Global Research
Investment Update
Equity – Oman
Cement & Building Material Sector
June, 2012

Raysut Cement Company

HOLD
Target Price
OMR1.376

Market Data

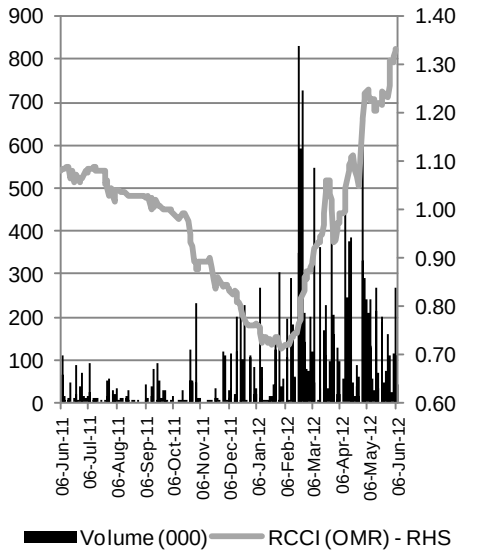
Bloomberg Code:	RCCI OM
Reuters Code:	RAYC.OM
CMP (6th June 2012):	OMR1.333
O/S (mn)	200.0
Market Cap (OMR mn):	266.6
Market Cap (USD mn):	692.5
P/E 2012e (x):	12.6
P/Bv 2012e (x):	2.7

Price Performance 1-Yr

High (OMR):	1.333
Low (OMR):	0.711
Average Volume: (000)	86.1

	1m	3m	12m
Absolute (%)	6.2	49.2	22.7
Relative (%)	7.6	50.3	27.3

Price Volume Performance



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- **Profits up 37.4% in 1Q12 on a yearly basis**
- **Higher margins due to increasing prices and sales**
- **Declining competition from UAE cement players**
- **Fair value upgraded; Recommendation maintained at HOLD**

1Q12 Results: Increase in profits and double digit growth in revenues

Raysut Cement Company (RCC) recorded a 21.8% increase in top line to OMR24.6mn as sales volume increased 20%. This resulted in a 37.4% increase in profits reaching OMR6.8mn as compared to OMR5.0mn registered in 1Q11. Gross margins bounced strongly and witnessed a 240bps rise to 32.3% while net margins rose by 320bps to 27.8%. The increase in profits is attributed to better sales volume and higher price realization in Oman, amid a stiff competition from UAE cement companies.

Sector Results

(OMR mn)	**1Q11**	**1Q12**	**Change**
Sales Revenue	20.2	24.6	21.8%
Cost of Sales	(14.2)	(16.7)	17.5%
Gross Profit	6.0	8.0	31.9%
Operating Profit	5.8	7.6	32.3%
Net Profit	5.0	6.8	37.4%
Gross Margins (%)	*29.9%*	*32.3%*	-
Operating Margins (%)	*28.5%*	*30.9%*	-
Net Margins (%)	*24.6%*	*27.8%*	-
Cost per Ton (OMR)	*-17.1*	*-16.7*	*-2.0%*
Cement Production (Tons)	*806,907*	*1,007,373*	*24.8%*
Cement Sales (Tons)	*831,844*	*996,560*	*19.8%*
Average Realization Prices (OMR)	*24.3*	*24.7*	*1.6%*

Source: Company Reports

Cost of sales rose to OMR16.7mn in 1Q12 as compared to OMR14.2mn. After acquiring Pioneer Cement, the company was able to roll out 1.0mn tons of cement in 1Q12, a 24.8% increase in production, Pioneer contributed to 38.1% of the total production. In addition cement sales reached close to the million ton mark and registered a 996,560 tons of cement sales, a 24.8% increase, of which Pioneer represented 38.2% of the sales. Pioneer Cement contributed to 32.3% of the total group revenue, and earned OMR1.1mn amid a exhausted industry in UAE.

Better situation in UAE

RCC should benefit from 3 factors in the future. A better industry scenario in the UAE, higher cement prices, and Oman development plan. Oman cement sector will benefit due to the limited and decreasing dumping of UAE companies into Oman as the demand situation has become better. Raysut will additionally benefit from its exports to neighboring countries, RCC managed to export 257,981 tons of cement during the 1Q12, a 43.6% increase as compared to the same period a year ago. Finally, RCC will acquire its share from the OMR10bn development plan in Oman, supplying new hospitals, schools, roads, and houses.

Valuation update

We have upgraded our fair value to OMR1.376/share after incorporating improved cement demand forecast for 2012-15 in our model. Despite upgrading our fair value the recommendation has not changed due to 49.2% increase in share price in the last 3 months. The stock at its current price of OMR1.333 is trading at a discount of 3.3% to our fair value. We therefore maintain **HOLD** recommendation on the stock.

