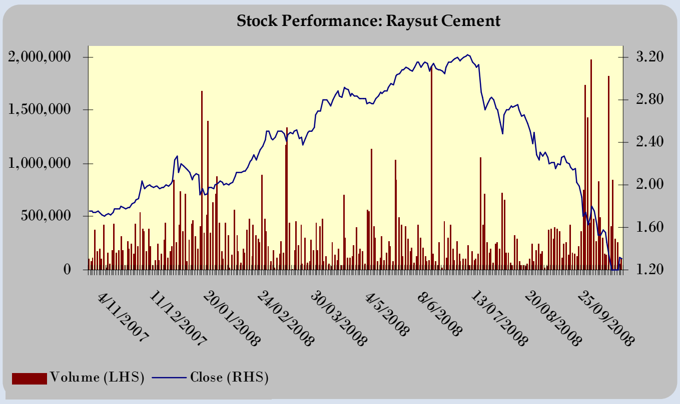
Equity Research *November 03, 2008*

Raysut Cement: Q3 2008

Name	Raysut Cement
Ticker	RCCI
Exchange	MSM
Established	Mar.1981
Industry	Cement Manufacturing
CMP (RO)	1.302
Shares outstanding (000)	200,000
Market Capital (RO 000)	260,400

Price History



Financial Summary

RO'000	9M '08	9M '07	% Change
Revenue	65,684	43,339	51.6%
Direct Cost	38,557	24,318	58.6%
Operating Profit	26,931	19,028	41.5%
Net Profit	26,135	19,691	32.7%
Share capital	20,000	20,000	0.0%
Retained Earnings	46,958	33,970	38.2%
Total Equity	97,081	80,518	20.6%
Basic EPS	0.131	0.098	32.7%
P/E (Annualised)	7.5	9.9	-24.7%
GPM (%)	41.3%	43.9%	-5.9%
OPM (%)	41.0%	43.9%	-6.6%
NPM (%)	39.8%	45.4%	-12.4%

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Preview of Q3 2008

During the nine months ended 30th September 2008, sales revenue has increased by 51.5% to reach at RO 65.6 million as against RO 43.3 million recorded during the same period last year. Operating profit for the nine months has also increased by 41.5% (y-o-y) to reach at RO 26.93 million. Additionally the company has earned RO. 26.13 million as profit before tax for the period, which showed an increase of 32.7% over last years figure.

However for the third quarter ended 30th September 2008, profitability has noted a marked decline owing to factors such as the sharp decline of in-house cement production as well as aggressive cement imports, which lead to (higher costs) a curtailment of quarterly net profit to just RO. 5.6 million.

Company & Industry Overview

Raysut Cement Company is engaged in the manufacture and sale of Portland cement, sulfate resistant cement, oil well class 'G' cement and pozzolana well cement. The Company has four production lines, with three million tons capacity of clinker and cement per year; seven cement storage silos, bulk cement terminals at Mukalla (Yemen) and Muscat Port (North Oman), and four special bulk cement-carrying ships. The Company has a 49% stake in Mukalla Raysut Trading and Industrial Co. Ltd, Yemen. The company has carried out major expansion activities starting from year 2004 making it the largest cement manufacturer in the country.

The demand for cement in the local market continues to remain high given the vast numbers of projects underway. Average realizations continue to remain firm as supply hasn't caught entirely with the demand. The country also witnessed imports of cement to meet the additional demand. Both the local companies have been working at high capacities to fulfill the market requirements. For Raysut Cement the table below is indicative of the declining trend in quarterly cement production at the company. Cement production in Q3 2008 stood at just 478.5K MT.

Operating Indicators	Q3 '08	Q2 '08	Q1 '08	2007
Cement Production (MT)	478,520	549,805	712,518	2,009,989
Cement Sales (MT)	692,086	644,793	750,828	2,225,000
Oman (MT)	*510,512*	*493,730*	*518,012*	*1,284,596*
Export (MT)	*181,574*	*151,063*	*232,816*	*940,844*
Realisation (RO/MT)	33.60	31.77	29.22	28.32
Oman (RO/MT)	*33.88*	*31.43*	*28.59*	*28.43*
Export (RO/MT)	*32.95*	*32.90*	*30.61*	*28.15*

While no comment is available for the same from management we believe the reasons could mostly be breakdowns and repairs on machinery & equipment. On the sales front the company has managed to maintain some consistency partly aided by cement imports. The focus remains primarily on the local market where the company has directed nearly 73% of all sales (by quantity) so far.

For the 9m ended 30th September 2008 the company has imported nearly RO. 9.8 million in cement possibly to meet the shortfall. The quarter ended 30th September 2008 alone has witnessed a solid increase of nearly RO. 5.9 million in imports. The average realization for the quarter has improved to RO. 33.6/MT aided by the price increase in the domestic market.

Fin. Indicators (RO '000)	Q3 '08	Q2 '08	Q1 '08	Q4 '07	Q3 '07	Q2 '07	Q1 '07
Revenue	23,257	20,488	21,939	19,674	15,508	14,182	13,649
(% Growth, Q-o-Q)	*13.5%*	*-6.6%*	*11.5%*	*26.9%*	*9.3%*	*3.9%*	*18.2%*
Operating Profit	7,372	8,016	11,543	8,694	6,191	6,027	6,810
Margin (%)	*31.7%*	*39.1%*	*52.6%*	*44.2%*	*39.9%*	*42.5%*	*49.9%*
(% Growth, Q-o-Q)	*-8.0%*	*-30.6%*	*32.8%*	*40.4%*	*2.7%*	*-11.5%*	*50.9%*
Net Income	5,604	8,676	11,855	10,429	7,121	5,248	7,322
Margin (%)	*24.1%*	*42.3%*	*54.0%*	*53.0%*	*45.9%*	*37.0%*	*53.6%*
(% Growth, Q-o-Q)	*-35.4%*	*-26.8%*	*13.7%*	*46.5%*	*35.7%*	*-28.3%*	*47.1%*

