25th November 2008

Initial Coverage

AL MAL CAPITAL

UAE CEMENT

Union Cement
Rating: ***Under perform***

Gulf Cement
Rating: ***Market perform***

RAK Cement
Rating: ***Market perform***

ARKAN
Rating: ***Under perform***

National Cement
Rating: ***Under perform***

- The fundamental driver for the UAE cement sector is the growth of the construction industry. Amidst the liquidity crisis and global recession woes we anticipate construction growth rates to slow down from 20% in 2008 to 15% and 13% in 2009 and 2010 respectively.
- We have an overall negative view on the cement sector due the slowdown of the construction industry, coupled with extensive expansion of clinker and cement capacity in the market. We expect an oversupply of cement in the UAE at the end of 2010/beginning of 2011.
- A positive cash position and a strong exposure to equities is a sector wide trend amongst the cement companies in the UAE. In the current climate we anticipate exposed companies to write down significant investment losses on the back of spiralling markets in the region over the last three months. We see this as a risk in terms of transparency and net profit volatility for the investor.
- Within our sector, we feel that the share prices of RAKCC and GCEM have found a bottom, but still the upsides are limited at 2 – 3% to our 12 month target prices. RAKCC and GCEM are trading at an estimated 2009 P/E of 6.6 and 7.2 respectively, compared to our peer group average of 15.6. We initiate coverage with a *Market Perform* rating on these two stocks.
- Although the share prices of UCC, NCC and ARKAN have held up well through the recent market turmoil, we believe these stocks could be impacted going forward. We initiate on all three stocks with an *Underperform* rating.

Equity Data	RAKCC	UCC	NCC	GCEM	ARKAN
Current Price (AED)	1.01	2.78	6.65	2.89	4.58
Target Price (AED)	1.03	1.29	3.38	2.97	2.01
Upside/downside	2%	-54%	-49%	3%	-56%
12 Mo. Performance	-53%	-19%	-12%	-51%	51%
Market Cap. (AED mn.)	489	1,772	2,386	2,063	8,015
Ent. Value (AED mn.)	489	1,759	2,168	2,060	7,002
RIC	RKCC.AD	UCC.AD	NCC.AD	GCEM.AD	ARKN.AD
2008E Estimates					
Revenues (AED mln.)	402	1,095	561	1,027	701
Gross Margins	22%	20%	29%	39%	38%
EBITDA (AED mln.)	81	188	112	384	264
EBITDA Margin	20%	17%	20%	37%	27%
Net Profit (AED mln.)	59	89	237	279	187
Net Profit Margin	15%	8%	42%	27%	27%
EPS	0.12	0.14	0.66	0.34	0.11
Cash Earnings/Share	0.17	0.21	0.89	0.46	0.18
Valuation Multiples					
PE '08E	8.3	19.8	10.1	8.5	42.8
PE '09E	6.6	13.7	14.2	7.2	36.5
EV/EBITDA '08E	6.0	9.4	19.3	5.4	26.6
EV/EBITDA '09E	5.1	7.9	15.6	5.4	27.6
P/Cash Earnings '08E	6.0	13.0	7.4	6.3	26.0
P/Cash Earnings '09E	5.1	10.4	15.7	6.3	26.5
P/BV	0.1	0.3	0.7	1.2	3.9

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Investment Summary

We have an overall negative view on the UAE cement sector due to the following trends:-

- Significant exposure to equities
- High production costs coupled with a Government imposed price cap has squeezed profit margins
- Oversupply at the end of 2010 – a slowdown in construction growth and expansion plans of cement manufacturers
- Clinker shortages limit the amount of cement produced, despite increases in cement grinding capacity

Volatile net profits due to equity exposure

A positive cash position and a strong exposure to equities is a sector wide trend amongst the cement companies in the UAE. In the current climate we anticipate these companies to write down significant investment losses on the back of spiralling markets in the region over the last three months. We see this as a significant risk, not only in terms of the profit and loss, but in terms of transparency and volatility for the investor.

A lose – lose situation

Unreliable fuel supply and rising costs of cement production have plagued the cement manufacturers in last two years. Coal and oil prices reached an all time high of $143 per tonne and $147 per Bbl in July 08. To compound the issue, the increase in production costs can not been passed onto the consumer due to Government imposed price caps, consequently gross profit margins have been squeezed from a sector average of 45% in 2006 to 30% in 2008. However, we do see some relief as fuel prices begin to fall and the price remains, in the short term, at AED 360 per tonne.

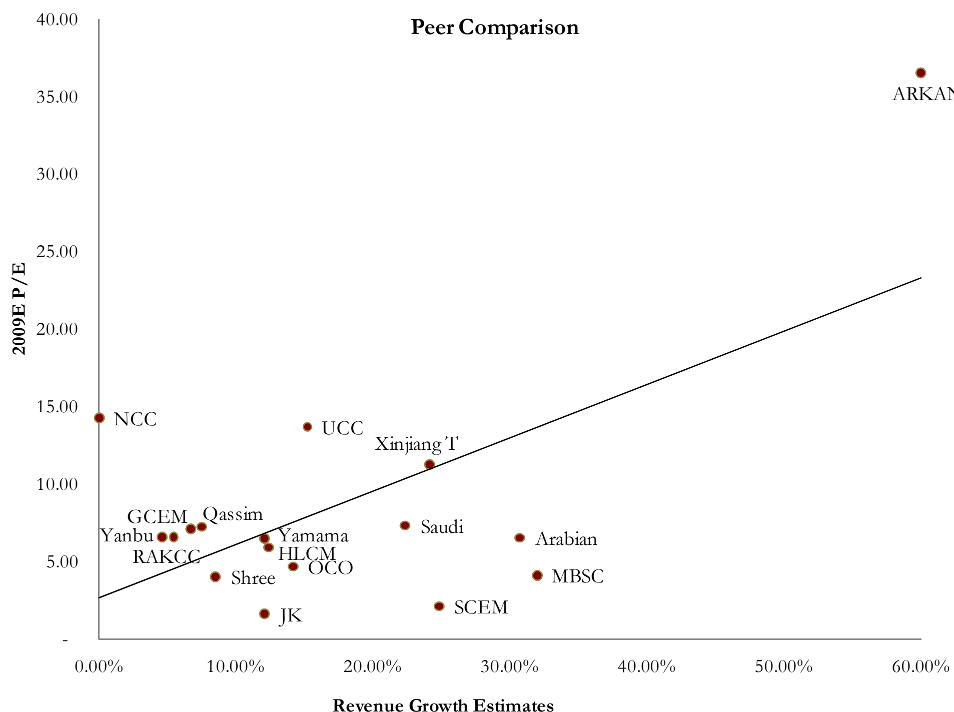
The cement companies have responded by installing multi fuel burners so that production is not solely reliant on the supply and the cost of one fuel. Cement manufacturers that have not entered into fixed price fuel contracts in the first half of the year should begin to see margins increase in 4Q08. Multi fuel systems should also improve margins as the cement companies become less reliant on the availability and price of natural gas and diesel.

Oversupply estimated at the end of 2010

In our opinion, clinker is the limiting factor of cement production. The UAE is a net importer of clinker and the majority of expansion plans in place are for grinding facilities only. Cement consumption is primarily driven by the size and growth of the construction industry and based on our consumption estimates and expansion plans of cement and clinker producers in the UAE, we envisage the production of cement to surpass consumption at the end of 2010.

Emerging Market Peer Comparison

We compare our cement universe to regional industry peers in Saudi Arabia, China, Egypt, India, Oman, Philippines and Saudi Arabia. The companies are clinker and cement producers with similar market cap's to our universe.



Source: Reuters, Bloomberg, Al Mal Capital Research

All five companies covered in this report are above the trend line, which suggests UAE cement stocks are trading at a premium to other cement companies in the emerging markets. Arkan is the most notable with estimated revenue growth of 60% and trading at an estimated 2009 P/E of 36.5.

Valuation summary

We have analysed five of the nine listed cement companies in the UAE and we have used the discounted cash flow to equity holders method to obtain our target prices.

Company	Current Price	Target Price	EPS 2007A	EPS 2008E	EPS 2009E	Cash EPS 2007A	Cash EPS 2008E	Cash EPS 2009E	EBITDA 2007A	EBITDA 2008E	EBITDA 2009E
RAKCC	1.01	1.03	0.11	0.12	0.15	0.16	0.17	0.20	76.23	81.44	96.68
UCC	2.78	1.29	0.30	0.14	0.20	0.26	0.21	0.27	124.90	187.79	222.85
NCC	6.65	3.38	0.73	0.66	0.47	1.05	0.89	0.42	202.38	112.12	138.65
GCEM	2.89	2.97	0.18	0.34	0.40	0.37	0.46	0.46	274.52	384.26	383.85
ARKAN	4.58	2.01	0.11	0.11	0.13	0.12	0.18	0.17	139.40	263.69	254.14
Company	**Rating**		**PE 2007A**	**PE 2008E**	**PE 2009E**	**P/Cash Earnings 2007A**	**P/Cash Earnings 2008E**	**P/Cash Earnings 2009E**	**EV/EBITDA 2007A**	**EV/EBITDA 2008E**	**EV/EBITDA 2009E**
RAKCC	Market perform		9.00	8.29	6.56	6.44	6.01	5.06	6.41	6.00	5.06
UCC	Under perform		9.14	19.83	13.66	10.80	13.04	10.36	14.09	9.37	7.89
NCC	Under perform		9.09	10.07	14.25	6.31	7.45	15.70	10.71	19.34	15.63
GCEM	Market perform		16.23	8.50	7.23	7.79	6.29	6.28	7.51	5.36	5.37
ARKAN	Under perform		43.29	42.83	36.53	39.28	26.05	26.54	50.23	26.55	27.55

Ras Al Khaimah Cement (Market perform, AED1.03 Target)

RAKCC has 2% upside to our 12 month target price. We believe that Powercrete® is a premium product that differentiates RAKCC, in what is set to become a highly competitive environment. We believe that Powercrete® sales should bolster revenues during the estimated OPC surplus in 2010. RAKCC has negligible exposure to regional equities which we view as an advantage in the current climate. In addition, we believe that the acquisition of Reem Readymix and the successful implementation of the multi fuel burner could be catalysts to the stock price.

RAKCC's share price has fallen 53% year to date. RAKCC is trading at an estimated 2008 P/E of 8.3 and 2009 P/E of 6.6, compared to a UAE industry average 2008 P/E of 13.3 and 2009 P/E of 13.6.

Union Cement Company (Underperform, AED1.29 Target)

UCC is trading at a 54% premium to our 12 month target price. In 2005, UCC embarked on an expansion plan to triple its capacity and is now one of the largest cement and clinker manufacturers in the UAE. However, with no further expansion plans in place, we believe that UCC's performance going forward is heavily dependent on the price of cement and management's ability to control costs. Union Cement has the lowest gross and net margins of our peer group which has raised questions over efficiency.

UCC's share price has dropped only 13% in the last 12 months and in our opinion, the shares are overvalued. UCC is trading at an estimated 2008 P/E of 19.8 and 2009 P/E of 13.7, compared to a UAE industry average 2008 P/E of 13.3 and 2009 P/E of 13.6.

National Cement Company (Underperform, AED3.38 Target)

National Cement has the highest exposure to equities of our peer group, with 74% of its balance sheet being attributable to investments in marketable securities. Due to the uncertainty of the markets we have not forecast investment gains or losses going forward and consequently NCC's profit margin has decreased to 27%. We feel that the extent of this equity exposure is misleading to the investor and not representative of the company's operational performance.

With no expansion plans that we are aware of, we believe that NCC's revenue is predominantly driven by price as opposed to volume. We anticipate an oversupply and price softening in 2010 and therefore forecast NCC's revenues to fall in 2010 and 2011.

National Cement has a low trading volume and in the last 12 months the share price has fallen just 12%. NCC is trading at an estimated 2008 P/E of 10.1 and 2009 P/E of 14.2, compared to a UAE industry average 2008 P/E of 13.3 and 2009 P/E of 13.6.

