CEMENT REPORT IN THE MENA REGION

December 2010

BLOMINVEST BANK SAL

Your Investment Reference

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Table of Contents

Executive Summary

The cement industry is an integral part of the broader infrastructure sector. The demand for cement is derived and depends primarily on real estate, construction, industrial activity, and investments in infrastructure development. The demand is closely related to the overall macroeconomic situation as seen during periods of both expansion and slowdown. Portland cement is the basic ingredient in concrete and was first produced and patented in 1824 by a British stonemason. The current annual cement consumption worldwide stands at approximately 2,800 mn tons, including various types of chemical compositions and physical characteristics. While the basic manufacturing methodology is simple, the specific nature of the desired end-product calls for specialized understanding and control of the production process.

Cement is composed of 75% of limestone, which is probably the most commonly available mineral resource. The cost of cement comprises energy (29%), raw materials (27%), labor (32%) and depreciation (12%). Overall, cement is one of the world's highest energy consuming industries. Moreover, due to the relative ease of setting up a manufacturing plant, the producer companies are largely fragmented. It is estimated that there are around 2,020 integrated production plants and 380 separate grinding facilities around the world. Although the industry has seen the emergence of strong global players such as Lafarge and Cemex, the share of the six largest firms accounted only for 20% of the overall demand in 2008.

According to International Cement Review, global cement capacity stood at 2,770 mn tons in 2008. China, India, and the US are the world's largest producers and consumers of cement. China produces almost eight times more than any of its counterparts, approximately equivalent to the combined production of the rest of the world. Riding on its overall economic growth strategy, China also led the world in cement consumption with 1,390 mn tons during 2008, rising at a CAGR of 10.5% from 511 mn tons in 1998. In contrast, cement consumption of the rest of the world grew at a CAGR of only 4.0% over the same period.

Over the years, the supply-demand imbalance in emerging markets has supported higher profitability and investments into further capacity expansions. However, since the recent financial crisis, the world is seeing a dramatic change in consumption pattern. On one hand, the overall demand went on a sharp downward plunge due to depressed construction activity, while on the other, the epicenter of global consumption shifted eastwards to emerging markets in Asia. With many cement manufacturers adding capacities, the threat of oversupply looms large in a market battered by declining demand. Global cement consumption growth was only 3.4% during 2008 as against YoY growth of 7.6% in 2007 and 9.9% in 2006. Analysts attributed the downturn in the construction sector to tight credit markets and slower economic growth. Global cement production growth was 2.5% during 2008 and is estimated to have contracted by 1.4% during 2009, as against a production growth of 8.6% in 2007 and 10.4% in 2006.

Slowdown in general construction activities in the mature markets in North America and Europe continued into 2010, while in contrast, the performance of emerging Asian markets stabilized and improved as markets recovered and growth showed signs of a revival. However, in order to sustain higher utilization rates in an oversupplied scenario, companies are set to delay the planned commissioning of new capacities and close down existing inefficient units.

An interesting characteristic of the industry is the relatively lower volume of global trade. Widespread availability of raw materials, strong correlation of the industry with local economic growth, and high transportation costs tilt the balance in favor of domestic production vis-à-vis imports. Global cement trade represented only 6-8% per annum of global consumption over the past decade. Most of the global clinker and cement production is consumed locally, while trade amounted to 164 mn tons during 2008, down 6% over the previous year.

In addition to being the world's leading producer and consumer nation, China is the largest exporter due to huge capacities and ability to sell at very competitive prices. Other major cement exporters include India, Japan, Thailand, Turkey, and Germany.

The cement industry in the MENA region has been a net importer, with the exceptions of Saudi Arabia and Egypt. Interestingly, the two countries have banned cement exports, which is likely to continue until the later part of 2010. Meanwhile, Egypt continues to rely on imports, which stood at 1 mn tons during August 2009 alone. Overall, the UAE was the largest importer in the region during 2008, despite being a leading producer. The region's average cash cost of production stood at USD 40 per ton compared to USD 45 in Europe and USD 26 in China as of 2008. The cost of production in Saudi Arabia was as low as USD 24 per ton, much lower than USD 32 in Egypt and USD 55 in Jordan.

During 2008, the MENA region produced 108.4 mn tons and consumed 108.8 mn tons of cement, contributing less than 4% to the global total. While Egypt leads the region in both production and consumption, Saudi Arabia has the highest installed

capacity. Among GCC countries, retail prices in the UAE were the highest at an average of USD 99 per ton, driven by the rapid growth in construction activity in recent years. Retail prices in other countries of the region ranged between USD 70 and USD 90 per ton. Favorable economic conditions before the financial crisis led the region's governments to invest heavily in real estate and infrastructure projects which, in turn, boosted the demand for cement. In anticipation, cement producers in the region either increased production capacities or planned significant future additions. The total regional production capacity was estimated at about 376 mn tons in 2008, which is projected to increase 40.5% to 529 mn tons by 2012, according to plans announced so far.

Ironically, these massive capacity additions will come online at a time when the region is still not completely out of the clutches of possibly the worst economic recession in many decades. With the deferment and/or rescheduling of large construction projects, cement producers—especially in the UAE and Saudi Arabia—are revisiting their strategy boards and evaluating the opportunities and challenges very carefully.

The slowdown in the real estate sector—both residential and commercial—which accounts for about 65-70% of total cement consumption in the region, has hit the sector hard. With most builders still experiencing a severe cash crunch, real estate development will likely remain subdued in the near future, staying far from the searing pace seen before the crisis. We expect the global—and regional—economic recovery to be gradual, with the decoupling of emerging and developed markets being a pivotal factor in the future. The positive impact of the stimulus packages announced by different governments will continue to unfold, amid the slow pace of recovery, and we expect a sustainable, stronger growth only toward the later part of 2010.

1. Introduction

In recent years, the real estate and construction sector has been in the spotlight for multiple reasons. Whether, on one hand, it was the subprime crisis in the US and, on the other, the more recent opening of the world's tallest tower in Dubai, the sector has generated enough analyst and expert interest. In this context, it becomes quite timely and relevant to look at an industry like cement, the performance of which is closely related to the pace of real estate and construction activity.

Cement is the most widely used building material across the world, albeit with some exceptions in the developing world, and is used in the form of a strengthened composite called concrete. Typically, concrete comprises of 11% cement, 41% gravel or crushed stone, 26% sand, 16% water, and 6% air by volume. As per World Business Council for Sustainable Development (WBCSD), concrete is among the most widely used materials—second only to water—with an average per capita consumption of 3.0 tons.

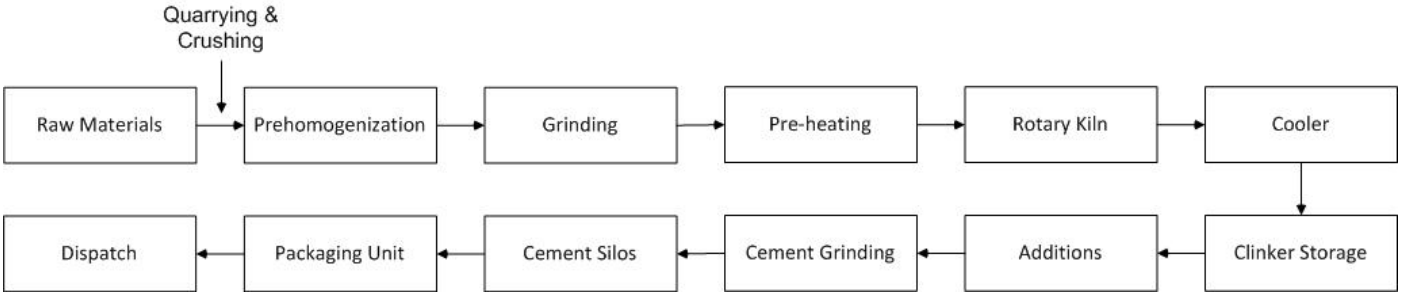
Although materials similar to cement were used in Greek and Roman structures, modern cement was produced only toward the early 1800s. In 1824, Josef Aspdin produced and patented Ordinary Portland Cement (OPC), a building material that is regarded as a better substitute for other construction materials such as clay, lime and gypsum mortar, Pozzolana, hydraulic cement, and natural cement. The industry has undergone significant transformation since then, even though the product remains fundamentally the same.

1.1. Manufacturing process

Cement manufacturing is an energy-intensive process and entails quarrying and production of clinker, which is finally used to produce cement.

Quarrying: The choice of location for a cement plant depends on multiple criteria, the most significant of which is proximity to limestone reserves and end-user markets in order to ensure lower transportation costs. Limestone and clay are quarried, crushed at the site, and transported to the plant for processing. Corrective materials such as bauxite, iron ore, or sand may be added to adapt the chemical composition of the raw mix to the process and product specifications.

Cement Manufacturing Process



Source: Various journals, Blominvest

Clinker production: Clinker can be produced using one or more of dry, wet, semi-dry, or semi-wet methods depending on the state of the raw materials. The process applied depends on the source of limestone/clay and the water content. Over the years, most cement producers around the world have shifted from the wet method to the more energy-efficient dry process. The raw material is homogenized into a mixture and fed into a rotary kiln measuring 60-200m in length and 3-7.5m in diameter. The material is heated at 2,000°C in the rotary kiln, which is slightly inclined to allow the material to slowly reach the other end where it is cooled down to 100-200°C. The consecutive steps of thermal treatment include drying or preheating, calcination (release of CO_2 from limestone), and sintering (formation of clinker material at temperatures up to 1,450°C). The final product in solid grain form, called clinker, is stored in huge silos. According to the Journal of Industrial Ecology, about 1.7 tons of dry raw materials yield about 1 ton of clinker in a typical production line.

Cement Production: Cement production requires a grinding mill that may be located away from the clinker plant. A small percentage of natural or industrial gypsum is added to the clinker to produce OPC, the general purpose cement. Blended cements are formed by adding cementitious materials such as granulated blast-furnace slag, coal fly ash, and Pozzolanas or inert

materials. All the constituents are ground to a fine and homogenous powder (1 Kg of cement contains over 330 bn grains) and then stored in silos, before being dispatched either in bulk or bagged form.