Source: Company Financial, Al Madina Research

The quarter ended 30th September 2008 has witnessed a decline in operating margins to 31.7% from as high as 52.6% achieved in Q1 2008. Obvious reasons behind for this seem to be the import of additional cement to meet the local demand as well as rising shipping costs (to Muscat Terminal). These 2 cost items (which stand at nearly 45% of overall costs) have witnessed a sharp increase of nearly 203.8% (y-o-y). The recent cement price increase in the local market has relieved some pressure from these rising costs. Despite this the quarterly profit has seen a significant 35.4% decline from Q2 2008 levels.

Key Ratios

	09E	08E	07A	06A	05A
Valuation					
EPS (RO)	0.200	0.173	0.151	0.103	0.054
P/E (x)	6.0	6.9	7.9	11.6	22.3
P/BV (x)	2.0	2.3	2.6	3.4	4.4
P/Sales (RO)	2.5	2.7	3.8	5.0	8.5
BV/Share (RO)	0.613	0.527	0.455	0.354	0.273
Sales/Share (RO)	0.474	0.445	0.315	0.240	0.141
Share Capital	20,000	20,000	20,000	20,000	19,913
Dividend Policy					
DPS (RO)	0.135	0.115	0.100	0.050	0.025
Div. Yld (%)	11.3%	9.6%	8.4%	4.2%	2.1%
Payout (%)	67.3%	66.6%	66.4%	48.4%	46.5%
Liqudity					
Current Ratio (x)	6.3	4.1	2.7	2.2	4.4
Debt/Equity (x)	0.0	0.1	0.1	0.2	0.5
Profitability					
EBIT (%)	42.3%	40.3%	43.6%	42.4%	35.6%
ROE (%)	32.7%	32.7%	33.1%	29.2%	19.7%
Asset Turnover Ratios					
Inventory turnover	5.4	5.5	7.5	8.3	6.3
Receivable turnover	9.9	10.3	15.3	18.3	13.9

Year 2007 was a successful one for the company. The Sales per share improved to Bz. 315. It reflected in an increase in the EPS to Bz. 151. Meanwhile, the company's margins also continued to be healthy in 2007 with the increase seen in the EBIT (%). Returns on shareholder funds also stood higher for the period at 33.1%.

The liquidity levels have improved at the company over the years with low overall levels of debt.

The distribution of the cash dividend during 2007 was attractive at Bz. 100. It works out a yield of nearly 7.7%.

Outlook & Recommendations

Despite the recent decline in profitability we continue to remain positive on the overall performance of the company for the near future. The company would continue to capitalize especially on the ongoing large scale infrastructure, housing and tourism projects that are prevalent in the Sultanate. We see the company having a position of advantage especially in the local market in 2008. The company's sales in the local market is likely to receive a boost in the year 2009 given the RO. 4/MT price increase (in effect since June 2008) taking the new price to RO. 30/MT. Going forward the company is contemplating its options for future growth which could include additions to the existing capacity.

For the year 2008 we expect the company's revenues to maintain course at nearly RO. 89.1, a growth of 41.3% (y-o-y). However the decision to import cement along with the increase in other costs of production (mentioned above) is likely to depress margins at the company going forward. We expect Raysut Cement's bottom line to reach close to RO. 34.5 million for the year 2008, much lower to our earlier expectations. At the current price of RO 1.302, the stock's 2008E forward P/E is fairly low at 7.5 times. Based on past payout ratios we expect Raysut Cement to declare about Bz. 115 per share in dividends for the year 2008. We believe the stock still positions as a good **buy** at least for the short term.

Income Statement: Raysut Cement

	2009E	2008E	2007A	2006A	2005A
Turnover/ Revenue	94,724,475	89,058,076	63,013,288	47,974,950	27,993,024
Cost of Sales	(54,046,375)	(52,628,888)	(35,060,313)	(26,901,448)	(17,667,587)
Gross profit	**40,678,100**	**36,429,188**	**27,952,974**	**21,073,501**	**10,325,437**
Administration and general exp.	(626,543)	(545,429)	(470,634)	(741,051)	(360,188)
Other income	115,649	103,258	240,135	139,394	145,000
Operating profit	**40,167,205**	**35,987,017**	**27,722,475**	**20,471,844**	**10,110,249**
Finance charges	(37,387)	(46,733)	(77,889)	43,053	(275,176)
Share of profit in an Associate	3,964,222	3,504,130	3,154,032	2,763,776	1,700,000
Gain on Investments	350,000	(920,000)	3,506,387	(170,461)	251,833
Cyclone relief fund			(1,000,000)		
Profit before taxation	**44,444,040**	**38,524,413**	**33,305,005**	**23,108,212**	**11,786,906**
Taxation	(4,352,576)	(3,995,720)	(3,185,000)	(2,450,121)	(1,091,000)
Net profit (Loss)	**40,091,464**	**34,528,693**	**30,120,005**	**20,658,091**	**10,695,906**

Al Madina Research: Rating Methodology

Rating	Explanation
Buy	Capital gain of >20% to the CMP over the year.
Accumulate	Capital gain in the range of 10%-20% to the CMP over the year.
Hold	Capital gain in the range of 0%-10% to the CMP over the year.
Reduce	Capital likely to depreciate in the range of 0%-10% to the CMP over the year.
Sell	Capital likely to depreciate >10% to the CMP over the year.