Gulf Cement Company (Market perform, AED2.97 Target)

Gulf cement is the largest clinker producer in the UAE. Gulf cement utilises its own clinker for cement production and also sells clinker directly to other factories in the region. We expect the sale of clinker to bolster the top line should there be an oversupply of ground cement in the market. Gulf cement has strong profit margins and a positive cash position that we believe could support a sustained period of slowdown in construction.

GCEM's share price has decreased by 51% from AED7.68 to AED2.62 in the last 12 months. GCEM is trading at an estimated 2008 P/E of 8.5 and 2009 P/E of 7.2, compared to a UAE industry average 2008 P/E of 13.3 and 2009 P/E of 13.6.

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Arkan Building Materials (Underperform, AED2.01 Target)

Arkan's strategy is to become a 'one stop' shop for building materials in the UAE. Arkan is undergoing extensive expansion plans through the incorporation of a fully integrated cement plant in Al Ain. Production capacity of clinker and cement should increase to 4mtpa and 5.7mtpa and is expected to come online in 4Q09. Arkan also has plans to increase its concrete block capacity. There is a great deal of uncertainty surrounding the company's move into steel trading which saw revenues increase by 273% in 2Q08 and gross profit margins decline to 27%. The price of steel has since fallen and the future of this business segment is largely unknown.

Arkan's share price has withstood the turmoil in the markets well and has a 12 month share price performance of 51%. In our opinion, Arkan's is overvalued and a large proportion of the proposed expansion plans have already been factored into the current share price.

Arkan is trading at an estimated 2008 P/E of 42.8 and 2009 P/E of 36.5, compared to a UAE industry average 2008 P/E of 13.3 and 2009 P/E of 13.6.

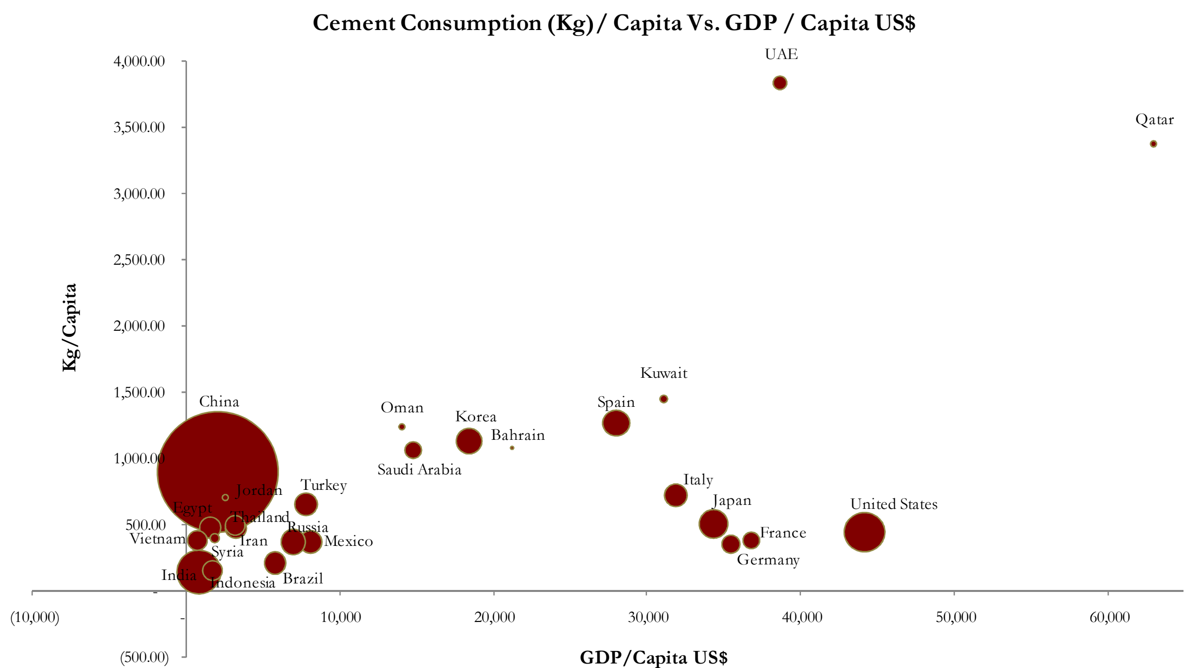
Cement

World cement production in 2007 was estimated to be 2.6bn tonnes and is forecast to reach approximately 3.2bn tonnes by 2012. China alone accounts for 50% of the world's total cement production. China, India and USA are the largest producers as well as consumers of cement.

China is by far the largest cement consuming nation in the world, with consumption of 1,270mn tonnes of cement in 2007. India is the second largest cement consuming nation, followed by USA, consuming 169mn and 115mn tonnes respectively.

The emerging economies are expected to account for as much as 85% of global cement demand in 2020. Cement consumption is loosely correlated with GDP per capita which suggests that as emerging economies prosper, their cement consumption increases, in order to support the growth in infrastructure and development.

The GCC countries have high economic growth rates, high GDP and high cement consumption per capita. The UAE and Qatar are the most notable, with the highest consumption of 3,830kg/capita and 3,368kg/capita respectively. The cement consumption per capita in the UAE significantly surpasses the consumption per capita of countries with a similar GDP.

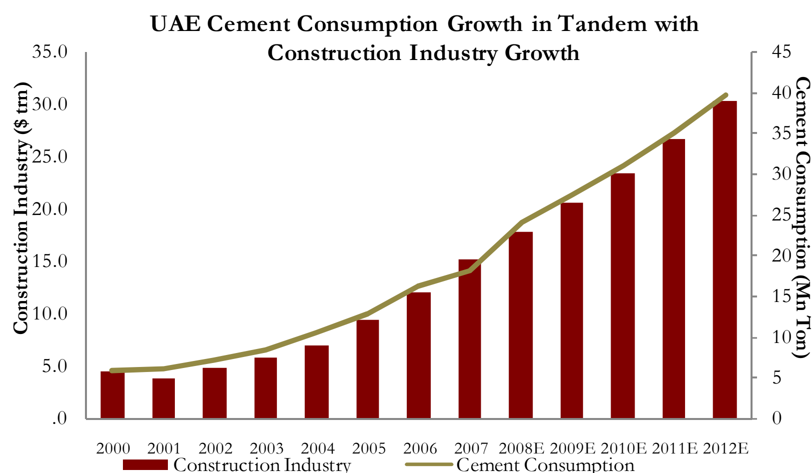


Source: AUCBM, USGS, Industry Sources, IMF WEO Database, UN data

UAE Cement

Consumption driven by construction

Cement consumption in the UAE is a direct function of the size and growth of the construction sector. High liquidity from petroleum revenues, negative real interest rates, and the government's vision to diversify the economy from oil has fuelled an unprecedented level of construction in the last 5 years. Construction has grown at a CAGR of 27% between 2003 and 2007 and cement consumption has also grown at a CAGR of 21% during the same period.



Construction Industry Nominal Growth									
2003	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
22%	18%	37%	28%	26%	20%	15%	13%	13%	13%

Source: Ministry of Economy, BMI, Industry Sources

We have forecast our cement consumption estimates in the UAE based on the projected growth of the construction industry. We anticipate construction to be valued at US$18bn in 2008, increasing to US$21bn in 2009 and reaching US$23bn in 2010.

Based on a current price of US$98/AED360 per tonne, we have calculated the consumption of cement as a percentage of the construction industry and applied this to our construction value estimates in order to calculate cement demand.

We anticipate cement consumption in 2008 to reach 24mtpa and to grow at CAGR of 18% between 2007 and 2011.

Production is to double

At the end of 2007 there were 9 listed and 6 unlisted cement companies operating in the UAE. The total cement capacity is 24.9mtpa and with the proposed expansion plans, we anticipate this to increase to 48.7mtpa in 2011.

UAE Cement Capacity (000 tonnes)

Company	2008	2009	2010	2011
Gulf Cement Co.	2,700	2,700	2,700	2,700
Union Cement Co.	4,200	4,200	4,200	4,200
RAK Cement Co.	1,200	1,200	1,200	1,200
Fujairah Cement Industries	2,400	2,400	2,400	2,400
National Cement Co. P.S.C.	1,500	1,500	1,500	1,500
RAK Co. for White Cement	450	450	450	450
UAQ Cement Industries Co.	500	500	500	500
ARKAN Cement Factories	1,200	1,200	5,750	5,750
Sharjah Cement and Ind Dev Co.	3,000	3,000	3,000	3,000
Total Listed	**17,150**	**17,150**	**21,700**	**21,700**
Cemex		1,600	1,600	1,600
Al Ruya				3,600
Sharaf Cement				2,000
Cement Binani	1,200	2,400	2,400	2,400
Pioneer Cement	1,000	1,000	1,000	1,000
JK Cement Fujairah				3,500
Star Cement (Ajman)		1,100	1,100	1,100
Nael Cement Factory			1,900	1,900
Arabian Cement Co. L.L.C.	1,250	1,250	1,250	1,250
Hamriyah Cement Company	1,000	1,000	1,000	1,000
National Cement Factory AUH	2,500	2,500	2,500	2,500
Jebel Ali Cement Co. (Sharaf Ind)	800	800	1,600	1,600
Emirates International Clinker Cement			3,500	3,500
Total Unlisted	**24,900**	**28,800**	**39,550**	**48,650**

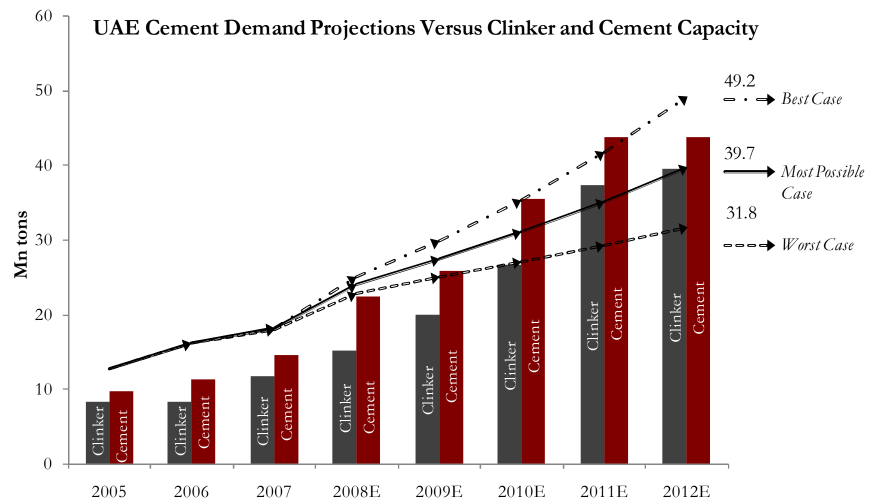
Source: UAE Cement Organisation, Industry Sources, Company, Al Mal Capital Research

Production has fallen short of consumption since the beginning of the construction boom in 2003. The shortfall has been met by imports from around the globe and in 2007 the UAE imported 2.9mtpa of cement, 64% from China, 19% from India and 17% from Pakistan, Thailand and Indonesia. The shortage of cement at the beginning of the construction boom gave rise to significant private and public investments in cement factories to increase the UAE's production capacity. Capacity has since expanded by 55% from 9mtpa in 2003 to 14mtpa in 2007.

In May 2008 the UAE Ministry of Economy signed an agreement with producers to increase production and remove import duties to alleviate the pressure on local suppliers. Consequently, many of the cement companies are in expansion mode. We expect a significant capacity increase by the end 2009/early 2010, with Arkan attributing an almost five-fold capacity expansion from 1.2mtpa to 5.7mtpa.

We foresee the total grinding capacity of UAE cement to reach 48.7mtpa in 2011, reflecting a CAGR of 36.5% between 2007 and 2011.