1.2. Types of Cement Uses

Depending on specific end uses, the demand from the construction industry comprises various types of cement. Certain applications require cement with specific properties that need to be formulated by adding supplements and constituents to clinker. CEMBUREAU has classified common cement into 27 grades, grouped into five general categories—Portland cement (1), Portland-composite cement (19), blast furnace cement (3), Pozzolanic cement (2), and composite cement (2)—and three strength classes: ordinary, high, and very high.

Portland cement is the most commonly used basic ingredient for concrete and mortar. Concrete is a blend of cement, water, sand, and gravel; while mortar is a mix of cement, water, sand, and lime. OPC is a general purpose cement and is used in civil construction works exposed to normal environmental conditions. Natural cement, produced by burning a naturally occurring mixture of lime and clay is still used and is occasionally blended with Portland cement for improved characteristics. The applications of some of the most widely used types of cement are listed below.

- *Portland slag cement* is used in the construction of structures exposed to harsh environmental conditions such as marine applications and sewage and water treatment plants. It imparts strength, durability, and improved resistance to corrosive chemicals such as chlorides and sulfates.
- *Pozzolana cement* provides long-lasting strength compared to OPC and can be used for all types of construction in damp regions.
- *Sulfate-resistant Portland cement* is used for foundations, basements, underground structures, coastal works, and sewage and water treatment plants as it enhances impermeability to moisture and corrosion by sulfates.
- *Low heat Portland cement* is suitable for massive concrete structures such as dams, reservoirs, bridge abutments, massive retaining walls, and slabs, among others.
- *Rapid hardening Portland cement* is used for time-critical repair work such as airfield and highway pavements, marine structures, and bridge decks.
- *High-alumina content cement's* quick-setting nature and high temperature resistance makes it an ideal material for fire-proofing applications.
- *High-sulfate content cement* is used in multifarious castings, because of its property to expand upon hardening and fill small spaces.
- *White Portland cement*, manufactured from raw materials containing iron oxide and manganese oxide, is used for architectural purposes such as mosaic tiles, wall paintings, and special effects.
- *Oil-well cement*, a specially designed variety of hydraulic cement produced from gray Portland clinker, forges slowly and is manageable at high temperatures and pressures for each depth and chemical aggression.

1.3. Key Characteristics of the Industry

Capital intensive industry: The industry requires substantial upfront investments in fixed assets like plants and machines. Typically, such costs are equivalent to as much as three years of revenues making the industry extremely capital-intensive in nature. The capital expenditure involved is in the range of USD 200 mn for every 1 mn ton of annual capacity, topped with substantial costs for ongoing repair, maintenance, upgrades, and enhancements. As discussed, the gestation period for investments to be recovered is long and, therefore, the initial planning needs to carefully account for the high costs of continuous repair and maintenance of the manufacturing facilities.

Energy intensive industry: Each ton of cement produced requires approximately 105KWh of electricity and 60-130 Kg of fuel oil (or 190 Kg coal), contingent upon the variety and process used, as per estimates by CEMBUREAU.

Automated industry: Over a period of time, the development of automated machine tools and material handling devices has reduced the amount of both skilled and unskilled labor employed by the industry. A modern plant is estimated to be manned by less than 150-200 people, while producing 78.6% more cement than was produced a couple of decades ago.

Transportation costs: Land transportation costs can be quite significant for large shipment volumes. According to CEMBUREAU estimates, cement transportation by road turns uneconomical beyond 300 kilometers, as the price of transportation may even go higher than the manufacturing cost itself. Consequently, bulk shipping has become the preferred mode of transport in recent years.

Homogenous product: Since there are only a few fundamental varieties of cement (Ordinary Portland, Pozzolana, blast furnace) in terms of production process, switching costs for consumers are low in the absence of any significant product differentiation. More often, price and service play a paramount role, unless there is a need for a particular type of cement for specialized applications.

Construction industry affiliation: Cement consumption is closely related to construction activity which, in turn, is closely linked to macroeconomic factors like absolute GDP and growth, among others. However, the industry is relatively insulated from the general cyclicality of the construction industry, given the ubiquitous use of cement across infrastructure, industrial, and real estate segments. For this reason, the demand is rather inelastic and is minimally affected by changes in price. However, the seasonality associated with consumption, especially during winters in North America and Europe, can inflate inventory levels that are eventually offloaded during summers. Such fluctuations are more region-specific in nature. For instance, the MENA region witnesses a major demand decline during the holy month of Ramadan.

1.4. Raw Materials

The primary raw materials required for cement production are limestone, clay, silica, and shale. In fact, other than cement, most of these raw materials do not have any other meaningful commercial applications. On the other hand, limestone is even considered to be a deterrent to crop yield depending on its proximity.

The availability of raw materials is the primary factor behind the choice of location for a cement plant. Otherwise, raw materials are relatively cheap as most producers source supplies from local quarries. As a result, price fluctuations in raw materials have a minimal impact on the overall cost of production. On the contrary, transportation costs can be significant as a result of which proximity to suitable sites is a key driver of profitability.

Cement acquires its characteristic properties from the materials that are formed in the cement kiln during the manufacturing process. According to CEMBUREAU, clinker chemically comprises four basic oxides in the correct proportions - calcium oxide (65%), silicon oxide (20%), aluminum oxide (10%), and iron oxide (5%). Limestone, marl, and chalk provide the oxides of calcium, while clay and shale are used to provide the aluminum and iron components. Alternative raw materials such as blast-furnace slag, fly ash, and Pozzolanas have been sourced to substitute for traditional raw materials to some extent. These alternative materials provide certain advantages in terms of reducing the need for quarrying, lowering energy consumption, and cutting the emissions of dust and CO_2.

Energy costs account for 30-40% of the total production costs for cement. The entire process from raw material extraction to cement grinding and distribution required approximately 3.91 Gigajoules (GJ) of thermal energy and 0.55 GJ of electrical energy per ton as of 2006, according to Cement Association of Canada. Over the years, the industry has taken several measures to reduce energy consumption that include developing more energy efficient equipment. The energy requirement per ton for cement decreased from 6.22GJ per ton in 1974 to 5.33GJ per ton in 1980, and further to 4.75GJ per ton in 1996 and 4.46GJ per ton in 2006. For several years, cement producers with their own/captive power plants had an advantage over their counterparts as they had access to reliable power supply at a relatively lower cost. This led to many producers investing in power plants in order to meet the energy requirements of their production units.

The main fossil fuels used by the industry include coal, pet-coke, heavy oil, and natural gas. Non-fossil alternative fuels derived from industrial sources such as scrap tires, waste oil, plastics, recovered solvents and asphalt, and certain hazardous wastes are commonly used to supplement traditional fuels in modern times. In the process, the industry helps contribute to the cause of the environment to some extent by managing and consuming a wide variety of complex industrial waste. Renewable sources such as fiber residue from forest products, meat and bone meal, municipal solid waste, agricultural waste, used paper and packaging, recovered wooden utility poles, and residual wood biomass from forestry operations are also used as alternative fuels.

The use of alternative and renewable energy sources in cement kilns saves fossil fuels, lowers production costs, reduces air pollution, and eliminates the need for disposal of slag and ash. In the Netherlands, alternative and renewable energy sources accounted for nearly 83% of the energy required for cement manufacturing in 2006, according to Cement Association of Canada. In Switzerland and Austria, the number stood at 47.8% and 46%, respectively. Other European countries such as Germany, Norway, France, Belgium, Sweden, and Luxemburg lagged the top three in the use of alternative and renewable energy sources. In Japan, US, and Canada, the share of alternative and renewable energy for cement manufacturing stood at 10%, 8.8% and 6.9%, respectively. Furthermore, we expect these numbers to increase over the upcoming years given the increased emphasis on the use of alternative and renewable energy around the world.

1.5. Logistics Issues

Given the high costs of transportation vis-à-vis raw materials, the industry has evolved with most countries having their own production plants instead of relying on imports. As a result, only a limited quantity of cement is traded in the global markets when compared to the overall production. In geographically large countries such as India, the high cost of transportation has led to production units getting concentrated around a few regional hubs.

Cement is traded either as a semi-finished product in the form of clinker, or as a finished product in powder form. As a seaborne cargo, clinker can be transported in standard bulk carriers and involves fewer problems compared to cement. On the other hand, finished cement requires a moisture-free environment, again limiting seaborne bulk shipping. Cement tends to lose its binding capability and strength with ageing. Cement aged three months is estimated to lose 5-10% of its strength, while cement aged six months and one year loses 20-30% and 30-40% of its strength, respectively.

Only 6% of the world's total clinker and cement production was traded during 2008. However, the situation has improved in recent years with the expansion in bulk shipping, which presents a cheaper mode of transport than land. As a result, today marine shipping accounts for approximately 80% of the global cement trade. This reliance on sea haulage impacts cement trade, as bulk carrier freight rates are determined by several other industries other than cement. For example, iron ore and coal comprised 27.2% and 25.7%, respectively, of global dry bulk shipments in 2008. Cement accounted for only 4.2% in 2008, compared to 4.5% in 2007, due to a 6% y-o-y decline in total cement trade. Other factors such as fleet supply, seasonal demand fluctuations, and fuel prices impact freight rates as well. These factors—along with the dynamics of other industries—can change the cost competitiveness of a country's cement producers in the global market.

The financial crisis impacted bulk freight rates, as indicated by the Baltic Dry Index (BDI), which tracks shipment prices of various dry bulk cargoes worldwide. The BDI plunged 94.4% between May 2008 and December 2008. Currently, the index is trading at levels seen in 2006.

Baltic Dry Index

Source: Bloomberg, Blominvest

1.6. Environmental Concerns

Cement manufacturing poses environmental hazards due to the emission of greenhouse gases such as CO_2, SO_X, and NO_X. Environmental issues associated with the industry are mostly related to the production process of clinker. Production per ton of clinker yields around 1 ton of CO_2 emissions, equally contributed by combustion of fuels and calcination of limestone. Nitrogen oxide (NO_X) is produced by high temperature combustion, while other exit gases originate from raw materials or fuels.

