

## RAYSUT CEMENT (RAYC.OM)

- Raysut Cement (Raysut) has released its 9M2009 financials today. The results have exceeded our 9M2009 expectations on the back of strong sales volume and cement prices in the domestic market. The 9M2009 results were mainly influenced by the impressive 1H2009 results followed by a comparatively subdued performance during the current quarter. Variance in the top line did not mar the 3Q2009 EBITDA as it came in line with our forecast. Sales volume and cement prices in the export markets were a drag on the overall top line for 9M2009.
- For the first time this year, Raysut didn't increase its sales volume, year-on-year, in the domestic market; with only 514 thousand tons sold during 3Q2009. In addition, domestic cement prices dipped by 3.8% to RO 32.5 per ton during the current quarter compared to RO 33.8 per ton in 3Q2008. We expect pricing pressure in the domestic market going forward with anecdotal evidence of cement dumping by some of the UAE cement companies in Oman. In our initiating coverage report on Raysut (dated June 17th, 2009) we had highlighted this as a potential threat which seems to fall in line with our expectations. We would like to highlight that UAE cement companies currently sell cement at around USD 68 per ton (AED 250 per ton) compared to the current price of USD 78 per ton (RO 30 per ton) in Oman. Even after adjusting for transportation and distribution costs the UAE companies are in a position to export cement to Oman taking advantage of the current price differential. We are also tightly monitoring the likely impact of Oman Cement's upcoming clinker capacity which is expected to be operational by end of 1Q2010.
- On the export front, cement prices decreased by a significant 16% to RO 27.7 per ton during the quarter. We would logically assume that it had something to do with some of the Saudi companies taking advantage of the cement export ban getting lifted in their home country. We expect Yemen (Raysut's main export market) to be one of the favored export destinations for the Saudi players. We are extremely cautious of the likely repercussions on the regional cement market as and when the big Saudi cement companies actually start exporting. Sustainable cost advantages make the Saudi cement players extremely competitive in the export markets.
- Raysut reported total revenue of RO 22.3 million in 3Q2009, down 4% compared to RO 23.3 million in 3Q2008; 20% above our expectations. This was mainly due to a 3.4 % decrease in domestic revenue to RO 16.7 million in 3Q2009 compared to 3Q2008. A 6% drop in export revenue to RO 5.6 million during the quarter only made matters worse.
- Raysut reported EBITDA of RO 7.7 million in 3Q2009, down 10.4% compared to 3Q2008. This was 5.5% higher than our forecast of RO 7.3 million for the same period. EBITDA margins dipped to 34.5% in 3Q2009 compared to 37% in 3Q2008 mainly due to rise in cement imports. The company reported EBITDA margin of 36.3% in 9M2009, significantly contracting from 45.9% in 9M2008 due to the same reason which led to margin contraction during the quarter. We expect EBITDA margin of 39.4% for the full year. Technical problems in the kilns and maintenance shutdown in the grinding mills resulted in 283 thousand tons of cement imports at an average price of RO 19.2 per ton (excluding transportation and distribution charges) during the quarter. The company has imported 1.01 million tons of cement till the end of September, 2009. We originally forecasted the company to only import 500 thousand tons of cement for the entire year.
- Profit before tax (PBT) for the company was up 22% to RO 6.9 million in 3Q2009 compared to RO 5.6 million in 3Q2008. Gain from investments during the quarter compared to a loss in 3Q2008 was instrumental for the growth in PBT.
- Our long term fair value for Raysut is RO 1.410 per share, 22.6% lower than the company's last closing price on 22 October, 2009 and hence our current recommendation is a Sell. We will be issuing an update after meeting the company management and taking into account the 9M2009 results.

### Rajat Bagchi

T. +965 2259 5115

E. rajat.bagchi@nbkcapital

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## NBK CAPITAL

### Kuwait

#### Head Office

17th Floor, Dar Al-Awadi Building  
Ahmed Al-Jaber Street, Sharq  
P.O.Box 4950, Safat 13050  
Kuwait  
T. +965 2224 6900  
F. +965 2224 6905

#### MENA Research

19th Floor, Dar Al-Awadi Building  
Ahmed Al-Jaber Street, Sharq,  
P.O.Box 4950, Safat 13050, Kuwait  
T. +965 2224 6663  
F. +965 2224 6905  
E. menaresearch@nbkcapital.com.kw

#### Brokerage

8th Floor, Dar Al-Awadi Building  
Ahmed Al-Jaber Street, Sharq  
P.O. Box 4950, Safat 13050, Kuwait  
T. +965 2224 6964  
F. +965 2224 6978  
E. brokerage@nbkcapital.com

### United Arab Emirates

#### NBK Capital Limited

Precinct Building 3, Office 404  
Dubai International Financial Center  
P.O.Box 506506, Dubai,  
UAE  
T. +971 4 365 2800  
F. +971 4 365 2805

### Turkey

#### NBK Capital

Arastima ve Musavirlik AS,  
Sun Plaza, 30th Floor,  
Dereboyu Sk. No.24  
Maslak 34398, Istanbul, Turkey  
T. +90 212 276 5400  
F. +90 212 276 5401

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