

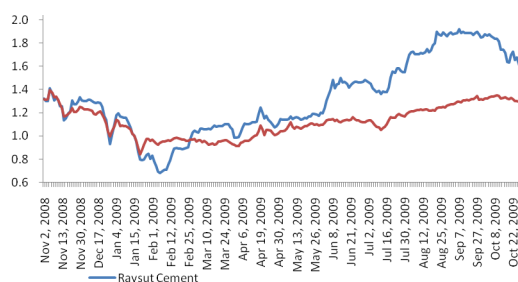
2<sup>nd</sup> November, 2009

## Q3 2009 - Update

Table 1: Highlights

MSM Ticker	RCCI
Date Established	Mar-81
Sector	Cement
CMP (RO)	1.523
52-wk high/low	2.000/0.670
YTD Performance	38.1%
YTD Traded Vol (Shares, 000)	55,433
YTD Traded Val (RO 000)	69,721
Market Cap. (RO 000)	304.600

Figure 1: Price History



## Preview of Q3 2009

- Aggregate sales for three months ended 30<sup>th</sup> September 2009 note marginal decline of 4.0% (y-o-y) to RO. 22.3 million. On a sequential basis sales note a marked 12.7% over quarter ended June 2009.
- 9M 2009 cement production levels drop 26.5% (y-o-y) at 1.28 million MT. Production drops by 10% over Q2 2009 sequentially to 404.7K MT. Cement production down on grounds of major maintenance works on grinding systems. Cement imports feature in at 1.00 million MT.
- 9M 2009 sales (volumes) reach 2.32 million MT, up 11% y-o-y. Domestic sales at 1.76 million MT. Sales for Q3 2009 down a notable 10.4% sequentially to 737.6K MT. Company notes increasing competition from external sources in its domestic and export markets.
- Blended realization at RO. 30.9/MT for 9M ended 30<sup>th</sup> September 2009. The more competitive landscape leads to sequential declines in realizations to continue into three consecutive quarters with a 2.6% decline in Q3 09 to RO. 30.3/MT.
- Margins under pressure on y-o-y basis. Gross margin for 9M ended 30<sup>th</sup> September 2009 at 32.6% as opposed to 41.3% corresponding period last year. Competition and cement imports cause a visible dent in margins.
- Bottom line (pre-tax) reported by the company for 9M 2009 stands at RO. 24.1 million, a decline of 7.5% (y-o-y). Pre-tax profits for Q3 09 record 27.3% decline sequentially.

Table 2: Financial Summary

(RO 000)	9M 09	9M 08	% Chg.
Revenue	71,801	65,684	9.3%
Direct Costs	-49,101	-38,558	27.3%
Gross profit	22,701	27,127	-16.3%
Pre-Tax Profit	24,180	26,135	-7.5%
Share Capital	20,000	20,000	0.0%
Share Equity	102,234	97,081	5.3%
Retained Earnings	52,110	46,958	11.0%
Total Assets	116,055	114,271	1.6%
Basic EPS	0.121	0.131	-7.5%
P/E Ratio (x)	9.4	8.7	-
GPM (%)	31.6%	41.3%	-
Pre-Tax Margin (%)	33.7%	39.8%	-

## Outlook &amp; Recommendation

- Company's operations likely to witness pressure going forward owing to added competition in the short term.
- Aggregate sales expected to reach RO. 91.4 million for year 2009, an increase of 2.7%, y-o-y. Bottom line likely to improve 3.9% (y-o-y) for year 2009 to RO. 28.1 million.
- We assign a **Reduce** rating to the stock for the short term with 2010 target price of **RO. 1.465/share**.

## Performance Review

### Review of Operations

**Raysut Cement's production & sales numbers took a setback in Q3 2009.** Cement production for Q3 09 stood at 404.7K MT, 10% lower sequentially. The ongoing maintenance and repair work of the cement grinding system continued into most of Q3 2009. 9M 2009 production stands at 1.28 million MT. The company has announced the completion of maintenance works on its grinding systems (lasting 18 months). The grinding machines are now on stream to produce at their rated capacity. Clinker production levels remain stable for the 9M 2009 at 1.57 million MT.