Further, the dust released during the grinding process poses another environmental concern for the industry in the developing countries because the emission standards are yet to get as mature as those in the developed countries. For several years, leaching of heavy materials from concrete used to be a concern for the industry as well.

In terms of greenhouse gases, cement plants account for as much as 5% of total global emissions of CO_2, bringing the industry to the center of the climate change debate. The industry continues to work toward improving the manufacturing technology to

reduce effluents and solid waste. Dust emissions—a major area of concern—have been reduced considerably over the past 30 years. The present technology allows a large proportion of the dust to be injected back into the manufacturing process. To reduce emissions, the industry has undertaken various measures some of which include improving energy efficiency, reducing the clinker-to-cement ratio by reusing by-products, and increasing the use of alternative and renewable energy sources.

Globally, the cement industry has been subject to stringent environmental regulations and interventions for monitoring the production process. In turn, cement producers have responded by investing in green programs such as the Cement Sustainability Initiative (CSI). CSI was developed under the WBCSD in 1999 by 18 leading cement producers of the world to minimize the ill-effects of cement production on the environment. Lafarge, the world's leading producer based in France, has improved efficiency and decreased CO_2 emissions from 763 pounds for each ton of cement in 1990 to 655 pounds as of 2006.

The European Union effectively limits the production of cement by capping annual emissions allowances, whereas other parts of the world do not really have such stringent limits. Furthermore, the EU subsidizes the region's producers who buy plants with old manufacturing technology and refit them with greener technology. However, in doing so, the amount of cement produced increases considerably, thereby increasing the total emissions. As a result, the industry continues to develop and explore various solutions that can help reduce the impact on the environment while increasing output at the same time.

1.7. Need to Employ Modern Energy Efficient Technologies

Buildings constructed with concrete generally have adequate insulation to moderate variations in daily temperatures. On the other hand, buildings made of cast-in-place, tilt-up, precast concrete, and Insulating Concrete Forms (ICF) help moderate indoor temperature extremes and reduces peak heating and cooling loads.

According to the ICF association, building walls with ICFs adds an additional USD 1 to USD 4 per square foot for a typical new US home costing between USD 60 and USD 100 per square foot. However, the energy efficiency achieved with ICF homes reduces the required capacities for heating and cooling equipment compared to that in a normal concrete house. Data indicates that exterior ICF walls consume 44% less energy to heat and 32% lesser to cool in comparison to normal concrete houses.

With the world's attention on reducing environmental damage, the overall increase in construction activity will lead developers and consumers to try and employ such materials. While these may involve an incremental upfront cost, the ongoing savings in energy costs and environmental merit will present a strong case. Moreover, this will drive further research into testing and developing more such new and innovative materials.

2. Global Cement Industry

2.1. Supply and Demand

2.1.1. Production, Capacity, Consumption

The performance of the cement industry is closely related to that of the construction sector and generally tracks the magnitude and growth of a country's GDP, with the main demand drivers being real estate, tourism, infrastructure, and industrial projects. During expansionary periods, demand for cement tends to grow faster than GDP growth, while demand severely affected during a slowdown.

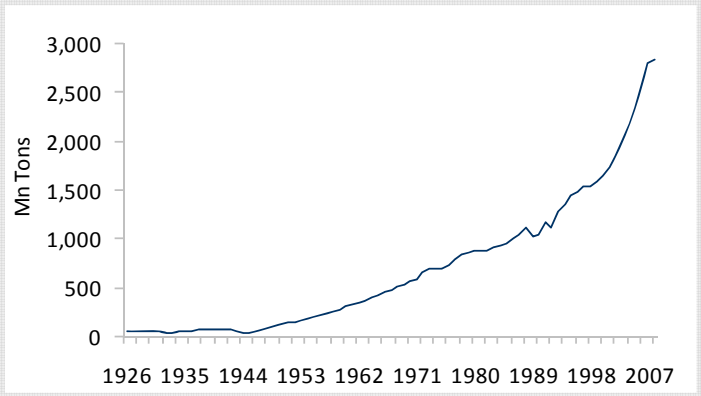
Between 1926 and 1929, global cement production grew from 62.4 mn tons to 74.9 mn tons at a CAGR of 6.3%. However, production declined to 48.2 mn tons by 1933, following the Great Depression. In the US, cement production declined dramatically from 30.4 mn tons in 1928 to 10.9 mn tons in 1933 at a negative CAGR of 18.5%, strongly in line with the correlation to GDP.

The increase in world cement production at a CAGR of 11.6% over 1933-39 and the subsequent plunge during World War II in 1939-45 to a negative CAGR of 10.0% further support this view. Cement production grew 46.5% in 1946 alone, registering a CAGR of 15.5% until 1951, triggered by the reconstruction activity worldwide, especially in Europe. In later years, cement production grew at a CAGR of 7.3% until 1973, followed by a CAGR of 3.2% over 1973-88 as the spikes in oil prices impacted GDP growth rates in developed economies, as was clearly seen in the case of the US. Overall, cement production in the US declined at an annual rate of 0.09% over 1969-92 after growing at a CAGR of 4.1% over 1946-69. Between 1988 and 1992, geopolitical dynamics suppressed world cement production growth to a CAGR of 0.11%. Subsequently, emerging economies played a major role in increasing global cement production to a CAGR of 6.0% over 1992-2008.

Between 2004 and 2007, the strong construction boom around the world spurred cement production to grow at a CAGR of 9.1% to 2,770 mn tons. Infrastructure investment was the key driver of economic growth in developing countries, especially in Asia and the MENA region. During this period, cement consumption increased at a CAGR of 8.1%. On the back of strong demand growth, average cement prices increased at a CAGR of 5.0% from USD 85-90 per ton in 2004 to USD 105-110 per ton in 2008 in addition to the rise in transportation costs.

The financial crisis has dramatically altered global cement consumption growth. The robust performance of the industry over the years came to a halt as global consumption grew only by 3.4% during 2008, down from 7.6% in 2007 and 9.9% in 2006. Deteriorating credit markets and slower economic growth were the major drags on the construction industry, thereby reducing the demand for cement. Meanwhile, global cement

World Cement Production (1926 – 2008)



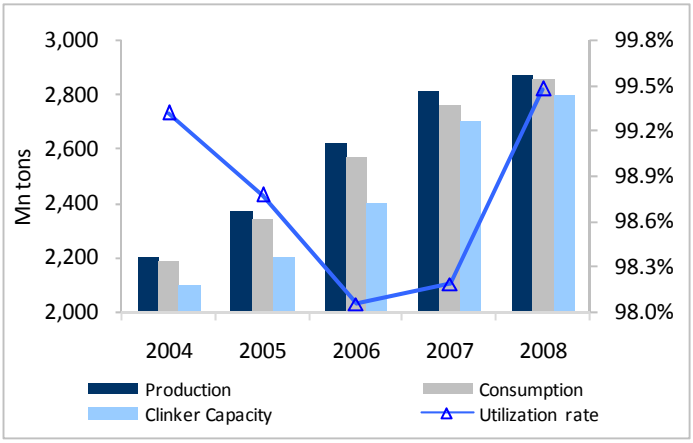
Source: US Geological Survey, Blominvest

World Cement Production Growth

Period	CAGR (%)
1926-29	6.3%
1929-33	-8.4%
1933-39	11.6%
1939-45	-10.0%
1945-46	46.5%
1946-51	15.5%
1951-73	7.3%
1973-75	0.01%
1975-88	3.64%
1988-92	0.11%
1992-2008	6.0%

Source: USGS, Blominvest

World Cement Industry Profile



Source: International Cement Review (ICR), USGS, Global Investment House (GIH), Blominvest

production grew 2.5% during 2008 and is estimated to have contracted by 1.4% during 2009, down from 8.62% in 2007 and 10.4% in 2006.

The steep decline in global cement consumption during 2008 was attributable to an unprecedented demand contraction of 9.6% in the developed economies. Nonetheless, demand growth in developing countries was a positive 5.9% during 2008, although lower than that seen in 2007. As a result, the decline in demand in developed countries was largely offset by the demand growth in developing economies, which account for maximal cement production and consumption, leading to overall positive world cement growth during 2008.

Cement Production in Selected Developed vs. Developing Countries

	Mn Tons			Production Growth (CAGR)				
	1994	2005	2009	1994-2005	2005-06	2006-07	2007-08	2008-09
US	77.9	101	72.8	2.4%	-1.3%	-3.2%	-9.2%	-16.9%
Japan	91.5	69.6	60.0	-2.5%	0.4%	-3.1%	-7.2%	-4.5%
Italy	40	46.4	43.0	1.4%	-6.9%	10.0%	-9.5%	0.0%
China	400	1,040	1,400	9.1%	15.4%	12.5%	3.0%	0.7%
India	54	145	180	9.4%	6.9%	9.7%	4.1%	1.7%
Brazil	26	36.7	53.0	3.2%	7.6%	17.5%	11.9%	2.1%

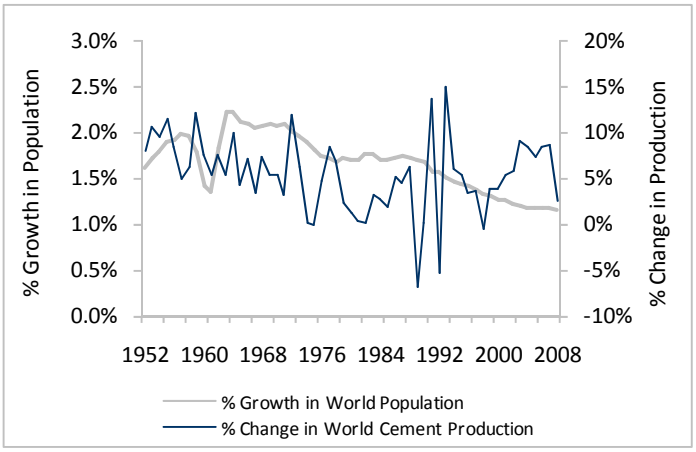
Source: USGS, Blominvest

According to International Cement Review (ICR), world cement capacity stood at 2,770 mn tons as of 2008 with 2,020 integrated production and 380 independent grinding facilities. The supply-demand imbalance in emerging markets over the years translated into higher profitability and surplus funds for further capacity expansions by cement producers. However, the global financial crisis upset this supply-demand equilibrium considerably. An oversupply situation seems inevitable given the capacity additions prior to the financial crisis and new capacities that are likely to come online in the short- to medium-term. In addition, on the demand side, the deceleration in construction activity will further aggravate the oversupply situation. This will likely lead to deferment of new capacity additions and closure of unviable facilities in order to optimize utilization rates. Moreover, governments could decide to restrict any further increase in cement capacity. For instance, the Vietnam Ministry of Construction has advised five cities to not approve any more cement plants until 2020, in view of the likely oversupply of 7 mn tons following the completion of the currently underway expansion phase.