Cement consumption vs production – oversupply at the end of 2010



Source: Ministry of Economy, BMI, Industry Sources, Al Mal Capital Research

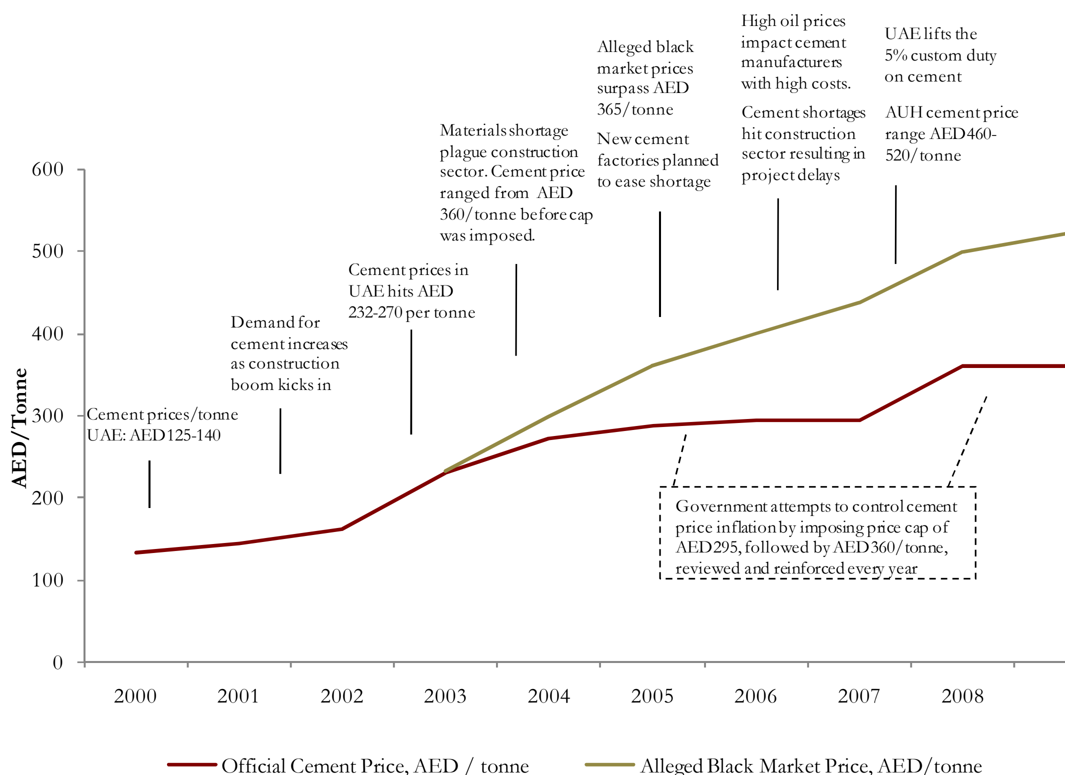
We have looked at three scenarios to anticipate the growth of the construction industry and the demand of cement. In our most possible case, we anticipate the construction industry to experience nominal growth of 20% in 2008 and 15% in 2009. In our pessimistic scenario we have forecast slower growth of 15% in 2008 and 10% in 2009, whilst in our optimistic scenario we have anticipate growth of 25% and 20% in 2008 and 2009 respectively.

Based on our most probable construction forecast, cement consumption estimates and expansion plans of cement and clinker producers, we envisage the production of cement to surpass consumption at the end of 2010/beginning of 2011.

Price cap still in place

The supply-demand dynamics over the past five years has significantly influenced the price of cement. In 2003 a tonne of cement was priced at AED230, increasing to AED360 in 2004 as construction boomed and the cost of production increased. The escalating cost of the commodity caused the UAE Government to intervene, introducing price caps to help combat construction delays and curb domestic inflation. In 2007 the price was capped at AED295 per tonne, which was increased to AED360 in 2008. However, despite these attempts, cement prices have continued to increase on the black market. The price cap only applies to Ordinary Portland Cement (OPC). According to the Abu Dhabi building material price index cement in Sept 2008 was AED440 per tonne, AED80 above its capped price.

Trend of Cement Prices in UAE



Source: Ministry of Economy, DCCI, Global Cement Magazine, AUH Ministry of Planning & Economy, Industry Sources

UAE Industry Dynamics

Construction and cement demand to slowdown

Cement is an essential ingredient of concrete and the world's most widely used building material. The majority of cement consumed in the UAE is produced domestically and therefore a slowdown in construction would have a negative impact on local producers.

The UAE construction industry has experienced phenomenal growth since 2003. According to UAE GDP composition, the construction industry has increased by 29% in 2006 and a further 29% in 2007. Construction has boomed largely on the back of the government's initiative to diversify from oil. Significant public and private investment has been injected into the construction industry to build communities to house a growing population, develop business centres to attract global corporations and construct hotels and airports to facilitate more than 10mn tourists per annum.

Amidst the liquidity crisis and global recession woes we anticipate construction grow rates to slowdown. Developers may find it increasingly difficult to fund projects and there could be an increasing number of projects being delayed or postponed.

In our most probable scenario, we anticipate construction industry to grow at 20% in 2008 and 15% in 2009 whilst cement consumption should grow in line with construction at a rate of 32% in 2008 and 15% in 2009.

Gas and electricity shortages

The production of cement is energy intensive with around 40%-55% of total costs being attributable to fuel. The most commonly used fuels are heavy fuel, natural gas and coal. Natural gas is the preferred fuel as it is extremely efficient in the manufacturing process and is also used in electricity generators to power the grinders. However, there is a shortage of natural gas in the UAE and cement companies have had their supplies cut on numerous occasions, leading to reduced production and even factory shut downs. The gas shortage is further compounded during the summer months when there is an increased demand in energy for air conditioning.

Cement companies, especially those in the Northern Emirates, have suffered from both gas and electricity shortages in recent months and factories without multi-fuel plants have had to stop, or curtail production. The cement producers have been forced to rely on heavy fuel oil which is more expensive and less efficient.

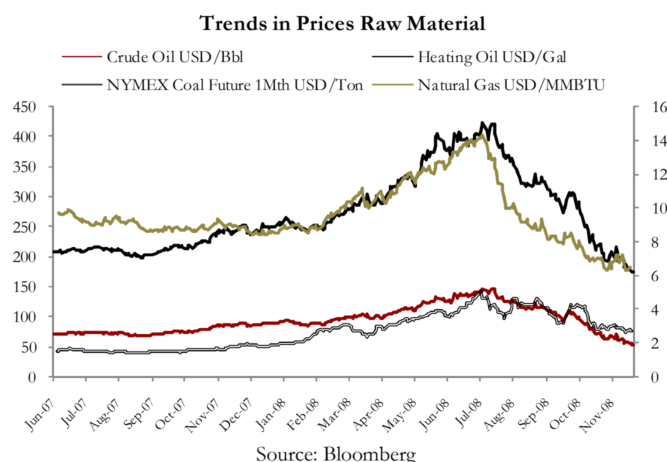
Multi-fuel burners should reduce costs

Unreliable fuel supply and rising energy prices have plagued the cement manufacturers in last two years. This, combined with capped prices has squeezed gross profit margins from a sector average of 44% in 2006 to 29% in 2008. The

cement companies have responded by installing multi fuel burners so that production is not solely reliant on the supply and the cost of one fuel.

Oil prices have declined 59% from $147/Bbl in July 2008 to a current level of $60/Bbl and coal prices fell from $143/tonne to $74/tonne over the same period. As such, we expect to see gross margins of our cement companies improve in the short term.

Coal is the most widely used fuel because it can be reliably sourced, it is efficient for production and as a global commodity it can be easily hedged.



Source: Bloomberg

Clinker shortage limits cement production

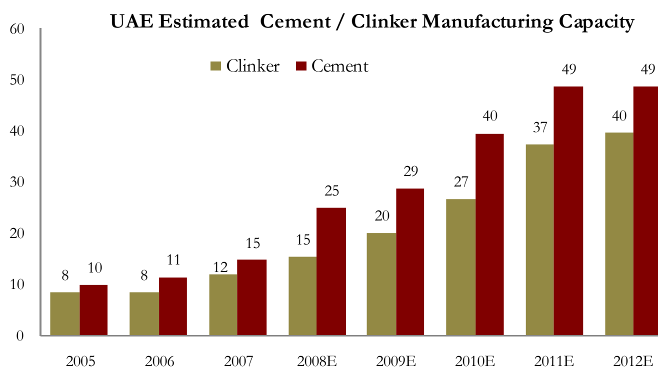
Clinker is the raw material necessary to produce cement. There are 9 fully integrated factories in the UAE that produce both clinker and cement and there are currently 6 cement factories that solely rely on clinker imports.

We estimate that in 2008 the UAE should produce 15.3mtpa of clinker. At 100% utilization, the UAE is capable of producing 24.9mtpa of cement (In reality utilisation is approximately 90%). The shortfall of 9.6mtpa of clinker needs to be met from clinker imports. Essentially, clinker is the predominant limiting factor in production.

The majority of capacity that is coming online in 2009 is only for cement grinding plants. In 2009, we estimate an increase in grinding facilities of 3.9mtpa compared to an increase in clinker production of 4.8mtpa, decreasing the shortfall from 9.6mtpa to 8.7mtpa.

A tonne of clinker costs approximately AED280 and if clinker is imported to meet the needs of the grinding facilities, then we estimate an oversupply of cement at the beginning of 2010. Assuming the cement factories operate at 90% utilization, we estimate production of 35.6mtpa compared to consumption estimate of 31.1mtpa. However, if clinker prices increase or there are restrictions with imports due to availability or port facilities/storage, then the production capacity is limited to the amount of clinker produced in the UAE. In this scenario, we do not expect an oversupply of cement until the beginning of 2011 when clinker production in

increases and demand has fallen. We estimate clinker production of 37.4mtpa compared to consumption estimates of 35.1mtpa.

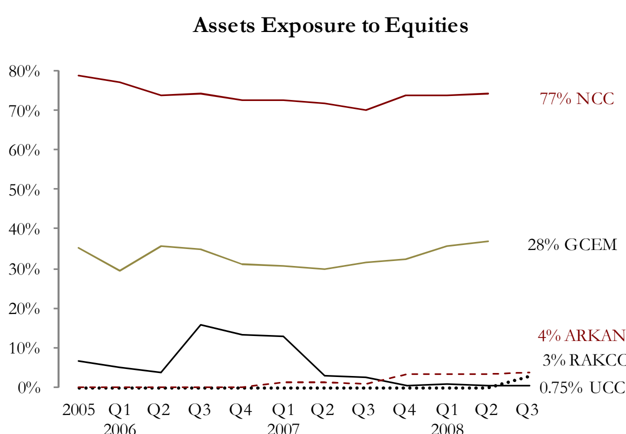


Source: UAE Cement Organization, Industry Sources, Company, Al Mal Capital Research

In our opinion, cement production should fall somewhere in between the two scenarios. Clinker should remain the limiting factor until the production in the UAE falls in line with cement grinding capacity. We believe that clinker should continue to be imported but not to the extent that all of the upcoming grinding facilities can operate at full capacity and therefore we anticipate a surplus of cement at the end of 2010/beginning 2011.

Significant exposure to equities

A positive cash position and a strong exposure to equities is a sector wide trend amongst the cement companies in the UAE.



Source: Company Financial Statements

The company with the highest exposure to regional equities is National Cement with more than 74% of its balance sheet being attributed to investments held for trading. In the current climate we anticipate these companies to write down significant investment losses on the back of spiralling markets in the region over the last three months. We see this as a significant risk, not only in terms of the profit and loss, but in terms of transparency and volatility for the investor.

Oversupply in 2010

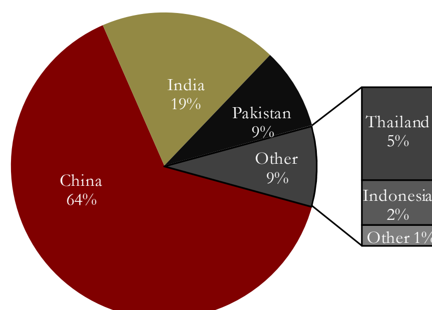
Based on our current consumption and capacity estimates, we envisage an oversupply of cement in the UAE at the end of 2010/beginning of 2011.

