Equity Research
UAE

Sector Focus

KMEFIC | Research

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UAE - Cement Sector And Stock Picks

Ras Al Khaimah Cement Co.	**Buy**
Current Market Price (AED)	2.28
Fair Value / Target Price (AED)	3.22
Upside / (Downside) - %	41.4
Sharjah Cement	**Buy**
Current Market Price (AED)	4.85
Fair Value / Target Price (AED)	6.72
Upside / (Downside) - %	38.6
Union Cement Co.	**Hold**
Current Market Price (AED)	5.93
Fair Value / Target Price (AED)	6.87
Upside / (Downside) - %	15.9
Gulf Cement Co.	**Fully Valued**
Current Market Price (AED)	5.59
Fair Value / Target Price (AED)	5.59
Upside / (Downside) - %	0.0

Market Price for all the stocks is as of 23 Apr 06

KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY

Contents

UAE Cement Sector story: So far so good

The UAE cement sector has been as buoyant as the oil price for the past few years. The factors like rising oil prices, inbound investment by the nationals post 9/11, investment made by fellow Gulf Cooperation Council (GCC) nations in the UAE, low interest rate and thereby cheap credit, relatively free economy and liberal real estate laws, et al contributed to the unprecedented rise in the construction activities and the cement consumption. *The per capita cement consumption (PCC) in the UAE during 2005 was 2920kgs against GCC's 2025kgs and world average of only 320kgs.*

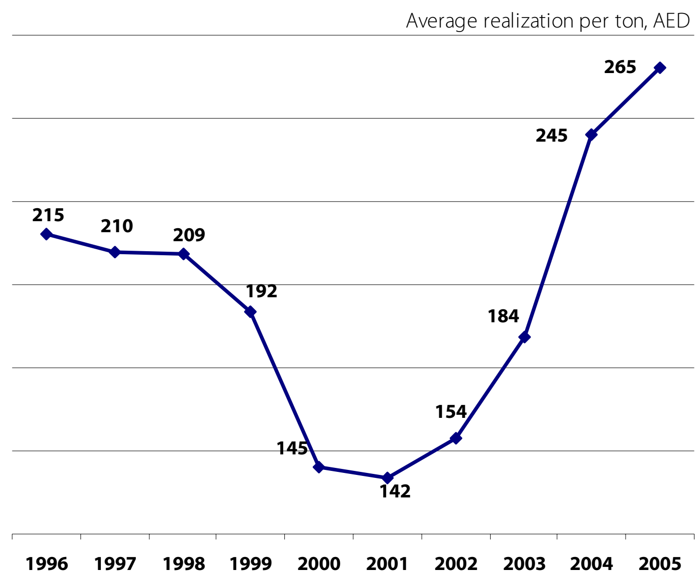
The boom in the construction activity sustained the buoyancy in the UAE economy in turn. It created necessary infrastructure to develop new business opportunities thus helping the economy to diversify away from the conventional hydrocarbon source of revenues. The UAE economy has diversified away from the hydrocarbon source as only 33% of 2004 GDP came from the hydrocarbon sector as against 39% during 2001. It is expected to have further declined to 31% during 2005 (2005 actual data is awaited).

Thanks to the construction boom, the cement market in the UAE has grown by leaps and bounds. The demand for cement increased from 5.8 Million Ton Per Annum (MTPA) in 2001 to around 14 MTPA during 2005 (a CAGR of around 25%). The cement manufacturers increased their capacities extensively to meet the sharp rise in demand. However, the market was still in deficit and the shortfall was met by imports from India and the Far-East. Deficit market gave pricing power in the hands of cement manufacturers. It led to an inevitable rise in the cement price since it touched the lows of around AED 135-145 during 2000-2001 (due to then excess supply) to the current highs of AED 265-270.

At times during 2004 and 2005 the cement market was frenzied and demand was so high that the retail prices of the (50 kg) bag went as high as AED 25-27 as compared to the today's level of around AED 16. A part of that is explained by the temporary glitch in supply where in Union Cement Company, Gulf Cement Company etc shut down/cut off their production.

The association of UAE cement manufacturers (cartel) was formed after the steep fall of cement prices during 2000-2001, to support the prices. However the association in its present shape is not as strong as it should be.

Steady rise in average realization per ton in the UAE



Source: Company reports and KMEFIC Research

Structure of the UAE cement sector

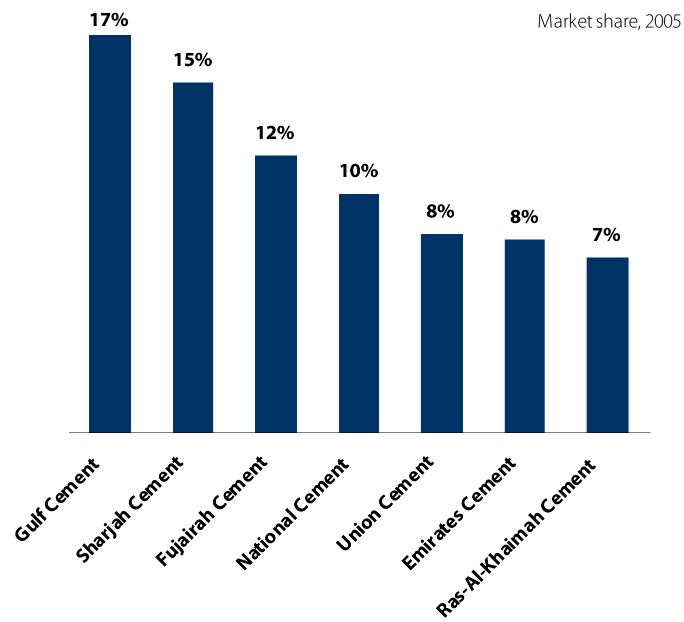
Sector fragmented – But concentrated at the top

The UAE cement market is fragmented with the presence of around 12-13 cement companies catering to the present market of 14 MTPA, though 70% market is concentrated amongst the top 6 companies. There are around 8 integrated cement companies (with clinker and grinding facilities) in the UAE and another 4-5 grinding units. The UAE cement companies are efficiently utilizing their capacities with present capacity utilization of around 95-100%.

Market Share: Gulf Cement leading the market

Gulf Cement Company (GCEM) is the market leader with 17% share of the total cement capacity of the UAE during 2005, followed by Sharjah Cement and Industrial Development Company (SCIDC) with 15% share. Fujairah Cement and National cement follow next with 12% and 10% share respectively. Big six players have 70% of the market with them. However this landscape will soon change with so much of new capacities and green field plants coming up (discussed later in detail). *By 2006 end Union Cement Company (UCC) will become the largest player in the market followed by SCIDC and GCEM.*

Gulf Cement is the market leader with 17% share followed by Sharjah



Source: KMEFIC Research

Foreign giants operating in the market

Foreign cement majors have been operating in the local market, though passively till date. Lafarge (French cement giant currently world no.1) was the managing agent of Ras Al Khaimah Cement Company (RAKCC) for 5 years from 1999 till 2003. Heidelberg Cement of Germany manages the day to day operation of Union Cement Company (UCC) since its establishment. Holcim (Swiss cement giant ranked no. 2) and Cemex (Mexican cement giant and world no. 3) have recently shown their intent to enter into the local market to have an active participation.

What lies ahead...?

Our view on the UAE construction sector

Construction related projects of $294bn have been announced so far in the GCC region and this will give fillip to the cement sector (cement being a derived demand) for the next 3 to 5 years. In the UAE alone total projects of around $177bn are underway/have been announced so far. As a result of which PCC of the UAE is expected to rise to around 3500 kg by 2010. *A word of caution - The rising interest rate would have some dampening effect on the residential housing units demand though the negative impact will be offset to some extent by the new construction projects announced which are expected to go on stream in the coming years.*

Much of the construction projects are skewed towards Dubai, like $4.1 bn revamping plan of Dubai International Airport, $8.1 bn Jebel Ali International Airport, $4.3 bn World Trade Centre, multi billion Burj Dubai (the world's tallest tower) and Dubai Metro Project etc. Recently the emirate of Abu Dhabi has also come out with liberal real estate policies, which is expected to give a fillip to the ongoing construction boom in the UAE. Abu Dhabi is the richest emirates and contributes more than 55% to the total UAE GDP (which is at around AED 130bn estimated for 2005). And if the recent upcoming mega projects and requirements in Abu Dhabi are anything to go by, it provides a bright picture on the sustainability of the construction activity.

Though Abu Dhabi will take some time to prove its credential as 'free Dubai' but it is gradually relaxing government control over the real estate and also attracting business investment that is necessary to the construction activities. The whole process might take 3-5 years, and would lend support to the overall UAE construction activities, should it peak in Dubai in the coming years.

Our view on the cement sector going ahead

After our meetings with the industry experts including senior management of the cement companies (existing as well as green field projects); cement market research companies and others, we are positive on the cement sector, at least for the near future. We expect that in the coming 12 months the price realization would be strong and could see an upward shift of AED 8-10 per ton, as we expect the total supply to just be able to meet the demand. Many capacity expansion projects like those of Union Cement, Gulf Cement etc. (discussed later in detail) would be upstream only by 2006 end or early 2007.

We expect the demand of cement to rise at a CAGR of 25% for the coming 3-4 years. However post 1st half 2007, with the additional capacities and couple of green field projects coming upstream in the UAE, we believe supply would gradually outpace the demand and we could see excess supply scenario then. We expect that UAE will have almost 4-5 MT of excess cement production during the 2nd half of 2007 and full year 2008. This will lead to decline in the cement prices. Some industry experts expect the price to go down by AED 20-25 per ton from the current level of AED 265. However, we believe during the period of downward pressure in cement price, the cement association (cartel) would become strong and would play an instrumental role in supporting the falling price. Being cautious, we expect the average price during 2007-2008 to be around AED 255-250, marking a fall of AED 10-15 from the current level.

