Qatar National Cement Company (QNCC)

- Market leader of cement in Qatar.
- Self sufficient with additional clinker capacity.
- Growing margins to compensate declining revenue.
- Lime and sand business to support the bottom-line.

Hold

Target Price QR 89.6

Market Data

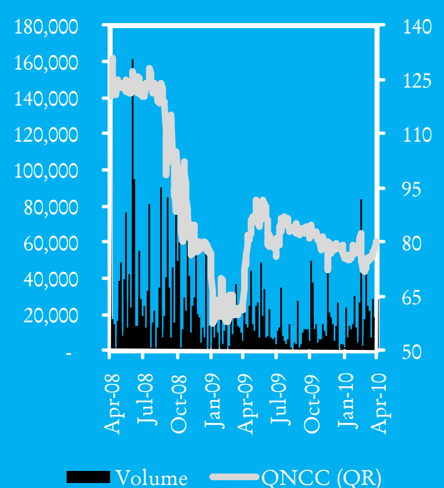
Bloomberg Code:	QNCD QD
Reuters Code:	QANC.QA
CMP (6th May 2010):	QR83.0
O/S (mn):	44.6
Mkt Cap (QRmn):	3,704.9
Mkt Cap (US$mn):	1,017.4
P/E 2010e (x):	8.6
P/Bv 2010e (x):	1.8

Price Performance 1-Yr

High /Low (QR):	91.9 / 72.1
Average Volume:	8,978

	1m	3m	12m
Absolute (%)	4.8	12.0	2.3
Relative (%)	9.5	5.3	-9.4

QNCC Price Volume Performance



Source: Zawya

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QNCC clinker & cement capacity reaches 3.6mtpa and 4.4mtpa in 2009

In order to discontinue over 1mn tons of clinker & cement imports in the last five years, QNCC continued to ramp up its capacity. With the commissioning of new clinker and cement lines, QNCC has managed to improve its margin handsomely. Going forward, we expect the gross margins of the Company to be in the range of 33%-35% during 2010-13 as compared to between 20%-28% in the last five years.

Tapping the supply chain

QNCC is cautiously expanding, and in a bid to cushion its bottom line it acquired stake in Qatar Quarries & Building Materials Co. and Qatari-Saudi Gypsum Industries Company. QNCC shares profits from these associates as well as earns dividend income.

Lesser threat from the competitor

QNCC local competitor is Gulf Holding Company which would be coming up with a cement capacity of 1.5mtpa by mid 2010. The demand supply gap in Qatar is even more than 2mtpa and hence we expect QNCC to continue to remain market leader of cement in Qatar.

*Valuations – **Hold** with an upside potential of 8.0%*

Based on future earnings projections, the DCF value of QNCC comes out to be QR91.5/share. While on the basis of the weighted average P/E for the industry and QNCC's projected 2010 earnings, the company's stock valuation comes to QR82.1/share. Hence the value of QNCC derived from the weighted average of the DCF and relative valuation methods is QR89.6/share.

Investment Indicators

Year	2007	2008	2009	2010 F	2011 F	2012 F	2013 F
Gross Profit (QR mn)	286.1	287.0	421.6	449.2	438.8	428.5	423.9
Net Profit (QR mn)	355.2	413.6	417.0	431.4	422.4	411.5	405.0
EPS (QR)	9.9	11.6	9.3	9.7	9.5	9.2	9.1
BVPS (QR)	46.0	46.0	43.1	46.9	52.4	56.1	58.7
P/E (x)	13.2	6.9	8.4	8.6	8.8	9.0	9.1
P/BV (x)	2.9	1.7	1.8	1.8	1.6	1.5	1.4

Source : Company Annual Reports & Global Research.

Historical P/E & P/BV multiples based on respective year-end prices, while those for future years are based on current market price in the DSM as on May 06, 2010.

Valuation & Recommendation

Discounted Cash Flow (DCF) Method

In order to compute the cost of equity for the DCF method, we have used the Capital Asset Pricing Model (CAPM).

The following assumptions have been made in order to arrive at the DCF value of QNCC.

- A risk-free rate of 5.9% has been assumed.
- A market risk premium of 6.0% has been assumed.
- Beta taken from Bloomberg comes out to be less than 1.0, hence being conservative we have taken beta as 1.0.
- The cost of equity derived from the above assumptions using the Capital Asset Pricing Model is 11.9%.
- The cost of debt has been assumed at 6.5%.
- Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 11.6%.
- Terminal growth rate of 3.0% has been assumed.
- Based on our future earnings projections and the above assumptions for DCF computations, the DCF value of QNCC comes out to be **QR91.5/share**.

QNCC - Equity Valuation by DCF

(QR mn)		2010 (F)	2011 (F)	2012 (F)	2012 (F)
Free Cash Flow		487.4	399.5	383.7	369.5
Discounted Cash Flow		453.5	333.0	286.5	247.1
Terminal Value	4,409.0				
Primary Value	1,320.1				
Discounted Terminal Value	2,949.1				
Value of Investments	207.9	*(As at 1Q-2010)*			
Cash	105.0	*(As at 1Q-2010)*			
Debt	496.7	*(As at 1Q-2010)*			
Equity Value	4,085.4				
Shares Outstanding (mn)	44.6				
Per Share Value (QR)	**91.5**				

Source : Global Research.

Sensitivity Analysis

A sensitivity analysis for different estimated long-run future growth rates and weighted cost of capital is shown in table below. The table provides estimated fair values for QNCC's shares based on a range of varying inputs.

QNCC - Sensitivity Analysis

		Terminal Growth Rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	9.6%	95.7	105.6	118.4	135.7	160.6
	10.6%	86.0	93.6	103.2	115.7	132.6
	11.6%	78.1	84.1	**91.5**	100.9	113.1
	12.6%	71.5	76.4	82.3	89.5	98.7
	13.6%	66.0	70.0	74.8	80.5	87.6

Source: Global Research

Relative Valuation Method

The peer group valuation is performed to compare the intrinsic value of QNCC arrived at using the DCF calculation. In order to value QNCC using this method, we have used the weighted average price-to-earnings (P/E) multiple for a basket of comparable companies, which make up the peer set for QNCC. To arrive at the peer-set P/E multiple, we have computed the weighted average P/E of the thirteen listed cement companies in Global Research GCC Cement Universe based on their current market prices and 2010 earnings.

The weighted average forward P/E for the peer set, thus arrived at, is 8.5x. On the basis of the weighted average forward P/E for the peer set and QNCC's 2010 earnings, the company's stock valuation comes to QR82.1 per share. However, as the price-earnings multiple varies with time and is dependent on several factors, such as market sentiment and other qualitative factors, we have provided a lower weightage of 20% to the peer valuation method, and 80% weightage to the value arrived at using the DCF method.

Valuation

The value of QNCC's shares derived from the weighted average of the DCF and relative valuation methods is QR89.6/share. The stock closed at QR83.0 on the Doha Stock Market at the end of trading on 6th May 2010, which implies that the weighted average value of QNCC's shares is at a premium of 8.0% to the share's current market price.

Weighted Average Share Value of QNCC

(QR)	Weightage	Fair Value
As per DCF Method	80%	91.5
As per Relative Valuation	20%	82.1
Weighted Average Share Value		**89.6**

Source: Global Research

At their current price, QNCC's shares are trading at a P/E multiple of 8.6x and 8.8x for 2010 and 2011 respectively. We therefore recommend a **'Hold'** on the Qatar National Cement Company's stock at its prevailing price levels.

QNCC - *Market leader in Qatar*

Qatar National Cement Company (QNCC) is the principal cement producer in the country since last four decades. The Company commissioned its first cement plant with a clinker capacity of 100,000tpa which till 1998 was upgraded twice by 100,000tpa in 1974 and 1976. Remaining in the cement business the Company tried it's all out efforts to group in all the raw material production thereby entering the Lime business in 1978. QNCC commissioned its first Calcinated Lime plant with a capacity of 100tpd and in 1985 it added a Hydrated Lime line with a capacity of 240tpd.

QNCC Time Line

1969	Clinker	Plant 1 - Kiln 1 - 100,000 tpa
1974	Clinker	Plant 1 - Kiln 2 - 100,000 tpa
1976	Clinker	Plant 1 - Kiln 3 - 100,000 tpa
1978	Lime	Calcined Lime - 100 tpd
1985	Lime	Hydrated Lime - 240 tpd
1998	Clinker	Plant 2 - 2,000 tpd
2003	Sand	Purchased Plant - 1 - 20,000 tpd
2007	Clinker	Plant 3 - 4,000 tpd
2008	Sand	Plant 2 - 20,000 tpd
2009	Clinker	Plant 4 - 5,000 tpd
2010 e	CACO3	75,000 tpa of Calcium Carbonate

Source: QNCC Website

With the exploration of new and huge gas reserves in late 90's, QNCC initiated the plan to further spinoff the cement business and commissioned second clinker plant with a capacity of 2,000tpd i.e. 0.60mtpa in 1998. Further in 2007 and recently in 2009 two new clinker plants were added having a capacity of 4,000tpd and 5,000tpd respectively. Hence as of today QNCC has a combined clinker and cement capacity of 3.5mtpa and 4.4mtpa respectively.

QNCC also initiated plan of opening or either acquiring a cement plant in Sindh province of Pakistan in 2007. The agreement to set up the plant was also signed in the presence of Finance Minister, H E Yousuf Hussein Kamal, who was on a brief visit to Pakistan. However as per our conversation with the management of the Company no such thing has been put into perspective as of yet.

Back in 2003, QNCC entered into sand washing business by purchasing a sand washing plant of 20,000tpd which in 2008 was raised by adding an additional plant of 20,000tpd. QNCC is confident that with the second sand treating plant, the long queues of loading trucks will be a long gone history, and they will be able to meet the demand for treated sand in Qatar.

Recently in 2009, Qatar Electricity & Water Company (QEWC) and Qatar National Cement Company have inked a strategic agreement for the supply of limestone being used at water desalination plants. QNCC has committed to supply limestone for 25 years to QEWC by building and operating a new limestone production facility in Umm Bab. The facility with a capacity of 75,000tpa is expected to be completed by the end of 2010 and will supply the total limestone need of all desalination plants, operational and currently under construction.

Profitable Associates

In order to cushion its bottom line, QNCC invested in a gypsum producing company and in a Quarries and Building Materials Company.

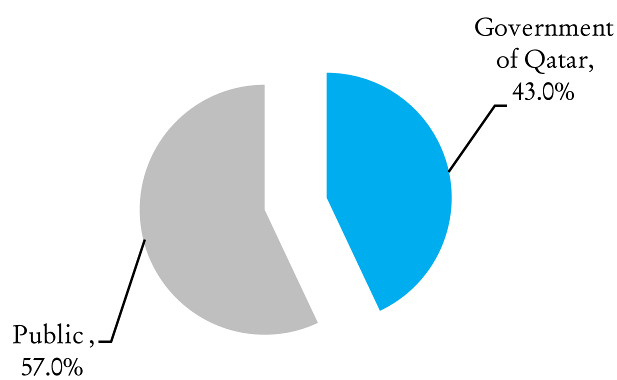
The Qatari-Saudi Gypsum Industries Company (QIMC) uses gypsum mined locally in order to produce 0.6mtpa of gypsum powder in Doha. QIMC is owned equally between the National Gypsum Company of Saudi Arabia, the Qatar National Cement Company and by Qatar Industrial Manufacturing Company. As of 2009, the total value of investment in QIMC is QR21.2mn.QIMC runs a pessimistic capital structure with assets of QR65.78mn of which 97% are equity funded. In 2009, QIMC earned a revenue of QR14.1mn.