**Table 3: Operational Parameters**

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09
<b>Cement Production (MT)</b>	712,518	549,805	478,520	379,813	426,405	449,201	404,725
<b>% chg (q-o-q)</b>		-22.8%	-13.0%	-20.6%	12.3%	5.3%	-9.9%
<b>Total Sales (MT)</b>	750,828	644,793	692,086	680,249	758,104	822,903	737,647
<b>% chg (q-o-q)</b>	14.2%	-14.1%	7.3%	-1.7%	11.4%	8.5%	-10.4%
Local	518,012	493,730	511,135	520,585	585,900	635,953	540,691
<b>% chg (q-o-q)</b>	17.0%	-4.7%	3.5%	1.8%	12.5%	8.5%	-15.0%
Export	232,816	151,063	180,951	159,664	172,204	186,950	196,956
<b>% chg (q-o-q)</b>	8.4%	-35.1%	19.8%	-11.8%	7.9%	8.6%	5.4%
<b>Realization (RO/MT)</b>	29.2	31.8	33.6	34.4	31.5	31.1	30.3
<b>% chg (q-o-q)</b>	-2.3%	8.7%	5.8%	2.3%	-8.3%	-1.5%	-2.6%
Local	28.6	31.4	33.8	34.5	31.5	31.1	30.9
<b>% chg (q-o-q)</b>	-4.3%	9.9%	7.7%	2.1%	-8.8%	-1.3%	-0.6%
Export	30.6	32.9	33.0	33.9	31.6	31.0	28.4
<b>% chg (q-o-q)</b>	2.2%	7.5%	0.2%	2.9%	-6.7%	-2.0%	-8.2%

Source: Company Financials, Al Madina Research

Total sales for Q3 2009 recorded a 10.4% decline sequentially to 737.6K MT. While export market volumes have held up adequately, the concern is on domestic sale volumes which have noted a 15% decline over the previous quarter. The company has reported increasing competition from external factors typically in the form of greater cement inflows from the UAE.

Given the ongoing maintenance works, cement imports continued to feature for Raysut during the quarter, with 313.2K MT of additional imports (representing 42.5% of sales).

### Realizations continue to dampen

**The blended realization for Q3 2009 stood at RO. 30.3/MT, 2.6% lower sequentially and nearly 10% lower on a y-o-y basis.** In general the competitive landscape in the domestic and regional markets has led to considerable erosion in realizations.

In the domestic market, Q3 2009 we saw a minor decline in realizations (sequentially) to RO. 30.9/MT. The decline from the beginning of the year however stands notable at nearly 10.4%. In its export markets, the price decline this year is far more prominent. The company's export markets of Yemen and East Africa are witnessing a decent degree of competition. For Q3 2009 export realizations saw an 8.2% sequential decline to RO. 28.4/MT. On a YTD basis (i.e. from the beginning of the year) prices are down by nearly 16%.

### Revenues note 12.7% sequential decline

Raysut Cement achieved RO. 22.3 million in revenues for the 3M ended 30<sup>th</sup> September 2009, a 12.7% decline over the achievement of the previous concluded quarter. Revenues are down 4.0% on a y-o-y basis. The decline is a result of both the lower volume sales and dampening realizations. Sales for 9M 2009 stand at RO. 71.8 million.