Demand and Capacity forecasts (in MTPA)

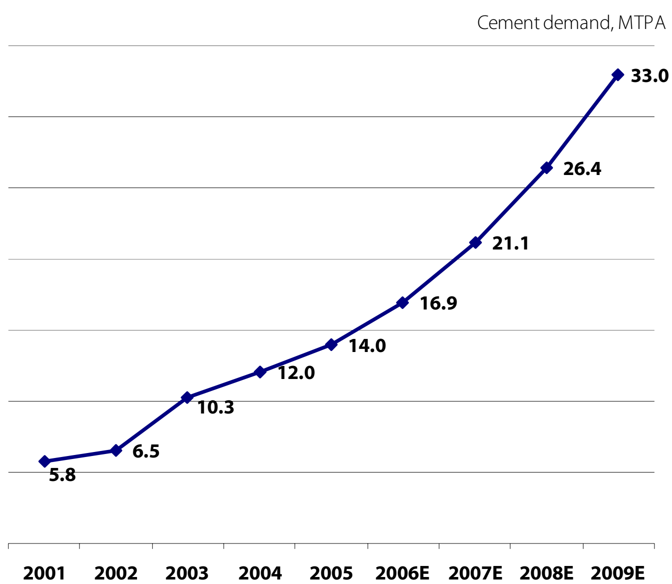
In MTPA	2005	2006E	2007E	2008E	2009E
Year end grinding capacity	14.7	24.6	27.6	27.6	36.3
Demand during the year					
- If increase by 25% CAGR	14.0	16.8	20.2	24.2	29.0
- If increase by 30% CAGR	14.0	17.5	21.9	27.3	34.2

Source: ICRG and KMEFIC Research

Note: During 2006 the capacity would not outstrip demand as shown in the table, as the capacities of 25 MPTA are expected to come up only at the end of 2006, while the demand for 17 MTPA is expected during full year 2006.

Our sensitivity model (above) shows that the cement demand needs to increase at a CAGR of 30% for the next 3-4 years to overcome the excess supply scenario and to support the prevailing price level. However as mentioned earlier, we expect the demand to rise at a CAGR of 25% for the coming 3-4 years and this does not augur well with the rise in capacity, thus we expect the price to decline in the long term.

Cement demand expected to grow at a CAGR of 25% in the 3-4 years



Source: ICRG and KMEFIC Research

Make hay while the sun shines

From the stock market perspective, we believe 2006 will be another good year for the cement stocks given our expectation of a favorable demand-supply scenario and thus the increase in average realization price and margins. *However our view going ahead for 2007 is not so sanguine amidst pricing pressure and excess supply.*

Operating analysis of the cement companies

Capacity- Clinker needs to be imported

Total clinker capacity of the UAE integrated companies is currently at around 8.4 MTPA as against the total cement (grinding) capacity of around 14.7 MTPA. So, the balance (clinker) needs to be imported. The imported clinker costs at around AED 160-170 per ton ($44-46 per ton) including the transportation, while own cost of clinker production of the UAE companies are around AED 128-136 per ton ($35-38 per ton).

Clinker production facility requires a lot of investment and it is estimated that an integrated unit invests in the ratio of 75:25 in its clinker and grinding unit for the same capacity level. Hence for low budget players, grinding unit is the only available option to operate in the cement market.

Capacities of UAE cement companies (2005 end)

Integrated Units:	Location	Clinker	Cement
Gulf Cement Co	Ras Al-Khaimah	1.3	2.5
Fujairah Cement Co	Fujairah	1.7	1.8
Sharjah Cement Factory	Sharjah	1.4	2.2
National Cement Co.	Dubai	0.6	1.5
Union Cement Company	Ras Al-Khaimah	1.1	1.3
Emirates Cement Factory	Abu Dhabi	0.9	1.2
Ras-Al-Khaimah Cement Co	Ras Al-Khaimah	1.0	1.1
RAK Co for White Cement	Ras Al-Khaimah	0.5	0.4
Total		**8.4**	**11.9**

Grinding Units:	Location	Clinker	Cement
Star Cement	Ajman		1.0
Star Cement	Abu Dhabi		0.6
Umm Al-Qawain Cement Ind	Umm Al-Qwain		0.5
Binani Cement Factory	Dubai		0.5
Jebel Ali Cement Factory	Dubai		0.1
Total			**2.7**
Grand Total		**8.4**	**14.7**

Source: ICRG and company reports

Huge capacity addition by existing plants

In light of the robust construction activity, 4 out of the 8 integrated cement companies have announced their capacity expansion by an additional 8 MTPA, expected to get commissioned by 2006 end or early 2007. UCC is adding 3.4 MTPA integrated capacity with the targeted single kiln clinker production of 10000 ton per day (one of the largest in the world!). UCC will have total capacity of 4.8 MTPA post the huge addition and will be the largest cement manufacturer in the UAE. It will start its additional production by 2006 end or early 2007. GCEM is also increasing its clinker production by 2.4 MTPA to achieve a total production of 3.7 MTPA by 2006 end, while its grinding unit expansion is on the cards. Sharjah Cement and Fujairah Cement are increasing their capacities by another 1 MTPA and 0.7 MTPA respectively. National Cement Company plans to increase its clinker capacity by 1 MTPA. Few of the grinding units are also adding to their existing capacity.

Capacity expansion announced so far

		Planned Expansion	
Integrated Units	**Location**	**Clinker**	**Grinding**
Union Cement Company	Ras Al-Khaimah	3.4	3.4
Gulf Cement Co	Ras Al-Khaimah	2.4	
Sharjah Cement Factory	Sharjah	0.4	1.0
Fujairah Cement Co	Fujairah	0.7	0.7
National Cement Company	Dubai	1.0	
Total		**7.9**	**5.1**

		Planned Expansion	
Grinding Units	**Location**	**Clinker**	**Grinding**
Star Cement	Abu Dhabi		0.6
Binani Cement Factory	Dubai		0.3
Jebel Ali Cement Factory	Dubai		0.8
Total			**1.7**
Grand Total		**7.9**	**6.7**

Source: ICRG and company reports

Many green field projects coming up

Taking note of the sustainable robust demand of cement, few green field cement plants have been announced in the UAE. Emirates Cement Factory in joint venture with Orascom (Egypt) is planning to establish 3 MTPA integrated unit. Pioneer Cement is planning for 1.3 MTPA integrated unit. In the grinding unit National Cement Factory plans to set up a 2.4 MTPA grinding unit, in which Holcim has taken 25% stake. Also Cemex (Mexico cement giant and world no. 3 cement producer) recently announced its intent to set up a 1.6 MTPA grinding unit to supply cement to the Dubai airport expansion project.

These green field cement units are expected to add another 14 MTPA cement capacities in the coming 3-4 years. However we doubt that all these projects would come up on account of their feasibility. It takes around 5 years to recover the original investment (payback). However due to higher realization price off late, the payback period has come down to around 3.5-4 years which has attracted many new project announcements. *But once the realization price starts falling then some of these announced projects would look unviable and may not come up.*

Greed Field projects announced so far

Integrated Units:	Location	Clinker	Cement
Emirates Cement Factory	Fujairah	2.5	3.0
Pioneer	Ras Al-Khaimah	1.2	1.3
Star Idhan	Ras Al-Khaimah	2.2	NA
Al Ruya	Sharjah	3.4	3.6
Tawiyaan Cement Plant	Fujairah	1.8	2.0
Total		**11.1**	**9.9**

Grinding Units:	Location	Clinker	Cement
Nael & Bin Harmal Group	Al Ain		0.7
Cemex	Dubai		1.6
National Cement Factory	Abu Dhabi		2.0
Total			**4.3**
Grand Total		**11.1**	**14.2**

Source: ICRG

Easy availability of primary raw material locally

Limestone and Silica are the primary raw materials for the cement production; and Iron, Gypsum, Pozollana etc. are required in small quantities. Limestone, Silica and Gypsum are available in the UAE, and the cement manufacturers import Iron, Pozollana etc.

Companies use different varieties of fuels for its heating requirements. These are liquid fuel, pet coke, gas etc. Some companies like GCEM use various kinds of fuel to encounter the problem of short supply of anyone. Most of the companies use gas based fuel which is costlier as compared to markets like Saudi Arabia. At one particular integrated unit, gas fuel cost contributes as much as 30% of total cost of production. Due to high cost of gas and fear of shortage in its supply, many cement companies are contemplating of shifting to low cost options like pet coke.

Cost structure- Integrated units taking the lead over grinding-only units

The total cost of production of cement by an integrated cement unit is substantially lower compared to a grinding-only unit. As mentioned earlier the cost of production of clinker by an integrated unit is around AED 125-140 ($35-38) per ton, while the procurement cost of clinker for grinding unit is around AED 160-170 ($44-46) per ton. The clinker grinding cost at integrated units of around AED 18-20 ($5) per ton is also lower than AED 30-35 ($8) per ton at grinding units. So, total cost of production per ton of cement by an integrated unit falls in the range of AED 145-155 ($40-42), while the same at grinding unit falls in the range of AED 190-200 ($52-54). The cost difference is attributed for two primary reasons:

1. Integrated units save upon production cost due to their huge investment in the clinker production unit which accounts for around 75% of total investment. Per ton cost of setting integrated plant comes in around $ 100-110 against $28-30 per ton for grinding units only. E.g. Recently Cemex has announced its plan to set up a grinding unit in Dubai for $50mn with a capacity of 1.6 MTPA. Per ton set up cost comes in at around $31.

2. Grinding units have their support function only for the grinding purpose, while in integrated units the support function cost gets distributed between the clinker and grinding cost.

Comparison: Grinding Vs Integrated units (Per Ton Cost)

In USD ($)	Integrated Unit	Grinding Unit
Capital Expenditure	110	30
Clinker production/procurement cost	36	46
Grinding cost	5	8
Total Cost of production	**41**	**54**

In AED	Integrated Unit	Grinding Unit
Capital Expenditure	404	110
Clinker production/procurement cost	132	169
Grinding cost	18	29
Total Cost of production	**150**	**198**

Source: KMEFIC Research

Clinker capacity addition would lead to cost reduction

Many of the integrated cement companies have their clinker capacity less than their grinding capacity, as a result they need to import clinker at a higher cost (as discussed earlier). It adds another AED 25-30 ($7-8) to their per ton cost. The company most hit by this is GCEM which has a grinding capacity of 2.5 MTPA and clinker capacity of only 1.3 MTPA. GCEM needs to procure clinker from outside and that is the key reason for its below average EBITDA margin (which we will discuss in our company analysis section). But few of these companies like GCEM, National Cement Companies (NCC) etc. plan to add to their clinker capacities and thus reduce their cost of production and improve their below average margins.