Qatar Quarries and Building Materials Company (QQBMCO) is 25% equally owned by Qatar Navigation and Qatar Shipping, followed by 20% by QNCC and rest 30% equally distributed in tens between Qatar Real Estate Investment Company, Qatar Foundation and General Retirement and Pension Authority. The Company imports Gabbro Aggregate through the current ports of the State. It also has plans to expand the number of marine terminals in line with the demand for increased imports of Gabbro Aggregate. It thus plays a vital role in ensuring the continued progress of the construction sector of the State of Qatar. As of 2009, total assets of the QQBMCO stand at QR136.5mn and has a capital structure of 25%-75% debt equity. QQBMCO earned revenue of QR260.6mn in 2009.

Both the investment in associated are quite vital and related to QNCC business and would always continue to add value.

Ownership Structure

Qatar National Cement Company (QNCC) was incorporated in the State of Qatar as a Qatari Shareholding Company, under the Emiri Decree No. 7 of 1965.



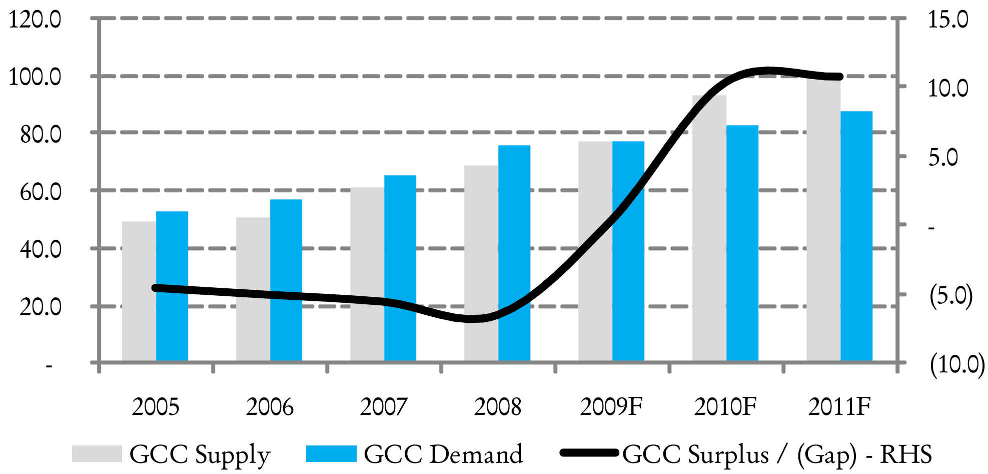
Source: Company Reports

The government of Qatar owns 43% of the Company. The majority of QNCC's shares (57%) are publicly held. Individual investment in QNCC is limited to 3.5% and foreign ownership in the company is limited to 25% for both GCC and foreign investors.

GCC Cement Industry

GCC cement sector witnessed entrance of lot of new players in the last few years. Those players raised the capacity of cement in GCC from around 48mn tons in 2005 to as high as 96mn in 2009. This capacity is further expected to rise to 123mtpa by 2011. Listed cement companies would have a market share of 74.4% in 2011 as compared to 78% in 2009. The capacity of unlisted cement players would increase to 31.5mtpa by 2011 as compared to merely 3.7mtpa in 2006.

GCC Demand Supply Gap Scenario (mn tons)



Source: Global Research

On the other hand, cement demand is not increasing in unison with the increase in supply mainly due to various local and international events. Starting from financial crisis which sipped all the liquidity out of the market, making the financing of big ticket projects quite difficult. Followed by local events such as Saad and Gosaibi and Dubai World, the market underwent further caution and financing became more stringent.

GCC Cement Demand Expectations

Overall Project Announcements (2010-2017)	(US$mn)	2,280,645.0
On Hold Projects	26%	592,967.7
Active Projects	74%	1,687,677.3
Expected Building & Construction Related Projects	45%	759,454.8
Require Cement & Blocks	50%	379,727.4
Cement Revenue as % of Build & Cons Sector in GCC	12%	45,567.3
Cement Price per Ton as of 2009	(US$/Ton)	70.0
Resulting Cement Demand (2010-2017)	(mn Tons)	651.0
Annual Cement Demand	(mn Tons)	93.0

Source: MEED & Global Research

Now with more than US$2.28tn worth of projects as of December 2009 in GCC, 26% amounting to US$593bn have been put on hold. Remaining conservative, if out of these 74% active projects, 45% are business and construction related and run with an average cement price of US$70/ton we expect annual cement demand in GCC to be 93mtpa during 2010-2017, whereas supply would cross 123mtpa by 2011.

GCC Country Wise Comparison

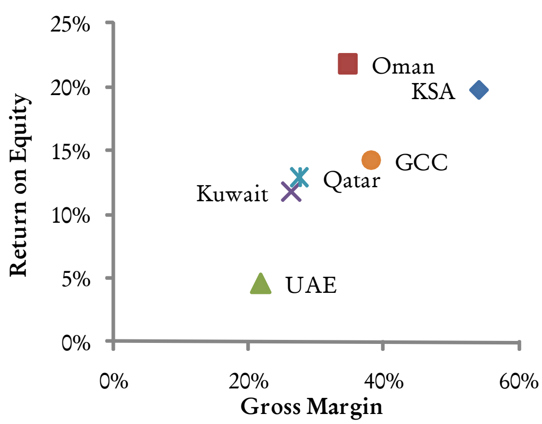
During 2009, financial performance of the GCC cement companies remained mixed. Saudi Arabian, Omani and Qatari cement companies performed well against their peers. Worst performers during the period were the UAE cement companies.

Sales revenue in Saudi Arabia was the highest at US$2bn, up by 2% as compared to 2008. UAE cement sector revenue went down by over 26.5% to US$1.24bn. While that of Qatar, Oman and Kuwait revenue was higher when compared with their previous year.

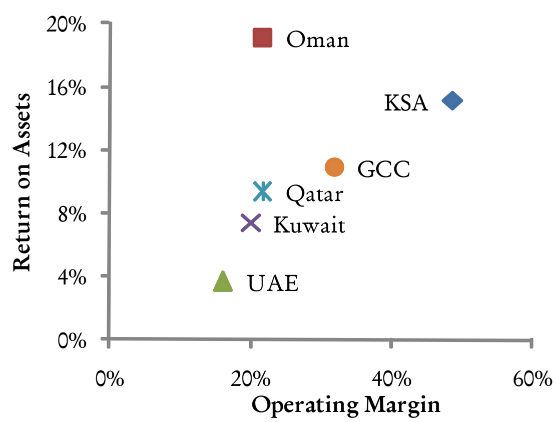
Saudi Arabia and Oman managed to report the highest gross margins in the GCC at 54% and 35% due to subsidized energy prices and proximity to raw material sources. Presence of demand markets close to the cement plants give Saudi Arabian cement players an additional advantage. Oman also has large reserves of limestone thus giving it access to cheap raw material source. UAE, Qatar and Kuwait gross margins for the period were 22%, 28%, 26% respectively in the GCC due to relatively expensive fuel price and higher price of imported raw material.

In addition, the single largest player in Qatar market has to sell its imports at cost thus diluting its gross margins. Moreover, despite the Demand-Supply gap Qatari government froze cement prices, amongst other materials, to counter inflation. UAE has traditionally been a net importer of cement. However, the recent downturn and expected increase in capacity will put further pressure on gross margins, going forward.

Positioning Gross Margins & ROE



Positioning Operating Margins & ROA



Source: Company Reports & Global Research

** Performance of 24 Listed Companies as of 2009*

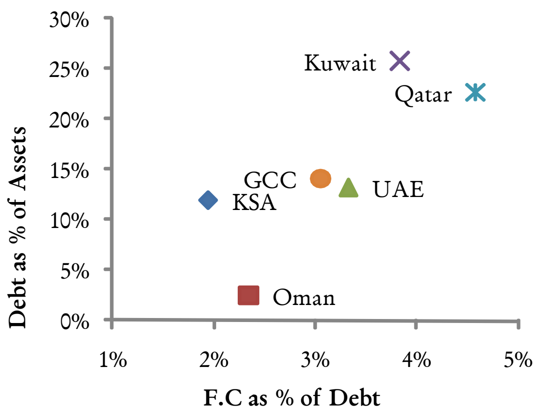
Return on equity of the GCC Cement players could have been higher but since they rely lesser on debt and more on equity, their ROE gets diluted. Nevertheless Oman and Saudi

Cement companies were able to post highest ROE in the GCC at 22% and 20% respectively in 2009. UAE companies reported the least ROE at 5%.

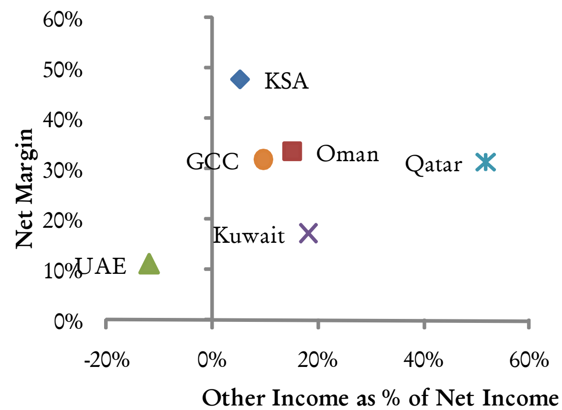
Saudi Arabia also enjoys the highest operating margins in the GCC at 49% since the demand centers are located close to the cement plants. In addition, subsidized fuel cost makes it cheaper to deliver cement to export markets. The operating costs account for just 5.4% of sales which is amongst the lowest in GCC. Operating margins in Oman & Qatar were second highest in GCC at 22%, while the least report margins were of Kuwait at 13% during 2009.

GCC cement companies debt as percentage of assets have declined from 14.9% in 2008 to 13.9% in 2009. Such a decline can be attributed to completion of expansions during the period along with general tendencies of the companies to shed off their liabilities in tougher times.

F.Chg as % of Debt & Debt as % of Assets



Oth. Income as % of Net Inc. & Net Margins



Source: Company Reports & Global Research

** Performance of 24 Listed Companies as of 2009*

While financial charges as percentage of debt has also declined due to the fact that the interest rates have dropped considerably after all the regional central banks slashed their discount and interest rates. Financial charges as percentage of debt are lowest in Saudi Arabia at 1.9% while that of Qatar were highest at 4.6%. Average financial charges as percentage of debt were 3.1% in GCC.