Exporting is a viable option for the surplus cement in the UAE if the cost of production is less than that of neighbouring countries such as Oman and Saudi Arabia. Currently the cost base in the UAE is higher than that of other GCC countries and in our opinion a surplus of cement and declining production costs could cause the price per tonne soften at the end of 2010.

A risk of imports flooding the market

Since the beginning of the construction boom, the UAE has been a net importer of cement.

UAE Cement Imports, 2007



Source: Dubai World Statistics Department, Industry Sources

There is a risk that the global slowdown could increase cement imports in the Middle East as demand in USA and Europe starts to dry up. Saudi Arabia currently has restrictions on cement exports, but this is expected to be lifted by the end of the year and could also contribute to an increase in imports.

Whilst we do see this as a risk to the sector, we believe that the reinstatement of import duties that have been temporarily suspended and the capacity constraints of the UAE ports should restrict the volumes imported into the UAE.

Location and transportation

Ras Al Khaimah is a leading producer of cement in the GCC and is home to four of the key cement manufacturers, producing more than 34% of UAE's total cement and 58% of UAE's clinker. Ras Al Khamiah has large deposits of high grade limestone, an essential component in the production of cement. Limestone comprises around 85% of the raw material used in production. UCC, GCEM, RAKCC and RAKWCT are located in Ras Al Khaimah in the Khor Khwair area which is strategically placed next to the limestone deposits near the Hajjar mountain range as well as the Port Saqr. If domestic demand falls and the price of

UAE cement becomes more competitive in the GCC, then being located near the port is advantageous for exporting.

Transportation of cement over long distances is uneconomical and therefore a close proximity to the end user as well as to the raw materials has been of strategic advantage to some of the UAE cement manufacturers. The majority of cement is manufactured and consumed in the UAE and therefore transportation is mainly across land and subject to fluctuating fuel prices.

High capex is a barrier to entry

The cement industry is highly capital intensive with PPE averaging at 111% of 2007 revenues for the 5 companies covered in this report. We see a large initial capital outlay and a lengthy start up period as a significant barrier to new entrants looking to enter the market. On average, it costs between US$110-150 per tonne to set up an integrated cement manufacturing facility as compared to a capex of US$40-55 per tonne to set up a cement grinding facility.

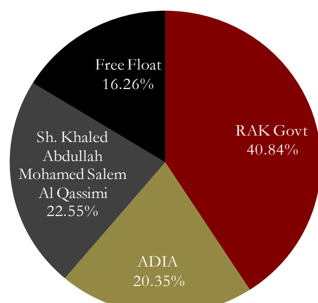
Union Cement Company

RATING: UNDERPERFORM

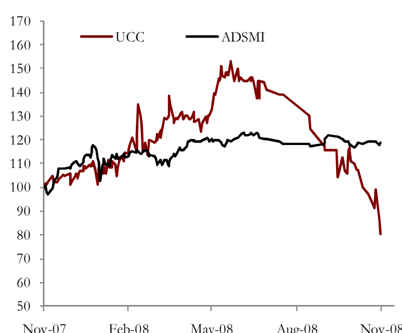
Equity Data	
Current Price (AED)	2.78
Target Price (AED)	1.29
Upside/downside	-54%
12 Mo. Performance	-19%
Market Cap. (AED bn.)	1.77
Enterprise Value (AED bn.)	1.76
RIC	UCC.AD

Financials	2008E	2009E
Revenues	1,095	1,089
Gross Margins	20%	23%
EBITDA	188	223
EBITDA Margin	17%	20%
Net Profit	89	130
Net Profit Margin	8%	12%
EPS	0.14	0.20
PE	19.8	13.7
EV/EBITDA	9.4	7.9

UCC Shareholder Structure



Source: ADX



Source: Bloomberg

Union Cement is one of the largest cement and clinker manufacturers in the UAE with a capacity of 4.2mtpa of cement and 4mtpa of clinker. In 2005, UCC embarked on a capacity expansion plan to triple its capacity. The project was completed in 2 years at a cost of AED1 bn. UCC's main products are clinker, Ordinary Portland Cement (OPC), Sulphate Resistant Cement (SRC) and Oil-well Cement. In 2007, 97% of the company's production volume was sold domestically generating 98% of revenues. The remaining 3% of production volume was exported to countries including Qatar and Oman, generating 2% of revenues. Sales within the UAE was spread across the emirates including 22% in RAK, 46% in Dubai, 17% in Abu Dhabi and 5% in Sharjah.

RAK government and ADIA are major shareholders in the company with 41% and 20% stake respectively. Of the remaining 39% ownership, 23% is held by Sh. Khaled Abdullah Mohamed Salem Al-Qassimi, and 16% is free float. The permitted foreign ownership is 49% but at present only 3% of the ownership is held by foreigners.

The stock currently trades at an estimated 2008 P/E of 19.8 with an average three month trading volume of 0.36mn. With a target price of AED1.29, we initiate coverage on UCC with an *underperform* rating.

Investment Positives

Multi-fuel burner shields costs

Since 2006, energy costs have accounted for over 50% of UCC's manufacturing costs. Fuel prices have ranged from US$50 in Mar-05 to US$146.68 in Jul-08. UCC's kilns could be powered by either fuel or natural gas. Due to the unreliable supply of natural gas, UCC's manufacturing process was heavily reliant on fuel oil and from 2005 to 2007 margins declined by more than 50%. In 2007, UCC reported gross and net margin of 23% and 21%, compared to gross margins of 38% and net margins of 42% in 2006. In order to alleviate the cost burden, UCC undertook the installation of a multi-fuel burner in its new kiln which could be powered by coal as well as natural gas and fuel. Due to initial manufacturing hiccups and technical issues, the kiln became fully operational from 2Q08 as opposed to the company's expectations of 1Q08. We anticipate margins to improve as the company benefits from the option to switch between fuels based on considerations such as cost, energy efficient and reliability of supply. We have forecasted gross margins to increase from 20% in 2008 to 23% in 2009.

Power play with capacity expansion

UCC envisaged the huge cement demand arising from the booming construction industry within the UAE. The company's management masterminded its capacity expansion plan to exploit the potential opportunities in the cement sector well in advance of other cement manufacturers. The company undertook AED1 bn facility expansion in 2005 which was completed in 2007 and tripled UCC's integrated manufacturing capacity.

Currently UCC is the largest manufacturer with over 4mtpa of cement as well as clinker. Based on our estimates we forecast market dynamics to result in an oversupply of cement at end of 2010. We expect UCC, with its massive capacity to be a pricing power play in the UAE cement sector.

Clinker advantage over cement grinders

UCC's upstream expansion of its clinker manufacturing will further strengthen its position as more cement manufacturers come on board and there is an overcapacity of grinding facilities in the UAE. UCC stands to benefit from a steady production of raw material at all times. Clinker shortages are likely to persist until 2010 and therefore, we anticipate clinker prices to remain high as demand surpasses supply. As far as solely downstream focused cement manufacturers are concerned, clinker could be the deciding factor. If it becomes inefficient to import clinker in terms of price and logistics, UCC's ability to manufacture clinker will make it a strong player in the local cement industry. The company can use its own clinker for its cement manufacturing as per market demand and if there is a situation of cement oversupply, the factory can reduce cement production and sell the excess clinker to grinding facilities that would prefer to buy clinker from the UAE than overseas.

Reduced exposure to equities

At end of 2006, UCC had more than AED200 mn invested in equities held for trading which represented 13% of its total balance sheet. In order to raise cash for its facility expansion, the company sold a large stake in equities. At the end of 2007, only 1% of the balance sheet was exposed to local equities. In the current climate, we see the reduced exposure as an upside for the company because it is less subject to the deteriorating markets. UCC is focused on cement production and therefore revenues and margins should be a reflection of the company's true operational performance.

Electricity shortages to reduce

In 2007, UCC acquired a 35% stake in RAK Energy who plans to build four power stations in Ras Al Khaimah over the next four years, one of which will be solely dedicated to the cement industry in RAK. The management decided to pursue this investment at end of 2007, with a view to guarantee future electricity supply and reduce dependency on diesel or natural gas to power its generators in times of electricity shortages.

Cement tankers a valuable investment

UCC has invested in 20 cement tankers to reduce distribution costs resulting from rising diesel prices. In fact, the company embarked on this investment with a vision to build a logistics platform to expand its span of activities across the supply chain. From management discussions we understand that UCC expects to make a small margin on transportation from 2009.

Investment Risks

Efficiency questions have been raised over gross margins

UCC has the lowest gross margins in comparison to our peer group. In 2007, the average gross margin of our peer group was 35% while UCC lagged at 23%. In 2008, the estimated gross margin for UCC is 20% compared to our estimated peers group average of 30%. In 2007, UCC's fuel costs accounted for over 67% of its manufacturing costs while fuel costs for the peers accounted for 50-55%. UCC switched to coal in 3Q08 and we expect margins to increase going forward. However, low gross margins compared to our peer have raised questions for us around efficiency.

Depreciation expense set to rise

Since 2008, UCC's new manufacturing facility has started production and we expect the depreciation expense to rise as the company starts to run down its new assets. 3 of the 4 kilns are over 25 years old and the company had previously written off its old assets. Therefore, UCC's depreciation expense was relatively low as compared to its peers. From management discussions, we understand the company is also contemplating replacing its old kilns, the burners of which are not multi-fuel and are still dependent on natural gas and fuel. Replacement of the kilns would require additional capex and would further increase the depreciation expense. We expect depreciation to impact the net margins from 2009.

Huge capacity has downside

In times of construction industry slowdown, we foresee we expect UCC to have stock piles of cement if it continues production at 100% capacity. However, in an oversupply situation UCC could reduce capacity utilization of grinding mills and sell its clinker stock in the market.

Fixed price coal contract may hinder margin improvements

In May 2008, UCC signed a one year fixed price contract for coal, to hedge itself against potential price rises. However, since July 08, the price of coal has fallen and UCC is unable to take advantage of the reduced price and increase margins unlike some of its peers. Fixing the coal supply could also limit the company's decision to switch to a cheaper fuel.

