

## RAYSUT CEMENT (RAYC.OM)

- Raysut Cement (Raysut) has released their 1H2009 financials today. The results have exceeded our expectations on the back of strong sales volume and cement prices in the domestic market. We believe this will have a positive effect on the stock price in the short-term raising the market expectations for the remaining half of the year.
- Sales volume surprisingly grew by 23.7% to 611 thousand tons in 2Q2009 compared to 2Q2008. This is even more surprising in light of a 3% increase of domestic cement prices to RO 32.4 per ton in 2Q2009. We feel the price increase in Oman is worth highlighting specially in the context of the recent dip in cement prices in Saudi Arabia and the UAE. On the export front, cement prices decreased by 2.9% to RO 31.9 per ton during the quarter. The trend of cement prices in Oman during 1H2009 and the management's take on the domestic cement prices for 2H2009 makes us optimistic on the pricing front for remaining half of the year. However, on a conservative note, we are cautious of the likely repercussions on the regional cement market due to the eventual lifting of the export ban in Saudi Arabia. Sustainable cost advantages make the Saudi cement players extremely competitive in the export markets. We are also tightly monitoring the likely impact of Oman Cement's clinker capacity addition which is expected to be up and running by end of 1Q2010.
- Raysut reported a healthy growth in revenue of 24.8% year-on-year to RO 25.6 million in 2Q2009; 36% above expectations. This was mainly due to a 27.4% increase in domestic revenue to RO 19.8 million in 2Q2009 compared to 2Q2008. As well as a 16.6% increase in export revenue to RO 5.8 million during the same period aided the overall revenue growth.
- Accordingly, Raysut reported EBITDA of RO 9.3 million in 2Q2009, 26.2% higher than our forecast of RO 7.4 million for the same period. However, as expected EBITDA margins dipped to 36.5% in 2Q2009 compared to 43.8% in 2Q2008 mainly due to significant rise in cement imports. Production problems coupled with robust demand in the domestic market resulted in 401 thousand tons of cement imports at an average price of RO 14.9 per ton (excluding transportation and distribution charges) during the quarter. The company has imported 724 thousand tons of cement at RO 17.13 per ton till the end of 1H2009. The management expects to further import an additional 350,000 – 250,000 tons during 2H2009 versus our forecast of 500 thousand tons of cement imports for the entire year.
- We view this set of results very positively and will incorporate the recent financial performance into our model. Our long term fair value for Raysut is RO 1.410 per share, 9.3% lower than the company's closing price as of 22 July 2009.

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- Raysut Cement Initiation - 17 July 2009

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