Analyst Comment

NBK CAPITAL

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LIKELY IMPACT OF LIFTING THE SAUDI CEMENT EXPORT BAN

- The Ministry of Commerce and Industry of Saudi Arabia announced the lifting of the two-year-old ban on cement exports. We had earlier highlighted the likelihood of such a development in our previous reports on Raysut Cement, RAK Cement and Oman Cement. Accordingly we had factored in the impact of this eventuality in our forecasts for all the cement companies under our coverage. Consequently, we will be issuing updates taking into account the 9M2009 results and further revisit the possible impact of this event.
- We had earlier mentioned that the then ongoing export ban in Saudi Arabia would at best be a temporary respite, with a high probability of getting lifted in the near term. The lifting of the ban was dependent on a couple of earlier enforced conditions by the Ministry of Commerce and Industry. The conditions stipulated that local cement companies are required to keep 10% of their products as reserves in the surrounding region of their respective factory sites and would sell bagged cement in the domestic market at SAR 10 per bag (USD 52 per ton).
- We feel the lifting of the cement export ban in Saudi Arabia is likely to have serious repercussions for the regional cement sector in the short to medium term. For the time being we are interested in analyzing the possible impact of this on the UAE and Omani cement sectors since our current cement coverage universe originates from those two countries. We would like to highlight that Saudi cement prices would be around USD 52-53 per ton (SAR 200 per ton) compared to the current price of USD 78 per ton (RO 30 per ton) in Oman and USD 68 per ton (AED 250 per ton) in the UAE. The significant price differential is likely to lead to export opportunities for Saudi cement companies to both Oman and the UAE.

RAK CEMENT (RKCC.AD)

Current Recommendation – Hold

Fair Value – AED 1.44

Major Assumptions:

- We expect sales volume to decrease by 14.8% to 1.06 million tons in 2009 compared to 1.25 million tons in 2008. This coupled with a 13.4% drop in average domestic cement price to AED 295 per ton in 2009 compared to AED 340.4 per ton in 2008; would lead to a 20% dip in total revenue to AED 340.3 million in 2009 compared to AED 426 million in 2008.
- We expect EBITDA margin to expand to 31.5% in 2009 compared to 23.7% in 2008 mainly due to cost savings arising from installation of a coal mill and hence subsequent change in the production energy mix.
- Since our initiating coverage report on July 16, 2009, where we recommended buying RAK Cement shares, the stock price has rallied by 15.8% to AED 1.39 and hence our current recommendation is Hold based on the last closing price. However, we will be issuing an update taking into account the 9M2009 results and further revisit the possible impact of this event.

Raysut Cement (RAYC.OM)

Current Recommendation – Sell

Fair Value – RO 1.41

Major Assumptions:

- We expect sales volume to decrease by 3.6% to 2.6 million tons in 2009 compared to 2.7 million tons in 2008. We forecast total revenue to decrease by 15.8% to RO 75 million in 2009 compared to RO 89 million in 2008.
- We expect EBITDA margin to remain flat at 39.9% in 2009 compared to 2008. However, we expect margin expansion going forward due to comparatively lower cement imports.
- Since our initiating coverage report on June 16, 2009, where we had a 'Hold' recommendation on Raysut, the stock price has rallied by 25.4% to RO 1.84 and hence our current recommendation is Sell based on the last closing price. However, we will be issuing an update taking into account the 9M2009 results and further revisit the possible impact of this event.

Oman Cement (OCCO.OM)

Current Recommendation – Hold

Fair Value – RO 0.864

Major Assumptions:

- We expect a flattish trend in sales volume over the next couple of years. We forecast sales volume of 2.22 million tons and 2.23 million tons in 2009 and 2010, respectively compared to 2.15 million tons in 2008.

- We expect average domestic cement price at RO 31.2 per ton in 2009, up 4.9% compared to RO 29.7 per ton in 2008. However, we expect an 11% drop in 2010 domestic cement prices as a result of the overall negative cues from the regional cement sector and the upcoming 1.2 Mtpa clinker production facility of Oman Cement (expected to be operational by beginning of 2Q2010).

- We forecast total revenue to increase by 8.3% to RO 68.7 million in 2009 compared to RO 63.5 million in 2008. However, due to the expected dip in cement prices we forecast total revenues to decrease by 10.8% to RO 61.3 million in 2010 compared to 2009.

- We expect EBITDA margin to expand to 34.4% in 2009 compared to 23.5% in 2008 mainly due to overall lower clinker imports (both in quantity and prices). We expect the same trend to continue in 2010 (expected EBITDA margin of 46%) due to even lower imports (around 300,000 tons of clinker imports compared to 700,000 and 920,000 tons in 2009 and 2008). From 2011 onwards we expect no further clinker/cement imports as the new clinker facility will operate for the full year.

- Since our initiating coverage report on September 10, 2009, where we had an 'Accumulate' recommendation on Oman Cement, the stock price has risen by 6.9% to RO 0.797 and hence our current recommendation is Hold based on the last closing price.

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Related Research

- RAK Cement Initiation - 16 July 2009
- Raysut Cement Initiation - 17 June 2009
- Oman Cement Initiation - 10 Sept. 2009

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