Company Financials

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Income Statement					
Revenues	**675.41**	**1,095.28**	**1,088.56**	**1,033.61**	**923.43**
COGS	(521.89)	(879.15)	(838.27)	(785.54)	(701.81)
Gross Profit	**153.51**	**216.12**	**250.28**	**248.07**	**221.62**
Gross Margin	22.73%	19.73%	22.99%	24.00%	24.00%
Other Operating Income	9.99	9.24	9.18	8.72	11.54
Distribution Costs	(12.91)	(17.67)	(17.56)	(20.07)	(22.96)
SG&A	(25.70)	(19.90)	(19.05)	(20.67)	(23.09)
EBIT	**121.07**	**97.17**	**139.15**	**181.54**	**174.24**
Operating Margin	17.93%	8.87%	12.78%	17.56%	18.87%
EBITDA	**124.90**	**187.79**	**222.85**	**216.04**	**187.12**
EBITDA Margin	18.49%	17.15%	20.47%	20.90%	20.26%
Income/(Loss)from Invstmnt. in Shares	53.66	2.06	0.00	0.00	0.00
Finance Costs	(0.37)	(4.20)	(1.96)	(2.05)	(5.78)
Profit from Associate	0.00	0.00	0.00	0.00	0.00
Income before Minority Interests	174.36	95.04	137.20	179.49	168.46
Minority Interest	(5.70)	(5.68)	(7.48)	(7.18)	(5.83)
Net Income	**168.67**	**89.36**	**129.71**	**172.31**	**162.63**
Shares Outstanding (mn)	554.40	637.56	637.56	637.56	637.56
Earnings Per Share	**0.30**	**0.14**	**0.20**	**0.27**	**0.26**
Cash Earnings	142.73	135.93	171.02	214.11	204.04
Cash Earnings Per Share	**0.26**	**0.21**	**0.27**	**0.34**	**0.32**
Balance Sheet					
Non Current Assets					
Property, plant & equipment	910.69	913.19	723.83	794.88	718.28
Available for sale investments	161.40	141.80	141.80	141.80	141.80
Current Assets					
Investments in shares held for trading	12.58	11.77	11.77	11.77	11.77
Inventories	102.13	180.65	171.09	183.43	165.76
Trade and other receivables	232.77	239.51	227.72	207.19	187.22
Cash & bank balances	56.38	20.84	26.32	202.12	375.81
Total Assets	**1,475.96**	**1,507.77**	**1,302.52**	**1,541.18**	**1,600.65**
Non-Current Liabilities					
Bank loans	0.00	0.00	-3.32	36.58	73.83
Provision for employee's EoS	14.08	14.16	12.53	13.94	14.28
Current Liabilities					
Trade & other payables	44.19	78.90	69.78	64.84	58.59
Short term employee's benefits	2.16	3.44	3.04	3.72	4.20
Short term bank loans	43.38	97.98	-3.32	36.58	73.83
Total Liabilities	**103.80**	**194.48**	**78.69**	**155.66**	**224.72**
Share capital	554.40	637.56	637.56	637.56	637.56
Reserves & Retained Earnings	816.25	674.23	584.77	746.46	736.87
Shareholder's Equity	**1,370.65**	**1,311.79**	**1,222.33**	**1,384.02**	**1,374.43**
Minority Interest	**1.50**	**1.50**	**1.50**	**1.50**	**1.50**
Cash Flow					
EBIT	**97.17**	**139.15**	**181.54**	**174.24**	**145.71**
Depreciation	27.73	48.63	41.31	41.80	41.41
EBITDA	**124.90**	**187.79**	**222.85**	**216.04**	**187.12**
Change in Working Capital	65.48	(13.02)	12.24	3.25	31.39
Other Income/(Expense)	53.66	2.06	0.00	0.00	0.00
Capex	(199.97)	(252.08)	(80.00)	(80.00)	(80.00)
Net Financial Expense	(0.37)	(4.20)	(1.96)	(2.05)	(5.78)
Increase/(decrease) in financing	(136.94)	128.33	(104.63)	79.81	74.49
Free Cash Flow to Equity Holders	**(93.23)**	**48.88**	**48.51**	**217.05**	**207.22**
Dividends	(99.91)	(84.42)	(43.03)	(41.25)	(33.52)
Change in Cash Position	(193.15)	(35.54)	5.48	175.80	173.70

Valuation

We have used the "discounted cash flow to equity holders" method.

In our DCF analysis we have used a cost of equity discount rate to reflect a risk free rate based on the 30 year Qatar bond and the equity risk premium for emerging markets. The cost of equity is 14% for the cement companies in our coverage and we have used a terminal growth rate of 3%.

Perpetual Growth \ Cost of Equity	13.0%	13.5%	14.0%	14.5%	15.0%
1.0%	1.22	1.16	1.10	1.05	1.00
1.5%	1.27	1.20	1.14	1.09	1.04
2.0%	1.32	1.25	1.19	1.13	1.07
2.5%	1.38	1.30	1.23	1.17	1.11
3.0%	1.44	1.36	1.29	1.22	1.15
3.5%	1.52	1.42	1.34	1.27	1.20

We initiate coverage on Union Cement with a market *"underperform"* rating. We have a target price of AED1.29, with a downside of 54%.

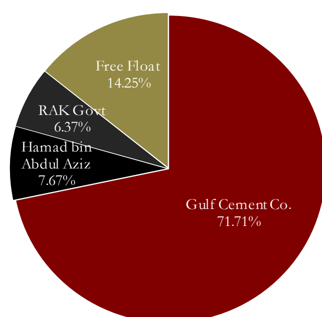
Gulf Cement Company

RATING: MARKET PERFORM

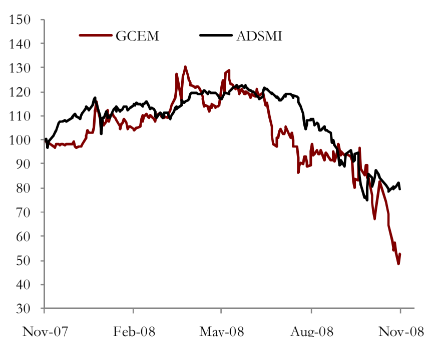
Equity Data	
Current Price (AED)	2.89
Target Price (AED)	2.97
Upside/downside	3%
12 Mo. Performance	-51%
Market Cap. (AED bn.)	2.06
EnterpriseValue(AED bn)	2.06
RIC	GCEM.AD

Financials	2008E	2009E
Revenues	1,027	1,026
Gross Margins	39%	39%
EBITDA	384	384
EBITDA Margin	37%	37%
Net Income	279	328
Net Income Margin	27%	32%
EPS	0.34	0.40
PE	8.5	7.2
EV/EBITDA	5.4	5.4

GCEM Shareholder Structure



Source: ADX



Source: Bloomberg

Company Background

Gulf Cement has clinker and cement production capacity of 3.8mtpa and 2.5mtpa respectively. It is the largest clinker producer in the UAE. The plant is located in Ras Al Khaimah and is strategically placed near the Saqr Port and the limestone quarry at the foot of the Hajjar Mountains. The close proximity to the port facilitates both imports and exports, with export sales accounting for approximately 6% of total revenue. The limestone quarry supplies the plant with more than 80% of the raw materials needed for production. The company produces a variety of Portland cement as well as Ground Granulated Blast Furnace Slag.

Gulf cement is listed on the Abu Dhabi Securities Market and the Kuwait Stock Exchange. The stock currently trades at an estimated 2008 P/E of 8.5 with an average three month trading volume of 11.77mn. With a target price of AED2.97, we initiate coverage on Gulf Cement with a *market perform* rating.

Investment Positives

Excess clinker

Gulf Cement is the largest producer of clinker in the UAE. Gulf cement utilises its own clinker for cement production and also sells clinker directly to other factories in the region. The UAE has a shortage of clinker so producing clinker in excess ensures a constant supply of raw materials at low cost and an additional revenue stream. We expect the sale of clinker to bolster the top line when there is an oversupply of ground cement in the market, as it is more cost effective to import locally if possible.

Strong and steady gross margins

Gulf cement has one of the highest gross margins and operating margins of our peer group. Gross margins have ranged from 28% to 45% and have averaged at 37.4% since the first quarter of 2006. Gross margins have been strong because of high cement prices, reducing cost of materials used in production and the installation of a multi-fuel burning system which currently utilizes coal instead of fuel. Gulf cement produces its own clinker which ensures a reliable supply of raw materials for production that is more cost efficient than importing.

Net cash position

National Cement has a positive cash position that we believe can support a sustained period of slowdown in the construction industry.

Well placed for exporting

Gulf cement is located only 1.5km from the Mina Al Saqr port which has costs benefits for both importing and exporting. The company has recently installed a loading system to load bulk cement onto the ship at a rate of 550tph. Gulf Cement currently exports clinker and cement to 11 countries in the GCC and the Far East. The UAE is a net importer of cement, however with current clinker and grinding expansion plans from UAE manufacturers, as well as a potential slowdown in construction growth, we anticipate an oversupply at the end of 2010/beginning of 2011. We expect prices to soften, production to decline and an increase in export sales. Gulf cement is well placed for exporting cement overseas in term of its location and its loading system and we see this as an advantage going forward.

We anticipate gross margins to increase in 2008 from 34% to 39% as the full effects of the multi fuel system become apparent.

Fuel versatility improves margins

Gulf Cement installed a multi-fuel system that became operational in the second half of 2007. The multi-fuel system can utilize natural gas, high viscosity & sediment oil, coal, petroleum coke and oil. The versatility of the fuel system ensures that the company is not reliant on the availability, or the price of just one fuel. Gulf is currently using coal which is advantageous in terms of being reliably sourced and effectively hedged.

Investment Risks

Significant Exposure to Equities

Gulf Cement is significantly exposed to the regional equities, with approximately one third of total assets being attributable to investments held for trading. In 2006, investment losses totalled AED139 mn compared to investment gains of AED192 mn in 2007. Consequently, net profit has been extremely volatile, with net margins ranging from 16.6% in 2006 to 50.32% in 2007. We anticipate large investment losses in the second half of 2008 on the back of spiralling markets across the GCC. Whilst investment gains in 2007 were positive for the company as it cushioned the impact of rising fuel costs, we see the extent of the equity exposure as misleading to the investor.

No expansion plans, therefore top line is price dependant

Gulf Cement expanded its production capabilities in 2007 and has no further plans to expand. In our opinion, Gulf cement's performance going forward is heavily dependent on the price of cement and their ability to control costs. As mentioned previously, we envisage an oversupply of cement in the UAE at the end of 2010/beginning of 2011. A surplus of cement and a potential slowdown in construction may cause prices to soften and fall below the current capped price of AED360 per tonne. We forecast revenues of AED1,027 mn in 2008, AED1,026 mn in 2009 and AED1,023 mn in 2010. We anticipate revenues to decline in 2011 to AED968 mn due to an oversupply in the UAE, a reduction in construction growth and a reduction in the price per tonne.

Low trading volumes

Gulf cement has a market cap of AED2.06 bn. Trading volumes have historically been low with an average three month trading volume of 11.77mn.

Company Financials

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Income Statement					
Revenues	**822.77**	**1,027.02**	**1,026.47**	**1,023.33**	**968.15**
COGS	(539.68)	(630.73)	(626.20)	(614.00)	(580.89)
Gross Profit	**283.08**	**396.29**	**400.27**	**409.33**	**387.26**
Gross Profit Margin	34.41%	38.59%	38.99%	40.00%	40.00%
Other Operating Income	0.59	1.22	2.05	2.05	1.94
SG&A	(9.16)	(13.25)	(18.48)	(23.07)	(24.22)
EBITDA	274.52	384.26	383.85	388.31	364.98
EBITDA Margin	33.4%	37.4%	37.4%	37.9%	37.7%
EBIT	**231.76**	**329.11**	**333.96**	**337.68**	**314.63**
EBIT Margin	28.2%	32.0%	32.5%	33.0%	32.5%
Total Investment Income/(loss)	191.96	(42.77)	-	-	-
Other Gains/(Losses)	(1.07)	1.05	(2.94)	(2.96)	(2.84)
Finance Costs	(8.65)	(8.15)	(2.86)	(4.56)	(3.49)
Net Income	**414.00**	**279.24**	**328.15**	**330.16**	**308.30**
Shares Outstanding (mn)	714.00	821.10	821.10	821.10	821.10
Earnings Per Share	**0.58**	**0.34**	**0.40**	**0.40**	**0.38**
Cash Earnings	264.79	377.16	378.04	380.79	358.66
Cash Earnings Per Share	**0.37**	**0.46**	**0.46**	**0.46**	**0.44**
Balance Sheet					
Non Current Assets					
Available for sale investments	55.25	37.56	37.91	37.51	35.30
Investment Property	0.00	7.20	7.20	7.20	7.20
Property, plant & equipment	663.69	630.02	623.53	635.81	623.10
Current Assets					
Cash & bank balances	178.55	200.30	379.09	657.31	886.74
Investment held for trading	654.22	574.02	574.02	574.02	574.02
Trade and other receivables	321.90	350.52	404.36	400.07	376.58
Inventories	139.83	175.26	202.18	175.03	164.76
Total Assets	**2,013.45**	**1,974.87**	**2,228.28**	**2,486.96**	**2,667.71**
Non-Current Liabilities					
Bank loans	131.49	99.73	105.86	111.64	98.09
Provision for employee's EoS	11.79	12.62	12.13	12.00	11.30
Current Liabilities					
Bank Overdrafts & Loans	43.97	33.24	35.29	37.21	32.70
Trade & other payables	105.05	108.04	124.63	127.42	121.87
Total Liabilities	**292.30**	**253.62**	**277.90**	**288.27**	**263.95**
Share capital	714.00	821.10	821.10	821.10	821.10
Reserves & Retained Earnings	1,007.15	900.15	1,129.28	1,377.59	1,582.66
Shareholder's Equity	**1,721.14**	**1,721.24**	**1,950.38**	**2,198.69**	**2,403.75**
Total Liabilities & S. Equity	**2,013.45**	**1,974.87**	**2,228.28**	**2,486.96**	**2,667.71**
Cash Flow					
EBIT	**231.76**	**329.11**	**333.96**	**337.68**	**314.63**
Depreciation	**42.75**	**55.15**	**49.89**	**50.63**	**50.35**
EBITDA	**274.52**	**384.26**	**383.85**	**388.31**	**364.98**
Change in Working Capital	(103.41)	(152.63)	(64.16)	34.22	28.22
Other Income/(Expense)	102.18	15.82	15.44	15.42	15.48
Capex	(50.55)	(37.20)	(80.00)	(80.00)	(80.00)
Net Financial Expense	(8.65)	(8.15)	(2.86)	(4.56)	(3.49)
Increase/(decrease) in financing	(37.62)	(42.50)	8.17	7.70	(18.06)
Free Cash Flow to Equity Holders	**176.45**	**159.61**	**260.43**	**361.09**	**307.13**
Dividends	(90.42)	(137.86)	(81.64)	(82.86)	(77.70)
Change in Cash Position	86.03	21.75	178.79	278.23	229.43

Valuation

We have used the "discounted cash flow to equity holders" method.

