

30 April 2012

## Raysut Cement - Flash Note (Q1'12)

### Overall, in sync with the company strategy

It is quite clear that the strategy to acquire Pioneer Cement is starting to pay off for the group and the acquisition comes in line with Parent company's overall strategy (kindly refer to our last update on March 6, 2012). This is clearly reflected in the Q1'12 performance with the following observations:

- The notable increase of Pioneer's sales in Northern part of Oman has enabled the group to step in and maintain market share in one of the most business intensive areas (i.e., mega projects) with the least shipping cost.
- Freeing the required capacity of the parent company in order to strengthen exports.
- Ready to capture any increase in demand either locally or regionally through a well diversified strategy.

The group's Q1'12 figures stood at their best level ever with 1.007mn tons of cement produced, implying an increase of 30.4% q-o-q (+25% y-o-y). Sales wise, RCC managed to maintain its local sales volume at its average level in FY'11 despite the stiff competition, which shows the strong local demand backed by government spending. This matches our expectations expressed in our earlier reports and goes in sync with our positive view on the sector. The company sold 0.358mn tons of cement in Q1'12, an increase of 8.5% q-o-q.

On the export front, the parent company benefitted from the freeing capacity and continues to implement its strategy of exploring new markets. Additionally, the improved situation in Yemen, as we expected, helped in smoothing the overall pressure. All these factors led RCC to register its best export quarterly sales of cement in almost five years at 0.258mn tons in Q1'12, a notable improvement of 34.6% q-o-q (+44% y-o-y).

Pioneer Cement did relatively well in the UAE market as the company sold 0.167mn tons of cement in Q1'12, slightly lower than the FY'11 quarterly average of 0.173mn tons. In Oman, Pioneer translated the group's vision in to reality and registered sales of 0.214mn tons, almost 55% of the company's total sales, which is slightly above our FY'12 assumption of 50%.

### Prices beating our expectation

RCC's local selling prices at around RO 27 per ton (almost the same level of FY'11), was much better than expectations. However, we still believe that maintaining this level would be tough due to stiff competition. Overall, better sales and maintaining selling prices, helped the group to register a revenue of RO 24.6mn in Q1'12, an increase of 16.5% q-o-q (21.8% y-o-y). Out of this, 32.3% is the contribution of Pioneer with RO 7.96mn. It is worth noting the Pioneer sales to Oman witnessed a jump of 59% q-o-q at RO 3.7mn in Q1'12 compared with an average of RO 2.3mn in Q1'11 and Q4'11. Similarly, the subsidiary's revenues from the UAE moved up by 20.7% q-o-q (42.2% y-o-y) to RO 4.2mn in Q1'12, supporting our view about the benefit from the increase in the UAE cement selling prices by around 15%.

### Healthy margins

At the consolidated level, the lower cost of sales as percentage of sales (67.7% in Q1'12 Vs 70% in Q4'11) resulted in higher gross profit margins (excluding depreciation) at 38.5% in Q1'12 compared with 36.7% in Q4'11. In absolute terms, the group registered gross profit (excluding depreciation) of RO 9.5mn in Q1'12. The breakup of cost of sales at group level shows that the lack of imported cement was offset by higher export expenses and inventory adjustment.

Pioneer Cement's stand alone cost of sales (excluding depreciation) increased by 23% q-o-q to RO 6mn in Q1'12 mainly on the back of lack of selling internal cement to the parent company. However, the cost of Coal, Gas and Electricity remains high at 62%. RCC's stand alone cost of sales increased only by 7.6% q-o-q to RO 9.1mn, indicating better cost control and positive contribution from the subsidiary with regard to reducing the shipping costs. Group EBITDA margin came in strong at 37% in Q1'12, slightly higher than our estimates for FY'12 at 32%. Accordingly, the consolidated PBT stood at RO 6.84mn in Q1'12, the best since the acquisition.

### Outlook

On the whole, the company's performance in Q1'12 exceeded expectations but were in line with our positive view on the sector. We feel comfortable with the company's ability to benefit from its acquisition, however feel cautious about the pressure on selling prices. We will issue a detailed note with revised target price shortly. For the time being, we maintain our positive view on the stock.

MSM Ticker	RCCI.MSM
Bloomberg code	RCCI OM
Reuters code	RAYC.OM
Market cap (RO mn)	236.8
PE TTM (x)	14.1
P/BV TTM (x)	2.39
Dividend Yield (%)	4.22%

Source: Bloomberg



Source: Ticker Chart

**Ammar Salem**  
Senior Research Analyst  
[Ammar.salim@oabinvest.com](mailto:Ammar.salim@oabinvest.com)  
+968 24827315



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