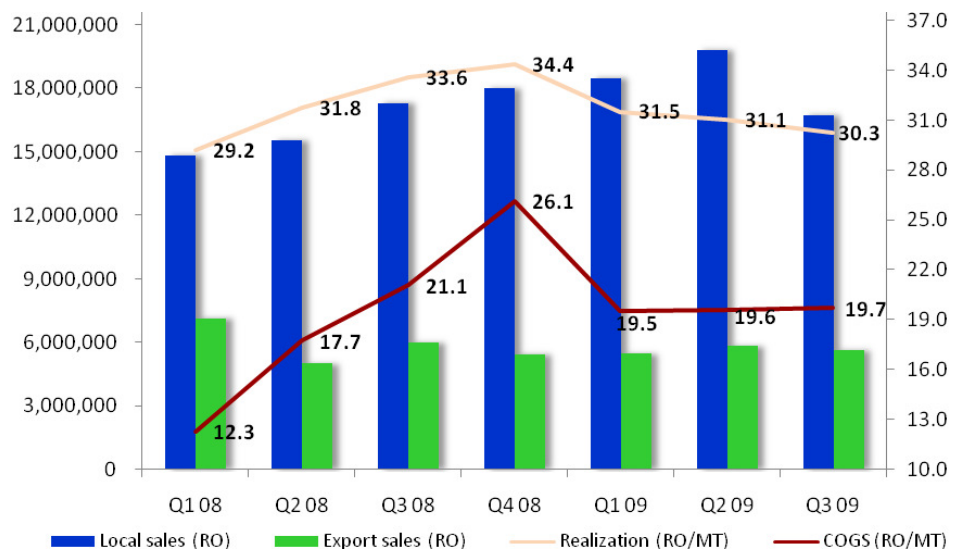
**Table 4: Quarterly Income Summary (RO 000)**

	Q3 09A	Q3 08A	% chg. (y-o-y)	9M 09A	% chg. (y-o-y)
Sales	22,317	23,257	-4.0%	71,801	9.3%
% domestic	74.9%	74.4%		76.0%	
Gross Profit	6,679	7,550	-11.5%	23,010	-15.2%
Gross Margin (%)	29.9%	32.5%		32.0%	
Profit before Tax	6,879	5,604	22.7%	24,180	-7.5%
Pre-Tax Margin (%)	30.8%	24.1%		33.7%	

Source: Company Financials, Al Madina Research

As seen below, sales (value) for Q3 2009 was primarily affected by the domestic market performance, which saw quantity sales noting visible decline during the period. Domestic sales (value) in Q3 2009 stood at RO. 16.7 million down 15.5% over the previous quarter. Export market sales (value) generally fared better with lower realizations being supported by higher quantity sales.

**Figure 2: Revenues (RO) vs. Realizations/COGS (per MT)**



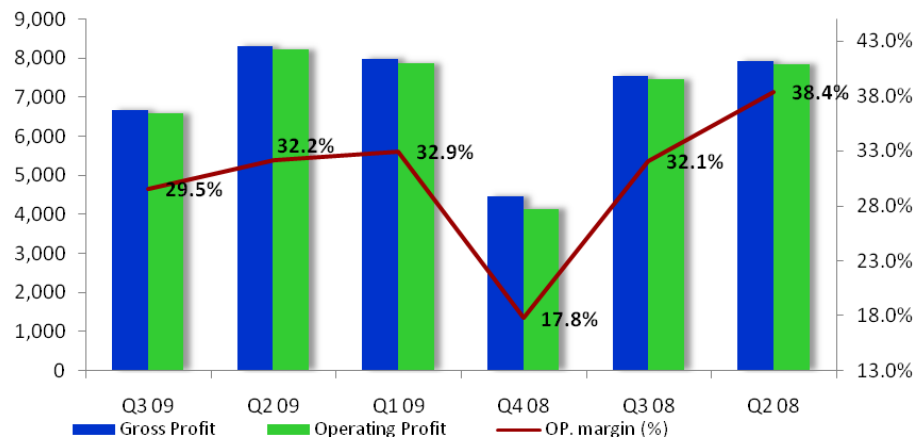
### Cement Imports lead to heavy cost structure

The company's action to import cement (given the machinery breakdowns) to meet domestic demand, has led to significant heaviness in its cost structure. Cost of imported cement (sales) stood towering at RO. 17.8 million for 9M ended 30<sup>th</sup> September 2009. The COGS/ton (excl. depreciation) stood at RO. 19.7/MT for Q3 2009, which we believe is high compared to full use of in-house production. Distribution expenses have also noted visible increase of 26.4% (y-o-y) for 9M ended 30<sup>th</sup> September 2009 to RO. 14.3 million.

The resultant impact of a heavy cost structure and increased competition on margins is quite evident. The operating margin for 9M 2009 stood at 31.6% as opposed to 40.9% being achieved for corresponding period last year.

For Q3 2009 in particular, the below graph displays that the margin level stood low compared even to previous quarters at 29.5%.