In our DCF analysis we have used a cost of equity discount rate to reflect a risk free rate based on the 30 year Qatar bond and the equity risk premium for emerging markets. The cost of equity is 14% for the cement companies in our coverage and we have used a terminal growth rate of 3%.

Perpetual Growth \ Cost of Equity	13.0%	13.5%	14.0%	14.5%	15.0%
1.0%	2.86	2.75	2.65	2.56	2.47
1.5%	2.95	2.83	2.72	2.62	2.53
2.0%	3.04	2.92	2.80	2.69	2.59
2.5%	3.14	3.01	2.88	2.77	2.66
3.0%	3.26	3.11	2.97	2.85	2.73
3.5%	3.38	3.22	3.07	2.94	2.82

We initiate coverage on Gulf Cement with a "*market perform*" rating. We have a target price of AED2.97, with an upside of 3%.

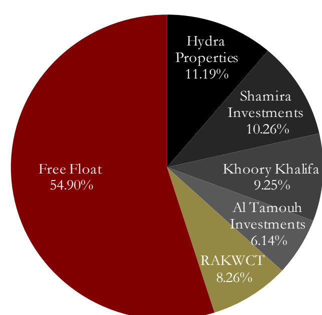
RAK Cement Company

RATING: MARKET PERFORM

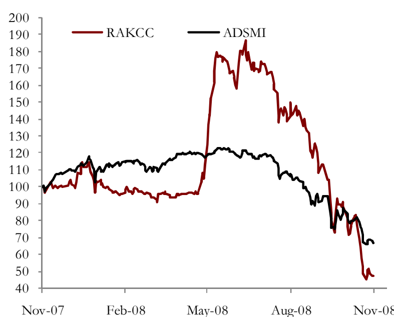
Equity Data	
Current Price (AED)	1.01
Target Price (AED)	1.03
Upside/downside	2%
12 Mo. Performance	-53%
Market Cap. (AED mn.)	489
Enterprise Value (AED mn.)	489
RIC	RKCC.AD

Financials	2008E	2009E
Revenues	402	407
Gross Margin	22%	26%
EBITDA	81	97
EBITDA Margin	20%	24%
Net Profit	59	75
Net Margin	15%	18%
EPS	0.12	0.15
PE	8.3	6.6
EV/EBITDA	6.0	5.1

RAKCC Shareholder Structure



Source: ADX



Source: Bloomberg

Company Background

Ras Al Khaimah Cement Company (RAKCC) currently operates at 100% capacity, producing 1.2mn tonnes of cement and 1.0mn tonnes of clinker per year. RAKCC produces Ordinary Portland Cement (OPC), Sulphate Resistant Cement (SRC) and Powercrete®, a high strength, premium cement. In 2007, the UAE and GCC accounted for 33% and 50% of total sales whilst 17% was sold internationally.

RAKCC is listed on the ADX, 55% of the shareholding is free float, with 49% available to foreign owners. Hydra Properties, an Abu Dhabi real estate developer, is a major shareholder of RAKCC. In 2007 Hydra reduced its stake from 30% to 11%.

The share price currently trades at an estimated 2008 P/E of 8.3 and has an average three month trading volume is 70.94mn. With a target price of AED1.03, we initiate coverage on RAKCC with a *market perform* rating.

In our view, short term catalysts would include the acquisition of Reem Readymix and successful implementation of the multi fuel burner.

Investment Positives

Cost Cushions

Fuel accounts for more than 50% of RAKCC's manufacturing costs. In 2007, RAKCC suffered significant margin erosions due to natural gas shortages and rising prices of heavy fuel. RAKCC reported gross and net margin of 25% and 16% in 2007, compared to gross margins of 48% and net margins of 39% in 2006. To combat high energy costs, RAKCC installed a multi-fuel burner which can be powered by coal, natural gas or heavy fuel. The move attempts to utilise coal which is readily available, more cost effective and energy efficient. The multi-fuel burner should become operational from 1Q09 and we anticipate margins to improve as RAKCC benefits from the reduced dependency on the costs and availability of natural gas and fuel.

Product Innovation Preferred over Capacity Expansion

With extensive cement expansion plans underway in the UAE, RAKCC management decided not to expand its existing facility. Instead, the company chose to diversify its products and find a market unexplored by other OPC manufacturers within the country. RAKCC identified a market for high strength cement that has been increasingly used in the construction. It capitalised on the opportunity to differentiate itself from existing cement bigwigs by introducing Powercrete® in 2008. Powercrete® is a mixture of 70% traditional OPC and 30% fly ash which is imported from India. The launch of Powercrete® has created 15% extra capacity through product blending as opposed to physical expansion and capital expenditure.

Powercrete® commands premium price

Powerecrete® is not subject to the price cap set by the ministry of economy for OPC. It can be sold for between 10-20% premiums over the existing OPC capped price of AED 360/tonne. RAKCC is the only cement manufacturer that supplies this product in the usable form to the local market and as such, we anticipate the company's Powercrete® sales to bolster revenue during the OPC surplus that we estimate at the end of 2010.

Potential acquisition with Reem Ready-Mix in Abu Dhabi

On 31st Jan 08, RAKCC announced its interest to acquire a 70% stake in Reem Ready mix in a JV with Royal Group (Abu Dhabi) for AED 80 mn. From our discussions with management, the acquisition is expected to complete by the end of 2008. The company is based on Reem Island and supplies ready-mix concrete to Abu Dhabi. Management suggests that the acquisition could guarantee sales for approximately half the company's OPC production.

Negligible exposure to equities

Unlike many of its peers, RAKCC has refrained from investing in the stock market and has purely concentrated on cement production. However, in 3Q08, RAKCC invested AED25 mn in local equities although from our discussions with management, the investment is capital guaranteed. The company's income and margins are a true reflection of operational performance. In the current climate, we view this as a huge advantage over other cement companies that are heavily exposed to regional equities.

Direct connection to Saqr Port

Based on our cement consumption estimates and expansion plans of existing players, we anticipate an oversupply of cement at the end of 2010. We expect prices to soften, production to decline and an increase in export sales. However, costs will be a key factor to compete with other GCC cement markets. RAKCC is one of the few cement companies that benefits from a conveyor belt that is directly connected to port, which we believe puts RAKCC in a favourable position for exporting.

Investment Risks

Price softening to impact revenue

Based on our cement consumption estimates and planned capacity expense, we anticipate an oversupply of cement by the end of 2010. A surplus of cement and a potential slowdown in the construction industry suggests that the price per tonne should fall. With no expansion plans, RAKCC's revenue is driven by price as opposed to volume. Powercrete® sales do offer some comfort, however we still feel that the RAKCC's revenue is influenced by market movements outside of management's control.

Electricity shortages to persist

RAKCC continues to use natural gas and diesel to power its generators in times of electricity shortage, a common problem in the Northern Emirates. Diesel is expensive and natural gas supply is erratic. RAKCC has spent AED15 mn to be connect to the power grid that is due to service Ras Al Khaimah however this is not expected to come online for another three years.

Margins are subject to market fluctuations of coal prices

RAKKCC is installing a multi-fuel burner to overcome the energy shortages that significantly reduced margins in 2007. The move attempts to use coal which is readily available, more cost effective and energy efficient. However, RAKCC has not entered into a fixed contract or hedged against fluctuating coal prices. The multi-fuel kiln should become operational from 1Q09. Whilst coal prices have come down in the second half of 2008 we feel it is important to note that any price rises in coal may adversely impact profit margins.

Company Financials

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Income Statement					
Revenues	**334.97**	**401.83**	**407.14**	**392.90**	**366.02**
COGS	(251.82)	(311.98)	(301.28)	(290.75)	(270.85)
Gross Profit	**83.15**	**89.85**	**105.86**	**102.15**	**95.16**
Gross Margin	24.82%	22.36%	26.00%	26.00%	26.00%
Other Operating Income	5.53	3.89	4.07	3.93	3.66
SG&A	(12.45)	(12.30)	(13.25)	(12.76)	(11.93)
EBITDA	**76.23**	**81.44**	**96.68**	**93.33**	**86.89**
EBITDA Margin	22.76%	20.27%	23.75%	23.75%	23.74%
EBIT	**54.64**	**59.14**	**74.72**	**72.75**	**68.31**
Operating Margin	16.31%	14.72%	18.35%	18.52%	18.66%
Finance Costs	(0.35)	(0.14)	(0.15)	0.47	0.74
Net Income	**54.29**	**58.99**	**74.57**	**73.23**	**69.05**
Shares Outstanding (mn)	484.00	484.00	484.00	484.00	484.00
Earnings Per Share	**0.11**	**0.12**	**0.15**	**0.15**	**0.14**
Cash Earnings	75.89	81.30	96.53	93.80	87.63
Cash Earnings Per Share	**0.16**	**0.17**	**0.20**	**0.19**	**0.18**
Balance Sheet					
Non Current Assets					
Property, plant & equipment	483.43	480.37	456.49	412.63	364.05
Capital spare parts	6.67	6.26	6.26	6.26	6.26
Available for sale investments in shares	30.99	30.78	30.78	30.78	30.78
Current Assets					
Held-for-trading Investments	0.00	25.00	0.00	0.00	0.00
Inventories	50.64	56.39	42.29	38.38	34.67
Trade and other receivables	127.18	152.76	168.18	143.94	130.02
Cash & bank balances	76.47	78.32	164.94	279.18	373.23
Total Assets	**775.38**	**829.89**	**868.95**	**911.18**	**939.01**
Non-Current Liabilities					
Bank loans	0.00	0.00	6.86	12.46	18.18
Provision for Employees Indemnity	2.13	2.35	2.84	2.84	3.21
Current Liabilities					
Trade & other payables	49.89	38.38	42.67	42.61	38.48
Short term bank loans	0.00	10.34	20.59	37.37	54.54
Total Liabilities	**52.01**	**51.07**	**72.97**	**95.27**	**114.41**
Share capital	484.00	484.00	484.00	484.00	484.00
Reserves & Retained Earnings	239.36	294.83	311.98	331.92	340.60
Shareholder's Equity	**723.36**	**778.83**	**795.98**	**815.92**	**824.60**
Minority Interest	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Cash Flow					
EBIT	**54.64**	**59.14**	**74.72**	**72.75**	**68.31**
Depreciation	21.60	22.30	21.95	20.57	18.58
EBITDA	**76.23**	**81.44**	**96.68**	**93.33**	**86.89**
Change in Working Capital	215.73	44.43	2.98	28.08	13.52
Capex	(35.00)	(21.97)	(30.00)	(30.00)	(30.00)
Net Financial Expense	(0.35)	(0.14)	(0.15)	0.47	0.74
Increase/(decrease) in financing	0.00	10.34	17.12	22.36	22.90
Free Cash Flow to Equity Holders	**(104.15)**	**1.85**	**86.62**	**114.24**	**94.05**
Dividends	72.60	0.00	0.00	0.00	0.00
Change in Cash Position	(31.55)	1.85	86.62	114.24	94.05

Valuation

We have used the "discounted cash flow to equity holders" method.