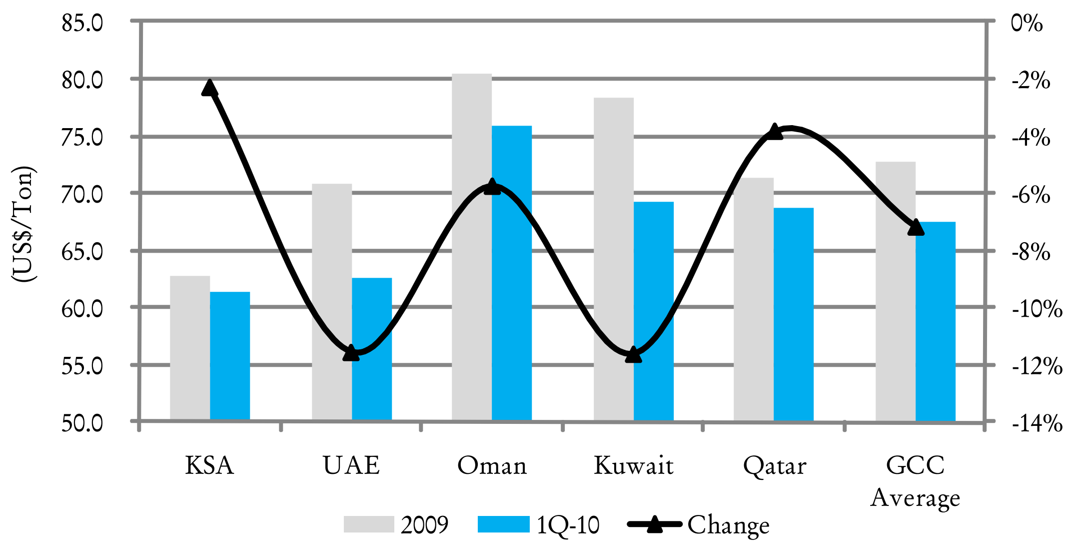
GCC cement sector as a whole has an other income to net profit ratio at 9.6% as of 2009 as compared to a negative 10.8% in 2008. Negative growth in 2008 was because of the losses registered by most of the cement companies on their investments in real estate and capital markets. Qatar's other income as percentage of the net income was the highest in GCC at 52% followed by Kuwait at 18%. In the past five years, cement companies in UAE, Qatar and Kuwait have had a large proportion of other income as a % of net income. However negative investment returns in the aftermath of the financial crisis dragged down the income for UAE cement companies.

Realization Prices - *Declining Continuously*

Cement prices in the GCC averaged around US$73.3/ton in 2009, as compared to US$83.2/ton enjoyed in 2008, a 11.9% decrease. During the 1H-2009 average cement prices for the GCC hovered around US$78.8/ton but witnessed a 7% decline to end 2009 at US$73.3/ton due to the fact that demand went down considerably, and companies started to slash prices to win contracts. Prices in Kuwait, UAE and Qatar went down by 22%, 20% and 12% respectively in 2009. On a CAGR basis during the period 2004-2009 average cement prices in GCC increased 3.4%.

Kuwait average realization prices reached US$78.4/ton in 2009 as compared to all-time high of US$100.4/ton in 2008, while Qatar realization prices decreased from US$80.8/ton in 2008 to US$71.4/ton in 2009, due to the fact Kuwait and Qatar cost structure is high and margins are low, in addition both import cement and have minimal cement production. On a CAGR basis, Kuwait cement prices increased 3.4% during the period 2004-2009. With the US$125bn development plan in Kuwait, cement prices might witness an increase going forward.

Average Realization Prices



Source: Industry Reports & Global Research

Oman, the country that continued to attract cement demand despite the downturn witnessed a mere 1.3% decrease in cement prices in 2009. But on a CAGR basis, Oman witnessed a 4.6% increase during the period 2004-2009. Oman average realization cement prices reached US$80.5/ton, the highest in the GCC. Cement prices decreased from US$81.6/ton in 2008. As for the second largest cement producer in the GCC, UAE on the other hand witnessed a 19.7% decrease in cement prices because of the excess supply.

However, the largest cement producer in the GCC, KSA, witnessed the only increase in cement prices by 1.9% in 2009 to reach US$62.8/ton. The reason KSA is enjoying low cost for cement is due to the fact that KSA has abundant natural resources to help produce cement at low prices including limestone, oil and natural gas. On a CAGR basis, KSA cement prices achieved a 1.8% increase during the period 2004-2009.

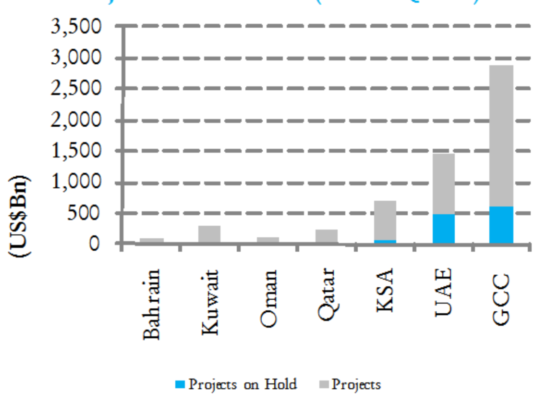
Projects & Contracts Value - *Declining*

GCC witnessed a 11.3% decline in projects activity in 2009. Total value of projects reached US$2.2tn on Dec 21st , 2009 as compared to US$2.5tn in Dec 2008. This decrease was due to the implications of the global financial crisis. On a Y-o-Y basis UAE witnessed the largest decline of 21.4% to reach US$968.1bn from US$1.2tn on 2008, of which US$450.9bn or 46.5% are on hold. Dubai debt crisis have taken a toll on the projects activity as its currently working on rescheduling US$22bn in debts for Dubai World. Kuwait, witnessed a 11.2% decline in projects in 2009.

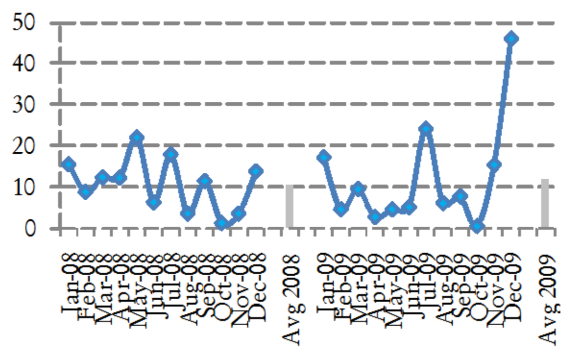
Planned projects reached US$269.7bn as compared to US$303.9mn at end of 2008. On January 2010, Kuwait Assembly approved a 5-year US$125bn development plan which will be implemented in April 2010. Oman witnessed a mere 2.4% decrease in projects in 2009. Projects value reached US$104.6bn, of which 6.2% are on hold.

On the other hand, Bahrain and Qatar achieved the largest increase in planned projects for 2009. Bahrain recorded a 5.8% increase in projects to reach US$67.9bn as compared to US$64.1bn in 2008. Qatar, witnessed 3.1% growth in projects activity in 2009, with total value of projects reaching US$229.2bn, of which 3.4% of the projects are on hold. In 2009, KSA had the heftiest size of active projects in the GCC, totaling US$618.5, of which 8.5% were on hold. KSA and UAE have the largest market share of active projects totaling 33.6% and 30.7% respectively, followed by Kuwait and Qatar with a respective share of 13.4% and 13.2%.

GCC Project Market Value (As of 1Q-2010)



Construction Contracts Awarded in GCC



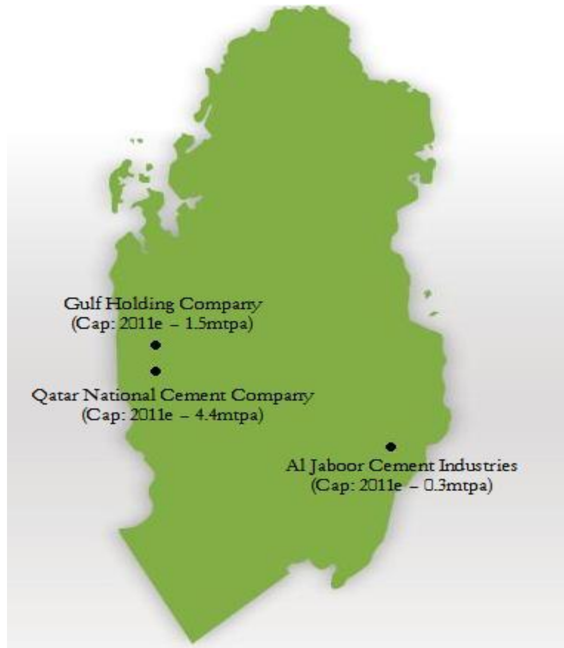
Source: MEED

Construction contracts awarded in the GCC increased a total of 11.4% to reach US$142.4bn in 2009. 4Q-2009 recorded the highest value of contract projects awarded in 2009 totaling to US$61.6bn, an 63% increase from 3Q-2009. However, 3Q-2009 witnessed the highest increase in construction award, increasing by 209% reaching US$37.7bn. The average contracts awarded in 2009 were US$11.8bn as compared to US$10.6bn in 2008.

The months of December and July 2009 witnessed the largest single months construction contracts awarded. December witnessed a immense US$45.8bn while July contracts were recorded at US$24bn.

Qatar Cement Sector

With economic growth racing ahead in the Gulf region, concern has sometimes been raised about the construction industry's ability to meet the demand for new infrastructure. Although last two years have been quite nerve racking for the construction industry, nevertheless we expect growth in GCC particularly in Qatar to continue at a brisk pace. Central to meeting this demand in Qatar is Qatar Cement. Set up in 1965, the creation of the company was a direct expression of Qatar's determination to put in place the infrastructure essential for overall economic development. Apart from Qatar Cement other two cement manufacturers are Gulf Holding Company and Al-Jabor Cement Industries Company. Combined cement capacity of Qatar is expected to reach to 6.2mtpa by 2011.



Listed manufacturers of Qatar control most of the cement market locally. Al Jabor Cement Industries Company has merely 0.3mtpa of capacity.

Ownership Structure of Qatari Cement Companies

Qatari Cement Companies have a significant free float in the market. Qatar National Cement Company has 57% free float while Gulf Holding Company has 79% of free float. Permitted ownership by GCC and Foreign investors in the Companies is at a maximum of 25%. While, Al Jabor Cement Industries Company is not listed and is owned by Al Jabor Group Holdings and Holcim Trading at 75% and 25% respectively.

Company	Listed / Unlisted	Major Shareholder	(%) Holding	Open to GCC/Foriegn Investor
Qatar National Cement Co	Listed	Government of Qatar	43%	25% / 25%
Gulf Holding Company	Listed	AL-Misnad Group	N/A	25% / 25%
Al Jaboor Cement Ind.	Unlisted	Al Jabor Group Holdings	75%	-

Source: Zawya

N/A - Not Available

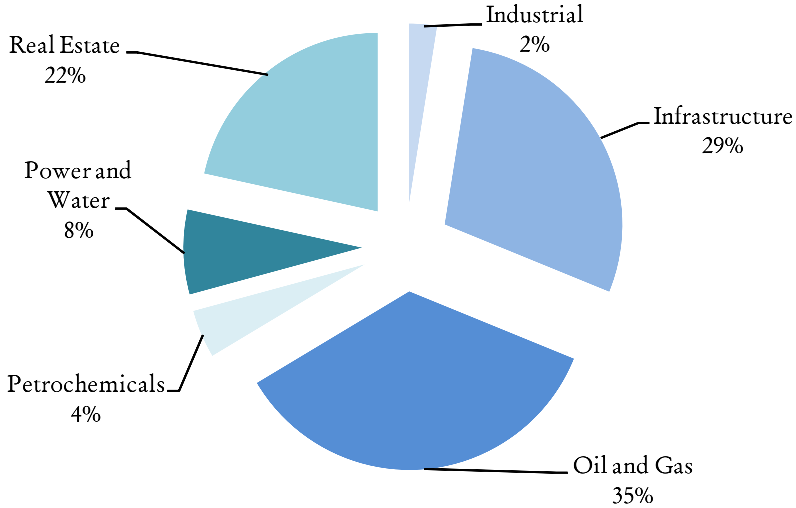
Qatar Cement Company has two associates and both of them are involved in the production of raw materials. Gulf Holding Company owns 100% assets in various companies which are involved in cement, industrial, investment and trading business, emerging as much bigger conglomerate. While Al Jabor Cement Industries is merely focused on the production of cement and most of its investment part is done by its parent company i.e. Al Jabor Group Holdings.

