

February 08, 2010

## RAYSUT CEMENT (RAYC.OM)

**12-Month Fair Value: Under Review**

**Last Close (07 February, 2010): RO 1.615**

**Recommendation: Under Review - Risk Level: Under Review**

- Raysut Cement Co. (Raysut) announced today that it plans to acquire the UAE based Star Cement Co. (part of the ETA Star Group). As per the company website, Star Cement currently has 3.9 million ton per annum (Mtpa) of grinding capacity (1.25 Mtpa in Abu Dhabi and 1.1 Mtpa in Ajman) and 2.2 Mtpa of clinker production capacity in Ras Al Khaimah. The company also has grinding capacity in Bahrain (0.45 Mtpa) and Bangladesh (0.6 Mtpa). In addition the company has a terminal for cement storage and packaging in Sudan (0.5 Mtpa) and a precast factory in Abu Dhabi. We view this potential acquisition plan positively, which if successful, would result in a wider regional presence for Raysut and would almost double its production capacity. Star Cement's new production facilities further add to the list of potential benefits. Raysut, currently a 2.77 Mtpa integrated player, is undergoing a grinding capacity expansion of 0.86 Mtpa, which we expect to be fully operational by the beginning of 2H2010 (please refer to our update on Raysut dated December 14th, 2009).
- Raysut management is currently tight-lipped about the acquisition plan and hence refused to share any related details. Our understanding is that we would have greater clarity on this by mid-March. As per Raysut management, the company is optimistic about the success of the deal in spite of competitive bids from other potential acquirers. Considering the estimated size of the potential acquisition, it is needless to say that the deal would be majorly financed by debt. According to nine month 2009 financials, Raysut is a debt-free company on a net debt basis, with a total debt of RO 3.6 million compared to cash & cash equivalents of RO 8 million. With a total equity of RO 102.2 million at the end of September, 2009 and expected cumulative free cash flows of RO 61.5 million over the next three years, we believe raising and servicing the required debt for funding the potential acquisition would not be a concern for Raysut.
- On the valuation front, we would like to mention that Raysut currently trades at an EV per ton of USD 306 (second most expensive cement stock in our regional peer basket), a 37.6% premium compared to our regional peer average of USD 223 per ton. The UAE cement companies currently trade at significant discount on average EV per ton of USD 149, mainly due to their lower EBITDA margins compared to their regional peers. Applying the average EV per ton for UAE cement companies, we estimate the deal value to range between RO 150 million (USD 400 million) – RO 170 million (USD 450 million).
- Since we believe this acquisition plan to have material impact on our fair value, we would wait for further information from the management to assess the likely implications and accordingly issue an update on Raysut. Hence we put Raysut 'Under Review'.

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### Related Research

- Raysut Cement Update - 14 December 2009
- Raysut Cement Initiation of Coverage - 17 June 2009

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