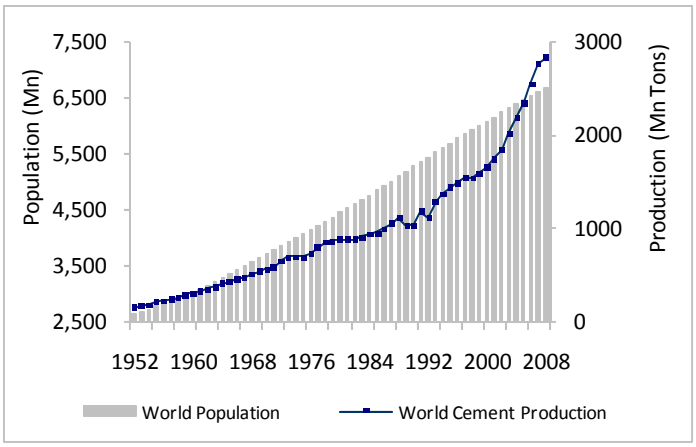
2.1.2. Factors Affecting the Industry

Over the years, the production of cement has been closely related to world population as can be seen in the chart below. Based on historical data for world population and cement production over 1950-2008, calculations indicate a correlation of as high as 0.958. However, data suggests almost no relation between percentage change in world cement production and population, mainly because of the time lag in the commencement of infrastructure projects and delayed capacity expansion in projects expected to come online.

World Cement Production vs. World Population

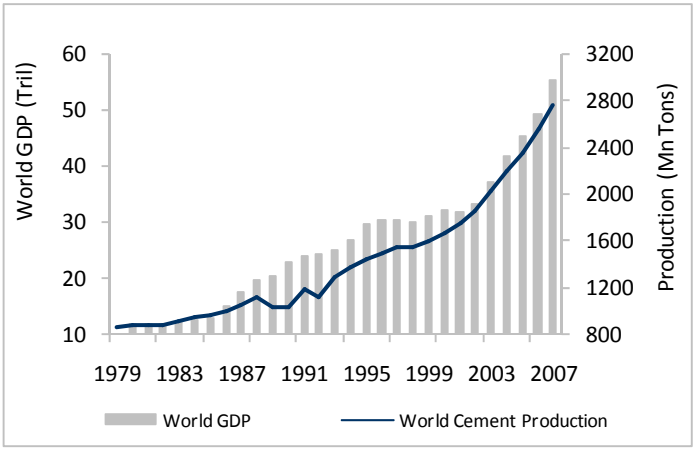


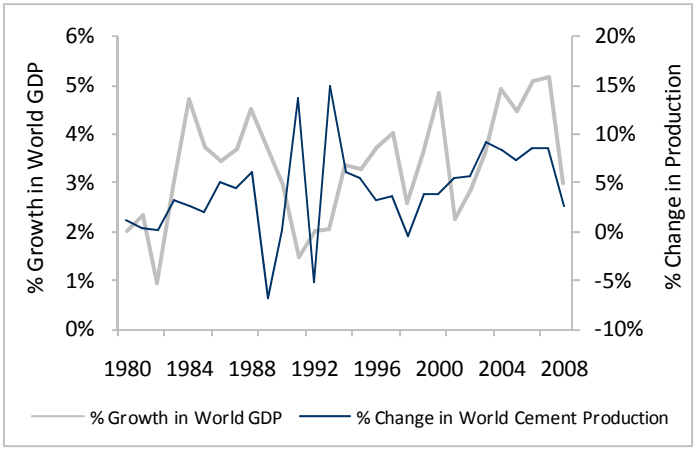
Source: USGS, US Census Bureau, Blominvest



Source: USGS, US Census Bureau, Blominvest

World Cement Production vs. World GDP





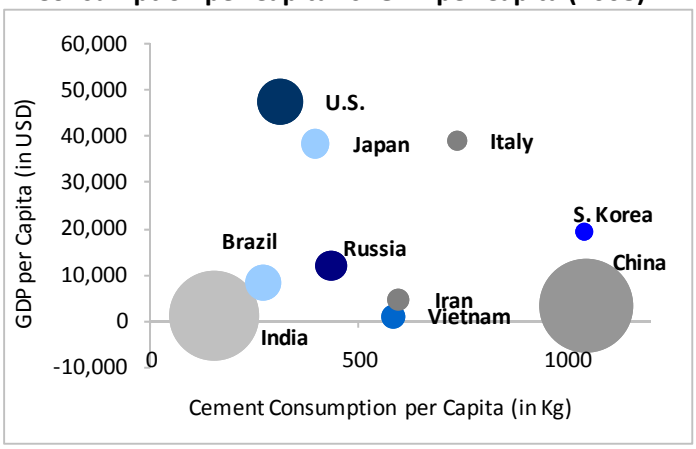
Source: USGS, IMF, Blominvest

Source: USGS, IMF, Blominvest

Calculations on historical data for world GDP and cement production between 1980 and 2008 produce a correlation of 0.979. Furthermore, percentage change in world cement production and GDP exhibit a positive correlation of 0.156. These numbers and trends indicate that GDP growth has a strong influence on cement's demand and supply, driven by infrastructure growth and increase in construction activity.

Many analysts and economists consider the annual per capita consumption of cement as an indicator for economic prosperity and development. However, the correlation between per capita cement consumption and per capita GDP for the top 10 consumers of the world is negligible. Even among the mature economies of the top 10 consuming nations—like the US, Japan, Italy and South Korea—per capita consumption varied considerably depending upon the divergence in construction activity.

Consumption per Capita vs. GDP per Capita (2008)



Source: ICR, IMF, Blominvest

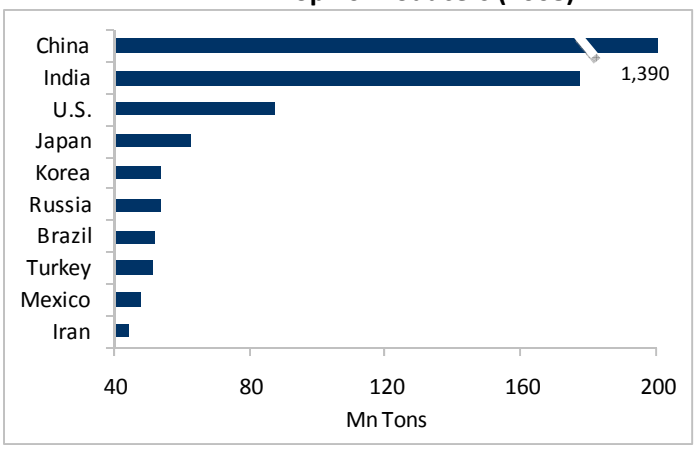
A reason for this negligible correlation is that infrastructure drives the strongest demand for cement. For every USD 1 mn spent on residential, non-residential and infrastructure construction, cement consumption stands at 65 mn tons, 75 mn tons, and 360 mn tons, respectively. In 2008, China's focus on infrastructure development and urbanization-driven real estate activity led to the highest per capita consumption vis-à-vis its western counterparts.

Among the developing economies, per capita cement consumption varies widely from 153 Kg in India to 1,047 Kg per capita in China. The latter's per capita consumption is unusually high by most standards, especially when compared to the per capita consumption of India, which is home to the world's second-largest population. During 2008, the remarkable public infrastructure and real estate growth ahead of the Beijing Olympics brought China to the fore, both in terms of per capita and total annual cement consumption. In fact, the per capita cement consumption in the other three BRIC countries is just a fraction of China's consumption. However, as massive infrastructure projects come online in these countries—especially Brazil and India—we expect per capita consumption rates to gradually move up.

2.1.3. Major Producers and Consumers

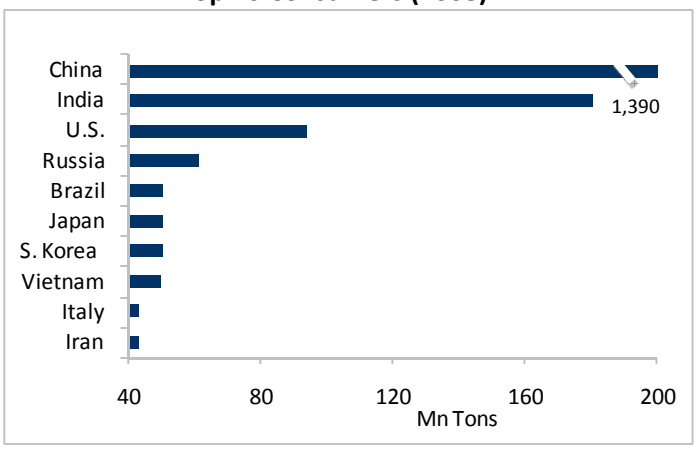
China, India, and the US are the largest producers as well as consumers of cement. China leads the world as the largest cement producing nation, with an estimated production of 1,390 mn tons in 2008, producing eight times more than any of its peers and approximately equivalent to the combined production of the rest of the world. With a production of 177 mn tons, India comes a distant second, followed by the US with 88 mn tons.