Qatari Development Projects - *Unhindered*

Qatar continues to be one of the top ten wealthiest countries in the world with its GDP per capita exceeding the US$70,000 level. Looking forward, Qatar's economy is expected to keep its upward trend despite the current financial turmoil and recessionary trend for the world economy. Qatar National Vision 2030, launched by H.H. the Heir Apparent Sheikh Tamim Bin Hamad Al-Thani, builds a bridge between the present and the future and envisages a vibrant and prosperous country. By 2030, Qatar will be capable of sustaining its own development and providing for a high standard of living for its people.

Qatar is witnessing huge rates of population growth. During the period 2004-2008, population grew at an average of 15.2% to reach 1.45mn in 2008 and by 5.3% in 2009 to reach 1.63mn. This growth is inducing Qatar to develop large scale projects and spending more in different aspects including electricity, water, roads and airports.

Qatar Ongoing Project Mix



Source: Zawya

Notably, several new power/water, infrastructure, industrial, oil/gas/petrochemical projects & real estate/construction related projects are planned, with the government hoping to attract considerable foreign participation. As of 2009, total projects in Qatar were valued at US$298.5bn by Zawya Projects of which merely 7% amounting to US$20.9bn are on hold or either delayed while the rest US$277.6bn are going ahead as planned.

Pearl Qatar is one of the most unique project in Qatar. The name "The Pearl" was chosen because the island will be built on one of Qatar's previous major pearl diving sites. Qatar was one of the major pearl traders of Asia before the Japanese introduced cheaper more affordable pearls just before Qatar's oil boom.

When completed it will be the first land in Qatar to be available for freehold ownership by foreign nationals. The Pearl will create over 32km of new coastline, for use as a residential estate with an expected 15,000 dwellings by 2010. Developed by United Development Company (UDC) and master planned by architecture and design firm Callison, the island is located 350m offshore of Doha's West Bay Lagoon area. There will be over 13 islands when finished. The largest of the islands will feature a large range of luxury villas, apartments, three 5 star hotels and over two million square meters of international retail, restaurants, cafes and entertainment. Eight other private islands will be for sale to private owners with the opportunity to build whatever they may desire.

Ongoing Big Ticket Projects in Qatar

Project	Sector	Size (US$Bn)
GCC Rail Network	Infrastructure	25.0
Qatar Rail Network Program	Infrastructure	22.8
Qatar North Gas Field Development	Oil and Gas	20.0
Pearl GTL	Oil and Gas	18.0
The Pearl Qatar	Real Estate	14.0
Qatar UAE Causeway	Infrastructure	13.0
Qatargas 2	Oil and Gas	12.8
New Doha International Airport	Infrastructure	11.0
Qatargas 4 - Offshore Package	Oil and Gas	8.0
New Doha Port	Infrastructure	7.0
Ras Laffan Petrochemical Complex	Petrochemicals	6.0
Qatargas 3 - LNG Train	Oil and Gas	6.0
QP - Al Shaheen Refinery	Oil and Gas	6.0
Qatalum - Aluminum Smelter	Industry	5.7

Source: Zawya

Another significant project in Qatar is the Qatar-UAE Causeway. Project cost is expected to be about US$13bn. The original design for the UAE-Qatar causeway, which was first developed six years ago, was for a 40-kilometre link. This was changed due to difficulties with the route, which ran through Saudi Arabian territorial waters. The project is expected to start by 1Q-2010 and the completion is expected by 2015. Rail tracks would also be made on the causeway as it would be part of a planned train network that will connect the members of the Gulf Cooperation Council.

New Doha International Airport (NDIA) would also be a unique project in Qatar, costing over US$11bn. Combining both architectural panache and technologically advanced systems, the 2,200-hectare airport site will reclaim half of its land from the Arabian Gulf. Forecasted for maximum development from 2015 onwards, the US$14.5bn project will be implemented in phases. Work began in January 2005 on phase one which is scheduled to be completed by 2011 to handle an initial capacity of 24mn passengers a year, more than doubling to around 50mn by the time the airport is fully operational beyond 2015. NDIA will incorporate a total of 80 contact gates, including 25,000sq.m devoted to retail space, comfortable lounges, and multi-story short-term and long-term parking facilities.

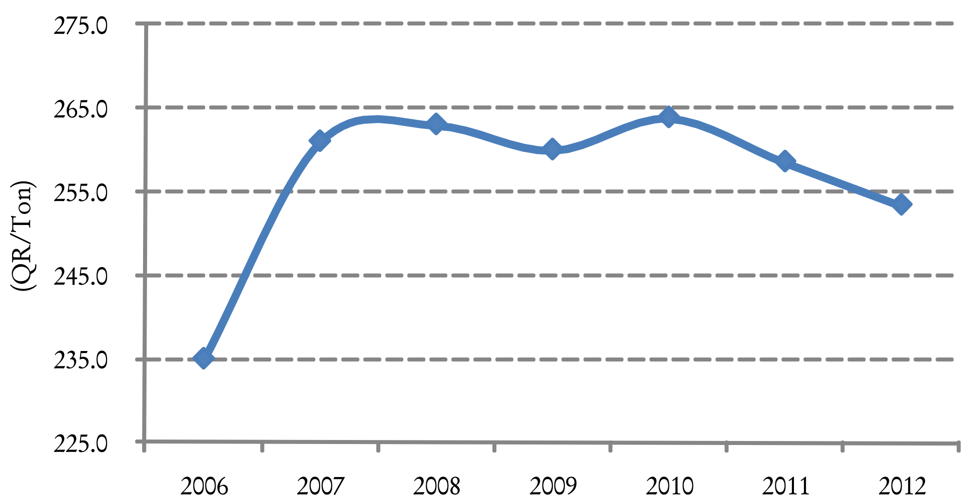
Qatar has been a quite progressive market despite the financial difficulties being faced by majority of the countries around. Strong oil and gas revenue back-up would continue to feed the infrastructure, construction and real estate market which in turn would be beneficial for the cement market.

Realization Price – *Under Government Control*

The key driver of demand for cement in the region has been the massive growth in the projects market especially in the real estate sector. In the last five years GCC projects market more than tripled in value. Backed by the rising oil price, strong economic growth and an influx of foreign labor, the region was transformed into a giant construction site as it sought to upgrade its infrastructure and diversify its economy.

Alike other GCC countries, Qatar also invested heavily in real estate, infrastructure, construction and manufacturing activities in order to diversify away from oil and gas.

Qatar Cement Prices



Source: Company Reports & Industry Sources

With the ever increasing construction activities the prices of cement continued to increase over the years until 2008 when government of Qatar intervened to clamp down the cement prices. Before 2008, cement shortage in the country was triggered by uncontrolled building activities that saw old residential and commercial premises razed to make way for plush new ones. A huge demand for building material also existed due to various infrastructure projects that were going on in the country.

In mid of 2008, in a bid to tackle inflation, the government imposed a cap on rent increases, on rental contracts that were signed since 2005, for the next two years. In addition, it froze the price of Sand, Gabbro, Steel and Cement for the next three years and also extend diesel subsidy for another year. The then Prime Minister also said that government would absorb any surcharges so that contractors in the construction sector could go on with their projects without fear of price increase in these basic materials.

Currently, the price of cement in Qatar is fixed at QR250/ton. However, we expect the prices to worsen in the years to come as the neighboring countries Saudi Arabia and UAE are facing cement oversupply. Saudi Arabian cement players can take the advantage as they have sufficient room to play with their margins and tap the deficit market of Qatar which in turn will give rise to price war and decline the per ton cement prices in the coming years.

Qatar Cement Sector – Financial Performance

Qatar cement sector financial performance has continued to improve over the years. For the purpose of consolidation of the sector financials we have taken the two listed companies which are: Qatar National Cement Company (QNCC) and Gulf Holding Company.

Qatar Cement Sector (US$ 000)

	2007	2008	2009
Sales Revenue	303,852	391,196	424,656
Cost of Sales	225,233	312,071	307,650
Gross Profit	78,619	79,125	117,006
Operating Expense	13,498	16,332	24,511
Other Income	50,047	60,169	69,092
Operating Profit	65,121	62,793	92,495
Financial Charges	6,750	6,493	14,846
Net Profit	111,663	123,015	133,797
Assets	826,816	1,243,932	1,426,926
Equity	689,410	691,409	1,037,166
Debt	96,040	397,141	324,231
Liabilities	137,406	552,523	389,760

Ratio Analysis	2007	2008	2009
Gross Margins (%)	25.9%	20.2%	27.6%
Operating Expense as % of Assets (%)	1.6%	1.3%	1.7%
Other Income as % of PAT (%)	44.8%	48.9%	51.6%
Operating Margins (%)	21.4%	16.1%	21.8%
Net Margins (%)	36.7%	31.4%	31.5%
Financial Charges as % of Debt (%)	7.0%	1.6%	4.6%
Debt as % of Assets (%)	11.6%	31.9%	22.7%
Liabilities as % of Assets (%)	16.6%	44.4%	27.3%
Equity as % of Assets (%)	83.4%	55.6%	72.7%
Return on Equity (%)	16.2%	17.8%	12.9%
Return on Assets (%)	13.5%	9.9%	9.4%

Source: Company Reports

Sales Revenue

Net sales revenue earned by the cement companies in Qatar increased at a CAGR of 25% during 2005-09. The revenue earned by the sector in 2005 amounted to US$172.5mnmn which rose to US$424.6mn in 2009. Before 2007, only cement producer was QNCC, Gulf Holding operational performance started in 2007. Even in 2009 majority of the sector revenue came from Qatar cement as it contributes 98% to the total. Over the period increase in revenue has been a direct result of increase in price as well as volume.

Gross Margins

Cost on the other hand registered a CAGR of 24% during 2005-09. Apparently the gross margins of the industry rose from 24.3% in 2005 to 27.6% in 2009. The industry registered lowest gross margins in 2008 at about 20.2%. Overall the gross margins of the industry have remained lower because of less clinker capacity of the cement players which in turn induces them to import high priced clinker. Among the two listed cement players, QNCC enjoys higher margins at 27.8% as of 2009 compared to Gulf Holding margins at 16.0% in the same period. In the coming years gross margins of the sector are expected to improve on the back of commissioning of new clinker lines by the players. Such results have already come in as the gross margins of QNCC has increased to 35% in 1Q-2010.

Other Income as % of Net Income

Other income contribution to the total income of the sector has continued to witness a rising trend. Other income of the sector comes from interest on cash deposits, investment income, dividend income and share of profit from associates. In 2007, other income as a percentage of total income was 44.8% which rose to 51.6% in 2009. QNCC other income as a percentage of total income was 40% in 2009 as compared to 46.8% in 2008.

Net Income and Net Margins

Net income of the sector witnessed a CAGR of 29% during 2005-09. Income grew from QR173.7mn (US$47.7mn) in 2005 to QR487mn (US$133.7mn) in 2009. QNCC profit contributed 85.6% to the total in 2009 while the rest was contributed by the Gulf Holding Company.