Financial analysis of the cement companies

Profitable UAE cement companies

UAE cement sector is one of the most profitable in the Gulf region, second best to Saudi Arabia, (despite being one of the highest cost producer of cement), thanks to the highest price realization of around $70-75 as against around $60-65 in Saudi Arabia and around $60 elsewhere in the GCC. Gas price in the UAE is dearer than elsewhere like Saudi Arabia and is the primary reason for the higher cost of production of cement in the UAE. The gas fuel costs around $3 per Million British Thermal Unit (mmbtu) in the UAE as compared to $0.80 per mmbtu in Saudi Arabia. The cost of production of per ton cement in Saudi Arabia is around AED 120 ($33) as against AED 150 ($40) in the UAE.

However, if we compare the UAE cement companies with big players outside the region like Indian cement companies, the local companies edge them out in profitability. The EBITDA margin of the top players in Indian cement sector is around 20% as compared to around 42% for the local players. Part of the difference in the margin is explained by the gap in the average realization price (in India the average realization price is around $60), and the rest is explained by the better operational efficiency of the UAE cement in terms of cost and better capacity utilization. Higher proportion of bulk sales in total sales, lower transportation cost and head count etc, contribute to the cost efficiency. E.g. per ton head count for the UAE cement companies is at around 180, while the same for India is around 370.

Strong Balance Sheet but asset mix concerns us

The UAE cement companies have strong balance sheets with very low leverage and lot of cash. Except SCIDC, all other companies are having cash surplus (cash exceeds total debt).

Checking Balance Sheet

Year end December 2005	RAKCC	SCID	UCC	GCC
Debt/ Equity (%)	0%	17%	0%	8%
Operating Capital Employed (%)	96%	62%	43%	47%
Non-Operating Capital Employed (%)	4%	38%	57%	53%
Normalise Profit/ Net Profit (%)	100%	69%	32%	39%

Source: KMEFIC Research

From an operating point of view, except for RAKCC all other companies' balance sheets contain large amount of non-operating items (cash and trading investment). It shows that these companies are relying heavily earnings from these sources.

The normalized earning (i.e. Net Profit excluding extraordinary items) was 32% and 39% of the total net profit at UCC and GCEM respectively during 2005, as compared to 100% and 69% at RAKCC and SCIDC respectively during the same period.

Good return to shareholders by companies

The cement companies generously shared the good times with their stakeholders and distributed bonus and rights shares during 2005. The bonus issue was as much as 100% by UCC. GCEM issued 20% bonus and also issued around 15% rights offer at a price of AED 4 each as against its then per share market price of around AED 10-11. SCIDC made a mixture of bonus and cash dividend. RAKCC made only bonus issue of 10% and utilized the cash flows in repaying almost all of its debt.

Measuring Shareholder's return

Shareholder's return	UCC	GCEM	SCID	RAKCC
Bonus Issue as % of Capital	100%	20%	20%	10%
Rights Issue as % of Capital		15%		
Dividend Yield %			4%	

Source: Company reports

Note: Dividend Yield based on the average closing price of full year 2005

Strong cash flows going ahead

All the cement companies are expected to have robust cash flows going ahead once they complete their expansion plans. Even during the expansion period, we expect the free cash flows (FCF) of SCIDC and GCEM to remain positive during 2006. RAKCC, with no expansion plan as of now, will have strong FCF during coming quarters. UCC will have a negative FCF during 2006 because of its large scale expansion program, however this does not dent the company's underlying financial strength.

Robust cash flow in future would help these companies to wither out the period of declining average realizations and thereby restricted bottom line growth. *These strong cash flows would come handy to the cement companies towards their financial management. These companies can go in for share repurchases or increased dividends in the future.*

RAKCC and SCIDC which rely on core operating income would do well during 2006

Our biggest concern for the cement companies for the near future is the loss in the value of their investment in the stock market. Since DFM and ADSM is down by 42% and 26% respectively year to date during 2006, the companies having huge market portfolio at 2005 end would report a heavy loss on their holding at least in their Q1 2006 result, which could even wipe off their total operating profit. On a yearly comparison, we anticipate these companies to report a decline in their earnings.

Hence, we believe that the companies which rely on their core operating profit would perform better during 2006. *In this section of the argument, we favor RAKCC and SCIDC; as they derived 100% and 69% respectively of their 2005 profit from their normal business operation.*

Points to ponder – Contra views

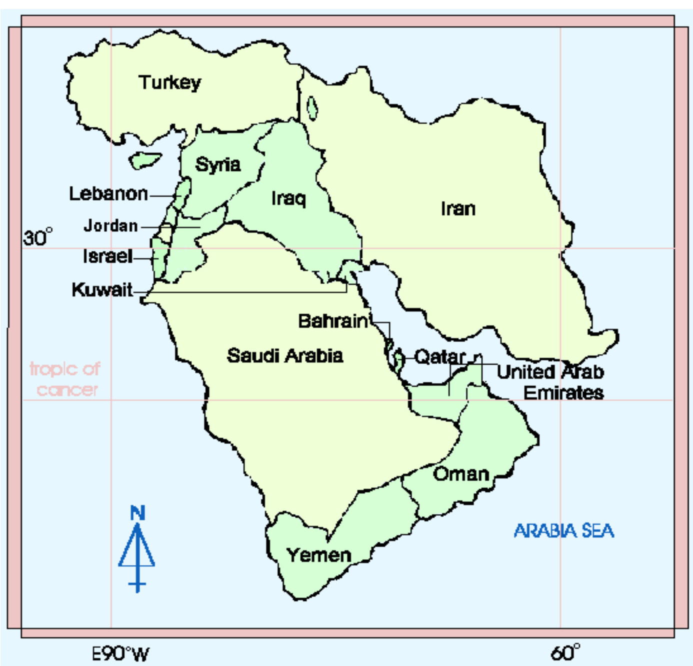
Negative: Is UAE better placed to export? We don't think so.

As mentioned earlier, we expect that by 2008 UAE will have a surplus of 4 MT of cement, while Saudi Arabia and Iran will also have surplus of around 12 and 10 MT by then. By 2008, Kuwait, Iraq and Bahrain would have deficit of around 14 MTPA. However, due to concentration of cement plants in North and North East in Saudi Arabia and North West in Iran, we believe Saudi Arabia and Iran would be better placed (geographically) to serve those deficit markets as compared to the UAE (refer to the map below).

Snapshot: Surplus-Deficit (2008E)

Surplus Market	Surplus Qty (MT)	Deficit Market	Deficit Qty (MT)
Saudi Arabia	12	Iraq	10
Iran	10	Kuwait	3
UAE	4	Bahrain	1

Source: Holtech and KMEFIC Research



Positive: Will the upcoming construction projects benefit the cement sector? We believe so.

As mentioned earlier, around $177bn of construction related projects will come on stream in the coming 3-5 years in the UAE. Conservatively, suppose these projects are moderately cement intensive, and further assuming that cement will account for 5%, 6% and 7% to the total project cost in different scenarios – Our back of the envelope calculation shows that the UAE cement sector outlook looks positive in the coming 3-5 years. While average annual cement consumption would average 28, 33 and 38 MT in 3 scenarios in the coming few years, average annual cement production would be of around 30 MT during the same period.

Expected cement consumption- Scenario Analysis

Period 2006-2010	Scenarios		
	1	2	3
Total Project Cost in the UAE (bn USD)	180	180	180
Proportion of total cost towards cement	5%	6%	7%
Total Cement Consumption-Value (bn USD)	9	10.8	12.6
Total Cement Consumption-Value (bn AED)	33	40	46
Average per ton Realization Price (AED)	255	255	255
Total Cement Consumption-Volume (MT)	130	155	181
Cement consumption by new projects (MTPA)	26	31	36
Normal annual consumption (MTPA)	2	2	2
Total annual cement consumption (MTPA)	28	33	38
Average annual cement production (MTPA)	30	30	30
Surplus/ (Deficit)- MTPA	2	-3	-8

Source: KMEFIC Research

Some thoughts on valuations

We have analyzed 4 cement companies (RAKCC, SCIDC, UCC and GCEM), in detail for our sector analysis. We find that while these companies are highly priced in the terms of EV/ Ton, these are attractively/reasonably valued in other valuation terms; namely P/E, EV/ EBITDA etc.

EV/ Ton is a function of price realization and margins (EV/Ton= EV/ EBITDA * EBITDA/ Sales * Sales/Ton). The price per ton in the UAE is quite high of $75 as compared to other GGC markets or other markets like India, while as discussed earlier EBITDA margin of the local companies is quite high. In light of these positive factors, we believe that high EV/Ton in the UAE cement sector is justified. EV/Ton is calculated based on the current capacity and capacity at 2006 end. UCC, SCIDC and GCEM are adding to their capacities during 2006, hence EV/ Ton with 2006 end capacity for these companies are estimated to fall sharply. However, we believe that the EV/Ton based on 2006 end capacities does not portray the right picture as by 2006 end the newly added capacity would not be fully functional.

In terms of valuation multiples based on the expected 2006 performance, RAKCC and SCIDC are looking attractive in the UAE cement space.