Top 10 Producers (2008)



Source: USGS, Blominvest

Top 10 Consumers (2008)

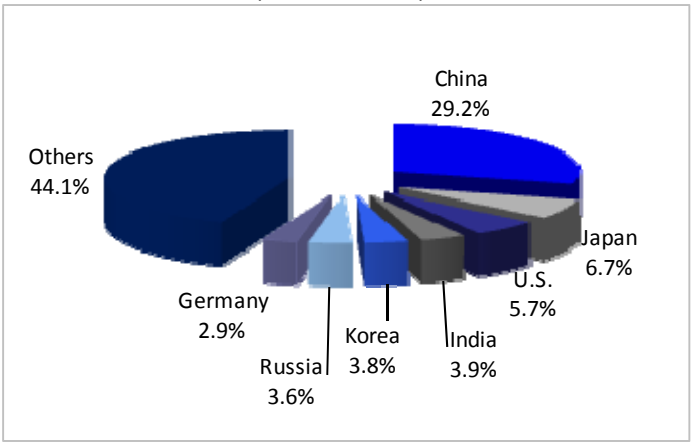


Source: ICR, CementMarket.Info, Blominvest

China leads the other countries as the world's largest cement consuming nation as well, with a consumption of around 1,390 mn tons in 2008, growing at a CAGR of 10.5% since 1998 when the country consumed about 511 mn tons. The consumption and production numbers for China are same during 2008, even though the country was a net exporter because of the difference in equivalent clinker exports and excess production during 2007. Cement consumption in the rest of the world increased at a CAGR of 4.0% from 990 mn tons in 1998 to 1,467 mn tons in 2008. While China's consumption grew 5.3% during 2008, that by the rest of the world grew only by 1.7%.

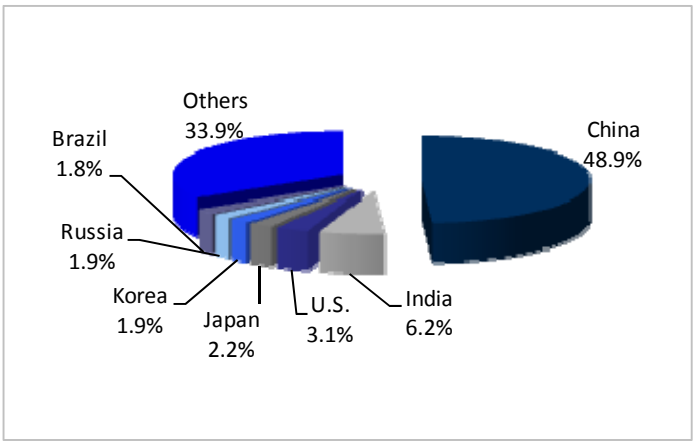
Among the top 10 consuming nations, Vietnam registered an unprecedented growth rate of 39% during 2008 on a year-over-year basis. The country has been ramping up its production capacity over the years to meet the high consumption growth and will potentially break into the top 10 producing nations by the end of 2010, according to industry publication Cemweek. The country's largest production facility Binh Phuoc with a capacity of 2 mn tons is likely to come online during 2010, in addition to other capacity expansion projects. Cement consumption in other emerging economies—among the top ten—Brazil, India, Iran, China, and Russia increased by 13%, 9%, 6%, 5.3%, and 1%, respectively. In contrast, consumption in the developed economies, US, Japan, Italy, and South Korea declined 15%, 10%, 5%, and 1%, respectively.

World Cement Production in 1994
(1,370 mn tons)



Source: USGS, Blominvest

World Cement Production in 2008
(2,840 mn tons)

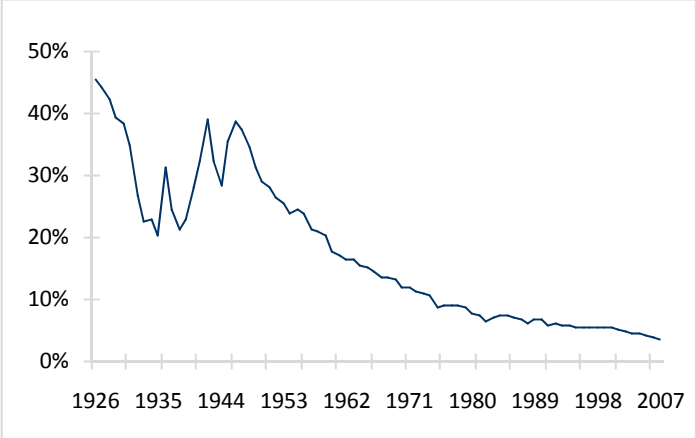


Source: USGS, Blominvest

Over the years, the prominence of China in world cement production has increased with its market share moving up from 29.2% in 1994 to 48.9% in 2008. Meanwhile, the share of India's production increased from 3.9% to 6.2%. However, other top producers such as Japan, the US, and South Korea lost market shares during this period. A similar scenario was seen in clinker capacity. The market share of China increased from 25.7% in 1994 to 50.0% in 2008. In contrast, the market shares of Russia, Japan, and the US declined between 1994 and 2008. The shift in production toward China and India was mainly driven by the tremendous demand growth from the two Asian giants, accounting for 36.9% of the world population, on the back of massive infrastructure projects and upsurge in urban housing demand. In addition, tight supply conditions in the developed countries and limited trading were other reasons for this geographical shift in cement production over the years.

On the other hand, the prominence of the US cement industry has suffered over the years. The first data published by USGS in 1926 reflected that the US accounted for 45.5% of the total world cement production. After several fluctuations, the production percentage declined to 38.8% by 1946. Subsequently, the contribution of the US to world cement production decreased constantly to 9% by 1976 and further to 3.1% by 2008. Another key phenomenon seen in the US cement industry was the increase in foreign ownership from 22% in 1980 to more than 81% by 2003, following significant investments from European and Asian producers during the 1980s. During this period, relaxation of foreign ownership norms helped attract international giants to acquire smaller US companies in order to increase their presence in a major consuming country.

US Cement Production as % of World Production



Source: USGS, Blominvest

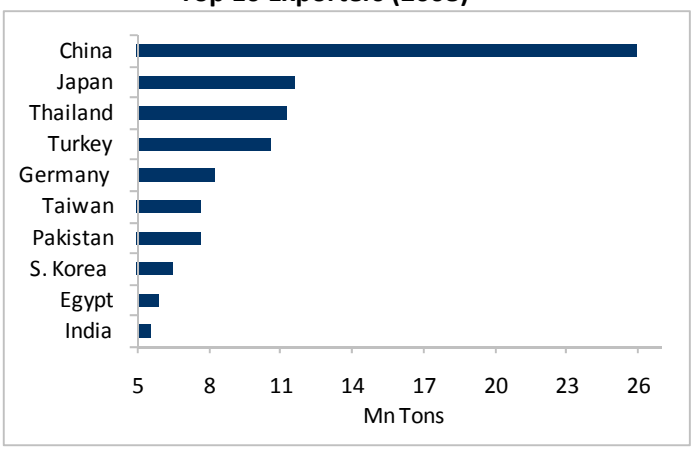
2.2. Exports and Imports

The volume of cement entering world trade is relatively low when compared to overall production and consumption. The widespread availability of raw materials, dependence on economic growth, and high transportation costs favor domestic production instead of imports. Total global cement trade represented only 6-8% of the world's total annual consumption over the past decade. In 2008, the volume of world cement and clinker trade declined 6% on a year over-year-basis to about 164 mn tons with clinker accounting for 70 mn tons.

In addition to being the world's leading producer and consumer, China is also the largest exporting nation due to huge capacities and the ability to drive its low cost advantage in competitive selling prices. Being major producing nations, China and India are self-sufficient and have exportable surplus. Other major cement exporters include Japan, Thailand, Turkey, and Germany.

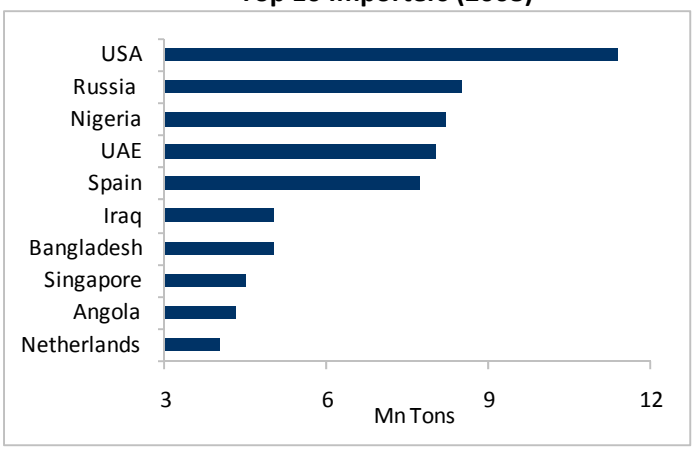
The US market has been the world's leading importer of cement and clinker for years, as consumption levels exceeded domestic production. In 2008, the country imported around 11.4 mn tons, 42.8% lower than the previous year. The decline was due to the expansion of capacity during 2007 followed by the plunge in construction demand during 2008.

Top 10 Exporters (2008)



Source: ICR, Blominvest

Top 10 Importers (2008)



Source: ICR, Blominvest

2.3. Competitive Landscape

2.3.1. Industrial Analysis

The cement industry has certain distinct characteristics compared to other industries. In the absence of any substantial product differentiation, market participants most often compete on prices to sustain sales and inventory levels. Furthermore, exit barriers are stiff given the high upfront capital investments that are required to set up the production facilities. Most of the large

players entered the industry by acquiring quarries and setting up extensive product-specific manufacturing facilities. As a result, despite the geographical fragmentation, the top six players account for almost 20% of the total global production.

The global construction industry is rather fragmented, despite the presence of some large international names. Therefore, cement producers are generally required to sell their products to a large number of relatively small buyers, which translates into limited pricing power with the buyers. Cement's importance as an essential commodity for construction companies further tilts the balance in the favor of suppliers. On the other hand, the absence of any product differentiation and low switching costs for buyers virtually eliminates the concept of any brand loyalty, thereby rendering some balance to the market dynamics.