In our DCF analysis we have used a cost of equity discount rate to reflect a risk free rate based on the 30 year Qatar bond and the equity risk premium for emerging markets. The cost of equity is 14% for the cement companies in our coverage and we have used a terminal growth rate of 3%.

Perpetual Growth \ Cost of Equity	13.0%	13.5%	14.0%	14.5%	15.0%
1.0%	1.00	0.96	0.92	0.89	0.86
1.5%	1.03	0.98	0.95	0.91	0.88
2.0%	1.06	1.01	0.97	0.93	0.90
2.5%	1.09	1.05	1.00	0.96	0.92
3.0%	1.13	1.08	1.03	0.99	0.95
3.5%	1.18	1.12	1.07	1.02	0.98

We initiate coverage on RAKCC with a "*market perform*" rating. We have a target price of AED1.03, with an upside of 2%.

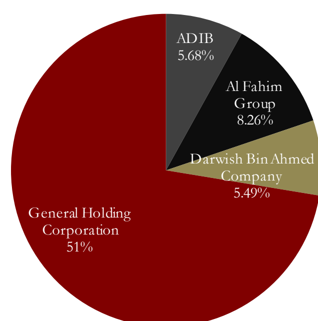
Arkan Building Materials

RATING: UNDERPERFORM

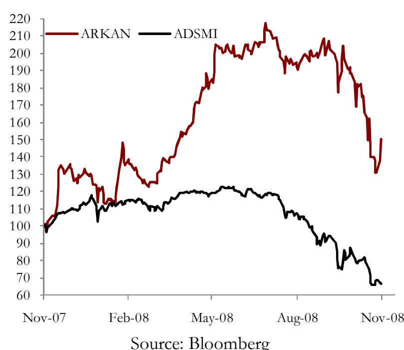
Equity Data	
Current Price (AED)	4.58
Target Price (AED)	2.01
Upside/downside	-56%
12 Mo. Performance	51%
Market Cap. (AED bn.)	8.02
EnterpriseValue (AED bn)	7.00
RIC	ARKN.AD

Financials	2008E	2009E
Revenues	701	574
Gross Margins	38%	45%
EBITDA	264	254
EBITDA Margin	27%	30%
Net Profit	187	219
Net Profit Margin	27%	38%
EPS	0.11	0.13
PE	42.8	36.5
EV/EBITDA	26.6	27.6

ARKAN Shareholder Structure



Source: ADX



Source: Bloomberg

Company Background

Arkan's strategy is to become a 'one stop shop' for building materials in the UAE. Arkan was incorporated in January 2006 to manage Emirates Cement Factory and Emirates Concrete Blocks.

Emirates Cement Factory has been operational since the 1970's and has a clinker and cement production capacity of 0.8mtpa and 1.2mtpa respectively. Arkan is undergoing extensive expansion plans through the incorporation of a fully integrated cement plant in Al Ain. Production capacity of clinker and cement should increase to 4mtpa and 5.7mtpa and is expected to come online in 4Q09. The company produces Ordinary Portland Cement (OPC), Sulphate Resistant Cement and Type II Cement.

Emirates Concrete Blocks produces 23mn concrete blocks per annum from two factories in Al Ain and Al Mafraq. The company is expanding its production capabilities to produce 75mn per annum which is earmarked for between 2Q09 and 3Q09. In 2Q08, without any announcement to the markets, Arkan began trading in steel from Turkey and distributing to the construction companies in the UAE.

Arkan has a 15km^2 plot of land in Al Ain that is being developed into an industrial park for the company's new ventures. It will incorporate the new cement and concrete block factories and a dry mortar factory that is due to complete in 3Q09. Other potential projects include waterproofing materials and cladding.

Arkan Building Materials is listed on the Abu Dhabi Stock Exchange and is majority owned by General Holding Company which is an Abu Dhabi Government entity. Foreign ownership is not permitted.

The share price currently trades at an estimated 2008 P/E of 42.8 and has an average three month trading volume of 72.32mn. We initiate with a target price of AED2.01 and an *underperform* rating.

Investment Positives

Government backing suggests a preferred supplier status

Arkan is majority owned by General Holding Company, which is wholly owned by the Abu Dhabi Government. We believe that Arkan is well placed to be a preferred supplier for Government funded projects on the back of its Government ownership.

In 2Q08 Arkan signed a MoU to be a major supplier for Aldar, a Government backed property developer based in the UAE. Aldar is a significant player in the real estate market in Abu Dhabi, with approximately AED265 bn projects under development. The extent of business gained through this relationship is not yet known. However, in our opinion the relationship with the Abu Dhabi Government is positive for Arkan and offers us some certainty over our revenue estimates.

Aggressive expansion boosts revenue

Arkan has an extensive expansion strategy in place that will more than quadruple its cement capacity by the end of 2009. The building blocks segment is also expanding, with 52mn additional blocks to come online from 2Q09. Arkan has signed a contract with M-Tec of Germany, to supply the equipment for a new dry mortar factory that is due for completion towards the end of 2Q09.

At the time of writing, Arkan had just announced a partnership with a Spanish scaffolding company. We await further details.

Arkan's strategy is to become a leading supplier of building materials and therefore we expect Arkan to introduce more business segments or joint ventures in the near future. From our discussions with management we understand that Arkan aims to own, or enter into joint ventures with, at least 40 factories over the next 5 years.

Product diversification adds comfort

Arkan currently manufacturers cement and concrete blocks and has recently begun to trade in steel. We anticipate dry mortar revenues at the end of 3Q09 and waterproofing and aluminium cladding soon after. All of Arkan's products are building materials but despite being subject to the performance of the construction industry, the variety of products does offer some comfort to investors. Based on our construction estimates and industry expansion plans we envisage an oversupply of cement at the end of 2010. Should Arkan's cement sales suffer due to an oversupply in the market then Arkan has alternative revenue streams to rely upon.

Sole clinker producer in Abu Dhabi

Arkan is the only producer of clinker in Abu Dhabi. Clinker is the raw material necessary for cement production and in our opinion, the limiting factor to cement supply in the UAE. Much of the expansion planned for the UAE is only for grinding facilities. These factories rely upon clinker imports from other domestic manufacturers or from overseas. In our opinion Arkan manufacturing its own clinker is an advantage in a market where we anticipate a shortage of clinker.

Natural gas supply maintains margins

Natural gas is plentiful in Abu Dhabi and therefore Arkan hasn't been plagued with the rising fuel prices and supply shortages that have impacted the cement players in the Northern Emirates. Natural gas is supplied to Arkan at a fixed price which alleviates the risk of fluctuating costs. Gross margins of the cement segment are the highest of our peer group and have ranged from 46% in 1Q07 to 67% in 2Q08.

Investment Risks

Still an expensive stock

Arkan is currently trading at a 2008 estimated P/E multiple of 42.8, which significantly outweighs our peer group average of 17.9. In our opinion, Arkan is overvalued and that a large proportion of the proposed expansion plans have already been factored into the current share price.

Steel revenues are uncertain

In 2Q08, Arkan began trading in steel, increasing revenues by AED293mn and accounting for 76% of total sales. With a booming construction industry, steel has been in shortage in the UAE, with prices reaching record highs early in 2008 at AED4,400 per tonne. Since then, steel prices have significantly fallen and in Nov 2008, steel was just AED1,800 per tonne. In 3Q08, Arkan's steel sales fell dramatically to AED25.06mn, representing just 24% of total sales. The future of the steel trading segment is largely unknown and we have used very conservative steel sales estimates going forward to reach our target price.

Trading margins are inherently lower than manufacturing margins and the rapid introduction of steel trading in 2Q08 has reduced gross margins from 53% in 1Q08 to 27% in 2Q08. As steel sales take on less prominence in our sales revenue estimates, we anticipate margins to increase.

Limited track record

Arkan Building Materials was incorporated in January 2006 to manage Emirates Cement Factory and Emirates Concrete Blocks. The company aims to own, or enter into JV's with, 40 factories in the next 5 years and to become a leading supplier of building materials in the UAE. Since incorporation, the only additional revenue stream has been from steel trading which began in 2Q08 and has since fallen by the wayside. Steel sales have reduced from AED294 mn in 2Q08 to AED25 mn in 1Q08. Whilst cement expansion plans are underway, we do not expect to see results until the beginning of 2010. In our opinion, Arkan has a positive outlook in terms of its aggressive growth strategy; however the expansion may prove to be more difficult than expected and there has been no previous track record to rely on.

Exposure to equities

The value of investments that could impact the income statement, stood at AED108 mn in 3Q08, representing 4% of the total assets on the balance sheet. Whilst Arkan does not have the highest exposure of our peer group, there still have been significant investment losses written down in the income statement. Net profit margins have reduced from 55% in FY07 to 29% in 3Q08. In the current climate we anticipate further losses on the back of spiralling local markets. However, due to the uncertainty of the financial markets we have not attempted to project the investment gains and losses in our model going forward.

Company Financials

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Income Statement					
Revenues	**346.36**	**701.11**	**573.52**	**1,418.53**	**1,242.94**
COGS	(168.12)	(432.79)	(313.37)	(753.01)	(604.86)
Gross Profit	178.24	268.32	260.15	665.52	638.08
Gross Margin	51.46%	38.27%	45.36%	46.92%	51.34%
Other Operating Income	8.09	4.40	5.46	9.94	9.08
SGA	(46.93)	(9.03)	(11.47)	(14.19)	(12.43)
EBITDA	**139.40**	**263.69**	**254.14**	**661.28**	**634.73**
EBITDA Margin	40.25%	37.61%	44.31%	46.62%	51.07%
EBIT	**110.13**	**187.72**	**169.44**	**568.41**	**541.80**
EBIT Margin	31.80%	26.77%	29.54%	40.07%	43.59%
Interest Income	64.67	23.35	19.85	23.13	28.11
Net loss/gain on valuation of invts.	10.35	(46.04)	0.00	0.00	0.00
Share of profit from associates	0.00	19.46	27.28	27.28	27.28
Other income	0.00	2.67	2.87	7.09	6.21
Net Income	**185.15**	**187.16**	**219.44**	**625.91**	**603.41**
Net Income Margin	53.46%	26.69%	38.26%	44.12%	48.55%
Shares Outstanding (mn)	1,750.00	1,750.00	1,750.00	1,750.00	1,750.00
Earnings Per Share	**0.11**	**0.11**	**0.13**	**0.36**	**0.34**
Cash Earnings	**204.07**	**307.71**	**302.05**	**715.07**	**694.81**
Cash Earnings Per Share	**0.12**	**0.18**	**0.17**	**0.41**	**0.40**
Balance Sheet					
Non Current Assets					
Property, Plant & Equipment	543.09	1,490.16	1,803.09	1,875.94	1,913.64
Goodwill	128.43	128.43	128.43	128.43	128.43
Other Intangible Assets	195.31	188.96	188.96	188.96	188.96
Investment in Associate	0.00	170.47	170.47	170.47	170.47
Available for Sale Investment	0.00	145.70	145.70	145.70	145.70
Current Assets					
Cash & Bank Balances	1,012.71	472.16	511.08	621.22	755.10
Receivables & Prepayments	146.33	132.37	202.56	441.27	353.26
Inventories	58.41	44.29	25.32	55.16	44.16
Investments at FV through P&L	72.38	82.74	82.74	82.74	82.74
Total Assets	**2,156.66**	**2,855.27**	**3,258.36**	**3,709.89**	**3,782.46**
Non-Current Liabilities					
Bank loans	0.00	0.00	0.00	0.00	0.00
Current Liabilities					
Payables & Accruals	74.52	443.84	452.77	471.15	490.28
Due to Related Parties	1.75	1.00	0.00	0.00	0.00
Loans & Borrowings	0.00	300.00	856.83	697.89	643.71
Total Liabilities	**76.27**	**744.84**	**1,309.60**	**1,169.04**	**1,134.00**
Net Assets	**2,080.39**	**1,794.26**	**1,632.59**	**2,224.67**	**2,332.29**
Capital and Reserves	1,750.00	1,750.00	1,750.00	1,750.00	1,750.00
Total Equity	**2,080.39**	**1,794.26**	**1,632.59**	**2,224.67**	**2,332.29**
Cash Flow					
EBIT	**110.13**	**187.72**	**169.44**	**568.41**	**541.80**
Depreciation	29.27	74.51	82.61	89.16	91.40
EBITDA	**139.40**	**262.23**	**252.06**	**657.57**	**633.20**
Change in Working Capital	(228.94)	193.00	(43.31)	(250.16)	0.00
Other Income/(Expense)	75.02	(0.56)	49.99	57.50	61.60
Capex	(86.83)	(906.29)	(240.00)	(200.00)	(100.00)
Net Financial Expense	0.00	(1.46)	(2.08)	(3.70)	(1.53)
Increase/(decrease) in financing	0.00	292.86	122.67	151.63	(171.20)
Free Cash Flow to Equity Holders	**(101.35)**	**(365.81)**	**139.33**	**412.83**	**422.08**
Dividends	(122.50)	(175.00)	(100.41)	(302.69)	(288.20)
Change in Cash Position	(223.85)	(540.81)	38.92	110.14	133.88

Valuation

We have used the "discounted cash flow to equity holders" method.