The cement companies of the Qatar get a higher contribution from other income sources which in turn result in an increase in the net margins of the company when compared with the operating margins. Net margins of the sector increased from 27.7% in 2005 to 31.5% in 2009 at the end of 2009. Highest net margins recorded in between this period were in 2007 at 36.7% while the lowest were in 2006 at 25.7%. High in 2007 because of better performance of equity markets while the same reason being in 2006 when the equity markets took a severe beating.

Leverage

Qatari cement companies have remained close to the range of ideal capital structure. Overall the debt has registered a CAGR of 28% during 2005-09. However, debt as percentage of assets have remained in the range of 16-32% during 2005-09. In 2005, debt as percentage of assets was 20.5% which declined to 16.8% in 2006 and went down to as low as 11.6% in 2007. Debt as percentage of assets rose to 31.9% in 2008 as credit crisis across the globe took its toll on the Qatari market as well and wiped out the equity which in turn raised the debt as a percentage of assets level.

Going forward we believe that leverage of Qatari cement companies would be at a much lower position because one of the player have completed its expansion and the other one would do so by the end of 2011.

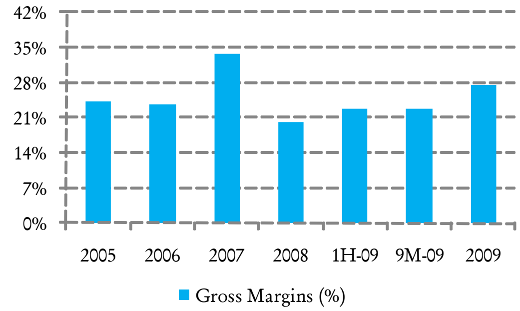
Return on Assets

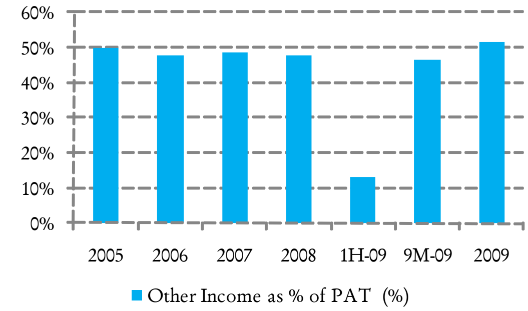
Returns on assets of the industry increased from 8.2% in 2005 to 9.4% in 2009. They peaked in the year 2007 and touched as high as 13.5% while the lowest were recorded in 2006 at 8%. Since Gulf Holding Company is in the nascent stages it has diluted the return on assets of the sector. QNCC return on assets recorded in 2009 were 17% while the same for Gulf Holding Company were merely 3%.

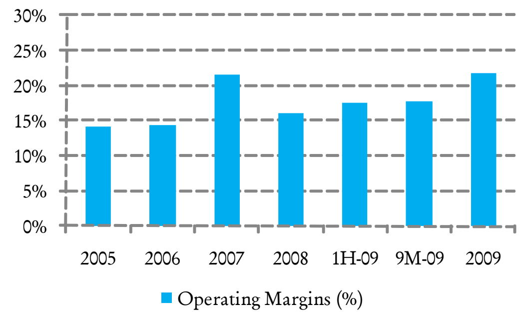
Return on Equity

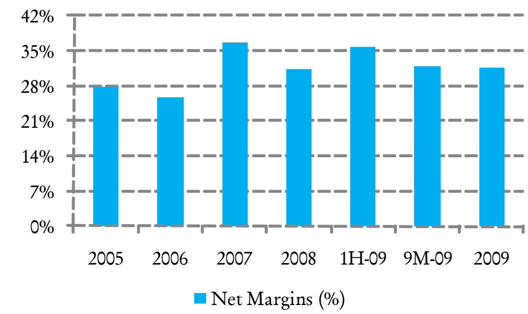
Returns on equity of the industry increased from 11.7% in 2005 to 12.9% in 2009. They perched in the year 2008 and touched as high as 17.8% due to the credit crisis which reduced the equity of the companies significantly. Lowest return on equity was recorded in 2006 at 10.1% because the sector registered the lowest margins during that year.

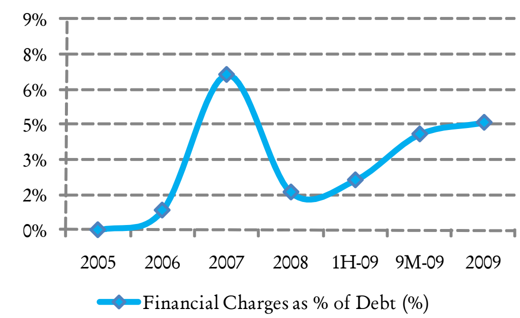
Qatar Cement Sector in Charts

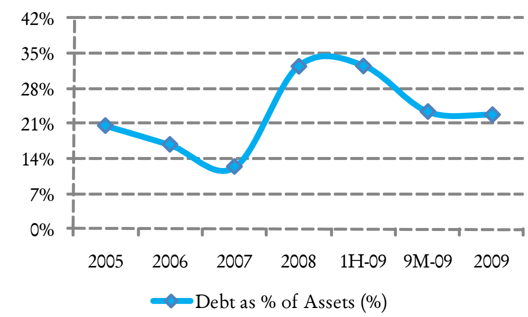


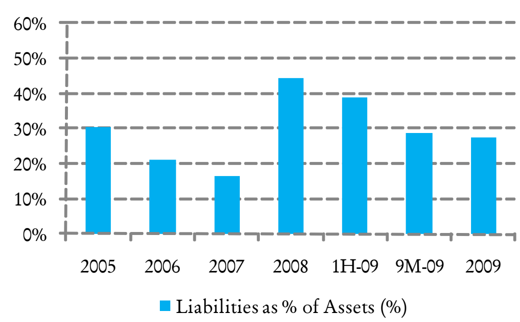


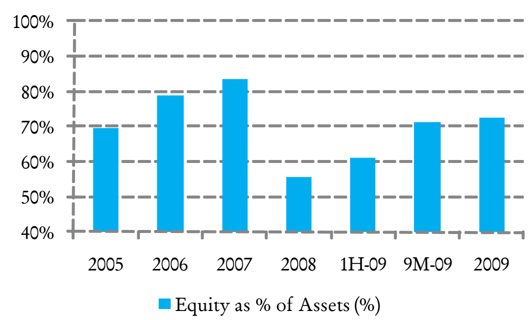


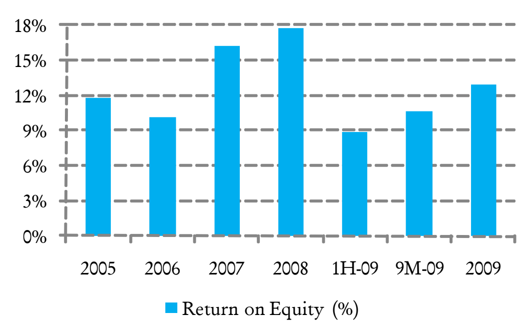


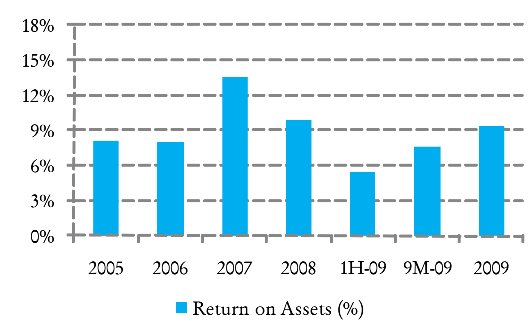












Source: Company Reports & Global Research

** Combined Financials of Two Listed Qatari Companies*

Sector Outlook

Qatar with exploration of new gas field and its estimated reserve life of over 100 years, would be able to give neck to neck competition to other GCC developments few years down the line. The continuous flow of gas based surplus defended it from all the externalities. It is estimated to post highest GDP growth amongst the GCC countries at 11.5% during 2009 and to much higher at 18.5% during 2010.

The unprecedented boom in real estate/construction activities, combined with sustained economic buoyancy and increasing initiatives to diversify the oil & gas dependent economy, offer Qatari cement companies a dynamic operating environment to register healthy top-line and bottom-line in the upcoming years.

Over the next 5-7 years, Government of Qatar would be investing heavily in diversifying the oil & gas dependency of the economy. Further, with the undergoing mega construction projects demand for cement is expected to escalate. The Ministry of Commerce forecasts that growing at over 25% per year, the total cement demand in Qatar is expected to reach 10mtpa by 2010. But this as per our estimation would be too overboard.

Qatar Cement Demand Expectations

Overall Project Announcements (2010-2017)	(US$mn)	298,500.0
On Hold Projects - Conservative Estimates	7%	20,895.0
Active Projects	93%	277,605.0
Expected Building & Construction Related Projects	40%	111,042.0
Require Cement, Steel, Blocks & Others	40%	44,416.8
Cement Revenue as % of Build & Cons Sector in Qatar	8%	3,375.7
Cement Price per Ton as of 2010	(US$/Ton)	65.0
Resulting Cement Demand (2010-2017)	(mn Tons)	51.9
Annual Cement Demand	(mn Tons)	6.5

Source: MEED & Global Research

With around US$298bn of projects of which merely 7% are on hold, the active projects continuing would be amounting to US$277.6bn. Out of this total expected building and construction related projects are around 40% amounting to US$111.0bn and the requirement of all the building materials with expected cement price of US$65/ton would result in an average annual cement demand of 6.5mtpa till 2017.

We are optimistic regarding Qatari cement market on a standalone basis. However, with the kind of development going on around the region we expect the Saudi Arabia and UAE to export their remaining produce to Qatari market which in turn would be inducing price wars between the players and would dampen the margins of local producers.

Qatar National Cement Co. (QNCC) – Overview & Forecasts

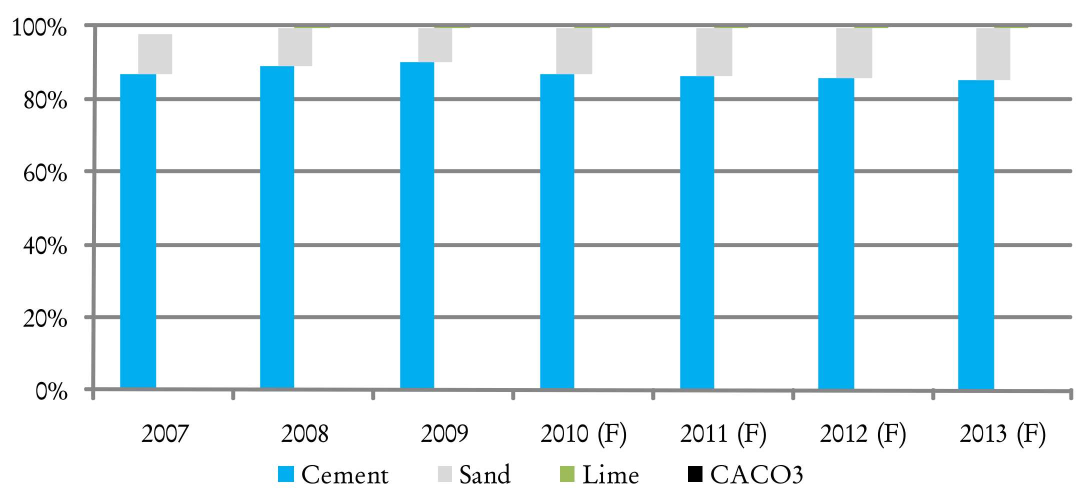
Sales Revenue – *Cement to remain top contributor*

QNCC revenue has grown exponentially over the last five years. It has registered a CAGR growth of 24.7% during 2005-09. Revenue has more than doubled from QR628.0mn in 2005 as compared to QR1,519.1mn during 2009. Revenue mix of QNCC comprises of cement, sand and lime business which in 2011 would be complemented by the calcium carbonate business as well.