The cement industry is a major consumer of energy, which is mostly in the form of natural gas. However, the natural gas supply side comprises of a limited number of very large companies. For example, China is dominated by three large state-owned oil and gas holding companies - China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC). Similarly, Exxon Mobil and ConocoPhillips are two multinational biggies dominating the US market. However, in terms of the other key raw materials, cement producers are either backwardly integrated or have strong influence over their supply chain for limestone and clay, as a result of which the associated costs remain generally stable.

The huge capital requirements and fixed costs involved in setting up and operating production facilities necessitate high volumes in order to achieve economies of scale. Other than capital however, the manufacturing technology is relatively simple, transportation costs are high, and product differentiation is difficult as a result of which brand loyalty is virtually absent. Other building materials such as steel, glass, stone and fabricated building products can function as partial substitutes for cement. However, specific applications could mandate the use of certain building materials depending on the structural characteristics and government regulations. In addition, local governments in frontier markets regulate cement trading and monitor prices, as cement is a critical commodity required for real estate projects and overall infrastructure development.

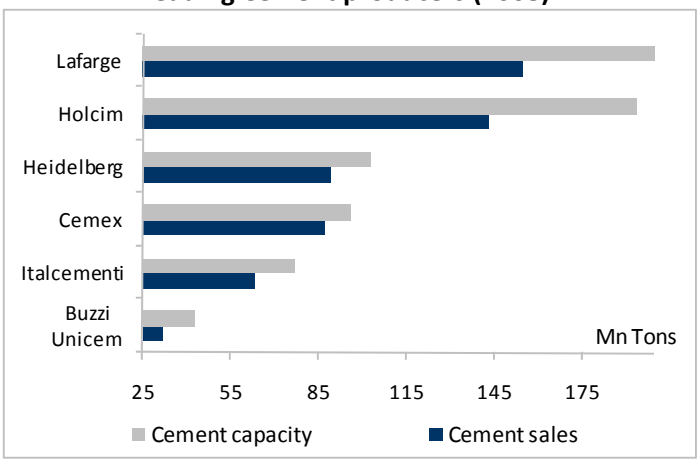
2.3.2. Major Players

The structure of the cement industry varies by country due to factors such as GDP growth, trade policy, and logistic costs. Over the years, the industry has become more globalized with a small number of large multinational companies dominating a substantial part of the global manufacturing capacity. Several smaller firms continue to run as family-owned businesses, whereas in some countries such as China, most of the cement capacity is controlled by the state.

With the increasing prominence of multinational companies around the world, increasing number of regional producers, and higher capacities in emerging markets, the global dynamics of production and trade continue to change. Input requirements, in terms of technology and raw materials, are uncomplicated and available in most countries. However, economic production calls for economies of scale as the production cost per ton of cement decline significantly with scale. Therefore, in smaller countries, the industry tends to be concentrated as domestic demand can support only a few firms.

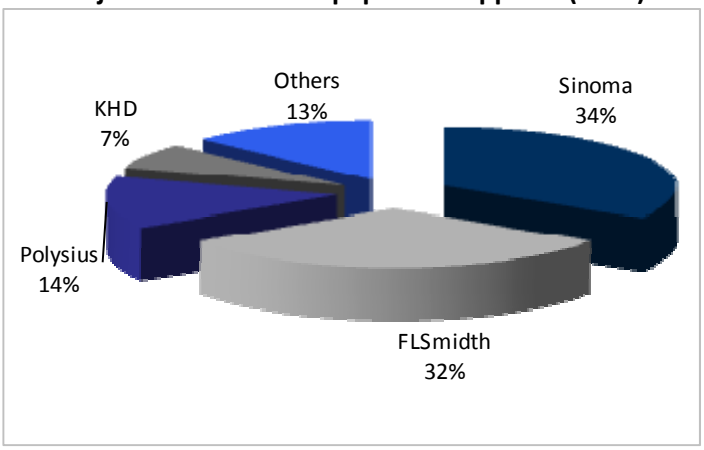
The global cement industry is dominated by six major producers - Lafarge (France), Holcim (Switzerland), Heidelberg (Germany), Cemex (Mexico), Italcementi (Italy), and Buzzi Unicem (Italy). These companies are present in all the major markets, accounting for about 20% of world cement production in 2008. Cemex, the only major producer based in a developing country, had the highest capacity utilization rate of 90.6% among the major

Leading Cement producers (2008)



Source: ICR, Blominvest

Major Cement Plant Equipment Suppliers (2008)



Source: GIH, Blominvest

producers, while utilization rates of other majors ranged from 73.7% for Holcim to 86.4% for Heidelberg. Region-wise, Thaiheiyo Cement Corporation and Sumitomo Osaka Cement Co. Ltd. of Japan, and Anhui Conch Cement Co. Ltd. and China Shuangji Cement Ltd. of China are other noteworthy names in global cement production.

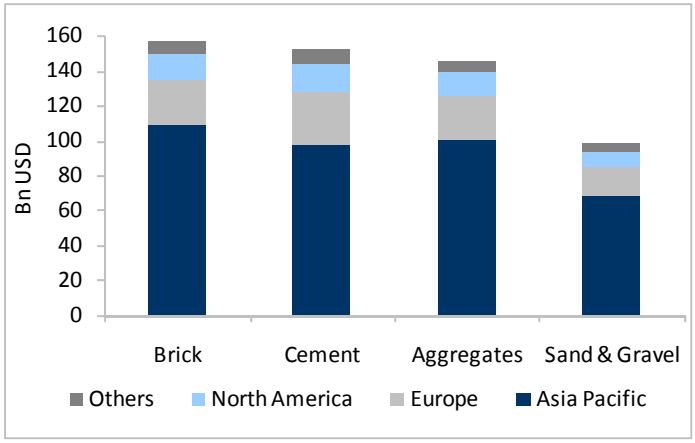
The plant equipment supplier market is highly concentrated as well. Sinoma of China, FLSmidth of Denmark, and Polysius and KHD of Germany dominate the segment with market shares of 34%, 32%, 14%, and 7%, respectively. Sinoma supplies equipment at a lower cost which has helped the company increase its market share over the years. Estimates suggest that the return on invested capital for producers employing Chinese technology for a typical 1.5 mn ton cement plant is about 16%, compared to 10% for an identical plant built by a European supplier, indicating a 20-30% saving in costs.

2.4. Other Building Materials

According to Datamonitor, the building materials market—which includes cement, bricks, aggregates, sand and gravel—grew by 5.7% during 2008 to USD 551.7 bn compared to a CAGR of 6% over 2004 to 2008. Among building materials, bricks generated the maximum at USD 156.4 bn or 28.3% of total revenues, while cement sales stood at USD 152.1 bn or 27.6% of the total. Region-wise, Asia-Pacific led the market with 68.1% of total revenues. Between 2009 and 2013, the market is estimated to grow at a CAGR of 6.4% to USD 752.7 bn.

In North America, cement accounted for USD 16.8 bn or 30.2% of total building material revenues, followed by bricks with USD 15.3 bn or 27.5%. In Europe, building material revenues grew 5.6% during 2008 to USD 97.6 bn, of which cement contributed USD 30.4 bn or 31.1% of the total. On the other hand, in the Asia-Pacific region, bricks led the pack with revenues of USD 108.4 bn or 28.9% share of the total. Sales of aggregates stood second followed by cement. The Asia-Pacific region is expected to outperform other regions with a CAGR of 7.8% between 2008 and 2013, compared to the projected CAGRs of 2.5% and 3.8% for North America and Europe.

Market Value of Construction Materials (2008)



Source: Datamonitor, Blominvest

Countries in Europe and North America use a wide range of alternative building materials such as timber, steel, and high-quality bricks. Timber can be used in low-rise buildings, while bricks are more suited for medium-rise buildings. Steel can be used in medium- to high-rise buildings. Building regulations in several countries require structural steel to be encased in concrete for fire protection purposes. With more high-rise buildings being developed in the wake of aggressive urbanization, most developed countries and parts of developing countries are seeing rapid vertical growth, leading to increased demand for reinforced concrete frame construction.

Construction in the US and Europe is skewed towards low-rise and high-rise buildings than medium-rise buildings. Therefore, cement accounts for a larger percentage of building material revenues in these regions. On the other hand, construction in the developing economies of Asia is tilted towards low-rise and medium-rise buildings for residential construction. Medium-rise buildings require plentiful supply of brick layers, as a result of which the revenue share of bricks is highest among building materials in Asia.

Country-wise, China leads the world in building material revenues generating USD 213.4 bn in 2008, increasing at a CAGR of 8.9% since 2004. During the same period, markets in Japan and India grew at CAGRs of 0.7% and 8.6% to USD 35.4 bn and USD 108 bn, respectively. China's building materials market is expected to grow at a CAGR of 8.7% between 2009 and 2013, reaching a value of USD 323.9 bn, while Japan and India are expected to grow at CAGRs of 0.3% and 8.5% to USD 35.9 bn and USD 162.6 bn, respectively.