**Figure 3: Profits (RO 000) vs. Margins (%)**



The Operating profit and Pre-Tax profit achieved for Q3 2009 of RO. 6.6 million and RO. 6.8 million are down (sequentially) by 20% and 27.2% respectively. For the 9M ended 30<sup>th</sup> September the pretax profit stood at RO. 24.1 million, down 7.5% (y-o-y).

#### Balance Sheet holding ground

The total assets of the company stood at RO. 116.0 million as of 30th September 2009, lower marginally by 1.4% from the end of year 2008.

Plant, Property & Equipment comprising 64.2% of total assets stood at RO. 74.0 million for the period, down 1.2% YTD.

**Table 5: Condensed Balance Sheet (RO 000)**

	9M 09	2008	% chg.	9M 08	% chg.
Net Fixed Assets (Inv. In PPE & Subsidiary)	74,076	73,434	0.9%	71,171	4.1%
<b>Total Non-Current Assets</b>	<b>74,512</b>	<b>75,409</b>	<b>-1.2%</b>	<b>72,094</b>	<b>3.4%</b>
<i>% of Total Assets</i>	<i>64.2%</i>	<i>64.1%</i>		<i>63.1%</i>	
Inventories	13,096	7,817	67.5%	8,423	55.5%
<i>% of Total Assets</i>	<i>11.3%</i>	<i>6.6%</i>		<i>7.4%</i>	
Trade receivables	8,135	7,723	5.3%	7,062	15.2%
<i>% of Total Assets</i>	<i>7.0%</i>	<i>6.6%</i>		<i>6.2%</i>	
Cash and Deposits	7,986	16,593	-51.9%	17,831	-55.2%
<b>Total Current Assets</b>	<b>41,542</b>	<b>42,235</b>	<b>-1.6%</b>	<b>42,176</b>	<b>-1.5%</b>
<i>% of Total Assets</i>	<i>35.8%</i>	<i>35.9%</i>		<i>36.9%</i>	
<b>Total Assets</b>	<b>116,055</b>	<b>117,644</b>	<b>-1.4%</b>	<b>114,271</b>	<b>1.6%</b>
Payables and accruals	7,280	11,560	-37.0%	8,743	-16.7%
<i>% of Total Liabilities</i>	<i>52.7%</i>	<i>59.0%</i>		<i>50.9%</i>	
Current maturities of term loans	1,601	2,399	-33.3%	2,407	-33.5%
<b>Total Current Liabilities</b>	<b>8,881</b>	<b>13,960</b>	<b>-36.4%</b>	<b>11,150</b>	<b>-20.4%</b>
Term loans excluding current maturities	2,015	2,705	-25.5%	3,435	-41.3%
Deferred tax liability	2,926	2,926	0.0%	2,605	12.3%
<b>Total non-Current Liabilities</b>	<b>4,940</b>	<b>5,631</b>	<b>-12.3%</b>	<b>6,039</b>	<b>-18.2%</b>
<b>Total Liabilities</b>	<b>13,821</b>	<b>19,590</b>	<b>-29.4%</b>	<b>17,189</b>	<b>-19.6%</b>
Share capital	20,000	20,000	0.0%	20,000	0.0%
Retained earnings	52,110	47,930	8.7%	46,958	11.0%
<b>Total Equity</b>	<b>102,234</b>	<b>98,054</b>	<b>4.3%</b>	<b>97,081</b>	<b>5.3%</b>
<i>% of Total Assets</i>	<i>88.1%</i>	<i>83.3%</i>		<i>85.0%</i>	
<b>Total Liabilities and Equity</b>	<b>116,055</b>	<b>117,644</b>	<b>-1.4%</b>	<b>114,271</b>	<b>1.6%</b>

Source: Company Financials, Al Madina Research

Inventory, comprising 11.3% of total assets, soared 67.5% from the beginning of the year to RO. 13.0 million. Trade receivables stood at RO. 8.1 million. The cash & bank balances are down 51.9% YTD to RO. 7.9 million.

Among liabilities, trade payables stand at RO. 7.2 million down 37% YTD. Total liabilities have reduced 29.4% YTD to RO. 13.8 million. Total shareholders equity for the period stands at RO. 102.2 million.