Valuation Ratios

Valuation Ratios (2006E)	RAKCC	SCID	UCC	GCC
P/E (x)	7.9	8.1	15.3	14.6
P/BV (x)	1.5	1.5	2.2	2.2
EV/EBIDTA (x)	10.7	9.7	12.4	14.7
Market Cap./ Sales (x)	3.2	3.2	6.4	4.8
EV/ Sales (x)	5.0	4.7	5.1	5.5
EV/ Ton ($) (existing capacity)	246	248	567	374
EV/ Ton ($) (2006 end capacity)	246	207	152	253

Source: KMEFIC Research

Our recommendations

Based on our earnings model, DCF analysis, valuation ratios and operating performance analysis **we recommend a 'Buy' on RAKCC and SCIDC, a 'Hold' on UCC and assign a 'Fully Valued' rating on GCEM.**

Recommendation snapshot

Company	CMP (AED)	Target Price (AED)	Upside/ Downside	Reco
RAKCC	2.28	3.22	41%	**Buy**
SCID	4.85	6.72	39%	**Buy**
UCC	5.93	6.87	16%	**Hold**
GCC	5.59	5.59	0%	**Fully Valued**

Source: KMEFIC Research

Company Section

- **Ras Al Khaimah Cement Co.**
- **Sharjah Cements & Industrial Development Co.**
- **Union Cement Co.**
- **Gulf Cement Co.**

Ras Al-Khaimah Cement Company

Stock Info	in AED, else stated
Stock code / Listing	RAKCC / Abu Dhabi Securities Market, ADSM
Current Mkt.Price - 23 Apr 06	2.28
Fair Value/ Target Price	3.22
Upside Potential (%)	41%
Market Capitalisation (Mn)	1103.52
52 week High/ Low	5.04/ 2.14
ADSM Index	3841.11

Key Financials (mn AED)	2004	2005	2006E	2007E	2008E
Operating Revenues	246.8	300.8	339.6	376.8	399.5
EBITDA	121.8	143.5	158.5	174.6	179.3
Operating Profit	101.2	122.7	137.3	153.3	157.8
Net Profit/(loss)	96.9	119.7	140.1	157.4	163.1
Shareholder Equity	498.6	617.3	756.5	840.4	915.5

Per Share Info (In AED)	2004	2005	2006E	2007E	2008E
EPS	0.20	0.25	0.29	0.33	0.34
Book Value	1.03	1.28	1.56	1.74	1.89
CEPS	0.24	0.29	0.33	0.37	0.38
DPS	0.00	0.00	0.15	0.18	0.20

Key Ratios	2004	2005	2006E	2007E	2008E
EBITDA Margin	49%	48%	47%	46%	45%
OPM	41%	41%	40%	41%	39%
NPM	39%	40%	41%	42%	41%
RoE	22%	21%	20%	20%	19%
RoCE	20%	22%	20%	20%	19%

Valuation Metrics	2004	2005	2006E	2007E	2008E
P/E (x)	11.4	14.2	7.9	7.0	6.8
P/BV (x)	2.2	2.8	1.5	1.3	1.2
P/CEPS (x)	9.4	12.1	6.8	6.2	6.0
EV/EBIDTA (x)	9.9	11.8	10.7	9.7	9.5
Market Cap. / Sales (x)	4.5	5.7	3.2	2.9	2.8
EV/ Sales (x)	4.9	5.7	5.0	4.5	4.3
EV/ Ton (USD)	274	246	246	197	169

DuPont Ratio	2004	2005	2006E	2007E	2008E
EBIDTA/Sales	49%	48%	47%	46%	45%
Sales/Operating Assets	0.44	0.51	0.56	0.60	0.62
EBIDTA/Operating Assets	21%	24%	26%	28%	28%
Operating Assets/ Net Assets	1.10	1.06	0.88	0.79	0.73
Net Earnings/ EBIDTA	80%	83%	88%	90%	91%
Net Assets/ Net Worth	1.1	1.0	1.0	1.0	1.0
Return on Equity	22%	21%	20%	20%	19%

Source: Company reports and KMEFIC Research

Investment Argument

Buy

Best play in the UAE cement sector

- RAKCC was established in 1995 in the emirate of Ras Al Khaimah. The company produces only Portland cement. It has an installed capacity of 1.2 MTPA and does not have any plans to expand its capacity.

- RAKCC has the best in class profitability and earnings mix, de leveraged balance sheet and robust cash flows. We believe, RAKCC is best placed to outperform the cement sector, going forward.

- It posted a robust performance during 2005, wherein it increased its revenues and net profit (excluding compensation paid to the shareholders) by 22% and 25% Y-o-Y respectively. Unlike its peers, its 2005 net profit does not include any income from investment.

- Its EBITDA Margin during 2005 was at stunning 48% (the highest in our set of cement companies), thanks to its' low cost of production and better price realization.

- The cash flows of RAKCC remains the highest in our set of companies' analyzed. Its FCF/ Sales of 41% during 2005 was the highest among our set of 4 companies.

- During 2005, companies like UCC, SCIDC and GCEM spent towards their capacity addition and this led to their negative FCF. However, even if we compare the operating cash flows (OCF), RAKCC with its OCF of 41% beat its peers.

- RAKCC has utilized its strong free cash flows during 2005 towards the repayment of its outstanding loan and now its balance sheet is clean and almost debt free. It will help the company in saving its finance cost. Now with no debt in its balance sheet, the company would have enough cash to pay an attractive dividend going ahead. The huge cash pile up also gives an opportunity to earn financial income on the cash.

- The company's management is skeptic of the future prices and therefore has decided not to add any capacity as of now. However with enough of cash and the expectation of strong cash flows in the future, the company can decide in future to go for capacity addition or to enter into other verticals.

- RAKCC has a fixed price and volume contract with some of its big customers. This would give a cushion to the company in case of any decline in the price realization or quantity demanded for its cement.

- The company is contemplating upon various options like vertical integration with its big customers (big contractors), enter into joint venture with big contractors, investment into Ready Mix Plants etc. It also plans to produce blended cement to further improve its price realization going forward.

- Unlike its peers, RAKCC does not hold any investment in listed securities. At 2005 end it had an investment of AED 5mn in closely held RAK Petroleum Company at AED 1 each. So the recent stock market slump will not affect RAKCC's financial health and performance. Its core earnings contributed 100% to its bottom line during 2005. So, while its peers would book loss due to the steep correction in the markets, RAKCC's net profit is expected to remain unscathed.

- We expect RAKCC to increase its 2006 revenues and profit by around 13% Y-o-Y each, due to the increase in price realization and net interest income.

- RAKCC is trading at 7.93x its 2006 earnings and 1.5x its book value, which we find very attractive relative to its peers. Its EV/ Ton at present capacity of $246 is also at the lower end in the sector.

- In light of its good earning quality, healthy cash flows, attractive valuations and our DCF analysis; we find RAKCC's current market price significantly undervalued, and we initiate our coverage on the stock with a **Buy** rating, with a target price of AED 3.22, giving an upside of 41%. No exposure to the capital market makes RAKCC the best play in the cement sector.

Income Statement of Ras Al Khaimah Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
Net Revenues	246,765	300,761	339,649	376,796	399,511
Less:					
Cost of sales	116,317	148,597	171,072	190,867	207,950
Gross Profit	130,448	152,165	168,577	185,929	191,560
SG&A Exp.	8,618	8,699	10,076	11,315	12,228
EBITDA	121,830	143,466	158,501	174,613	179,332
EBITDA Margin	49.4%	47.7%	46.7%	46.3%	44.9%
Depreciation	20,604	20,723	21,169	21,340	21,551
Operating Profit	101,225	122,743	137,332	153,273	157,781
Operating Margin	41.0%	40.8%	40.4%	40.7%	39.5%
Non-Operating Income	326	325	2,923	4,228	5,467
Extraordinary exp	0	1,418	0	0	0
Finance Charge	4,614	1,971	140	128	128
Net Profit	96,937	119,678	140,114	157,374	163,120
NPM	39.3%	39.8%	41.3%	41.8%	40.8%
Normalise Earnings	96,937	121,096	140,114	157,374	163,120
Normalise Earnings Margin	39.3%	40.3%	41.3%	41.8%	40.8%
EPS (AED)	0.20	0.25	0.29	0.33	0.34

Source: Company reports and KMEFIC Research

Balance Sheet of Ras Al Khaimah Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
Liabilities:					
Equity Capital	400,000	440,000	484,000	484,000	484,000
Reserves and Surplus:					
Proposed Bonus and BOD remuneration	40,900	44,900	73,500	88,020	97,700
Accumulated Profit	22,835	73,678	140,292	209,646	275,067
General Reserves	34,818	58,753	58,753	58,753	58,753
Total Reserves	57,653	132,431	199,045	268,400	333,820
Net Worth	498,553	617,331	756,545	840,420	915,520
End of service benefits obligation	1,331	1,679	2,028	2,376	2,725
Capital Employed	499,884	619,010	758,573	842,796	918,245
Assets:					
Net Block	503,926	484,073	487,107	492,019	496,942
Other operating Non-current Assets	8,709	7,860	7,860	7,860	7,860
Investments		5,050	5,050	5,050	5,050
Current Assets					
Inventories	23,087	30,395	37,495	41,834	45,578
Sundry Debtors	92,238	110,198	128,415	142,460	151,048
Cash and ST investmts (Normally reqd.)	38	6,015	6,793	7,536	7,990
Excess Cash		12,054	126,348	190,871	252,355
Total current assets	115,363	158,662	299,052	382,701	456,971
Less: Current Liabilities and Provisions					
Sundry Creditors	27,924	33,038	37,495	41,834	45,578
ST Borrowing	100,000				
Bank OD	190	3,596	3,000	3,000	3,000
Total current liabilities	128,114	36,634	40,495	44,834	48,578
Net Current Assets	-12,751	122,028	258,556	337,867	408,393
Capital Employed	499,884	619,010	758,573	842,796	918,245

Source: Company reports and KMEFIC Research

Cash Flow Statement of Ras Al Khaimah Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
A) Cash flow from operating activities :					
Operating Profit	96,937	119,678	140,114	157,374	163,120
Depreciation	21,121	21,191	21,169	21,340	21,551
Prov for spare parts	240	285	0	0	0
End of service benefit	252	349	349	349	349
Profit from sale of PPE	-24	-9	0	0	0
Interest Income	0	-52	-2,663	-3,968	-5,207
Finance Cost	4,614	1,971	140	128	128
Profit before WC Change	123,140	143,412	159,110	175,222	179,940
– (Increase)/Decrease in Sundry Debtors	-31,719	-17,936	-18,217	-14,045	-8,588
– (Increase)/Decrease in Inventories	-3,693	-7,308	-7,100	-4,339	-3,744
– Increase/(Decrease) in Trade and Other Payables	-37,096	5,890	4,457	4,339	3,744
Net cash from operating activities	50,631	124,058	138,250	161,177	171,352
B) Cash flow from Investing activities :					
Purchase of fixed assets	-4,207	-1,408	-24,204	-26,252	-26,473
Proceed from sale of PPE	85	644	0	0	0
Purchase of Investments	0	-5,050	0	0	0
Interest Received (Revenue)	0	28	0	0	0
Net cash used in investing activities	-4,122	-5,786	-24,204	-26,252	-26,473
C) Cash flow from financing activities :					
Repayment of related company loan	0	-100,000	0	0	0
Repayment of bank loan	-39,574	0	0	0	0
ST Borrowing	-2,495	3,406	-596	0	0
Board of directors remuneration/ Dividend	0	-900	-900	-73,500	-88,020
Finance cost	-4,443	-2,747	2,523	3,841	5,079
Net cash used in financing activities	-46,511	-100,241	1,026	-69,659	-82,941
Net Increase/(Decrease) in Cash	-1	18,031	115,072	65,266	61,938
Opening Cash and Cash Equivalents	39	38	18,069	133,142	198,407
Closing Cash and cash equivalents	38	18,069	133,142	198,407	260,346
Free Cash Flows (FCF)	46,425	122,650	114,046	134,925	144,879
FCF as % of total revenues	19%	41%	34%	36%	36%