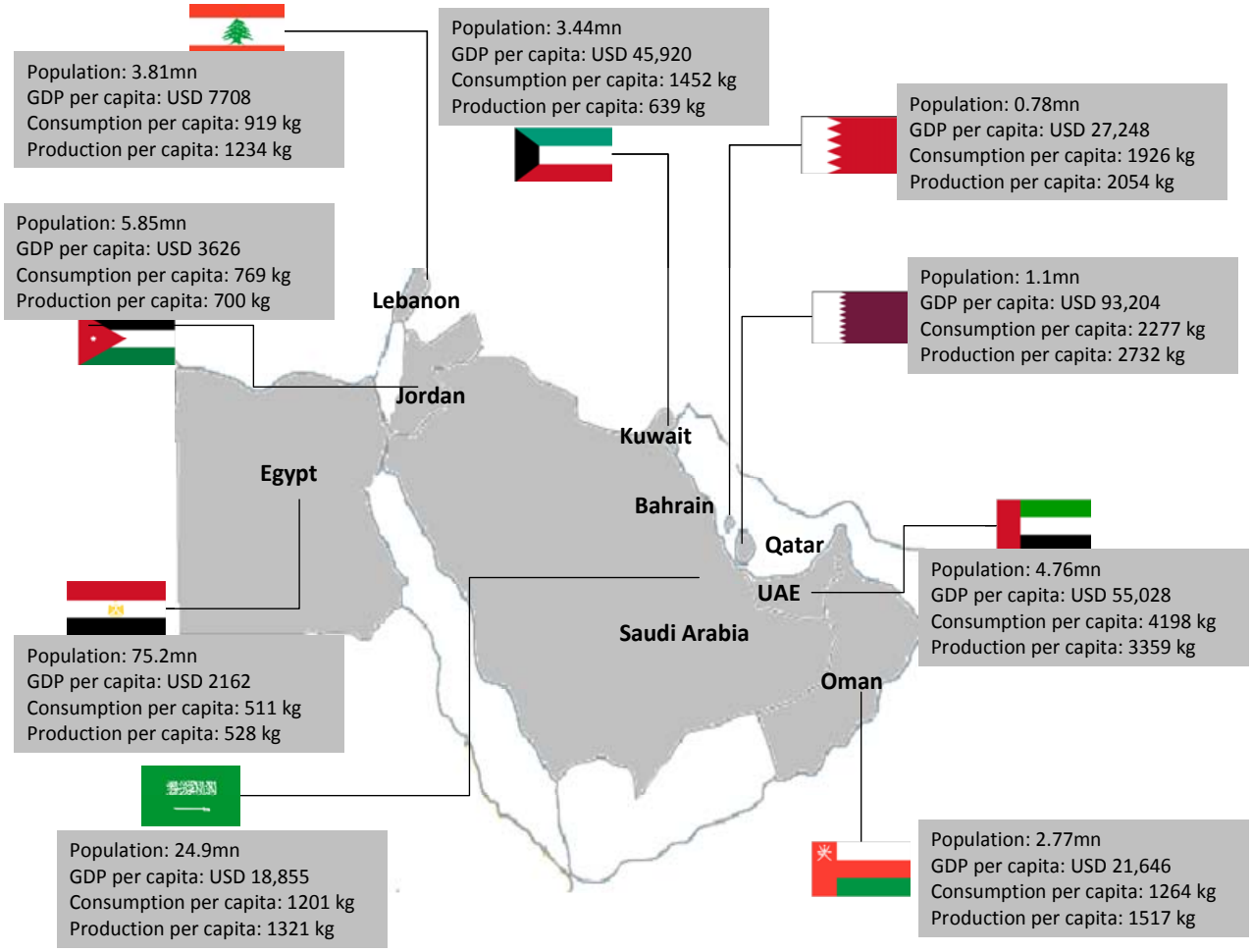
3. Snapshot of MENA Cement Industry

The cement industry in the MENA region does not exhibit any specific homogeneity, as the industry dynamics vary in each country in terms of raw material availability, supply-demand balance, competitive landscape, major players, and government regulations. In 2008, the region accounted for 3.82% of the world's total cement production and 3.81% of total consumption and was among the highest per capita cement consumers in the world.

Cement industry in the MENA region (mn tons) (2008)

	Bahrain	Egypt	Jordan	Kuwait	Lebanon	Oman	Qatar	Saudi Arabia	UAE
Total Clinker production	-	38.3	3.7	1.9	4.3	3.2	1.7	38.8	8.2
Total Cement production	1.6	39.7	4.1	2.2	4.7	4.2	3.0	32.9	16.0
Total Cement capacity	0.5	43.3	4.5	2.6	5.0	4.7	4.8	48.0	30.0
Total Cement consumption	1.5	38.4	4.5	5.0	3.5	3.5	2.5	29.9	20.0

Source: Arab Union for Cement and Building Materials (AUCBM), GIH, Blominvest



Source: AUCBM, IMF, GIH, Blominvest

4. Analysis of MENA Cement Industry

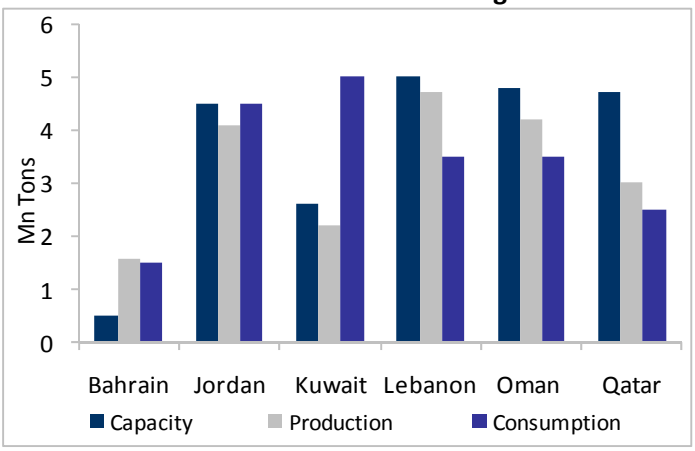
The cement industry in the MENA region has undergone significant expansion following years of massive infrastructure development. A combination of plentiful supplies of raw material and feedstock for the energy-intensive industry offers a strong competitive advantage for the industry in the region. Egypt is among the foremost countries in the MENA region to start cement production; the first plant was established in the suburbs of Cairo at the beginning of the 20th century, according to AUCBM. In Saudi Arabia, the cement industry started in 1955 with the establishment of Arabian Cement Company on the west coast of Saudi Arabia with an annual kiln capacity of 90,000 tons. In the following decades, several key industry participants entered the industry in all the countries of the region and guided a tremendous growth of the industry.

4.1. Demand and Supply

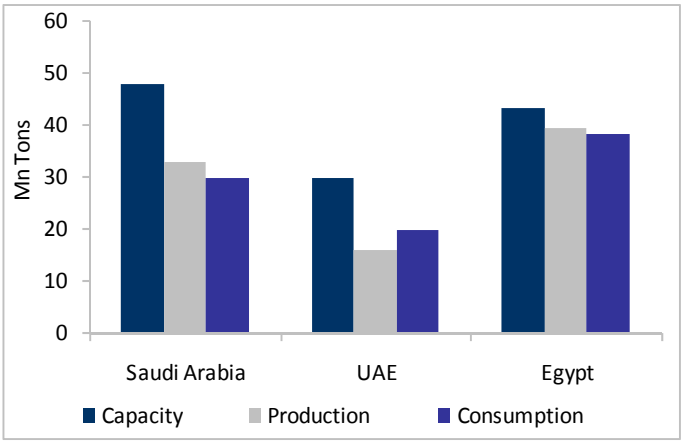
4.1.1. Production, Consumption, Capacity

In 2008, the MENA region accounted for less than 4% of world's cement production and consumption with production of 108.4 mn tons and consumption of 108.8 mn tons. Egypt was the largest producer as well as consumer, while Saudi Arabia led the

Regional Cement Industry Profile (2008)

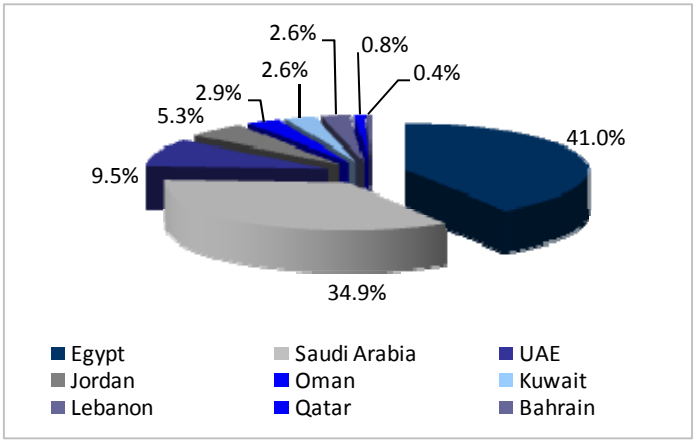


Source: GIH, Blominvest



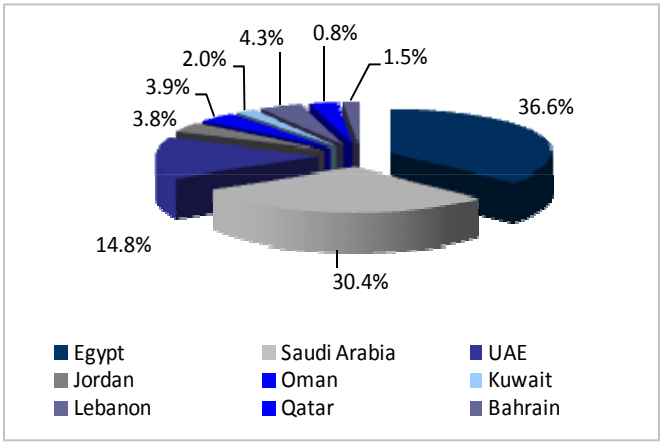
Source: GIH, Blominvest

Regional Cement Production in 1990 (34.4 mn tons)



Source: USGS, Blominvest

Regional Cement Production in 2008 (108.4 mn tons)



Source: GIH, Blominvest

region in terms of cement capacity. Production numbers for the countries include cement manufactured using both locally produced and imported clinker - the reason why Bahrain has lesser cement capacity vis-à-vis production.

Cement production in MENA countries grew at a CAGR of 7.0% from 34.4 mn tons in 1990 to 108.4 mn tons in 2008. In comparison, global cement production grew at a CAGR of 5.4%. Among the three major producers in the region, the UAE registered the highest CAGR of 9.2% from 3.26 mn tons in 1990 to 16.0 mn tons in 2008. While the UAE's phenomenal growth was driven by an initial low base, the absolute increase in capacity additions was relatively lesser than that in Egypt and Saudi

Arabia. Between 1990 and 2008, cement production in Egypt grew at a CAGR of 5.9% to 38.4 mn tons and Saudi Arabia's production increased at a CAGR of 5.8% to 30.4 mn tons.

