

January 24, 2010

RAS AL KHAIMAH CEMENT (RKCC.AD)

- Ras Al Khaimah Cement (RAK Cement) has released its preliminary full year financials for 2009 today. Amongst the key figures which could have been used for comparison with our 2009 forecasts, we only have information on the total revenue and net profit. We do not have the detailed information on the sales volume of cement, average cement prices and EBITDA for 2009. Unavailability of the EBITDA figure restricts us to comment on the margins. We had expected that the EBITDA margin would significantly expand to 30.4% during 2009 compared to 23.7% in 2008 mainly due to the cost savings arising from the installation of a coal mill and hence a subsequent change in the production energy mix.
- RAK Cement reported total revenue of AED 283.5 million during 2009, a significant decline of 33.4% compared to 2008. This was in line with our expectation; 3.4% higher than our forecast of AED 274.1 million. In our last update (dated 22nd November, 2009), we had clearly mentioned the notable drop in cement prices in the UAE during 3Q2009 and our expectation of a further dip in prices during the last quarter of 2009. This seems to be the case. Logically we feel the significant decrease in the top line in 2009 was more due to the expected decline in cement prices than a decrease in cement sales volume.
- Net profit for the company was down 10.2% to AED 71.8 million in 2009 compared to AED 80 million in 2008. The reported net profit was 3.6% higher than our 2009 forecast of AED 69.3 million.
- The board of directors has recommended a dividend per share (DPS) of AED 0.1 for 2009. If approved by the shareholders', the recommended DPS translates into a payout ratio of 67.4% for 2009 compared to our expectation of 75%. On the recommended DPS of AED 0.1, the stock is currently trading at an attractive dividend yield of 9.4%.
- Since our last update on 22nd November, 2009, where we recommended selling RAK Cement shares, the stock price has corrected by 11.6% and currently trades at AED 1.06, which is also our fair value. Hence our current recommendation is a Hold. We view these results in line with our expectations and hence would be issuing an update only after the 1Q2010 results. However, a brief note incorporating the management views and the key operating figures (cement sales volume, average cement price, trend in operating costs, EBITDA margins) for 2009 will definitely be issued before the next update.
- In the mean time, we would be keenly following the future trend in UAE cement prices during 2010 as we expect the current cement prices (bulk OPC at around AED 210 – AED 200 per ton) to be very close to the bottom (please refer to the last update). Setting the tone for 2010, we expect another year of weak numbers from RAK Cement. We expect total revenue of AED 201 million, 41.1% below the 2009 reported figures. We believe the average domestic cement price for the company to decline around 30% during 2010 compared to our 2009 expected price. The company reported higher cement prices during the first half of 2009 which bolstered the overall expected average price for the year. 2010 will be very different in that regard and hence our logic for the subdued price forecast. Though the company currently trades at an EV per ton of USD 108, 51% below the regional peer average, our forecasted EBITDA margin of 18.6% for 2010 (lowest in our regional peer group) mars the apparent attractiveness of the stock in terms of EV per ton.

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Related Research

- RAK Update - 22 November 2009
- RAK Cement Initiation - 02 July 2009

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