Source: Company reports and KMEFIC Research

Sharjah Cements & Industrial Dev. Company

Stock Info	in AED, else stated
Stock code / Listing	SCIDC/ ADSM and Kuwait Stock Exchange (KSE)
Current Mkt.Price - 23 Apr 06	4.85
Fair Value/ Target Price	6.72
Upside Potential (%)	39%
Market Capitalisation (Mn)	2129
52 week High/ Low	9.83/ 4.85
ADSM Index	3841.11

Key Financials (mn AED)	2004	2005	2006E	2007E	2008E
Operating Revenues	359.6	567.6	657.0	777.7	836.2
EBITDA	163.6	274.2	314.3	355.2	381.3
Operating Profit	135.5	243.0	274.7	307.0	332.7
Net Profit/(loss)	164.1	333.3	265.5	299.5	331.7
Shareholder Equity	805.5	1,250.7	1,424.7	1,614.4	1,814.3

Per Share Info	2004	2005	2006E	2007E	2008E
EPS (In AED)	0.29	0.53	0.60	0.68	0.75
Book Value per share (in AED)	1.83	2.85	3.24	3.68	4.13
CEPS (in AED)	0.35	0.60	0.69	0.79	0.86
DPS (AED)	0.10	0.25	0.25	0.30	0.35

Key Ratios	2004	2005	2006E	2007E	2008E
EBITDA Margin	45.5%	48.3%	47.8%	45.7%	45.6%
OPM	37.7%	42.8%	41.8%	39.5%	39.8%
NPM	35.3%	40.7%	40.2%	38.4%	39.5%
RoE	31.6%	22.5%	19.8%	19.6%	19.3%
RoCE	28.8%	21.0%	19.1%	19.1%	18.9%

Valuation Metrics	2004*	2005	2006E	2007E	2008E
P/E (x)		12.6	8.1	7.1	6.4
P/BV (x)		2.3	1.5	1.3	1.2
P/CEPS (x)		11.1	7.0	6.1	5.6
EV/EBIDTA (x)		11.2	9.7	8.6	8.0
Market Cap. / Sales (x)		5.1	3.2	2.7	2.5
EV/ Sales (x)		5.4	4.7	3.9	3.7
EV/ Ton (USD)		248	207	207	191

*Sharjah Cement was listed in 2005, hence 2004 valuation not available

DuPont Ratio	2004	2005	2006E	2007E	2008E
EBIDTA/Sales	45.5%	48.3%	47.8%	45.7%	45.6%
Sales/Operating Assets	1.01	0.73	0.69	0.70	0.72
EBIDTA/Operating Assets	45.8%	35.2%	32.8%	31.8%	32.7%
Operating Assets/ Net Assets	0.74	0.67	0.66	0.69	0.66
Net Earnings/ EBIDTA	77.7%	84.2%	84.1%	84.0%	86.7%
Net Assets/ Net Worth	0.60	1.13	1.08	1.06	1.03
Return on Equity	15.8%	22.5%	19.8%	19.6%	19.3%

Source: Company reports and KMEFIC Research

Investment Argument

Buy

A long term valuation play with short term caution

- We find Sharjah Cements and Industrial Development Company (SCIDC) as the next best player after RAKCC in the UAE cement sector. Established in 1976, it is one of the oldest cement companies in the UAE. Its primary business is cement, paper sacks, synthetic ropes and plastics.
- SCIDC has a present clinker capacity of 1.5 MTPA and cement capacity of 2 MTPA. It plans to increase its cement grinding capacity by 1 MTPA by the end of 2006 and an additional 0.4 MTPA of clinker capacity in the next 12-18 months. It is expected to import around 1 MTPA of clinker during 2006.
- The addition in the cement capacity would boost its sales from 2006 end and the additional clinker production capacity expectedly coming in 2007 would help in reducing its cost of production.
- SCIDC had the best performance in the cement sector during 2005, wherein it increased its revenues and normalized earnings by 59% and 81% Y-o-Y respectively. Increase in the realization price and decrease in the cost of production led to the impressive performance.
- It shares the industry leading EBITDA margin of 48% with RAKCC. Operating margin shot up by 5 percentage points Y-o-Y to 42.8% during 2005. compared to 37.7% in 2004.
- Its free cash flow during 2005 was negative even without any substantial capital expenditure because of huge increase in working capital. However we expect an improvement in the operating cash flows during 2006 and thereby expect positive FCF subsequently (even after a huge investment for1 MTPA cement grinding capacity expansion).
- Its net income for 2005 of AED 333 mn included around AED 102 mn of income from shares. However the contribution of income from investments of 31% was lower compared to UCC and GCEM during 2005.

- Its investment in shares held for trading constitutes around 33% of total assets at 2005 end and is a cause of concern as the company is expected to incur a loss on its investment portfolio. In 1Q06. However, we believe, the brunt would not be as severe as those suffered by UCC and GCEM.

- SCIDC had a debt equity ratio of 0.17x at the end of 2005 (though comfortable but incidentally the highest in our set of cement companies) which we expect to improve a little to 0.14x at 2006 end. Debt is not expected to decline much as SCIDC needs huge sums of money during 2006 for its 1 MTPA capacity expansion and for the huge cash dividend (proposed for 2005) of AED 90 mn.

- We expect the revenues and normalized net profit to grow at 16% and 14% Y-o-Y respectively during 2006. In 2006, We expect SCIDC's growth in bottom line to be modest due to higher depreciation costs and the need to import more clinker post commissioning of expanded capacity.

- Its core net profit (excluding extraordinary profits) is expected to grow at a healthy CAGR of 13% during the period 2006-2008.

- The stock is trading at 8.1x 2006E earnings and 1.5x its 2006E book value. Its EV/Ton of $ 248 is also at the lower end (with present capacity of 2 MTPA); based on its 2006 end capacity the EV/Ton comes at $207 based on current enterprise value.

- Our DCF value for the stock comes at AED 6.72, with a conservative future growth and returns estimates; the stock provides an upside of 39% from the current level.

- We believe post the recent correction in the UAE stock market, SCIDC is quoting at a substantial discount to its fair value. *But for its exposure in the capital market, SCIDC would have been our favorite pick in the cement sector based on its attractive valuations, DCF value and attractive dividend yield of around 4%. Considering the risk-reward trade off and our long term view on the stock we recommend a* **Buy** *on SCIDC and at the same time maintain a cautious view on the near term stock price.*

Income Statement of Sharjah Cement and Industrial Development Company

In 000s AED	2004	2005	2006E	2007E	2008E
Net Revenues	359,645	567,598	657,000	777,717	836,168
Less:					
Cost of sales	181,819	272,290	319,740	394,200	424,125
Gross Profit	177,826	295,308	337,260	383,517	412,043
SG&A Exp.	14,231	21,106	22,995	28,350	30,713
EBITDA	163,595	274,202	314,265	355,167	381,331
EBITDA Margin	45.5%	48.3%	47.8%	45.7%	45.6%
Depreciation	28,125	31,250	39,577	48,124	48,654
Total Cost	224,175	324,646	382,312	470,674	503,492
Operating Profit	135,470	242,952	274,688	307,043	332,677
Operating Margin	37.7%	42.8%	41.8%	39.5%	39.8%
Non-Operating Income	4,475	3,057	3,839	3,323	4,971
Extraordinary Income	37,048	102,404	1,200	1,200	1,200
Finance Cost	11,252	12,675	11,467	9,080	3,992
Net Profit	165,741	335,738	268,260	302,486	334,856
NPM	45.6%	58.7%	40.4%	38.5%	39.7%
Normalise Earnings	127,093	230,934	264,260	298,286	330,456
Normalise Earning Margin	35.3%	40.7%	40.2%	38.4%	39.5%
EPS (AED)	0.29	0.53	0.60	0.68	0.75

Source: Company reports and KMEFIC Research

Balance Sheet of Sharjah Cement and Industrial Development Company

In 000s AED	2004	2005	2006E	2007E	2008E
Liabilities:					
Equity Capital	318,165	365,890	439,068	439,068	439,068
Accumulated Profit	53,648	88,041	243,734	411,500	589,482
General Reserves	433,715	796,740	741,857	763,810	785,764
Total Reserves	487,363	884,781	985,591	1,175,310	1,375,246
Net Worth	805,528	1,250,671	1,424,659	1,614,378	1,814,314
End of service benefits obligation	10,670	11,799	12,928	14,057	15,186
Long Term Loan	144,865	92,257	90,000	65,000	10,000
Capital Employed	961,063	1,354,727	1,527,587	1,693,435	1,839,500
Assets:					
Net Block	518,168	534,611	745,034	771,413	753,616
Investments	84,511	84,209	84,209	84,209	84,209
Current Assets					
Inventories	136,608	141,368	153,300	189,000	203,348
Sundry Debtors	127,120	241,568	261,000	308,956	332,177
Cash and ST investmts (Normally reqd.)	7,193	11,352	13,140	15,554	16,723
Excess Cash	42,235	52,581	-7,797	13,985	98,508
Shares held for trading	262,704	535,369	535,369	535,369	535,369
Total current assets	575,860	982,238	955,012	1,062,865	1,186,125
Less: Current Liabilities and Provisions					
Sundry Creditors	73,587	85,511	100,412	123,796	133,194
ST Borrowing	98,135	119,564	115,000	60,000	10,000
Bank Loan	461	89	89	89	89
Others	45,293	41,167	41,167	41,167	41,167
Total current liabilities	217,476	246,331	256,668	225,052	184,450
Net Current Assets	358,384	735,907	698,344	837,813	1,001,675
Capital Employed	961,063	1,354,727	1,527,587	1,693,435	1,839,500