Remarkable growth in cement was a direct result of growing cement business. Cement business contributes on an average around 90% to the top line. In 2005, the sales volume of cement were 2.4mn tons which rose to as high as 5.2mn tons in 2009. Although the cement capacity of the Company was much lower than the sales volume, the Company continued to import clinker as well as cement to meet the local demand. During 2005-09, clinker and cement imports averaged around 1.2mn tons and 1.1mn tons respectively.

Going forward, the cement business would continue become self sufficient as they would have additional clinker and cement capacity which would halt the imports of said commodities. Such a move has already seen the Company's gross margins improving by 8% to 35.7% in 1Q-2010 as compared to 27.8% in 2009. We expect, QNCC sales to range between 4.2-4.5mn tons during 2010-13 because of cement exports from Saudi Arabia and UAE along with commissioning of commercial production of Gulf Holding 1.5mtpa cement plant.

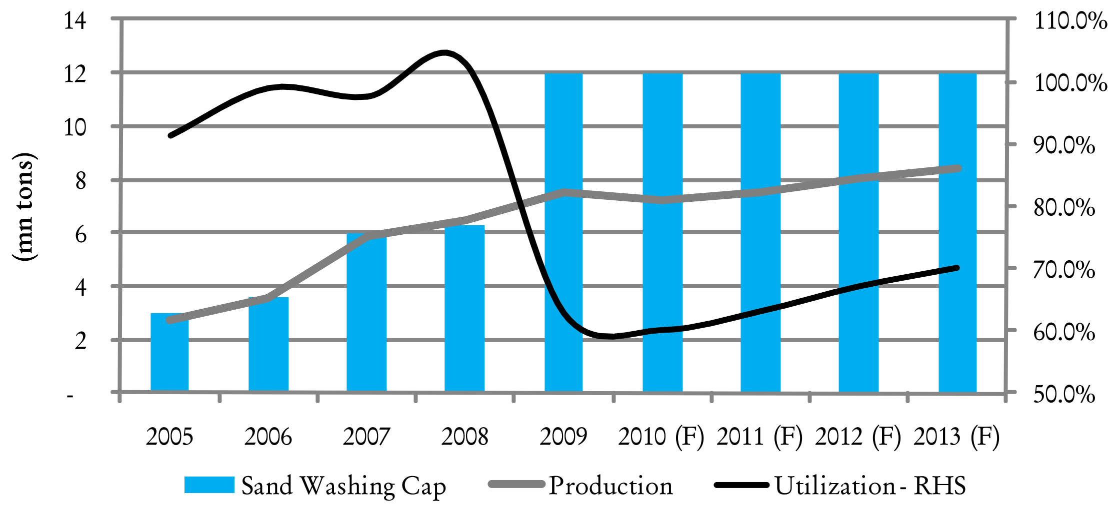
Revenue Contributors



Source: Company Reports & Global Research

Sand washing business has also remained relentless. Keeping in view the demand of washed sand QNCC continued to increase the capacity of sand washing business. In 2005, it had a capacity of 3mtpa which grew to 12mtpa by 2009. Production and sale of sand registered a CAGR growth of 28.8% and 22.2% during 2005-09. Sand sales volume have remained quite exponential but on the other hand the price of sand remained static at around QR22/ton.

Sand Washing Business



Source: Company Reports & Global Research

Going forward, we expect sand sales volume continue to grow and remain in the range of 7.2-8.4mn tons between 2010-13. Realization price of the sand is however expected to remain the same during the period. Hence the CAGR growth expected in the sand washing business revenue is 4.2% during 2010-13.

Lime capacity of QNCC has remained at 33k tons and is expected to remain the same going forward. The business adds not more than a percent to the top line of QNCC. Production and sales volume of lime business are expected to remain in the range of 24-30k tons per annum during 2010-13 which would result in a CAGR growth of 6.6% in the revenue of lime business during 2010-13.

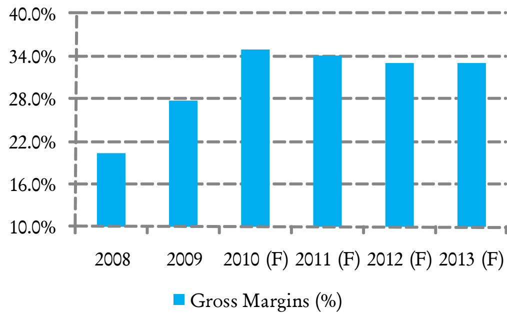
Recently in 2009, Qatar Electricity & Water Company (QEWC) and Qatar National Cement Company inked a strategic agreement for the supply of limestone being used at water desalination plants. QNCC has committed to supply limestone for 25 years to QEWC by building and operating a new limestone production facility in Umm Bab. The facility with a capacity of 75,000tpa is expected to be completed by the end of 2010 and will supply the total limestone need of all desalination plants, operational and currently under construction. We expect commercial production of limestone by 2011. Utilization rates are however expected to remain in the range of 65-75% during 2011-13.

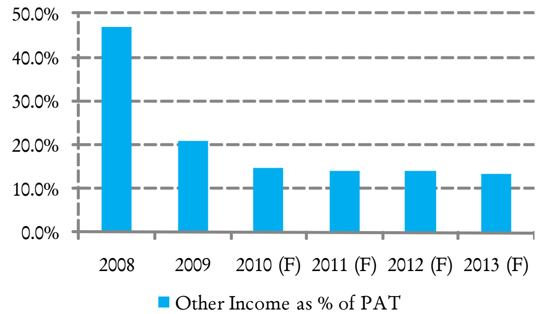
Gross Margins – *To improve post 2009*

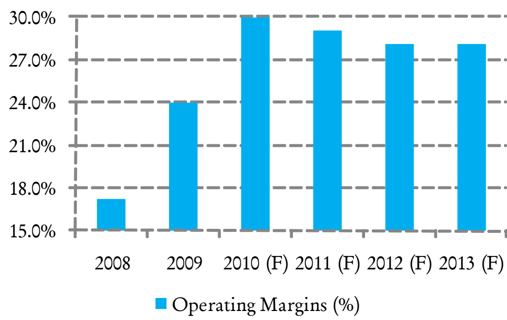
Historically gross margins of the QNCC have remained in the range of 17-28%. Growth in the margins have been because of the marginal increase in the cement prices as well as increase in their own cement produce.

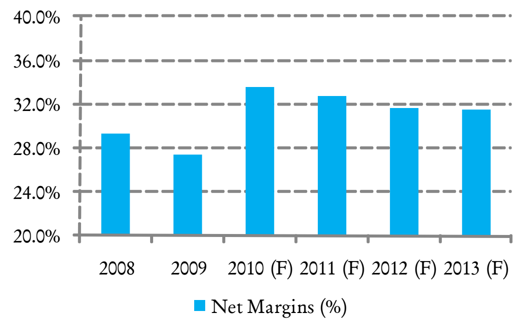
Since the Company had to resort to import of more than 1mn tons of clinker as well as cement during the last five years, it continued to damage the margins because of high priced raw materials.

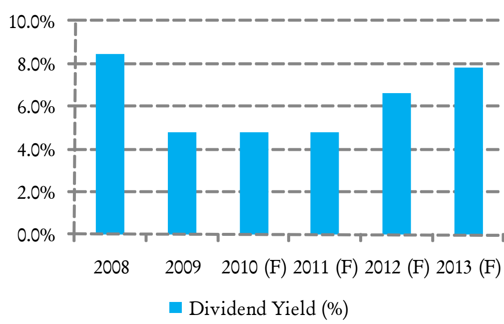
QNCC in Charts

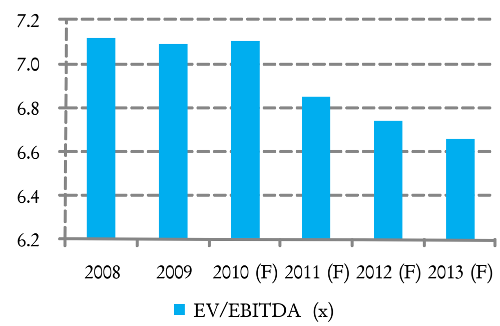


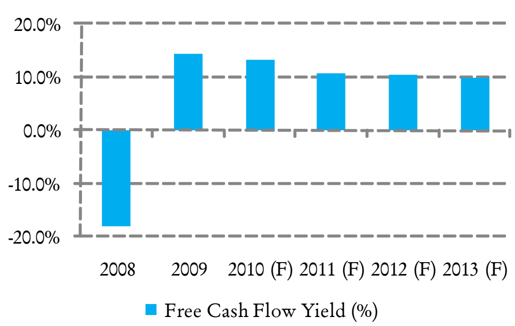


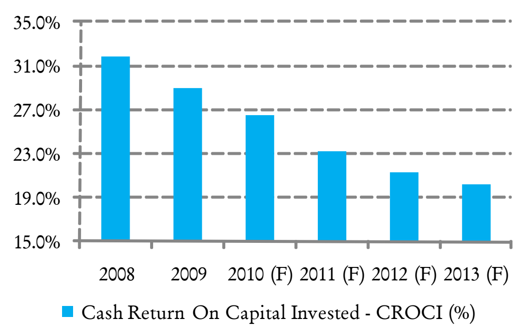


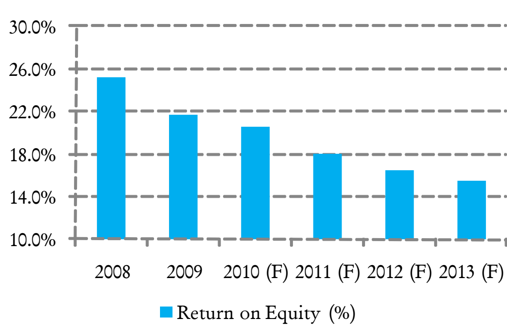


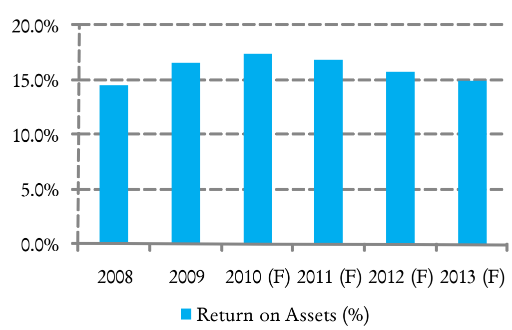












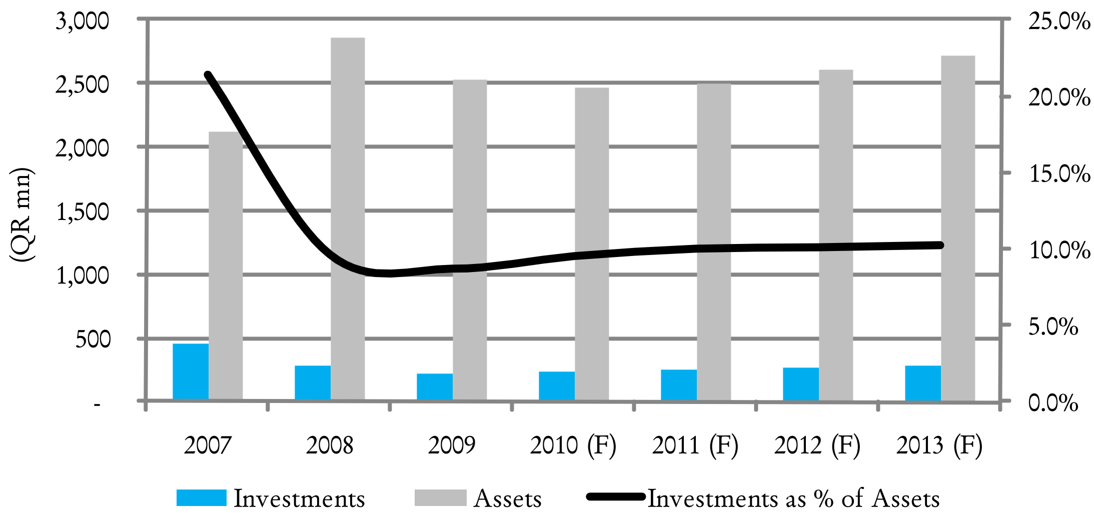
Source: Company Reports & Global Research

Now with the additional cement and clinker capacity, gross margins are expected to improve in 2010 to 35%. Post 2010 we expect price wars between the local as well as regional players which will hinder the margins of QNCC and would grip it in the range of 33-35% during 2011-13.