## Outlook

**We believe the short term may present unique challenges to Raysut Cement.** While demand for cement is likely to remain firm (especially in the local market) there are potential challenges for the company in countering competition especially from the region (e.g. UAE). There are also concerns building about the conditions in the company's export markets which may be a target zone for dumping by several other companies in the GCC (e.g. Saudi Arabia, UAE). Among latest developments in the country, a new third cement plant is under construction in the Buraimi area of the Sultanate. As per sources, the plant, with an initial cement production capacity of 2,500 MT per day is likely to cater to the domestic market. The plant is expected to see commercial operations by sometime mid 2010. We thus believe that in the context of competition, cement prices in general may face further downward pressure in the short term. On a positive note, the full commencement of Raysut's production facilities would mean minimal reliance on cement imports (going forward) which would help revive the company's cost structure.

For the year 2009 we project Raysut Cement to attain revenues to the tune of RO. 91.4 million with a sale expectation of 2.9 million MT. We believe the company would hold its concentration in the local market. Beyond 2009, we take a more conservative stance in basing our assessments given the potential of competition (and dumping). While full reliance on in-house production would help revive the cost structure, we assume lower realizations going into 2010. The net income for 2009 is projected at RO. 28.1 million, up 3.8% (y-o-y). At the CMP, the stock is trading a 2009E forward P/E of 10.8 times.

For year 2010, we project revenues to lower to RO. 78.7 million, on grounds of lower realizations. The net income however, is likely to improve to RO. 29.3 million on grounds of the improvement in cost efficiency and margins.

Financial Indicators: Raysut Cement Co. SAOG	2006	2007	2008	2009E	2010E	2011E
Revenue (RO '000)	47,975	63,013	89,081	91,446	78,669	79,720
EBITDA (RO' 000)	23,635	31,087	35,503	33,289	35,248	32,314
Net Profit (RO '000)	20,658	30,120	27,107	28,148	29,346	26,672
Net Margin (%)	43.1%	47.8%	30.4%	30.8%	37.3%	33.5%
ROAE (%)	33.6%	37.2%	28.7%	27.6%	26.5%	22.4%
EPS	0.103	0.151	0.136	0.141	0.147	0.133
BVS	0.354	0.455	0.490	0.531	0.578	0.611
P/E	14.7	10.1	11.2	10.8	10.4	11.4
P/BV (x)	4.3	3.3	3.1	2.9	2.6	2.5
EV/EBITDA	12.4	9.2	8.2	8.7	8.0	8.5

Source: Company Financials, Al Madina Research

*Recent performance  
plagued by heavy reliance  
on clinker/cement imports.*

## Valuation

### Discounted Cash Flow (DCF)

**We have carried out a valuation exercise on Raysut Cement Co. SAOG using the Discounted Cash Flow (DCF) method based on forecasted financials (2010E-2013E).** For the analysis we have arrived at a Cost of Equity (COE) at 13.4%. The Beta we use is 1.45 derived via regression analysis. We arrive at WACC of 13.3%. We use a terminal growth rate of 2.0% as part of closure to the valuation.

Based on the DCF approach, the fair value per share of Raysut Cement Co. SAOG for the year 2010 works out to nearly RO. 1.398/share.

Using a weighted approach of DCF, target P/E of 10.5 times and EV/EBITDA multiple of 8.0 times we attain our target price for year 2010 of **RO. 1.465/share**.

## Recommendation

**The target price of RO. 1.465/share is marginally lower to the current market price of RO. 1.523/share.** While exercising confidence of current year performance, given the potential uncertainties we remain cautious on prospects going forward. As a result we give a **Reduce** rating to the stock for the short term.

## Appendix: Financials/Company Profile

Raysut Cement came into existence in the year 1981 and began commercial production in the year 1984 with a 0.21 mn metric ton kiln installed by Babcock Krauss Maffei Industrleanlagen GmbH of Germany. From such modest beginnings, the company has undergone a series of expansions since to cater to the high demand for its products. A second production line was added in 1998 taking the clinker capacity to 0.75 mn metric tons/annum. The year 2005 saw the company embarking on a US \$. 50 million expansion plan which added the third line that took overall cement capacity to 2.00 mn metric tons/annum. The most recent expansion was concluded in 2007 when the existing Line 1 was upgraded making the company one of the largest cement manufacturers in the region with an annual cement capacity of nearly 2.8 mn metric tons.