Source: Company reports and KMEFIC Research

Cash Flow Statement of Sharjah Cement and Industrial Development Company

In 000s AED	2004	2005	2006E	2007E	2008E
A) Cash flow from operating activities :					
Net Profit	165,741	335,738	268,260	302,486	334,856
Depreciation	28,125	31,250	39,577	48,124	48,654
End of service benefit	1,482	1,809	1,129	1,129	1,129
Profit from sale of PPE	-192	0	0	0	0
Profit from investment in shares	-2,521	0	0	0	0
Changes in fair value in shares	-754	-1,564	0	0	0
Intrest Income	-37,146	-102,090	-3,839	-3,323	-4,971
Finance Cost	11,252	12,675	11,467	9,080	3,992
Misc Exp	980	977	0	0	0
Profit before WC Change	166,967	278,795	316,594	357,496	383,660
– (Increase)/Decrease in Sundry Debtors	0	-114,062	-19,432	-47,956	-23,220
– (Increase)/Decrease in Other Receivables	-44,289	0	0	0	0
– (Increase)/Decrease in Inventories	-49,270	-4,760	-11,932	-35,700	-14,348
– Increase/(Decrease) in Trade and Other Payables	19,942	13,993	14,901	23,384	9,398
– Increase/(Decrease) in Other assets	-15,237	-129,934	-4,016	-30,000	-20,000
Cash generated from operations	78,113	44,032	296,115	267,224	335,490
Interest Paid	-11,252	-12,675	0	0	0
End of service obligation	-505	-680	0	0	0
Net cash from operating activities	66,356	30,677	296,115	267,224	335,490
B) Cash flow from Investing activities :					
Purchase of fixed assets	-57,814	-47,693	-250,000	-74,503	-30,857
Proceed from sale of PPE	214	0	0	0	0
Payable against construction of fixed assets	1,863	-4,126	0	0	0
Net Proceeds from Investments	13,141	0	0	0	0
Investment in associate co	0	-675	0	0	0
Interest Received (Revenue)	37,146	102,090	1,039	523	2,171
Inc from investment in shares	0	0	2,800	2,800	2,800
Net cash used in investing activities	-5,450	49,596	-246,161	-71,180	-25,885
C) Cash flow from financing activities :					
New term loan	34,084	9,332	0	0	0
Repayment of related company loan	-52,810	-62,166	-2,257	-25,000	-55,000
Dividend paid	-15,008	-31,817	-91,472	-109,767	-131,720
Repayment of bank loan	0	0	-548	-25,000	-30,000
ST Borrowing	6,813	21,655	0	0	0
Board of directors remuneration	-1,600	-2,400	-2,800	-3,000	-3,200
Finance cost	0	0	-11,467	-9,080	-3,992
Net cash used in financing activities	-28,521	-65,396	-108,544	-171,847	-223,913
Net Increase/(Decrease) in Cash	32,385	14,877	-58,590	24,197	85,692
Opening Cash and Cash Equivalents	16,582	48,967	63,933	5,343	29,540
Closing Cash and cash equivalents	48,967	63,844	5,343	29,540	115,232
Free Cash Flows (FCF)	8,542	-17,016	46,115	192,720	304,633
FCF as % of Revenues	2.4%	-3.0%	7.0%	24.8%	36.4%

Source: Company reports and KMEFIC Research

Union Cement Company

Stock Info	in AED, else stated
Stock code / Listing	UCC / ADSM
Current Mkt.Price - 23 Apr 06	5.93
Fair Value/ Target Price	6.87
Upside Potential (%)	16%
Market Capitalisation (Mn)	2989
52 week High/ Low	10.45/ 4.0
ADSM Index	3841.11

Key Financials (mn AED)	2004	2005	2006E	2007E	2008E
Operating Revenues	314.5	399.3	464.2	1,013.8	1,099.7
EBITDA	122.9	153.7	192.6	430.6	457.2
Operating Profit	108.9	140.0	166.6	358.2	386.0
Net Profit/(loss)	145.7	524.7	195.4	382.9	416.5
Shareholder Equity	617.5	1,151.9	1,344.8	1,624.1	1,886.3

Per Share Info	2004	2005	2006E	2007E	2008E
EPS (In AED)	0.29	0.33	0.39	0.76	0.83
Book Value per share (in AED)	1.23	2.29	2.67	3.22	3.74
CEPS (in AED)	0.32	0.36	0.44	0.90	0.97
DPS (AED)	0.10	0.00	0.20	0.30	0.32

Key Ratios	2004	2005	2006E	2007E	2008E
EBITDA Margin	39.1%	38.5%	41.5%	42.5%	41.6%
OPM	34.6%	35.1%	35.9%	35.3%	35.1%
NPM	46.1%	42.0%	42.1%	37.8%	37.9%
RoE	25.9%	19.0%	15.7%	25.8%	23.7%
RoCE	25.2%	19.9%	15.5%	25.6%	23.5%

Valuation Metrics	2004	2005	2006E	2007E	2008E
P/E (x)	11.7	16.5	15.3	7.8	7.2
P/BV (x)	2.7	2.4	2.2	1.8	1.6
P/CEPS (x)	10.6	15.3	13.5	6.6	6.1
EV/EBIDTA (x)	12.6	15.5	12.4	5.5	5.2
Market Cap. / Sales (x)	5.4	6.9	6.4	2.9	2.7
EV/ Sales (x)	4.9	6.0	5.1	2.3	2.2
EV/ Ton (USD)	337	567	152	152	152

DuPont Ratio	2004	2005	2006E	2007E	2008E
EBIDTA/Sales	39.1%	38.5%	41.5%	42.5%	41.6%
Sales/Operating Assets	1.87	1.18	0.60	0.88	0.87
EBIDTA/Operating Assets	73.0%	45.2%	24.8%	37.2%	36.1%
Operating Assets/ Net Assets	0.29	0.38	0.61	0.77	0.72
Net Earnings/ EBIDTA	118.0%	109.2%	101.4%	88.9%	91.1%
Net Assets/ Net Worth	1.03	1.02	1.01	1.01	1.01
Return on Equity	25.9%	19.0%	15.7%	25.8%	23.7%

Source: Company reports and KMEFIC Research

Investment Argument

Hold

Quality of earnings is a concern

- UCC, established in 1972, is the oldest cement company in the UAE. It has a present clinker and cement capacity of 1.1 and 1.25 MTPA respectively. Since its establishment, the day to day operation is managed by Heidelberg Cement, Germany.

- Like other cement companies, UCC also had a strong 2005 wherein it increased its revenues and operating profit by 27% and 29% Y-o-Y respectively. However, normalized net profit increased by only 16% as UCC reduced its stake in RAKCC from 40% to 20% during 2005 resulting in lower income from Associates (below the operating income).

- UCC had a lower EBITDA margin of only 38% during 2005 as against to 48% of RAKCC and SCIDC, because of higher cost of production. UCC has a large manpower of 307 employees (with total production of 1.3 MTPA during 2005) as against 148 at RAKCC (with total production of 1.2 MTPA during 2005). Also, UCC imported around 15-18% of its total cement sold (in volume terms). And as discussed in the industry section, the imported clinker as well as cement is very costly as compared to own production cost.

- UCC is amidst a massive expansion plan wherein it is increasing its clinker and cement production capacity by 3.4 MTPA. The additional capacity is believed to go upstream by 2006 end. It will make UCC the largest cement producer in the UAE with a total capacity of 4.7 MTPA.

- UCC is commissioning a 10000tpd (Ton per Day) clinker kiln which is one of the largest in the world and two 210 Ton/Hour cement mills. The total project cost is estimated to be around AED 800-900 Mn.

- UCC has provided for the project cost from its internal accrual, cash from sale of its 20% stake in RAKCC (of around AED 280-300mn: 80mn shares at around AED 3.5-3.75 each), and bank loan from National Bank of Abu Dhabi and others.

- We met with the senior management of UCC to gain some insights on the company and its strategy going ahead. UCC expects the price level to remain stable during 2006 while for 2007 UCC also expects some weakness in the cement prices.

- We believe the decline in the UAE cement price will start from the very day UCC starts production from its additional capacity. The company expects to achieve 90-100% capacity utilization in the 1st year of operation of the additional capacity.

- UCC sees opportunity in selling clinker in the domestic market as around 5-6 MT of clinker is imported annually in the UAE.

- UCC's existing 4 kilns are very old and 2 of them are almost written off. We expect the company to phase off 1-2 kilns (whose book values are almost written off) in the near future and this might give some windfall profit.

- We believe UCC's margin will remain intact even during the period of decline in the realization price as it will produce cement from its own clinker rather than importing it. We see its EBITDA margin to rise from 38% to around 42% in the coming 2-3 years.

- However below EBITDA, we believe that the depreciation cost per ton of UCC will increase after the commissioning of new plants. This will restrain the increase in operating margin.

- We expect UCC to post an impressive performance during 2007. Our model shows that even if the price realization declines by 6-8% during 2007 from 2006 level and UCC utilizes only 80% of its then capacity, its net income will still almost double as compared to that of 2006.

- We expect UCC to increase its 2006 revenues and net profits by 16% Y-o-Y each. The expected rise in revenue realization will give a boost to the operating margin; however the decline in the profit from associate (as a result of sale of 20% in RAKCC) will limit the net profit margin.

- Our primary concern on the stock is its exposure in the capital markets. Around 70% of its 2005 net profit has originated from non core operations like trading in investments, which is non recurring in nature. In fact we believe UCC to incur loss on its trading investment when it reports its financial performance for Q1 2006.

- We believe most of the good news in terms of its expected strong performance going ahead has been discounted in its current stock price. The stock is trading at 15.3x its 2006E earnings and 2.2x its 2006E book value.

- EV/Ton for UCC portrays a misleading picture. As with current cement production capacity of 1.25 MTPA it's per ton value comes in at $566, while with 2006 end expected cement capacity of 4.65 MTPA, the per ton value comes in at $152. However, with new capacity addition during that time (2006 end) and without any historical performance benchmark, we cannot conclude that $152 per ton is very cheap.

- Our DCF model returns a fair value of AED 6.87 that gives around 16% upside from the current level. However, we are concerned with the quality of the earnings and the company's exposure to the capital markets. We remain cautious on the stock price and recommend a **'Hold'** for now.

