

Umm Al-Qura Cement Company

Company Profile

Equities | Materials | Saudi Arabia

Thursday, 12 June 2014

New cement player to enter a very challenging market

Umm Al-Qura Cement started trading today: The Capital Market Authority (CMA) has approved the IPO of **Umm Al-Qura Cement Company (UACC)** at SAR10/share. In its EGM held on 25 February 2014, UACC approved increasing the company's capital by SAR275mn by offering capital increase shares (27.5mn shares) to the public at a price of SAR10/share. This would bring total capital to SAR550mn following the IPO, divided into 55mn shares at a par value of SAR10/share. On 6 April 2014, the CMA approved UACC's IPO to double the company's capital to SAR550mn, running from 29 April 2014 to 5 May 2014. According to *Argaam*, the offer was covered 8.4x and it started trading on **Tadawul Stock Exchange (TDWL)** on 12 June 2014.

UACC to start cement production in 2016 targeting Mecca and Medina: UACC is building a Portland cement plant in Al Taif City at an investment cost of SAR1.3bn, the capacity of which will reach 1.98mtpa (6ktpd) of clinker and 2.22mtpa of cement (6.7ktpd). In addition to its initial capital, UACC will utilize the IPO proceeds to finance this plant in addition to an SAR678mn loan facility from the Saudi Industrial Development Fund (SIDF) and another SAR61mn facility from different banks. Commercial production is expected to commence in Q1 2016 with a utilization rate of 80%, to reach full utilization rates in 2017. The plant will produce two types of cement: ordinary Portland cement (75% of production); and Pozzolana Portland cement (25%). UACC has also announced that in Q3 2015, the company will finalize the feasibility study for a White cement plant. With UACC's entrance, the Saudi cement market will host 16 players with a capacity of c.65mtpa in 2016 once the company starts production. From 3 July to 31 December 2013, UACC incurred losses of SAR6.9mn as the plant is still under construction, and the company

continued to record pre-operating expenses of SAR3.5mn during that period. Among UACC's target markets are the Mecca region, Medina and Al Baha due to their high demand for cement and proximity to the plant. The company is aiming to sell 70% of its production in Mecca, 20% in Medina and 10% in Al Baha. UACC's competitive advantages are mainly:

- Excellent geographic location in Al Taif City, near the highway.
- Availability of essential raw materials, such as limestone.
- Low production costs, due to proximity of raw materials to the plant, keeping transportation costs very low.

Relative valuation suggests a target price of SAR47/share: Major Saudi cement companies are trading at 2014e and 2015e PERs of 15.6x and 13.6x, discount of 22% and 9% to regional peers, respectively. Currently, we calculate the local market average EV/ton at SAR1,817 (USD504). Using a back-of-the-envelope relative valuation based on peers' average EV/ton, we reached a target price of SAR47/share, implying another 327% upside above today's market of SAR11/share. We note that we discounted our valuation estimate for 3 years to reflect the company's expected full utilization rate by 2017.

UACC's relative valuation

Capacity (mn tons)	2.22
Market average EV/Ton (SAR)	1,817
UACC EV (SARmn)	4,034
Less: Debt, excluding Cash (SARmn)	739
Estimated Equity Value (SARmn)	3,295
No. of shares (mn)	55
Target Price (SAR)	47

Source: MubasherTrade Research estimates

Consensus Rating: NA

Target Price: 47

Stock Details

IPO Data

IPO Price (SAR)	10.0
Offered shares (mn)	27.5
Offering size SARmn (USDmn)	275.0 (73.3)

Main Shareholders

	Pre IPO	Post IPO
Villa for Projects International Corp.	18.67%	9.34%
Abdul Aziz Omran Al-Omran	9.14%	4.57%
Hamad Ibrahim Abdul Latif	7.58%	3.79%
Al Madah Holding Company	5.45%	2.73%

Last Price (SAR)	11.0
Mubasher Ticker	3005.TDWL
Bloomberg Ticker	UACC AB

Capital Details

No. of Shares (mn)	55.0
Mkt. (SARmn)	605.0
Mkt. (USDmn)	161.3
Free Float (%)	50.0%

Company Profile

Umm Al-Qura Cement Company (UACC) was established in 2013 as a joint-stock company with a capital of SAR275mn divided into 27.5mn shares of the Riyadh-based company. The company is building its portland cement plant which will be located in Al Taif city, with investment cost of SAR1.3bn to produce ordinary portland cement and pozzolana portland cement with a capacity of 1.98mtpa of clinker and 2.22mtpa of cement. Also the company is planning to build a white cement plant. UACC expects to start its commercial production in Q1 2016 with utilization rate of 80% and to reach full utilization rate in 2017.

