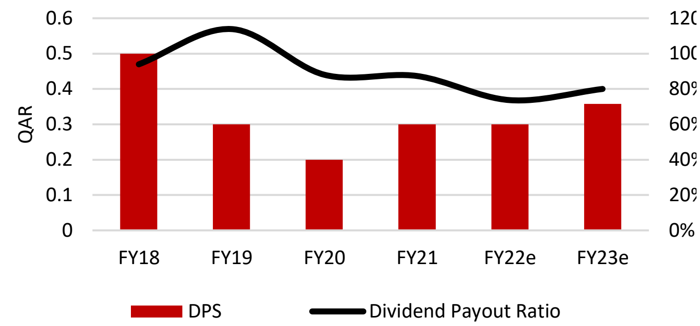
Fig. 77: Company to continue to remain debt-free



Source: Company Reports, U Capital Research

Fig. 78: QNCC consistently rewards shareholders with high dividend



Source: Company Reports, U Capital Research

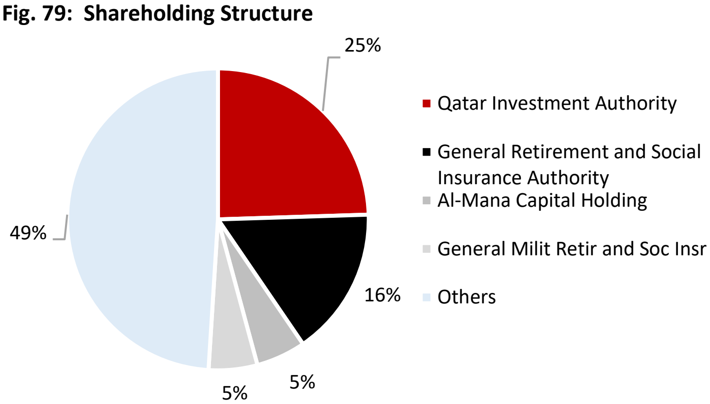
Assign a Buy rating on the back of a resilient performance

QNCC has resilient performance during challenging environment such as a pandemic which is reflected in both operational and financial KPIs. Going forward, given the huge infrastructure projects and likely restart of plants 4 and 5, we expect the company' sales volume to grow strongly in the coming years. This along with steady price realizations, should drive the revenues going forward. On profitability side, we expect margins to improve on better plant utilizations and continued cost control initiatives, resulting in healthy growth in bottom-line in medium to long term. Further, the company's ability to generate strong cash flows and debt free balance sheet should ensure steadily increasing dividend payments going forward. Accordingly, we assign a **Buy** rating to the stock, with an upside of 26.0% from the current market price.

About Qatar National Cement

Qatar National Cement Company (QNCC), established in 1965, is the first and leading cement producer in Qatar. The company further got listed on the Qatar Exchange in May 1997. QNCC is primarily engaged in the production and sale of cement, washed sand, calcium carbonate, calcined and hydrated lime. The company has its production plant in Umm Bab in Qatar.

Fig. 79: Shareholding Structure



Source: Bloomberg, 26 May 2022

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Key financials

In QAR mn, except stated otherwise	FY19	FY20	FY21	FY22e	FY23e	FY24e
Income Statement						
Sales	703	660	824	847	937	1,043
Cost of sales	(516)	(494)	(558)	(566)	(625)	(696)
Gross profit	**188**	**166**	**267**	**281**	**311**	**347**
Depreciation and amortization	175	146	115	114	114	116
General and administrative expenses	(33)	(24)	(27)	(29)	(34)	(40)
Operating profit	**33**	**23**	**43**	**25**	**28**	**31**
Other Income	33	23	43	25	28	31
Finance costs	-6	0	0	0	0	0
Net income for equity shareholders	**172**	**148**	**225**	**266**	**292**	**323**
Balance Sheet						
Inventories	575	543	378	482	548	629
Trade and other receivables	411	326	356	347	411	457
Cash and bank balances	211	295	699	722	747	800
Property and equipment	2018	1885	1761	1,655	1,560	1,486
Investment properties	5	4	4	3	3	2
Total assets	**3,498**	**3,314**	**3,453**	**3,478**	**3,542**	**3,655**
Loans and borrowings	91	0	0	0	0	0
Trade and other payables	0	0	164	135	138	141
Total liabilities	**410**	**346**	**401**	**341**	**347**	**363**
Share capital	654	654	654	654	654	654
Retained earnings	2047	1929	2017	2,087	2,145	2,242
Equity Attributable to Shareholders	**3,088**	**2,968**	**3,052**	**3,136**	**3,195**	**3,292**
Cash Flow Statement						
Net cash generated from operating activities	68	338	518	230	254	294
Net cash generated from investing activities	43	34	16	(26)	5	(14)
Net cash (used in) provided by financing activities	(509)	(287)	(131)	(196)	(234)	(226)
Cash and cash equivalents at the end of the period	**211**	**295**	**699**	**722**	**747**	**800**
Key Ratios						
Gross margin (%)	26.7%	25.1%	32.3%	33.2%	33.3%	33.2%
EBITDA margin (%)	46.0%	41.1%	41.6%	41.8%	40.3%	38.9%
Operating margin (%)	21.1%	18.9%	27.7%	28.2%	28.0%	27.8%
Net margin (%)	24.5%	22.5%	27.2%	31.4%	31.2%	31.0%
ROA	4.7%	4.4%	6.6%	7.7%	8.3%	9.0%
ROE	5.6%	5.0%	7.4%	8.5%	9.2%	10.0%
Current Ratio (x)	188.6	11.8	11.5	13.1	12.2	11.6
Capex/Sales	4.5%	2.0%	0.5%	1.0%	2.0%	4.0%
Debt-Equity Ratio (x)	0.03	0.00	0.00	0.00	0.00	0.00
EPS	0.26	0.23	0.34	0.41	0.45	0.49
BVPS	4.72	4.54	4.67	4.80	4.89	5.04
DPS	0.30	0.20	0.30	0.30	0.36	0.35
Dividend Payout Ratio	113.9%	88.0%	87.3%	73.7%	80.0%	70.0%
Dividend Yield (%)	5.3%	4.8%	5.9%	6.0%	7.1%	6.9%
P/E (x)	21.4	18.3	14.8	12.3	11.2	10.1
P/BV (x)	1.2	0.9	1.1	1.0	1.0	1.0
EV/EBITDA (x)	11.1	9.0	7.7	7.2	6.7	6.1
Price as at period end*	5.65	4.15	5.10	5.00	5.00	5.00

Source: Company Reports, U Capital Research *Current market price is used for forecast periods

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Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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