

July 30, 2012

QATAR NATIONAL CEMENT (QANC.QA)

12 – Month Fair Value: QAR 107.7

Recommendation: Hold - Risk Level 2

Last close (29 July 2012): QAR 101.5

- Qatar National Cement reported 1H and 2Q2012 results this morning, and overall these make for slightly disappointing reading.
- 1H2012 revenues amounted to QAR 519 million, implying 2Q2012 revenues of QAR 254.3 million, 6.5% below our forecast of QAR 271.9 million, and 8.4% below the Bloomberg consensus of QAR 277.5 million (note that the consensus consists in only two estimates, including ours). The company has not released details of sales volumes or prices; however, prices in Qatar are fairly fixed, so the shortfall is almost certainly attributable to volumes. Whilst a seasonal slowdown in volumes is the normal pattern for 2Q (2Q2012 revenues are 4% down on 1Q2012, and the quarterly drop in 2011 was 10%), our recent discussions with management had indicated the market was picking up slightly in 2Q2012 from 1Q2012: evidently, this has not happened.
- The company reported a gross profit (pre-depreciation) for 1H2012, of QAR 301.6 million, implying a gross profit of QAR 142.9 million in 2Q2012, 14.2% below our estimate of QAR 166.4 million. The 2Q2012 gross margin came in at 56.2%, as against our estimate of 61.2% and a gross margin of 60% in 1Q2012. Part of this is probably due to the shortfall in volumes, although it should also be remembered that Qatar National Cement's gross margin is very sensitive to the use of imported clinker (which depresses margins). We were assuming the company would use 50kt of imported clinker in 2Q2012 (equal to 1Q2012), but the company has not disclosed this figure.
- SG&A for 2Q2012 amounted to QAR 9.8 million, down from QAR 17.7 million in 1Q2012, and slightly lower than our estimate of QAR 11 million. Therefore, the EBITDA for 2Q2012 came in at QAR 133.1 million, 14.6% below our forecast of QAR 155 million. The EBITDA margin for 2Q2012 amounted to 52.3%, as against our estimate of 57.1% and an EBITDA margin of 53.3% in 1Q2012.
- Below the EBITDA line, all items were in line with our estimates.
- Qatar National Cement generated net cash from operations of QAR 265.5 million in 1H2012, 18% down from the QAR 323.2 million reported for 1H2011 (the company does not publish cash flow statements on a quarterly basis). However, the drop was entirely due to working capital, and particularly swings in inventories. Cash flow before changes in working capital remained strong, at QAR 283.5 million for 1H2012, 4.2% higher YoY. 1H2012 free cash flow remained very healthy at QAR 237.4 million.
- The balance sheet still looks very healthy, with a net cash position at end June 2012 of QAR 26.4 million (excluding AFS financial assets of QAR 146.5 million), as against a net cash positions of QAR 7.5 million at end March 2012 (the company paid its FY2011 dividend during 2Q2012 for an amount of QAR 294.6 million).
- We will be talking to management to assess the exact cause of the shortfall to our estimates, as well as to discuss any progress made on the new clinker line Qatar national Cement announced in May 2012.
- Overall, these results are slightly disappointing, and show again that, despite all the hype, actual underlying construction activity in Qatar remains stable (Qatar National Cement has a 65% market share in Qatar, and would benefit from any market uptick). Qatar National Cement's revenues have essentially flat-lined in the QAR 245-270 million range on a quarterly basis since 1Q2010.

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- With the company still constrained by its clinker capacity (Qatar National Cement is currently running at full clinker capacity), and the clinker capacity upgrade unlikely to be completed before early FY2016, we see no reasons to change our “Hold” recommendation.

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Related Research

- Analyst Comment - 21 June 2012
- QNC Update - 06 May 2012

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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