Investments

QNCC investment portfolio consists of properties, associates and in listed securities. Total investment portfolio as a percentage of assets comprise of 8.7% in 2009. The investment portfolio was around 21.4% during 2007 which dropped to 9.7% in 2008. Although the investments grew during 2008 but the assets grew much more exponentially because of the expansion of the core business.

Investment as % of Assets



Source: Company Reports & Global Research

QNCC investment in properties earns the Company rental income. Rental income in 2009 was QR9.6mn as compared to QR6.5mn in 2008. Going forward we expect the rental income to continue to cushion the bottom line of the Company and add in the range of QR9-12mn during 2010-13.

Company also has two associates namely: Qatar Saudi Gypsum Industries and Qatar Quarries & Building Materials in which QNCC owns 33.3% and 20% stake. Although both the associates have remained profitable adding QR1.9mn in 2009 and QR12.6mn in 2008. However, during 1Q-2010 the associates reported a loss of QR0.9mn. We can assume this quarter loss to an uncertain event because previously both the associates continued to add sufficient amount to the bottom line.

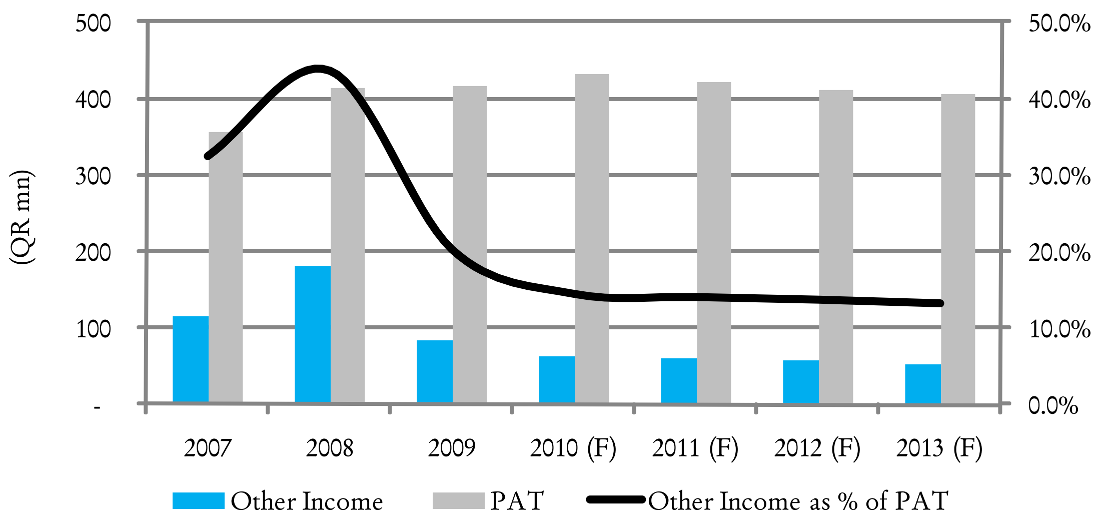
While Company's investment in listed securities have declined heavily in 2009 due to impairments to the tune of QR40.3mn, balancing the portfolio to reach QR163.4mn as compared to QR208.1mn in 2008. With the expected recovery in equity markets in 2010 and onwards and Qatari being our most growth oriented country we expect revival in the QNCC securities portfolio and expect it to reach QR179.8mn in 2010.

Other Income – *To cushion the bottom line*

QNCC earns other income through various sources mainly: Claims from Government, dividend income, interest income, rental income, transportation income and others.

QNCC enjoys strong government support and since they are subsidized, they can put in a claim to the government for any extraordinary costs. In 2009, they earned QR53.1mn while the same amounted to QR42.7mn in 2008. Most of the times these claims are related to requirement of clinker and other raw materials. However, as per our discussion with the management, such claims would be coming to an end in 2010 and claims from government would not continue to be adding such high amounts to the other income.

Other Income as % of Assets



Source: Company Reports & Global Research

QNCC earns transportation income by renting fleet of bulk containers and tankers subject to availability. Transportation income adds handsomely to the other income portion of QNCC. In 2009, transportation income amounted to QR18.2mn, lower than QR20.8mn registered in 2008. We expect transportation income to continue to add in the range of QR12-15mn during our forecasted period.

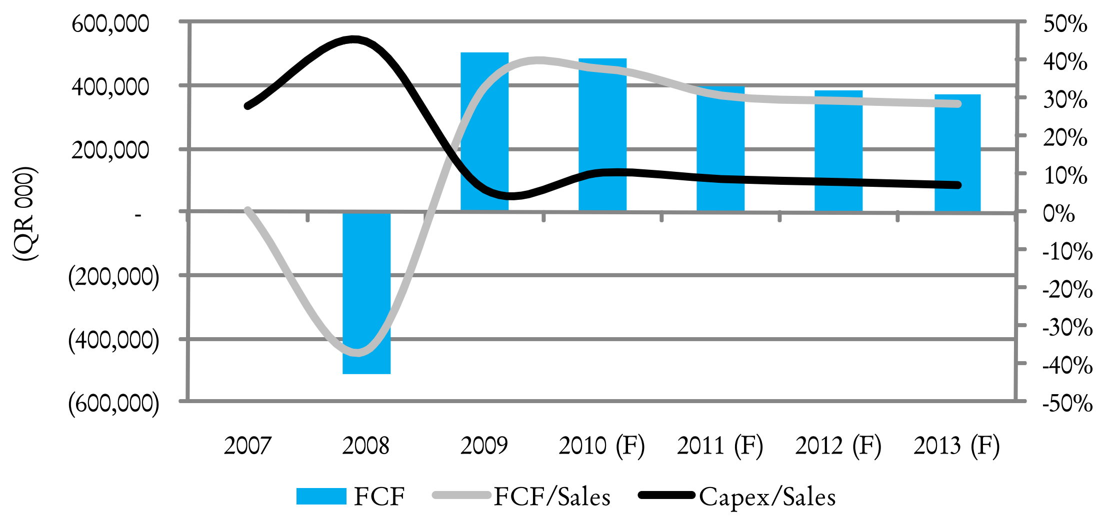
Rental income from investment in properties is also a sustainable income source for QNCC. QNCC has an investment portfolio in properties which it rents out and earns on it. In the past five years rental income has remained in the range of QR6-10mn during 2005-2009. Going forward, we expect QNCC to continue to receive rental income in the range of QR8-10mn during 2010-13.

Dividend income results from company's investment in listed securities and dividend from its associates. In 2009, QNCC received dividend income of QR7.0mn as compared to QR9.4mn in 2008. Higher dividend income in 2008 was because of higher profit of associates whereas the same reason can be put for 2009. Going forward, we expect dividend income to continue to flow in the other income portion and further substantiate the bottom line.

Capital Expenditure – *To drop post 2009*

Over the past years, QNCC in an attempt to become self sufficient continued to ramp up the capacity of its cement and sand business which resulted in higher capital expenditures. Clinker and cement capacity were continuously increasing over the last five years. Along with that sand capacity was also increasing.

QNCC's - FCF , Capex to Sales (%) & FCF to Sales (%)



Source: Company Reports & Global Research

Such an increase in capacity gave hefty rise to the capital expenditure for the Company which in return reduced the free cash flows. Free cash flow yield of the Company are turned negative in 2008 when most of the capital expenditure amounting to QR637.1mn was done.

Going forward since the Company has already ramped up its cement and sand washing business and no more capacity enhancement is being contemplated we expect the property, plant and equipment segment to decrease at a CAGR of 0.1% during 2009-13.

QNCC would be able to generate healthy free cash flows going forward, which would play a significant role in boosting the dividend yields as well. Our dividend payout for the forecasted period remain in the range of 40-65% which would result in a dividend yield ranging between 4.9-8% during 2010-13.

INCOME STATEMENT	QATAR NATIONAL CEMENT COMPANY						
(QR 000)	2007	2008	2009	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Revenue	1,105,493	1,412,993	1,519,125	1,283,534	1,290,588	1,298,472	1,284,587
Cost of Sales	(819,354)	(1,125,974)	(1,097,486)	(834,297)	(851,788)	(869,976)	(860,673)
Gross Profit	**286,139**	**287,019**	**421,639**	**449,237**	**438,800**	**428,496**	**423,914**
Selling & Distribution Expense	(8,400)	(10,305)	(11,257)	(11,552)	(11,615)	(11,686)	(11,561)
General & Administrative Expense	(28,971)	(32,905)	(45,587)	(51,341)	(51,624)	(51,939)	(51,383)
Operating Profit	**248,767**	**243,810**	**364,795**	**386,344**	**375,561**	**364,871**	**360,969**
Finance Charges	(24,571)	(23,636)	(23,855)	(6,965)	(2,367)	-	-
Other Income	115,414	180,783	124,947	62,473	59,350	56,382	53,563
Share of Result from Associates	15,549	12,688	1,963	589	677	779	896
Impairment Loss on AFS Assets	-	-	(40,302)	-	-	-	-
Profit Before Cont. to Social Fund	**355,160**	**413,645**	**427,547**	**442,441**	**433,221**	**422,032**	**415,428**
Social Fund Contribution	-	-	(10,512)	(11,061)	(10,831)	(10,551)	(10,386)
Net Profit	**355,160**	**413,645**	**417,035**	**431,380**	**422,390**	**411,481**	**405,042**
P&L Appropriation Account:							
Op Balance of Retained Earnings	**446,196**	**546,583**	**677,461**	**812,181**	**964,306**	**1,199,649**	**1,357,127**
Net Profit for the Year	355,160	413,645	417,035	431,380	422,390	411,481	405,042
Transfer to Legal Reserve	(35,516)	(27,800)	(41,704)	(2,934)	-	-	-
Proposed Bonus Share Dividend	(71,419)	-	(89,274)	-	-	-	-
Directors Remuneration Paid	(5,000)	(5,000)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)
Proposed Cash Dividend	(142,838)	(249,967)	(142,838)	(267,821)	(178,548)	(245,503)	(290,140)
Closing Balance of Retained Earnings	**546,583**	**677,461**	**812,181**	**964,306**	**1,199,649**	**1,357,127**	**1,463,529**