Saudi cement companies valuation multiples

	PER		EV/EBITDA		Current EV/ton		Mkt. Cap/ton	
	2014e	2015e	2014e	2015e	SAR	USD	SAR	USD
Yamamah Cement	16.4x	15.9x	12.9x	12.6x	2,226	594	2,242	598
Saudi Cement	14.3x	13.3x	12.7x	11.9x	1,987	530	1,992	531
Yanbu Cement	13.4x	12.9x	11.1x	10.9x	1,409	376	1,409	376
Arabian Cement	14.0x	13.7x	10.6x	10.2x	1,402	374	1,412	376
AL Jouf Cement	31.1x	23.2x	24.6x	17.1x	1,560	416	1,583	422
Southern Cement	16.1x	14.0x	14.2x	12.5x	2,056	548	2,056	548
Saudi Cement Peers' Average	17.6x	15.5x	14.4x	12.6x	1,817	485	1,823	486
Regional Cement Market Average	28.2x	15.7x	10.8x	9.6x	na	na	na	na

Source: MubasherTrade Research, Bloomberg, companies reports

Industry Overview

Saudi cement industry dates back to the 1950s: Cement production started in the Kingdom in 1955 with the establishment of **Arabian Cement Company** in Jeddah with a capacity of 300tpd clinker (90,000tpa). Prior to this date, all cement requirements were met through imports. For years, Saudi cement companies were able to export their excess capacities, mainly to other GCC countries and Africa. But starting in 2013 and due to the massive infrastructure projects, only few companies are able to export a very small portion of their produced cement. For example, Saudi Cement Company—the largest Saudi cement company by capacity—exported only 2.3% of its production in 2013.

Positive outlook for cement market demand: Changing demographics have prompted the Saudi government to invest heavily in infrastructure projects, including housing and transportation initiatives. We accordingly expect an increased market demand for cement, especially with annual population growth estimated at 3% in 2013 (current population is 30mn) by the Central Department of Statistics and Information. Saudi Arabia's economy is heavily supported by massive infrastructure plans, with the government having embarked on a SAR250bn housing construction program.

Cement expansion plan: In April 2013, **Saudi Arabia's ruler, HH King Abdullah bin Abdulaziz Al Saud**, ordered around USD800mn (SAR3bn) to be set aside for the construction of four new cement factories alongside the import of 10mn tons of cement or clinker to offset shortages and ensure the Kingdom has sufficient cement capacity to deliver its planned range of infrastructure projects. We believe cement demand will increase dramatically in the coming months following the **Housing Ministry's** allocation of requisite land for the governmental housing program. Total cement demand in Saudi Arabia reached c.55mn tons in 2013, while total cement production was only marginally higher at 56mn tons. This signals a looming shortage in the

Kingdom in view of the energy issues which led to a market cement utilization rate of c.91% in 2013 – as per our calculation.

Two new cement players enter the market; new production lines planned by existing companies: Like UACC, **Baha Cement Company** was recently established in Riyadh to help carry out Saudi Arabia's upcoming projects, with a share capital of USD106.7mn (SAR400mn) and no further details on production capacity. Meanwhile, several existing companies have plans to add new production lines, as follows:

- **Arabian Cement Company** announced plans to establish a new production line at Rabigh plant, where production is slated to start by mid-2017. The project study has taken into account the use of alternative fuels for the energy problem faced by the country and existing cement producers.
- **Eastern Province Cement Company** has begun installing a new mill, likely to come on stream in Q1 2015.
- **Yamamah Cement Company** announced that it will build two new production lines.
- **Yanbu Cement Company** started to evaluate offers for building 6th production line.
- **Saudi Cement Company** is repairing its two old kilns (4 & 5) to add another 3000tpd of clinker capacity. We believe that the clinker capacity will reach 9.6mtpa.

Growing market facing many challenges: We note that Saudi cement market is exposed to several challenges.

A. Labor correction campaign

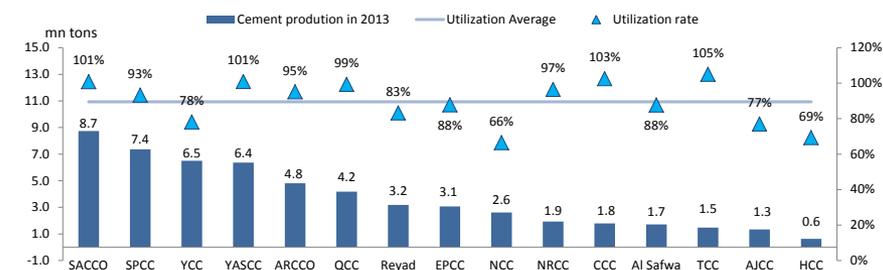
In November 2013, market cement sales and production dropped by around 20% MoM amid campaigns against the use of illegal foreign workers. The first week of the campaign experienced a sharp fall in market sales of up to 50% in some companies. We believe that this was the main reason for the 10% drop in Q1 2014 market sales to c.14mn tons.