Income Statement of Union Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
Net Revenues	314,536	399,340	464,170	1,013,837	1,099,683
Less:					
Cost of sales	166,317	214,988	238,566	505,706	557,404
Gross Profit	148,219	184,352	225,605	508,131	542,279
SG&A Exp.	19,909	23,485	25,395	59,637	65,457
Operating expenses	5,377	7,178	7,568	17,891	19,637
EBITDA	122,933	153,689	192,642	430,602	457,185
EBITDA Margin	39.1%	38.5%	41.5%	42.5%	41.6%
Depreciation	14,016	13,654	26,000	72,433	71,160
Total Cost	205,619	259,305	297,528	655,668	713,658
Operating Profit	108,917	140,035	166,642	358,169	386,025
Operating Margin	34.6%	35.1%	35.9%	35.3%	35.1%
Non-Operating Income	43,165	35,606	32,024	30,888	37,112
Extraordinary Income	630	367,693	0	0	0
Finance Cost	188	11,132	300	300	300
Profit before Minority Interest	152,524	532,202	198,366	388,757	422,837
Minority Interest	-6,859	-7,517	-2,975	-5,831	-6,343
Net Profit	145,665	524,685	195,391	382,925	416,494
NPM	46.3%	131.4%	42.1%	37.8%	37.9%
Normalise Earning	145,035	167,774	195,391	382,925	416,494
Normalise Earning Margin	46.1%	42.0%	42.1%	37.8%	37.9%
EPS (AED)	0.29	0.33	0.39	0.76	0.83

Source: Company reports and KMEFIC Research

Balance Sheet of Union Cement Company

In 000s AED	2,004	2,005	2006E	2007E	2008E
Liabilities:					
Equity Capital	210,000	252,000	504,000	504,000	504,000
Accumulated Profit	191,093	408,809	500,600	729,225	981,039
General Reserves	216,437	491,052	340,152	390,852	401,232
Total Reserves	407,530	899,861	840,752	1,120,077	1,382,271
Net Worth	617,530	1,151,861	1,344,752	1,624,077	1,886,271
Minority Interest	1,500	1,500	1,500	1,500	1,500
End of service benefits obligation	14,278	14,113	13,913	13,713	13,513
Capital Employed	633,308	1,167,474	1,360,165	1,639,290	1,901,284
Assets:					
Net Block	44,540	346,592	870,592	867,806	840,036
Investments	218,363	204,097	204,097	204,097	204,097
Current Assets					
Inventories	49,241	38,599	44,445	94,214	103,845
Sundry Debtors	102,286	147,147	171,679	374,981	406,732
Cash and ST investmts (Normally reqd.)	6,291	7,987	9,283	20,277	21,994
Excess Cash	137,981	381,151	23,021	90,637	346,933
Shares held for trading	100,000	83,055	83,055	83,055	83,055
Total current assets	395,799	657,939	331,484	663,163	962,559
Less: Current Liabilities and Provisions					
Sundry Creditors	23,675	39,591	44,445	94,214	103,845
Others	1,719	1,563	1,563	1,563	1,563
Total current liabilities	25,394	41,154	46,008	95,777	105,408
Net Current Assets	370,405	616,785	285,476	567,387	857,151
Capital Employed	633,308	1,167,474	1,360,165	1,639,290	1,901,284

Source: Company reports and KMEFIC Research

Cash Flow Statement of Union Cement Company

In 000s AED	2,004	2,005	2006E	2007E	2008E
A) Cash flow from operating activities :					
Net Profit	145,665	524,685	195,391	382,925	416,494
Depreciation	14,016	13,654	26,000	72,433	71,160
End of service benefit	-274	-165	-200	-200	-200
Profit from sale of PPE	-114	-100	0	0	0
Profit from investment in an associate	-38,823	-26,316	-27,091	-28,756	-31,502
Profit from investment in shares	-630	-314,936	0	0	0
Changes in fair value in shares	0	-52,757	0	0	0
Minority Interest	6,859	7,517	2,975	5,831	6,343
Intrest Income	-3,446	-6,778	-4,233	-1,482	-4,960
Finance Cost	188	11,132	300	300	300
Profit before WC Change	123,441	155,936	193,142	431,052	457,635
– (Increase)/Decrease in Sundry Debtors	-32,929	-45,357	-24,532	-203,301	-31,751
– (Increase)/Decrease in Inventories	-864	10,642	-5,846	-49,769	-9,631
– Increase/(Decrease) in Trade Payables	6,567	14,979	4,854	49,769	9,631
– Increase/(Decrease) in other assets	154	-156	0	0	0
Net cash from operating activities	96,369	136,044	167,618	227,751	425,883
B) Cash flow from Investing activities :					
Purchase of fixed assets	-4,853	-315,708	-550,000	-69,647	-43,390
Proceed from sale of PPE	114	102	0	0	0
Interest Received (Revenue)	2,979	7,274	4,233	1,482	4,960
Inc from investment in shares	667	357,841	0	0	0
Net cash used in investing activities	-1,093	49,509	-545,767	-68,165	-38,430
C) Cash flow from financing activities :					
Loan to an associate	0	100,000	27,091	28,756	31,502
Dividend paid	-38,163	-27,580	-2,975	-106,631	-157,543
Board of directors remuneration	-1,500	-1,975	-2,500	-2,800	-3,100
Finance cost	-188	-11,132	-300	-300	-300
Net cash used in financing activities	-39,851	59,313	21,316	-80,975	-129,441
Net Increase/(Decrease) in Cash	55,425	244,866	-356,834	78,610	258,013
Opening Cash and Cash Equivalents	88,847	144,272	389,138	32,304	110,914
Closing Cash and cash equivalents	144,272	389,138	32,304	110,914	368,927
Free Cash Flows (FCF)	91,516	-179,664	-382,382	158,103	382,493
FCF as % of revenues	29%	-45%	-82%	16%	35%

Source: Company reports and KMEFIC Research

KMEFIC | Research

Gulf Cement Company

Investment Argument

Fully Valued

Stock Info	in AED, else stated
Stock code / Listing	GCEM / ADSM and KSE
Current Mkt.Price - 23 Apr 06	5.59
Fair Value/ Target Price	5.59
Downside Potential	0%
Market Capitalisation (Mn)	3471
52 week High/ Low	10.55/ 4.71
ADSM Index	3841.11

Key Financials (mn AED)	2004	2005	2006E	2007E	2008E
Operating Revenues	484.0	632.2	717.9	912.7	870.8
EBITDA	163.3	224.8	269.7	385.3	403.3
Operating Profit	130.6	201.3	234.7	340.8	355.9
Net Profit/(loss)	186.7	502.5	237.7	345.5	365.0
Shareholder Equity	638.5	1,317.3	1,554.9	1,772.6	1,991.5

Per Share Info	2004	2005	2006E	2007E	2008E
EPS (In AED)	0.23	0.33	0.38	0.56	0.59
Book Value per share (in AED)	1.09	2.19	2.50	2.86	3.21
CEPS (in AED)	0.29	0.37	0.44	0.63	0.66
DPS (AED)	0.00	0.00	0.21	0.24	0.24

Key Ratios	2004	2005	2006E	2007E	2008E
EBITDA Margin	33.7%	35.6%	37.6%	42.2%	46.3%
OPM	27.0%	31.8%	32.7%	37.3%	40.9%
NPM	28.0%	31.2%	33.1%	37.9%	41.9%
RoE	25.6%	20.2%	16.6%	20.8%	19.4%
RoCE	24.6%	19.3%	15.7%	20.0%	19.0%

Valuation Metrics	2004	2005	2006E	2007E	2008E
P/E (x)	15.5	20.3	14.6	10.0	9.5
P/BV (x)	3.3	3.0	2.2	2.0	1.7
P/CEPS (x)	12.5	18.1	12.7	8.9	8.4
EV/EBIDTA (x)	13.0	17.6	14.7	10.3	9.8
Market Cap. / Sales (x)	4.3	6.3	4.8	3.8	4.0
EV/ Sales (x)	4.4	6.3	5.5	4.3	4.5
EV/ Ton (USD)	483	374	253	253	249

DuPont Ratio	2004	2005	2006E	2007E	2008E
EBIDTA/Sales	33.7%	35.6%	37.6%	42.2%	46.3%
Sales/Operating Assets	1.30	1.13	0.93	0.95	0.84
EBIDTA/Operating Assets	43.9%	40.0%	34.8%	40.1%	39.0%
Operating Assets/ Net Assets	0.67	0.53	0.50	0.55	0.53
Net Earnings/ EBIDTA	83.0%	87.7%	88.1%	89.7%	90.5%
Net Assets/ Net Worth	1.04	1.08	1.08	1.05	1.03
Return on Equity	25.6%	20.2%	16.6%	20.8%	19.4%

Source: Company reports and KMEFIC Research

Despite the positives – Upside is locked due to earnings quality

- GCEM was established in 1977 in the Emirate of Ras Al Khaimah and has a present clinker capacity of 1.3 MTPA and grinding capacity of 2.5 MTPA. GCEM is the largest cement company in the UAE in terms of grinding capacity.
- GCEM plans to increase its clinker capacity by 2.4 MTPA to give a total clinker capacity of 3.7 MTPA by 2006 end. For this a new clinker production line with a capacity of 7500tpd will be installed by ThyssenKrupp of India and Polysius AG of Germany. Grinding capacity expansion plan is on the cards.
- GCEM increased its full year 2005 revenues and normalize net earnings (excluding income from investment) by 31% and 45% Y-o-Y respectively. Income from trading activities contributed 61% to actual net profit during 2005 and this is unlikely to continue going forward.
- GCEM is having one of the lowest EBITDA margins of 36% (during 2005). The low margin is primarily because of the large (costly) clinker import for grinding activities. However we expect the margins to go up post the commissioning of the new clinker plants and expect the margins to go up to 38% and 42% during 2006 and 2007 respectively, even in declining realization price scenario!
- The company will be one of the largest clinker producer posts it's commissioning of new facility. We believe with enough of clinker capacity in hands, GCEM will plan to expand its grinding capacity as well during 2007.
- Post commissioning of addition clinker capacity, it will have an excess clinker production of 1.2 MTPA. We also expect GCEM to sell its excess clinker produced in the local markets (till the time it commissions its additional grinding facility) at a rate little lower than the average import cost of around AED 169/ Ton ($46/Ton).
- The free cash flow (FCF) during 2005 was negative because of the funding for the said expansion. We believe cash flows during 2006 and 2007 would be strong enough to absorb the additional investment towards the capacity expansion, and the company would generate positive FCF.

- Debt/ Equity ratio is very comfortable at 0.08 which we expect to go down, thanks to the expected healthy cash flows. Enough cash in its balance sheet makes the company cash surplus (Cash exceeds total debts) at the end of 2005.

- We expect GCEM to increase its 2006 revenues and bottom line by 14% and 21% respectively. Further we believe that post commissioning of clinker plants and expected expansion in the grinding capacities as well during 2007, GCEM will have a strong set of results in 2007.