In our DCF analysis we have used a cost of equity discount rate to reflect a risk free rate based on the 30 year Qatar bond and the equity risk premium for emerging markets. The cost of equity is 14% for the cement companies in our coverage and we have used a terminal growth rate of 3%.

	Cost of Equity					
		13.0%	13.5%	14.0%	14.5%	15.0%
Perpetual Growth	1.0%	1.89	1.79	1.69	1.60	1.52
	1.5%	1.98	1.86	1.76	1.67	1.58
	2.0%	2.07	1.95	1.84	1.74	1.64
	2.5%	2.17	2.04	1.92	1.81	1.71
	3.0%	2.28	2.14	2.01	1.89	1.79
	3.5%	2.41	2.25	2.11	1.98	1.87

We initiate coverage on Arkan with a market "*underperform*" rating. We have a target price of AED2.01, with a downside of 56%.

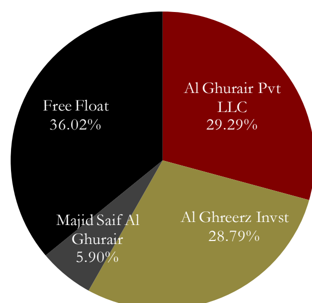
National Cement Company

RATING: UNDERPERFORM

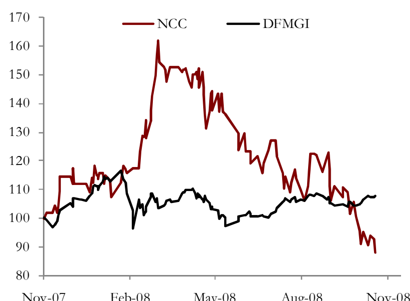
Equity Data	
Current Price (AED)	6.65
Target Price (AED)	3.38
Upside/downside	-49%
12 Mo. Performance	-12%
Market Cap. (AED bn.)	2.39
Enterprise Value (AED bn)	2.17
RIC	NCC.AD

Financials	2008E	2009E
Revenues	561	555
Gross Margins	29%	30%
EBITDA	112	139
EBITDA Margin	20%	25%
Net Profit	237	167
Net Profit Margin	42%	30%
EPS	0.66	0.47
PE	10.1	14.2
EV/EBITDA	19.3	15.6

NCC Shareholder Structure



Source: Bloomberg



Source: Bloomberg

Company Background

National Cement Company was incorporated in Al Quoz, Dubai in 1968. National Cement produces 1.1mtpa of clinker and 1.5mtpa of cement and at present have no plans to expand production. Domestic sales contributed 99.9% of total sales in 2006 and 2007.

National Cement produces Ordinary Portland Cement (OPC), Sulphate Resisting Cement (SRC), Portland Blast Furnace Cement, High Slag Cement and White Aggregates.

National Cement is listed on the Dubai Financial Market. It is currently trading at an estimated 2008 P/E of 10.1 and has an average three month trading volume of 0.04mn. We initiate with a target price of AED3.38 and an *underperform* rating.

Investment Positives

Burning tyres reduce fuel costs

In January 2008 it was reported that National Cement began burning old car tyres to generate energy for cement production, whilst cutting fuel costs. At present, burning tyres supplements oil and represents approximately 10% of the total fuel used. National Cement's margins have declined from an average of 43% in 2007 to an average on 28% in 2007. Whilst we don't believe burning tyres will significantly impact costs, we do believe that the initiative, combined with falling oil prices may improve margins from 4Q08.

Net cash position

National Cement has a positive cash position that we believe can support a sustained period of slowdown in the construction industry.

The only cement producer in Dubai

National Cement is located in Al Quoz area of Dubai and is the only cement producer in the Emirate. Dubai has undergone tremendous growth in the construction industry in recent years and has the largest construction backlog of all of the Emirates. Whilst we see the growth of the construction industry slowing down amidst the credit crisis, we do believe that being located close to the construction is of advantage in terms of reduced distribution costs and fast delivery.

Investment Risks

Revenue is price dependant

Revenue has increased from AED450 mn in 2005 to AED532 mn in 2007. The largest year on year increase was in 2007 when sales grew by 17%, largely on the back of an increase in cement prices. Based on our cement consumption estimates and production capacity in the UAE, we anticipate an oversupply of cement by the end of 2010. A surplus of cement combined with a slowdown in the construction industry suggests that the price per tonne should fall below the current capped price of AED360 per tonne. With no expansion plans, National's revenue is predominantly driven by price as opposed to volume. We anticipate revenues to fall in 2010 and 2011.

Exposure to Equities

National Cement has the highest exposure to equities of our entire peer group. Investment in marketable securities totals AED2,108 mn which is 74% of the balance sheet value. Despite this, the investment gains and losses have not widely fluctuated and net profits have remained relatively stable. The biggest variation was in March 2008, with a financial gain of AED108.8 mn. Net profit margins in 2007 were 37.9% and we estimate margins of 42.3% in 2008. Due to the uncertainty of the markets we have not forecast investment gains or losses going forward and our profit margins have decreased to 30.0% as a result. Whilst investment gains have not had a huge impact on the financial statements historically, we still see the extent of the equity exposure as misleading to the investor.

Distance from raw materials

National Cement manufactures clinker which is then ground to produce cement. Importing the raw materials to produce clinker is expensive and difficult to store. Material expenses, which we assume to include fuel as well as raw materials has more than doubled since 3Q06, whilst revenue has increased by only a third.

Company Financials

(AED Millions)	2007A	2008E	2009E	2010E	2011E
Income Statement					
Revenues	**532.74**	**560.54**	**554.61**	**533.23**	**471.18**
COGS	(301.81)	(400.18)	(388.23)	(373.26)	(329.82)
Gross Profit	230.93	160.37	166.38	159.97	141.35
Gross Margin	43.35%	28.61%	30.00%	30.00%	30.00%
Admin & General Expenses	(28.55)	(48.25)	(27.73)	(26.66)	(23.56)
EBITDA	**202.38**	**112.12**	**138.65**	**133.31**	**117.79**
EBITDA Margin	37.99%	20.00%	25.00%	25.00%	25.00%
EBIT	**183.07**	**97.16**	**123.12**	**117.59**	**104.20**
Operating Margin	34.36%	17.33%	22.20%	22.05%	22.11%
Other Income	24.56	37.31	44.37	53.32	47.12
Share in Loss from Associate	1.36	(0.05)	0.00	0.00	0.00
Finance Income/Expense	(7.08)	102.64	0.00	0.00	0.00
Net Income	**201.91**	**237.05**	**167.49**	**170.91**	**151.32**
Shares Outstanding (mn)	276.00	358.80	358.80	358.80	358.80
Earnings Per Share	**0.73**	**0.66**	**0.47**	**0.48**	**0.42**
Cash Earnings	290.96	320.44	151.96	155.19	137.72
Cash Earnings Per Share	**1.05**	**0.89**	**0.42**	**0.43**	**0.38**
Balance Sheet					
Non Current Assets					
PPE	203.40	193.29	189.12	186.26	164.38
Investment properties	2.92	2.92	2.92	2.92	2.92
LT investment in marketable securities	2,175.28	2,090.08	1,985.58	1,985.58	1,985.58
Investment in an associate	52.81	52.76	52.76	52.76	52.76
Long term receivables	1.00	1.00	1.00	1.00	1.00
Current Assets					
ST investment in marketable securities	8.65	18.28	18.28	18.28	18.28
Inventories	84.02	71.79	70.24	64.57	58.95
Trade & other receivables	155.52	170.22	166.54	153.09	139.76
Due from related parties	50.68	55.23	54.03	49.67	45.35
Total Cash at bank & in hand	218.18	234.65	297.82	323.81	359.61
Total Assets	**2,952.46**	**2,890.23**	**2,838.30**	**2,837.93**	**2,828.58**
Current Liabilities					
Trade & other payables	161.88	158.87	155.44	154.79	141.32
Due from related parties	2.64	20.71	20.26	18.63	17.00
Non Current Liabilities					
Provision for End of Service Benefits	21.99	24.16	23.64	26.08	26.19
Total Liabilities	**186.51**	**203.74**	**199.34**	**199.49**	**184.51**
Share capital	276.00	358.80	358.80	358.80	358.80
Reserves & Retained Earnings	2,489.96	2,327.68	2,280.16	2,279.64	2,285.27
Shareholder's Equity	**2,765.96**	**2,686.48**	**2,638.96**	**2,638.44**	**2,644.07**
Total Liabilities & Sharehldrs. Equity	**2,952.47**	**2,890.23**	**2,838.30**	**2,837.93**	**2,828.58**
Cash Flow					
EBIT	**183.07**	**97.16**	**123.12**	**117.59**	**104.20**
Depreciation	19.31	14.96	15.53	15.72	13.59
EBITDA	**202.38**	**112.12**	**138.65**	**133.31**	**117.79**
Change in Working Capital	(80.69)	(317.87)	2.54	21.21	8.17
Other Income/(Expense)	24.56	37.31	44.37	53.32	47.12
Capex	(17.08)	(14.80)	(16.00)	(16.00)	(16.00)
Net Financial Expense	101.28	200.99	0.00	0.00	0.00
Increase/(decrease) in financing	0.00	90.25	(13.10)	(72.57)	(28.00)
Free Cash Flow to Equity Holders	**230.45**	**107.99**	**156.46**	**119.27**	**129.08**
Dividends	(90.18)	(91.52)	(93.29)	(93.29)	(93.29)
Change in Cash Position	140.27	16.47	63.17	25.99	35.80

Valuation

We have used the "discounted cash flow to equity holders" method.

In our DCF analysis we have used a cost of equity discount rate to reflect a risk free rate based on the 30 year Qatar bond and the equity risk premium for emerging markets. The cost of equity is 14% for the cement companies in our coverage and we have used a terminal growth rate of 3%.

	Cost of Equity				
Perpetual Growth	13.0%	13.5%	14.0%	14.5%	15.0%
1.0%	3.28	3.17	3.06	2.97	2.88
1.5%	3.36	3.24	3.13	3.03	2.93
2.0%	3.46	3.33	3.21	3.10	3.00
2.5%	3.56	3.42	3.29	3.17	3.07
3.0%	3.67	3.52	3.38	3.26	3.14
3.5%	3.79	3.63	3.48	3.35	3.22

We initiate coverage on National Cement with a market *"underperform"* rating. We have a target price of AED3.38, with a downside of 49%.

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