Source: Company Reports & Global Research

BALANCE SHEET	QATAR NATIONAL CEMENT COMPANY						
(QR 000)	2007	2008	2009	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Cash & Cash Equivalents	105,159	4,554	54,275	48,643	34,328	101,597	169,050
Account Receivables & Prepayments	131,760	267,791	164,656	140,661	148,506	160,086	175,971
Inventories	173,652	492,093	296,853	228,574	245,035	274,102	306,541
Current Portion of Finance Lease	6,921	6,219	-	-	-	-	-
Total Current Assets	**417,492**	**770,656**	**515,784**	**417,879**	**427,869**	**535,785**	**651,562**
Investments Properties	16,402	14,985	15,085	16,594	18,253	20,078	22,086
Non - Current Portion of Finance Lease	9,905	1,280	-	-	-	-	-
Investments in Associates	48,542	52,419	41,795	39,705	43,675	45,859	48,152
Investments Available for Sale	387,935	208,157	163,470	179,817	188,808	198,248	208,160
Advances for plant constructions	113,612	-	-	-	-	-	-
Gross Fixed Aassets	1,796,287	2,563,684	2,652,556	2,785,184	2,896,591	2,997,972	3,087,911
Less: Accumulated Depreciation	674,182	758,045	862,530	966,974	1,075,596	1,188,020	1,303,817
Net Fixed Assets	1,122,105	1,805,640	1,790,026	1,818,210	1,820,995	1,809,952	1,784,094
Total Assets	**2,115,993**	**2,853,137**	**2,526,160**	**2,472,204**	**2,499,600**	**2,609,922**	**2,714,055**
Liabilities							
Current Portion of Term Loan	87,396	87,396	160,226	160,226	-	-	-
Bank Overdraft	-	466,503	169,078	118,355	59,177	-	-
Trade & Other Payable	120,573	330,494	106,356	91,430	93,347	95,340	82,530
Total Current Liabilities	**207,969**	**884,393**	**435,660**	**370,010**	**152,524**	**95,340**	**82,530**
Non-current Portion of Term Loan	262,188	320,452	160,226	-	-	-	-
Employee End of Service Benefits	3,752	5,764	7,329	7,842	8,391	8,978	9,607
Paid-up Capital	357,095	357,095	446,369	446,369	446,369	446,369	446,369
Legal Reserve	150,748	178,548	220,251	223,185	223,185	223,185	223,185
Other Reserve	587,657	429,424	444,145	460,492	469,482	478,923	488,835
Retained Earnings	546,583	677,461	812,181	964,306	1,199,649	1,357,127	1,463,529
Total Shareholder's Equity	1,642,083	1,642,527	1,922,945	2,094,352	2,338,685	2,505,604	2,621,918
Total Liabilities & Equity	**2,115,993**	**2,853,137**	**2,526,160**	**2,472,204**	**2,499,600**	**2,609,922**	**2,714,055**

Source: Company Reports & Global Research

CASH FLOW STATEMENT	QATAR NATIONAL CEMENT COMPANY						
(QR 000)	2007	2008	2009	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Operating							
Operating Activities	375,931	389,791	522,269	542,713	533,251	523,713	520,571
Net Profit	355,160	413,645	417,035	431,380	422,390	411,481	405,042
Depreciation	88,554	85,280	106,103	104,444	108,622	112,424	115,797
Impairment of Assets	-	-	40,302	-	-	-	-
Interest Income	(21,030)	(2,083)	(1,050)	-	-	-	-
Dividend Income	-	(9,451)	(7,069)	-	-	-	-
Finance Charges	-	-	-	6,965	2,367	-	-
Share of Results of Associate Companies	(15,549)	(12,688)	(1,963)	(589)	(677)	(779)	(896)
Gain on Sale of Property, Plant and Equip	(41)	-	(28)	-	-	-	-
Gain from Sale of Investments	(32,526)	(87,449)	(28,302)	-	-	-	-
Provisions for Stores, etc.	1,900	1,900	(2,759)	-	-	-	-
Provision for Bad Debt	(537)	638	-	-	-	-	-
Working Capital	(69,693)	(263,748)	76,995	77,347	(22,388)	(38,654)	(61,134)
Dec/(inc.) in Receivables	(43,219)	(153,328)	103,135	23,995	(7,845)	(11,580)	(15,885)
Dec / (inc) in Inventories	(29,616)	(320,340)	197,998	68,278	(16,460)	(29,067)	(32,439)
Inc/(dec) in Accounts Payable	3,142	209,921	(224,138)	(14,926)	1,917	1,993	(12,810)
Employee Benefits Paid	901	(2,988)	(6,935)	-	-	-	-
Total Operating Activities	**307,139**	**123,055**	**592,328**	**620,061**	**510,863**	**485,060**	**459,438**
Investing							
Capex	(309,322)	(637,126)	(88,970)	(132,628)	(111,407)	(101,381)	(89,939)
Advance for Purchase of PPE	9,590	-	-	-	-	-	-
Dividend Income	-	9,451	7,069	-	-	-	-
Interest Income	21,030	2,083	1,050	-	-	-	-
Dividend Received	5,330	9,730	12,000	-	-	-	-
Loans	-	-	-	(1,509)	(1,659)	(1,825)	(2,008)
Proceeds from Disposal of Investments	101,986	130,542	79,195	-	-	-	-
Proceeds from Disposal of Property	130	-	42	-	-	-	-
Acq. of Ava. for Sale Financial Assets	(9,000)	(22,467)	(31,198)	-	-	-	-
Investments in Associates/Subsidiaries	-	-	-	2,679	(3,293)	(1,405)	(1,397)
Acquisition of Investment Properties	(7,441)	-	(1,633)	-	-	-	-
Total Investing Activities	**(187,698)**	**(507,788)**	**(22,446)**	**(131,458)**	**(116,360)**	**(104,611)**	**(93,344)**
Financing							
Proceeds from Financial Lease	8,573	9,327	7,499	-	-	-	-
BOD Remuneration	(5,000)	-	-	(8,500)	(8,500)	(8,500)	(8,500)
Dividend	(142,838)	(249,967)	(142,838)	(267,821)	(178,548)	(245,503)	(290,140)
Term-loan Repayments / Received	(87,396)	58,264	(87,396)	(210,949)	(219,403)	(59,177)	-
Bank Overdraft	-	-	169,078	-	-	-	-
Finance Charges	-	-	-	(6,965)	(2,367)	-	-
Total Financing Activities	**(226,661)**	**(182,376)**	**(53,657)**	**(494,235)**	**(408,818)**	**(313,180)**	**(298,640)**
Net Change in Cash	(107,220)	(567,109)	516,225	(5,632)	(14,315)	67,269	67,453
Net Cash at Beginning	212,379	105,159	(461,950)	54,275	48,643	34,328	101,597
Net Cash at End	105,159	(461,950)	54,275	48,643	34,328	101,597	169,050

Source: Company Reports & Global Research

FACT SHEET	QATAR NATIONAL CEMENT COMPANY						
	2007	2008	2009	2010 (F)	2011 (F)	2012 (F)	2013 (F)
Liquidity Ratios							
Current Ratio (x)	2.0	0.9	1.2	1.1	2.8	5.6	7.9
Quick Ratio (x)	1.2	0.3	0.5	0.5	1.2	2.7	4.2
Inventory Stock (Days)	71.2	107.9	131.2	114.9	101.5	108.9	123.1
Receivables Outstanding (Days)	36.3	51.6	52.0	43.4	40.9	43.4	47.7
Length of Operating Cycle (Days)	107.5	159.5	183.1	158.3	142.4	152.3	170.9
Payables Outstanding (Days)	53.0	73.1	72.6	43.3	39.6	39.6	37.7
Length of Cash Cycle (Days)	54.5	86.4	110.5	115.1	102.8	112.7	133.1
Profitability Ratios							
Asset Turnover (x)	0.5	0.5	0.6	0.5	0.5	0.5	0.5
Net Fixed Asset Turnover (x)	1.0	0.8	0.8	0.7	0.7	0.7	0.7
Equity Turnover (x)	0.7	0.9	0.9	0.6	0.6	0.5	0.5
Gross Profit Margin (%)	25.9	20.3	27.8	35.0	34.0	33.0	33.0
Operating Margin (%)	22.5	17.3	24.0	30.1	29.1	28.1	28.1
Net Profit Margin (%)	32.1	29.3	27.5	33.6	32.7	31.7	31.5
Return on Assets (%)	16.8	14.5	16.5	17.4	16.9	15.8	14.9
Return on Equity (%)	21.6	25.2	21.7	20.6	18.1	16.4	15.4
Activity Ratios							
Inventory Turnover Ratio (x)	5.1	3.4	2.8	3.2	3.6	3.4	3.0
Debtor Turnover Ratio (x)	10.1	7.1	7.0	8.4	8.9	8.4	7.6
Creditors Turnover Ratio (x)	6.9	5.0	5.0	8.4	9.2	9.2	9.7
Leverage Ratios							
Debt / Equity (x)	0.21	0.25	0.17	0.08	-	-	-
Current Liabilities / Equity (x)	0.13	0.54	0.23	0.18	0.07	0.04	0.03
Liabilities / Total Assets (x)	0.22	0.42	0.24	0.15	0.06	0.04	0.03
Ratios Used for Valuation							
EPS (QR)	9.9	11.6	9.3	9.7	9.5	9.2	9.1
Book Value Per Share (QR)	46.0	46.0	43.1	46.9	52.4	56.1	58.7
Asset Per Share (QR)	59.3	79.9	56.6	55.4	56.0	58.5	60.8
Cash Flow Per Share (QR)	8.6	3.4	13.3	13.9	11.4	10.9	10.3
Market Price (QR) *	131.2	79.8	78.8	83.0	83.0	83.0	83.0
Market Capitalization (QR mn)	4,685.1	2,848.2	3,517.4	3,704.9	3,704.9	3,704.9	3,704.9
Cash Ret. On Capital Invested - CROCI (%)	28.5%	31.8%	29.0%	26.4%	23.3%	21.3%	20.3%
Free Cash Flow Yield (%)	0.2%	-18.0%	14.3%	13.2%	10.8%	10.4%	10.0%
Dividend Yield (%)	6.3%	8.4%	4.8%	4.8%	4.8%	6.6%	7.8%
EV/Revenues (x)	4.5	2.6	2.6	3.1	2.9	2.8	2.8
EV/Ton (QR) #	1,545.9	922.3	804.7	774.3	729.3	699.4	681.0
EV/EBITDA (x)	10.5	7.1	7.1	7.1	6.9	6.7	6.7
P/E Ratio (x)	13.2	6.9	8.4	8.6	8.8	9.0	9.1
P/BV Ratio (x)	2.9	1.7	1.8	1.8	1.6	1.5	1.4

Source: Company Reports & Global Research

** Market price for 2010 and subsequent years as per closing price on DSM on May 06, 2010*

 # EV/Ton diluted as per contribution from Cement Revenue

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Qatar National Cement Co.	Hold	QNCD.QD QANC.QA	QR83.0	1,10

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