- GCEM has the highest relative exposure in the capital markets (to the tune of 44% of its capital employed). As mentioned throughout the report, the large exposure of the companies in the stock market makes us wary about their future bottom line performance. The trading income which contributed 61% to GCEM's 2005 bottom line is expected to take a severe beating during the initial two quarters of 2006.

- We find GCEM as one of the most expensive cement stock (in our set of companies) with its P/E of 14.6x and P/BV 2.2x based on our 2006 earning model. EV/ EBITDA also stand high at 14.7x. We find that all the positives have been priced in the stock.

- It's EV/ Ton based on the current capacity of 2.5 MTPA is among the highest in the industry at $483. Even at 2006 end capacity of 3.7 MTPA the EV/ Ton comes in at $253. However as explained earlier the EV/Ton for GCEM in expansion phase does not give us a true picture.

- For 2005, GCEM has proposed 70% bonus issue. However this will not affect our DCF value, as it does not impact the earnings and cash flows of the company.

- Our DCF model gives a fair value of AED 5.59 for the stock which incidentally corresponds to the current market price. We believe GCEM is fully priced at current valuation multiples. Also, GCEM's huge exposure in the equity market is a cause for concern. We initiate our coverage on the stock with a **'Fully Valued'** rating.

Income Statement of Gulf Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
Net Revenues	484,047	632,154	717,925	912,700	870,750
Less:					
Cost of sales	312,053	399,285	438,675	514,490	455,625
Gross Profit	171,994	232,869	279,250	398,210	415,125
SG&A Exp.	8,651	8,099	9,573	12,933	11,813
EBITDA	163,343	224,771	269,678	385,278	403,313
EBITDA Margin	33.7%	35.6%	37.6%	42.2%	46.3%
Depreciation	32,756	23,468	34,948	44,439	47,423
Total Cost	353,459	430,851	483,196	571,862	514,861
Operating Profit	130,588	201,303	234,729	340,838	355,889
Operating Margin	27.0%	31.8%	32.7%	37.3%	40.9%
Non-Operating Income	5,859	2,542	7,878	8,192	11,145
Extraordinary Income	51,119	305,408	0	0	0
Interest & Financing Chgs/ (Income)	826	6,755	4,922	3,547	2,047
Profit After Tax	186,740	502,498	237,686	345,483	364,988
NPM	38.6%	79.5%	33.1%	37.9%	41.9%
Normalise Earnings	135,621	197,090	237,686	345,483	364,988
Normalise Earning Margin	28%	31%	33%	38%	42%
EPS (AED)	0.39	0.56	0.65	0.95	1.00

Source: Company reports and KMEFIC Research

Balance Sheet of Gulf Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
Liabilities:					
Equity Capital	264,649	365,216	365,216	365,216	365,216
Accumulated Profit	192,369	566,762	676,622	876,019	1,094,920
General Reserves	181,526	385,281	513,107	531,367	531,367
Total Reserves	373,895	952,043	1,189,729	1,407,386	1,626,288
Net Worth	638,545	1,317,259	1,554,945	1,772,602	1,991,504
End of service benefits obligation	9,773	10,404	11,034	11,664	12,294
Term Loan	27,455	109,801	84,801	54,801	24,801
Capital Employed	675,773	1,437,463	1,650,779	1,839,067	2,028,599
Assets:					
Net Block	233,548	399,259	564,311	660,949	646,573
Investments	78,830	88,122	88,122	88,122	88,122
Current Assets					
Inventories	59,294	118,454	126,194	148,004	131,070
Sundry Debtors	201,753	244,193	275,368	350,077	333,986
Cash and ST investmts (Normally reqd.)	9,681	12,643	14,359	18,254	17,415
Excess Cash	17,445	136,845	146,426	156,356	379,612
Shares held for trading	166,588	545,307	545,307	545,307	545,307
Total current assets	454,761	1,057,441	1,107,654	1,217,998	1,407,390
Less: Current Liabilities and Provisions					
Sundry Creditors	56,330	98,958	108,166	126,861	112,346
ST Borrowing	26,459	1,141	1,141	1,141	1,141
Others	8,576	7,260	0	0	0
Total current liabilities	91,365	107,359	109,307	128,002	113,487
Net Current Assets	363,395	950,082	998,346	1,089,996	1,293,903
Capital Employed	675,773	1,437,463	1,650,779	1,839,067	2,028,599

Source: Company reports and KMEFIC Research

Cash Flow Statement of Gulf Cement Company

In 000s AED	2004	2005	2006E	2007E	2008E
A) Cash flow from operating activities :					
Net Profit	186,740	502,498	237,686	345,483	364,988
Depreciation	32,756	23,468	34,948	44,439	47,423
Allowance for slow moving products	181	467	0	0	0
Prov for spare parts	-1,381	0	0	0	0
End of service benefit	1,272	937	630	630	630
Loss/ (Profit) from sale of PPE	68	6,932	0	0	0
Unrealized gains on investments held for trading	-35,421	-154,726	0	0	0
Profit from investment in shares	-15,699	-150,682	0	0	0
Dividend Recd	-3,482	-5,728	-4,000	-4,000	-4,000
Interest Income	-317	-1,892	-3,878	-4,192	-7,145
Finance Cost	826	6,755	4,922	3,547	2,047
Profit before WC Change	165,544	228,027	270,308	385,908	403,943
– (Increase)/Decrease in Sundry Debtors	-92,282	-42,439	-31,176	-74,708	16,090
– (Increase)/Decrease in Inventories	-953	-59,627	-7,741	-21,810	16,934
– Increase/(Decrease) in Trade and Other Payables	23,004	42,628	9,209	18,694	-14,515
Cash generated from operations	95,313	168,589	240,600	308,084	422,452
Employees' end of service indemnity paid	-401	-307	0	0	0
Interest Paid	-966	-8,832	0	0	0
Net cash from operating activities	93,946	159,450	240,600	308,084	422,452
B) Cash flow from Investing activities :					
Purchase of fixed assets	-107,842	-194,034	-200,000	-141,078	-33,047
Net Proceeds from Investments	72,716	369,171	0	0	0
Purchase of Investments	-102,964	-466,104	0	0	0
Interest Received (Revenue)	317	1,892	3,878	4,192	7,145
Dividend Recd	3,482	5,728	4,000	4,000	4,000
Net cash used in investing activities	-134,291	-283,346	-192,122	-132,885	-21,902
C) Cash flow from financing activities :					
Loan to an associate					
Share issue	0	190,547	0	0	0
Dividend paid	-22,853	-1,317	-7,260	-127,826	-146,086
Repayment of bank loan	-37,272	-38,459	-25,000	-30,000	-30,000
ST Borrowing	91,186	95,487	0	0	0
Finance cost	0	0	-4,922	-3,547	-2,047
Net cash used in financing activities	31,060	246,259	-37,182	-161,373	-178,133
Net Increase/(Decrease) in Cash	-9,284	122,363	11,296	13,826	222,417
Opening Cash and Cash Equivalents	36,410	27,126	149,488	160,785	174,610
Closing Cash and cash equivalents	27,126	149,488	160,785	174,610	397,027
Free Cash Flows (FCF)	-13,895	-34,584	40,600	167,006	389,405
FCF as % of Revenues	-3%	-5%	6%	18%	45%

Source: Company reports and KMEFIC Research

Cemtech International Cement Conference in Dubai during 25-28th Feb 2006; Highlights*

We attended the recently held Cemtech International Cement Conference in Dubai during 25-28th February 2006. Cement related companies across the globe participated in the conference and presented the sector dynamics and various upcoming technologies to improve the efficiencies of cement plants. Various GCC based cement companies also participated and presented their views on the macro outlook and the future expected scenario of the GCC cement sector. We highlight below the key takeaways of the conference.

- The GCC cement market is relatively low fragmented market along with low presence of the international majors. Recently Holcim (one of the largest cement companies of the world) has purchased a stake in National Cement Company, UAE. The region is characterized by lower energy cost that increases the profitability of the cement companies.

- The GCC cement producers are very efficiently utilizing their clinker and cement production capacities and the actual production is more than the installed capacity. In 2005, the total clinker and cement production capacities were at around 36mt and 43mt respectively, while the actual production were at around 41mt and 44mt respectively.

- The total consumption of cement in the GCC region during 2005 was of around 49mt. The region is currently a net importer of cement and total import constitutes more than 10% of the total consumption.

- Currently Kuwait, Qatar and Oman have deficits of around 2mt, 1mt and 0.5mt respectively while the cement production in Saudi Arabia and the UAE is sufficient enough to meet their internal demand.

- Total consumption in the region has risen at a CAGR of 13% annually since 2002 while the production has increased by only 7% during the period.

- Total production has been less than the total consumption for the past 2 years and this led to the increase in cement product prices during the last couple of years.
- The GCC region has one of the world's highest per capita cement consumption (PCC), which stood at around 2025kgs during 2005. Qatar and the UAE led the pack with PCC of 3,541kgs and 2,920kgs respectively. PCC of the region is expected to rise to around 2550kgs by 2010.

- The UAE and Saudi Arabia have the highest price realization in the region and thus the highest profitability. The average price realization and operating profit in these two markets were more than $60 and $25 per ton respectively during 2005.

- Total construction related projects of $294bn have been announced so far in the GCC region and this will give fillip to the cement sector for the coming 3 to 5 years. In the UAE alone total projects of around $177bn have been announced. Total cement demand is expected to rise by around 12% CAGR for the coming 4 years while the cement companies are expected to raise their capacities of around 17% (CAGR) during the same period.

- The UAE has a present clinker and cement production capacities of around 7.9mt and 13.7mt. The cement demand in the UAE is expected to rise by 25% CAGR for the next 4 years. In response to the expected huge surge in demand the existing UAE cement producers are increasing their capacities by CAGR of around 25% for the next 4 years. Couple of green field projects is also in the pipeline in the UAE.

- There could be excess supply in the UAE and Saudi Arabia by 2008 (if all the announced capacity additions/ green field projects take place). Cement prices would see downward pressure. These countries would see export opportunities in the near by deficit markets like Kuwait, Central and East Africa; and Central Asia (Iraq, Afghanistan etc.)

- In conclusion, the sector is expected to remain strong and dynamic, given the high growth of the construction sector in the region as well as the presence of export opportunities. We believe the sector would remain attractive to the investors.

*Note: Key takeaways from the conference was released as highlights (separate note) on 4th Mar 2006.