

Subject : GCC Cement Sector Quarterly – 1Q12
 Prepared by : Global Investment House “Global”
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GCC cement sector profits increased by 21.2% YoY during 1Q12

Top line of the GCC cement sector continued to report increasing revenues as companies roll out new production lines and witnessed higher dispatches. GCC cement companies came out with strong 24.3% incline in top line revenue in addition to a 21.2% increase in profits for the 1Q12. Net profits increased from USD359.9mn in 1Q11 to USD435.6mn in 1Q12. However, net margins witnessed a fall of 90.4bps during the period due to the fact, revenues grew higher than profits. Gross margins, witnessed a 233.6bps increase in 1Q12 to reach 43.7% as compared to 41.4%, which was due to increase in selling price along with drop in prices of fuel.

GCC Cement Sector Consolidated Financials

(USD 000)		1Q11	1Q12	Chg (%)
Financial Performance	Sales Revenue	1,014,166	1,260,914	24.3%
	Cost of Sales	594,560	709,766	19.4%
	Gross Profit	419,606	551,148	31.3%
	Opt. Expense	61,970	54,085	-12.7%
	Non-Core Income	26,908	34,552	28.4%
	Operating Profit	357,636	461,798	29.1%
	Financial Charges	10,336	11,000	6.4%
	Net Profit	359,537	435,615	21.2%
	Assets	13,155,862	12,767,744	-3.0%
	Equity	9,510,989	9,424,248	-0.9%
	Debt	2,271,534	2,017,704	-11.2%
	Liabilities	3,644,873	3,343,496	-8.3%

		1Q11	1Q12	Chg
Ratio Analysis	Gross Margins (%)	41.4%	43.7%	233.6bps
	Operating Exp as % of Assets	0.5%	0.4%	-4.7bps
	Non-Core Income as % of PAT	7.5%	7.9%	44.8bps
	Operating Margins (%)	35.3%	36.6%	136.0bps
	Net Margins (%)	35.5%	34.5%	-90.4bps
	Financial Charges as % of Debt	0.5%	0.5%	9.0bps
	Debt as % of Assets	17.3%	15.8%	-146.3bps
	Liabilities as % of Assets	27.7%	26.2%	-151.8bps
	Equity as % of Assets	72.3%	73.8%	151.8bps
	Return on Equity (%)	3.8%	4.6%	84.2bps
	Return on Assets (%)	2.7%	3.4%	67.9bps

Source: Company Reports & Global Research

* Consolidated Financials of 21 Listed Companies, Ex. KCEM, PCEM, Hilal

Country wise, UAE and Oman, which used to report declining sales revenue, reported higher revenues due to the better operating environment in both countries. UAE top line increased, more indication that it could reached the bottom, sales revenue of UAE increased 7.7% to reach USD258.1mn bringing gross margin back to double digit of 10.5%. In addition, Net profit margins which used to average around 5.4% since 1H10, increased to 11.5% due to a 338% increase in profits to USD29.7mn in 1Q12.

Oman, which is currently is facing stressed situation due to UAE companies dumping its excess cement at cost in Omani market, thus igniting price wars and pressuring Omani cement companies profits. Oman

companies witnessed a 16.7% increase in sales revenue reaching USD100.3mn. However, cost increased 27.5% to reach USD65.5mn thus pressuring gross margins which declined to 35.2% in 1Q12 as compared to 40.7% in 1Q11. Net profits of the sector increased 39.4% to reach USD31.1mn and bringing net margins back at 31% in 1Q12 as compared to 21.1% the previous quarter.

Qatar also witnessed increasing sales revenue posting a 7.3% increase in sales revenues and managed to post a 16.6% increase in net profits. KSA market which is considered the largest in the GCC region, witnessed strong 34.7% increase in revenue during 1Q12, outperforming UAE, Qatar and Oman. Gross margins increased to 55.5%. In addition net profits increased 23.6% to reach USD364.5mn, the increase is purely organic due to higher cement dispatches because of the strong demand in the Kingdom, in addition to higher cement prices.

Financial strength of cement companies is considered tough and can manage imperfection of prices in the future. However, in 1Q12 assets and equity managed to decrease by 3% and 1% respectively as compared to the previous period. On the other hand, debt decreased, witnessing a 11.2% decline to reach USD2,017mn. Debt to equity witnessed a decrease from 23.9% in 1Q11 to 21.4% in 1Q12.

Average realization prices in GCC increased by 1.1%

Cement prices in the GCC averaged around USD66.7/ton in 1Q12, as compared to USD66.0/ton enjoyed in 1Q11, a 1.1% increase due to the fact that demand started to pick up in the GCC, especially from Saudi Arabia. All cement prices in the GCC witnessed a decrease except KSA and Qatar. Kuwait marked the largest decline of prices by 4.5% to reach USD75.8/ton in 1Q12 as compared to USD79.4/ton during the same period a year ago. Kuwait continue to sell the highest average of cement prices as compared to other GCC countries.

UAE realization prices decreased 0.4% from USD53.4/ton in 1Q11 to USD53.1/ton in 1Q12, and increased 8.3% from year end 2011, as demand pick up in the UAE, especially from the Abu Dhabi region. In addition real estate activity and construction market have started to pick up as UAE continues to be the top FDI recipient in the region, and expectations of Dubai real estate prices to bottom out which could be a sign of stabilization and increased interest in the market.

Qatar cement prices increased to USD70.1/ton in 1Q12, additionally the government continue to cap cement prices at USD68.7/ton.

Oman cement prices started to stabilize since declining from USD82.5/ton in 2009. 1Q12 prices reached USD64.9/ton as compared to USD66.4/ton in 1Q11, a single digit decline of 1.8%. Omani companies are pressured by UAE cement companies which supply cement at low price to Oman, thus hurting margins of Omani companies and igniting price wars among them.

However, the largest cement producer in the GCC, KSA, witnessed an increase in cement prices by 11.3% in 1Q12 to reach USD69.5/ton, the highest average realization price since 2003. The reason KSA is recording high cement prices is due to ample demand arising in the Kingdom because of its development plan. In March 18th 2011 King Abdulla bin Abdulaziz ordered to construct 500,000 housing units and build and expand hospitals and ordered to inject capital into specialized credit institutions to facilitate debt write-offs and increase mortgage lending. This will help shore up demand for cement as more housing units are in demand.