List of cement companies in Saudi Arabia

Company Name	Ticker	Location/Region	Cement Capacity		
			2012 mtpa	2013 mtpa	
Saudi Cement Company	SCC	3030	Eastern	8.7	8.7
Yanbu Cement Company	YCC	3060	Western	8.3	8.3
Southern Province Cement Company	SPCC	3050	Southern	7.9	7.9
Yamamah Saudi Cement Company	YSCC	3020	Central	6.3	6.3
Arabian Cement Company	ACC	3010	Western	4.5	5.1
Qassim Cement Company	QCC	3040	Central	4.2	4.2
Najran Cement Company	NCC	3002	Southern	3.1	3.9
Riyadh Cement Company	RCC	Private	Central	3.8	3.8
Eastern Province Cement Company	EPCC	3080	Eastern	3.1	3.5
Al Safwa Cement Company	SFCC	Private	Western	2.0	2.0
Northern Region Cement Company	NRCC	3004	Northern	2.0	2.0
City Cement Company	CCC	3003	Central	1.6	1.8
AL Jouf Cement Company	JCC	3091	Northern	1.7	1.7
Tabuk Cement Company	TCC	3090	Western	1.4	1.4
Hail Cement Company*	HCC	3001	Northern	-	0.9
Total				58.7	61.4

*Hail Cement total annual production capacity is 1.82mtpa ; however, it started production In June 2013
Source: UACC Prospectus

Market cement production vs. utilization rate in 2013



Source: MubasherTrade Research database

Industry Overview (Cont.'d)

B. Energy dilemma

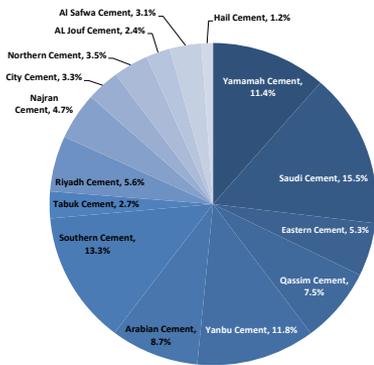
The cement industry is one of the highest energy-intensive industries in the world, and Saudi cement companies continue to face enormous challenges in obtaining the required fuel for their new production lines. **Arabian Cement Company**, for example, said the **Ministry of Petroleum & Mineral Resources** has officially denied its requests to provide the necessary fuel for the new production line at Rabigh plant, where construction has begun and production was set to be launched by mid-2017. According to the company, the project's planning phase includes the use of alternative fuels. In June 2013, **Tabuk Cement Company** similarly announced it had been informed by the ministry that it would not receive the fuel needed to power its new second line. According to an annual report by **Yanbu Cement Company**, the government's provision of energy is related to a given company's commitment to import specific quantity of cement or clinker. The government is

required to provide cement companies with subsidies (SAR50 for each ton of imported clinker) to cover the additional costs of imports, but only after selling the whole allocated imported quantities.

C. Recent measures taken to satisfy demand

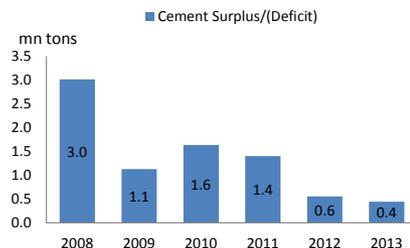
Over the recent years, the government has taken several regulatory measures in order to satisfy the local cement market needs. In 2008, the government had imposed an export ban followed by a conditional cement export rules where companies could export only if they sold cement in the local market at SAR200/ton provided their cement inventory exceeded 8% of annual production. Later in February 2012, the government imposed a complete export ban followed by a cement price ceiling at SAR240/ton. More recently, the government made it mandatory for companies to import cement or clinker pro rata to their local market shares.

