Analyst Comment

NBK CAPITAL

July 18, 2010

RAYSUT CEMENT (RAYC.OM)

12-Month Fair Value: RO 1.439

Last Close (15 July, 2010): RO 1.301

Recommendation: - Accumulate Risk Level: 3

- 2Q2010 results for Raysut Cement (Raysut) came in line with our forecasts. The company reported a 23% decline in revenue to RO 19.7 million in 2Q2009 compared to the same period last year. The 2Q2010 revenue includes a one-time government reimbursement for earlier cement imports (the excess of cost over sales price of cement imported) for RO 1.59 million (part of the domestic revenue). Adjusting for this item, the drop in total revenue would be 29.2% to RO 18.1 million. This was 6.5% above our forecast of RO 17 million. During 1H2010, total revenue was down 30.5% to RO 34.4 million (excluding the govt. reimbursement) compared to the same period last year.

- The decline in total revenue was mainly due to a 46% drop in domestic revenue to RO 10.7 million. Domestic cement volumes decreased significantly by 40.4% to 364 thousand tons during 2Q2010, which, according to management, was due to increased competition from cheap cement imports from the UAE. Domestic cement prices were down 9.5% to RO 29.3 per ton during the quarter (RO 30.1 per ton in 1Q2010). The company offered volume discounts in Northern Oman (around 60% of Raysut's domestic sales) to retain its market share thus resulting in lower effective prices. However, the prices in Southern Oman (around 40% of domestic sales) stood strong thus lending support to the overall prices. During 1H2010, domestic revenue was down 42.2% to RO 22.1 million compared to the same period last year mainly due to a 37.8% decline in sales volume.

- We had highlighted in our last update (dated 11th May, 2010) that we expect domestic cement prices to further decrease to RO 26 – 27 per ton for 2H2010. This seems to be the case as suggested by recent price cut by Oman Cement to those levels from the beginning of 2H2010. Our 2010 average domestic price forecast of RO 28.3 per ton assumes a softening in the average selling price to RO 27.1 per ton during 2H2010.Though we expect domestic prices in Oman to stabilize at these levels for the remaining period of the year, yet we would like to highlight that the price differential between Omani cement prices and the UAE cement prices will continue to be the main risk influencing cement prices for Omani players. We are closely monitoring the price trends in the UAE which are currently at AED 190 per ton (RO 20 per ton) for OPC bulk and AED 210 – 220 per ton (RO 22 – RO 23 per ton) for bagged cement. We estimate transportation costs of around RO 4 – 5 per ton which results in landed cost of UAE cement to be in the range of RO 24 – 25 per ton in Oman. We believe that the UAE cement prices have almost bottomed as they are almost equal to the cash cost of production. Hence any further price cut in the UAE from the current levels is unlikely. Accordingly we expect no/limited downside potential to Omani cement prices as per the current pricing parity between cement prices in the UAE and Oman.

- On the export front, though the revenue was down, sales volume increased by 5.6% mainly due to increased demand from the eastern African countries namely Sudan. Export revenue was down 14.4% to RO 5 million in 2Q2010 entirely due to a 19% decrease in prices to RO 25.9 per ton (RO 25.1 per ton in 1Q2010). The exports business further benefitted from clinker sales of 163 thousand tons during the quarter resulting in total clinker sales of 255 thousand tons till the end of 1H2010 (no clinker sales in 1H2009). According to management, the average price of clinker was RO 16 per ton during 1H2010 almost same as the current prices. The management expects to sell an additional 100 thousand – 125 thousand tons of clinker during 2H2010. Though sales from clinker are margin dilutive but it boosted the top line in a tough market condition. During 1H2010, export revenue was down 27% to RO 8.2 million compared to the same period last year.

- Raysut reported EBITDA of RO 7.09 million (excluding the govt. reimbursement) in 2Q2010, down 25% y-o-y. This was 5.4% below our forecast of RO 7.5 million. Though the company reported significant drop in EBITDA, EBITDA margins expanded to 39.1% in 2Q2010 compared to 37% in 2Q2009 mainly due to notable drop in cement imports. The company imported cement worth RO 5.96 million during 2Q2009 while cement imports were absent in 2Q2010. During 1H2010, EBITDA was down 20% to RO 14.8 million (excluding the govt. reimbursement) compared to the same period last year. However, EBITDA margin expanded to 43% in 1H2010 compared to 37.3% in 1H2009.

- Profit before tax (PBT) for the company was down 27.7% to RO 6.8 million in 2Q2010 compared to RO 9.5 million in 2Q2009. Excluding the one-time government reimbursement, the PBT would have plummeted by 44.5%. PBT during 1H2010 was down 21.1% to RO 13.6 million compared to the same period last year.

- Since our last update on May 11, 2010, where we had a 'HOLD' recommendation on Raysut, the stock has corrected 13.4% to RO 1.301 and hence our current recommendation is an 'Accumulate' representing an upside potential of 10.6%. Given the results were in line, we maintain our 2010 earnings forecast and hence we will be issuing an update after the 9M2010 results.

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Related Research

- Raysut Cement Update - 11 May 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION	UPSIDE (DOWNSIDE) POTENTIAL
BUY	MORE THAN 20%
ACCUMULATE	BETWEEN 5% AND 20%
HOLD	BETWEEN -10% AND 5%
REDUCE	BETWEEN -25% AND -10%
SELL	LESS THAN -25%

RISK LEVEL				
LOW RISK				HIGH RISK
1	2	3	4	5

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