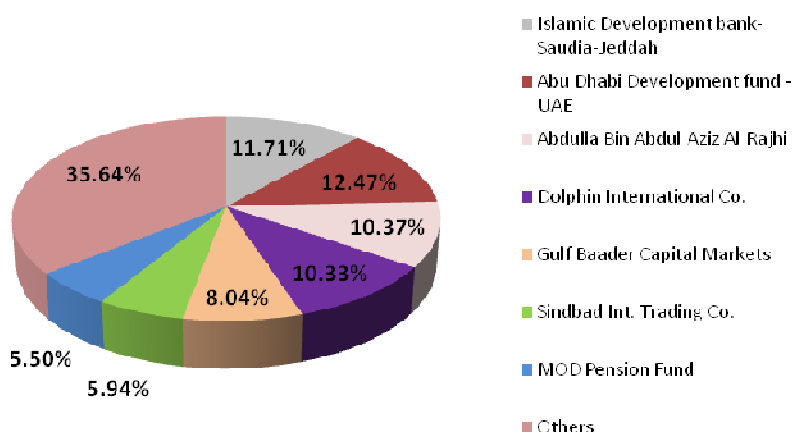
The company's product line features four cement grades namely Ordinary Portland cement, Oil Well cement, Sulphate Resistant cement and Pozzolona Well cement. With its strategic location at the south-west coast of Oman near Port Salalah, the company has maintained high exposure to the markets of countries in Africa such as Yemen (with cement terminals), Somalia, Sudan and Zanzibar. The company has traditionally maintained an export oriented approach. The bulk of demand in the local market is seen in the north. To cater to the local market, the company maintains branch offices, a cement terminal at Port Mina Qaboos and a floating silo facility at Sohar.

**Table 6: Raysut Cement: Board of Directors**

Name	Designation	Category
H.E. Mohd. bin Alawi bin Ali Muqaibal	Chairman	Non Exec./Indep.
Mr. Mohd. bin Abdulla bin Saïd Bader Al Rawas	Vice Chairman	Non Exec./Indep.
Mr. Saïd bin Ahmed Mohamed Al Rawas	Director	Non Exec./Indep.
Mr. Hamad Mohd Ganim Al Swidi	Director	Representing: Abu-Dhabi Fund for Development
Mr. Zenhom Antar Zahran	Director	Representing: Islamic Development Bank Jeddah
Mr. Fahad bin Abdulla Abdul Aziz Al Rajihi	Director	Representing: Sh. Abdulla Abdul Aziz Al Rajihi
Mr. Mohd bin Yousuf bin Alawi Al Ibrahim	Director	Representing: Dolphin Intl.
Mr. Mohd. Bin Alawi bin Abdulla Ibrahim	Director	Representing: Sindbad Trading Co.
Mr. Atif Abdul Hameed Al Raeesi	Director	Representing: Ministry of Defence Pension Fund
Mr. Hamed bin Mohd. Al Sayari	Director	Representing: Ministry of Finance & Eco. Muscat

Source: Company Financials, Al Madina Research

**Figure 4: Raysut Cement: Shareholding (No. of Shares, %), 30<sup>th</sup> Sep 2009**



Source: Company Financials, Al Madina Research

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### **Al Madina Research: Rating Methodology**

Rating	Explanation
Buy	Capital gain of >20% to the CMP.
Accumulate	Capital gain in the range of 10%-20% to the CMP.
Hold	Capital gain in the range of 0%-10% to the CMP.
Reduce	Capital depreciation in the range of 0%-10% to the CMP.
Sell	Capital depreciation of >10% to the CMP.
Time Horizon	Explanation
Short Term	Period of upto one (1) year from date of recommendation.
Mid Term	Period of 1-3 years from date of recommendation.
Long Term	Period of >3 years from date of recommendation.

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