Cement market shares by 2013 local sales



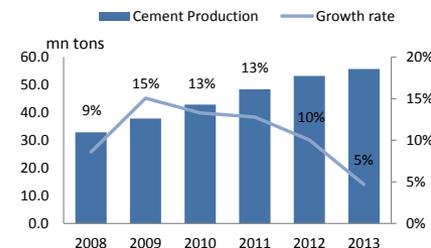
Source: MubasherTrade Research database

Cement market surplus/(deficit)



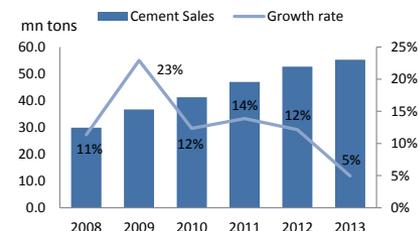
Source: MubasherTrade Research database

Cement market supply



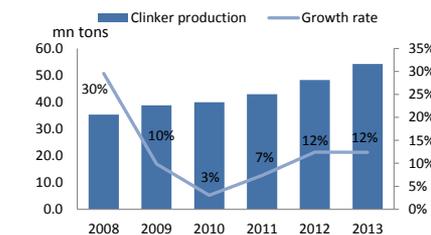
Note: Market Supply: Production
Source: MubasherTrade Research database

Cement market demand



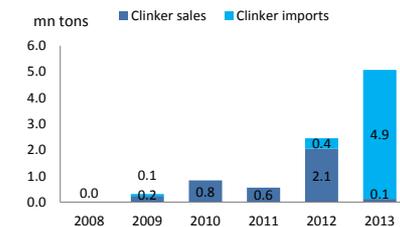
Note: Market Demand : Local Sales + Imports
Cement imports are nil for all years
Source: MubasherTrade Research database

Clinker market supply



Note: Market Supply: Production
Source: MubasherTrade Research database

Clinker market demand



Note: Market Demand : Local Sales + Imports
Source: MubasherTrade Research database

Cement prices



Source: UACC Prospectus

Disclosure Appendix

Important Disclosures

Methodology

The consensus ratings and target prices are based on the last three months. Analyst ratings statistics chart is based on recommendations made by third-party analysts during the last 12 months. We do not attach a consensus rating (i.e. “na” or “not applicable/available” if 1) a consensus target price has not been updated over the last three months or 2) the company is not rated or covered by any third-party analyst.

Other Disclosures

MFS does not have any proprietary holding in any securities. Only as a nominee, MFS holds shares on behalf of its clients through Omnibus accounts. MFS is not currently a market maker for any listed securities.

Disclaimer

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Mubasher Financial Services BSC © ('MFS') has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; MFS makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the document are based upon publicly available information at the time of publication and are subject to change without notice. This document is not intended for all recipients and may not be suitable for all investors. Securities described in this document are not available for sale in all jurisdictions or to certain category of investors. The document is not substitution for independent judgment by any recipient who should evaluate investment risks. Additionally, investors must regard this document as providing stand-alone analysis and should not expect continuing analysis or additional documents relating to the issuers and/or securities mentioned herein. Past performance is not necessarily a guide to future performance. Forward-looking statements are not predictions and may be subject to change without notice. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognized market, it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. References to ratings/recommendations are for informational purposes only and do not imply that MFS adopts, supports or confirms in any way the ratings/recommendations, opinions or conclusions of the analysts. This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MFS or its affiliates to any registration or licensing requirements within such jurisdiction. MFS accepts no liability for any direct, indirect, or consequential damages or losses incurred by third parties including its clients from any use of this document or its contents.

Copyright

© Copyright 2014, Mubasher Financial Services BSC (MFS), ALL RIGHTS RESERVED. No part or excerpt of this document may be redistributed, reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of MFS. MubasherTrade is a trademark of Mubasher Financial Services BSC. Mubasher Financial Services BSC © is an Investment Business Firm Category 1, licensed and regulated by the Central Bank of Bahrain.

Issuer of Report

Mubasher Financial Services BSC © is an Investment Business Firm Category 1, licensed and regulated by the Central Bank of Bahrain.

Website: www.MubasherTrade.com

E-mail: Research@MubasherTrade.com

Sales & Research Contact Details

INSTITUTIONAL SALES

MENA

Inst.Sales@MubasherFS.com

+971 4 321 1167 (UAE)

+965 97734334 (Kuwait)

+962 79 5538806 (Jordan)

RETAIL SALES

Bahrain

Global@MubasherTrade.com

Call Center: +971 800 567 000

Egypt

Egypt@MubasherTrade.com

Call Center: 16699 / +202 2262 3230

Libya

Libya@MubasherTrade.com

+218923070350

UAE

UAE@MubasherTrade.com

Call Center: +971 800 567 000

RESEARCH

Research Team

Research@MubasherTrade.com

+202 240 523 55 / 56