Financial Statement

	(OMR mn)	2009	2010	2011	2011e	2012e	2013e	2015e
Profit & Loss Statement	Net Sales Revenue	89.3	65.0	83.8	92.9	96.5	99.8	103.8
	Cost of Sales	(43.7)	(29.8)	(53.4)	(58.3)	(60.9)	(62.8)	(64.5)
	Gross Profit	**45.7**	**35.2**	**30.5**	**34.6**	**35.6**	**37.0**	**39.3**
	General & Administrative Expense	(17.9)	(12.6)	(10.2)	(9.6)	(10.5)	(11.5)	(12.6)
	Operating Profit	**27.8**	**22.6**	**20.3**	**25.1**	**25.1**	**25.5**	**26.7**
	Other Income	2.0	0.6	(0.7)	0.7	0.7	0.7	0.9
	Share of Result of Associates	2.2	0.3	0.2	0.3	0.3	0.3	0.4
	Net Finance Cost	0.1	(0.0)	(2.8)	(2.5)	(2.4)	(2.2)	(2.1)
	Profit Before Taxation	**32.0**	**23.5**	**17.0**	**23.5**	**23.7**	**24.4**	**25.8**
	Taxation	(3.3)	(2.8)	(2.1)	(2.4)	(2.4)	(2.4)	(2.6)
	Net Profit	**28.7**	**20.7**	**14.9**	**21.2**	**21.3**	**21.9**	**23.2**
Balance Sheet	Cash and Bank Balance	6.8	5.7	3.9	6.1	9.2	13.3	14.9
	Receivables and Prepayments	13.1	10.5	12.3	11.9	14.5	17.1	21.1
	Inventories	12.3	12.0	15.8	14.3	15.9	17.3	20.4
	Investments	4.5	5.1	4.2	4.5	4.7	4.9	5.2
	Other Assets	9.2	11.2	49.5	49.5	49.5	49.5	49.5
	Investments & Advances	6.1	67.4	2.6	2.8	2.8	2.9	2.9
	Gross Fixed Assets	111.8	124.4	161.0	164.2	167.4	170.6	173.8
	Less: Accumulated Depreciation	40.5	44.8	60.3	76.2	92.4	108.8	125.6
	Net Fixed Assets	71.3	79.6	100.6	88.0	75.0	61.7	48.1
	Total Assets	**123.3**	**191.6**	**189.1**	**177.0**	**171.5**	**166.7**	**162.1**
	Loans	2.7	68.4	68.2	64.8	61.6	58.5	55.6
	Payables	1.6	1.7	5.8	3.6	3.7	3.8	3.4
	Others	12.3	14.0	12.6	9.1	9.3	9.5	9.1
	Paid-up Capital	20.0	20.0	20.0	20.0	20.0	20.0	20.0
	Share Premium	13.5	13.5	13.5	13.5	13.5	13.5	13.5
	Reserve	13.0	13.0	13.0	13.0	13.0	13.0	13.0
	Asset Replacement Reserve	3.6	3.6	3.6	3.6	3.6	3.6	3.6
	Retained Earnings	56.6	57.3	52.3	49.4	46.8	44.7	43.9
	Shareholders Equity	106.7	107.5	102.4	99.6	96.9	94.8	94.1
	Total Equity & Liability	**123.3**	**191.6**	**189.1**	**177.0**	**171.5**	**166.7**	**162.1**
Cash Flow	Cash Flow from Operating Activities	24.9	29.0	26.4	32.2	32.9	33.6	31.0
	Cash Flow from Investing Activities	(2.7)	(75.7)	3.1	(2.6)	(2.5)	(2.5)	(2.4)
	Cash Flow from Financing Activities	(22.1)	45.6	(31.3)	(27.4)	(27.2)	(27.1)	(26.9)
	Net Cash at End	6.8	5.7	3.9	6.1	9.2	13.3	14.9
	Net Cash at End	**6.8**	**5.7**	**3.9**	**6.1**	**9.2**	**13.3**	**14.9**
Ratio Analysis	Current Ratio (x)	3.9	1.7	1.1	1.4	1.7	2.0	2.5
	Quick Ratio (x)	2.8	1.2	0.7	0.9	1.1	1.4	1.7
	Gross Profit Margin (%)	51.1%	54.2%	36.3%	37.2%	36.9%	37.1%	37.9%
	Operating Profit Margin (%)	31.1%	34.8%	24.2%	27.0%	26.0%	25.6%	25.8%
	Net Profit Margin (%)	32.1%	31.9%	17.8%	22.8%	22.1%	22.0%	22.4%
	Return on Average Assets (%)	23.8%	13.2%	7.9%	11.6%	12.2%	13.0%	14.1%
	Return on Average Equity (%)	28.0%	19.3%	14.2%	21.0%	21.7%	22.9%	24.6%
	Debt / Equity (x)	0.03	0.64	0.64	0.62	0.61	0.59	0.57
	Cash Return On Capital Invested (%)	34.1%	26.0%	34.5%	42.0%	43.6%	45.4%	47.5%
	EV/Ton (OMR)	106.9	111.9	47.9	62.0	60.8	59.5	58.6
	Dividend Yield (%)	6.7%	8.2%	13.2%	9.0%	9.0%	9.0%	9.0%
	EV/Revenues (x)	3.29	4.74	2.55	3.47	3.28	3.10	2.94
	EV/EBITDA (x)	8.08	11.03	6.03	7.71	7.49	7.18	6.82
	EPS (OMR)	0.14	0.10	0.07	0.11	0.11	0.11	0.12
	Book Value Per Share (OMR)	0.53	0.54	0.51	0.50	0.48	0.47	0.47
	Market Price (OMR) *	1.49	1.23	0.76	1.33	1.33	1.33	1.33
	Market Capitalization (OMR mn)	298.2	245.0	152.0	266.6	266.6	266.6	266.6
	P/E Ratio (x)	10.4	11.8	10.2	12.6	12.5	12.2	11.5
	P/BV Ratio (x)	2.8	2.3	1.5	2.7	2.8	2.8	2.8

Source: Company Reports & Global Research

** Market price for 2012 and subsequent years as per closing price on MSM on June 6th, 2012*

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Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Raysut Cement Company	HOLD	RCCI OM	RAYC.OM	OMR1.333	1,10

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