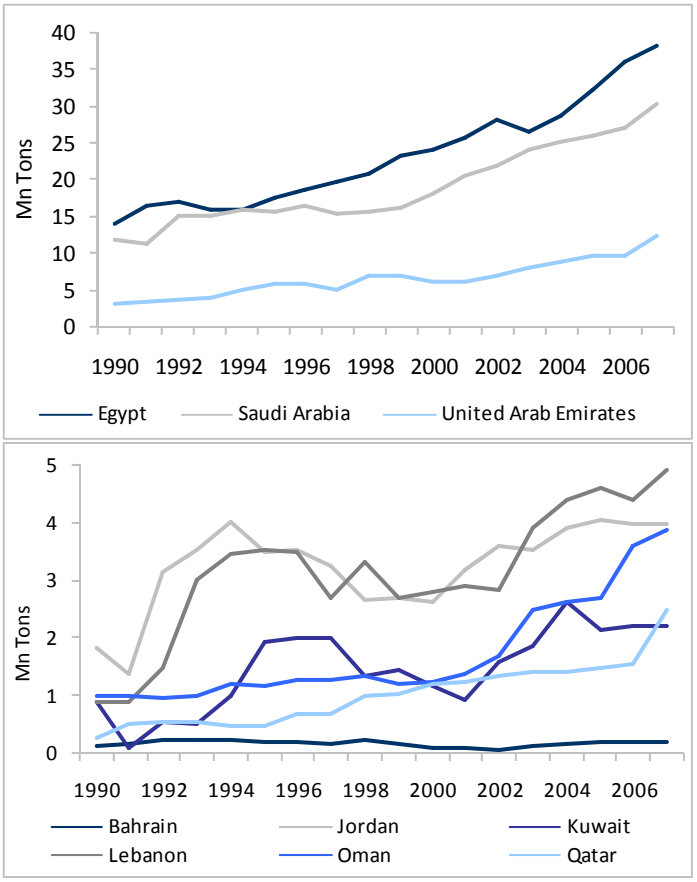
Among other countries, cement production in Qatar registered the highest growth with a CAGR of 14.3%, followed by Lebanon's CAGR of 10.5%. Oman, Kuwait, and Jordan, grew at CAGRs of 8.3%, 5.1%, and 5.1%, respectively.

The MENA region's buoyant demand has been a key catalyst for cement production in the region. Among the GCC countries, Saudi Arabia had a surplus production of 3mn tons during 2008, while Bahrain, Oman, and Qatar had surpluses of 0.1mn tons, 0.7mn tons, and 0.5 mn tons, respectively. Despite being one of the largest producers, the UAE was the largest importer with a deficit of 4.0 mn tons, while Kuwait had a deficit of 2.8 mn tons.

Demand from non-GCC countries, especially Egypt, remained high even during the global financial crisis. In 2008, Egypt had a surplus production of 1.3 mn tons and was among the top 10 cement exporters in the world, shipping 5.9 mn tons, including equivalent clinker exports. Lebanon had a surplus of 1.2 mn tons, while Jordan had a deficit of 0.4 mn tons.

Favorable economic conditions before the financial crisis encouraged MENA countries to invest in real estate and infrastructure projects which, in turn, increased the demand for cement. In anticipation of this demand, cement producers across the region upgraded capacities. The significant new capacity additions, transformed the region from being a net importer in 2008 to a net exporter in 2009, following the decline in demand amid the financial crisis.

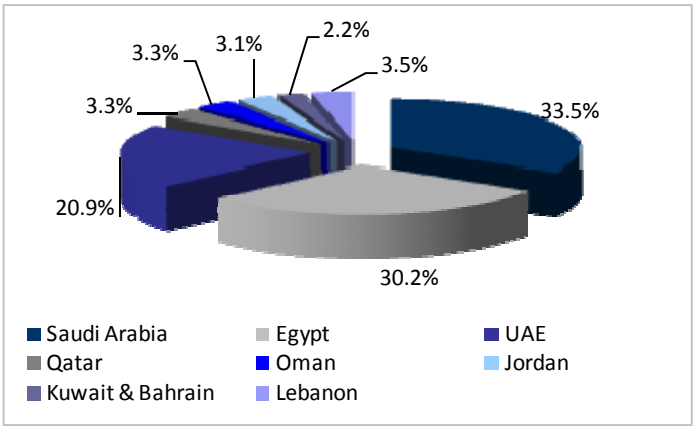
MENA Cement Production



Source: USGS, Blominvest

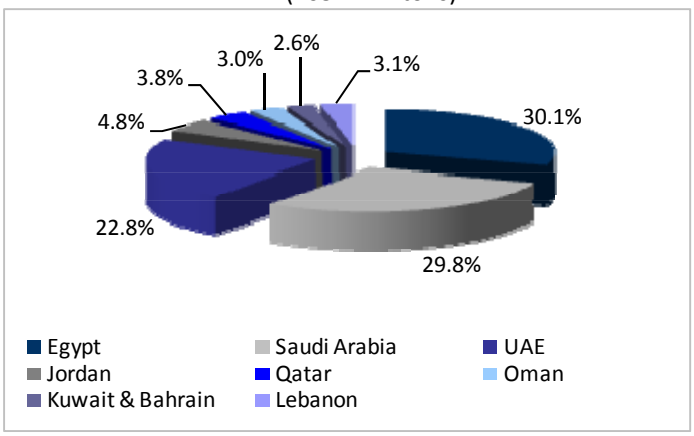
Consequently, cement producers have revisited their capacity expansion plans, either postponing or cancelling many existing projects, especially in the UAE and Saudi Arabia. In the UAE, JK cement, which is expected to have an annual capacity of 2.2 mn tons, has deferred operations until 2011. In Saudi Arabia, Arabian Cement has postponed the launch of a 3 mn ton cement plant to 2011, while Southern Province Cement has put its expansion plans on hold as well.

Regional Cement Capacity in 2008
(143.4 mn tons)



Source: GIH, Blominvest

Regional Cement Capacity in 2012
(205.2 mn tons)



Source: GIH, Blominvest

Total cement capacity in the MENA region stood at 143.4 mn tons per annum as of 2008. With substantial new capacities expected to become operational in the UAE, Saudi Arabia, and Egypt, we project the region's total output to reach 205.2 mn by 2012.

Country-wise, Egypt is likely to top the MENA countries in production capacity by 2012 with 61.8 mn tons as against 43.3 mn tons in 2008, adding around 18.5 mn tons. Over the same period, Saudi Arabia and the UAE are expected to add around 13.2 mn and 16.8 mn tons, respectively. Saudi Arabia is estimated to have added 3 mn tons during 2009 and is likely to follow it up with 7 mn tons during 2010 and 3 mn tons in 2011, taking the annual capacity to 61.2 mn tons by the end of 2012. Among the top three producers, the UAE is expected to grow at a CAGR of 11.8%, while Egypt and Saudi Arabia are expected to grow at CAGRs of 9.3% and 6.3%, respectively. Jordan, Bahrain, and Kuwait are expected to lead the region in production capacity growth rates with CAGRs of 21.5%, 15.8%, and 14.1%, respectively.

Regional Annual Cement Capacity (mn tons)

	2008	2012E
Bahrain	0.5	0.9
Egypt	43.3	61.8
Jordan	4.5	9.8
Kuwait	2.6	4.4
Lebanon	5.0	6.3*
Oman	4.7	6.2
Qatar	4.8	7.8
Saudi Arabia	48	61.2
UAE	30	46.8

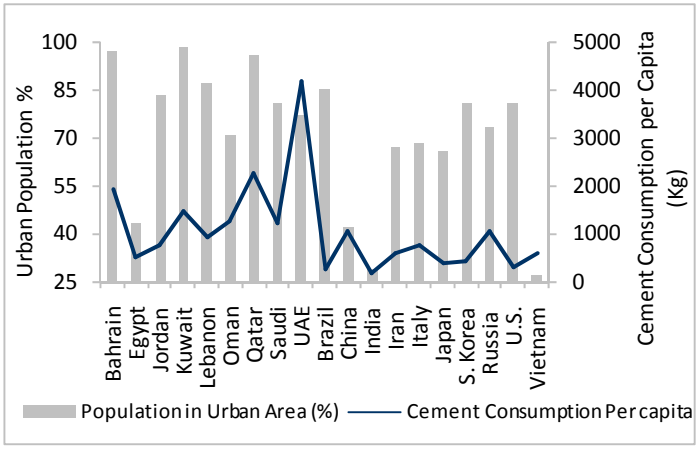
*Based on extrapolation of 03-07 CAGR

Source: GIH, Blominvest

4.1.2. Consumption vs GDP (per capita)

The per capita numbers for GDP and cement consumption in GCC countries are among the highest in the world. In 2008, the cement per capita consumption (CCPC) in GCC countries stood at around 1,653 Kg, whereas per capita consumption for the top 10 consuming nations ranged from 153 Kg in India to 1,047 Kg in China. A smaller population usually consumes more cement on a per capita basis compared to a larger population with similar demographics. This is because a smaller population still requires certain critical infrastructure even though the requirement for residential/commercial real estate may be relatively lesser.

Urban Population (%) vs. Cement Consumption (2008)



Source: UN, ICR, GIH, Blominvest

Over the years, the region has witnessed rapid growth in infrastructure projects, industry capacity expansion projects, and residential and commercial construction, leading to tremendous growth in demand for cement. Since this growth rate has outpaced population growth, the per capita consumption has been on the rise. In addition, the GCC region has a high percentage of population living in urban areas vis-à-vis the top 10 consuming nations. The correlation between the percentage of population in urban areas and per capita cement consumption stands at about 0.72, excluding certain exceptional cases like China and the UAE. The significantly high correlation indicates that the large urban concentration of population in the GCC region is a definite factor behind the high per capita cement consumption.

Country-wise, the UAE is an exception with the highest per capita consumption of 4,198 Kg in 2008 on the back of the construction boom in Dubai. Qatar and Bahrain registered per capita consumption of 2,277 Kg and 1,926 Kg, respectively, higher than the GCC average. These three countries lead the region in terms of the GDP per capita. In contrast, Kuwait and Oman registered per capita consumption of 1,452 Kg and 1,264 Kg, respectively, which was lower than the regional average. The largest consumer in the GCC region, Saudi Arabia, has the lowest consumption per capita in GCC, on account of the low proportion of urban dwellers in an otherwise large population. Variations in GDP per capita and percentage of urban population are the prime reasons for the significant variations in per capita consumption levels across the GCC countries.

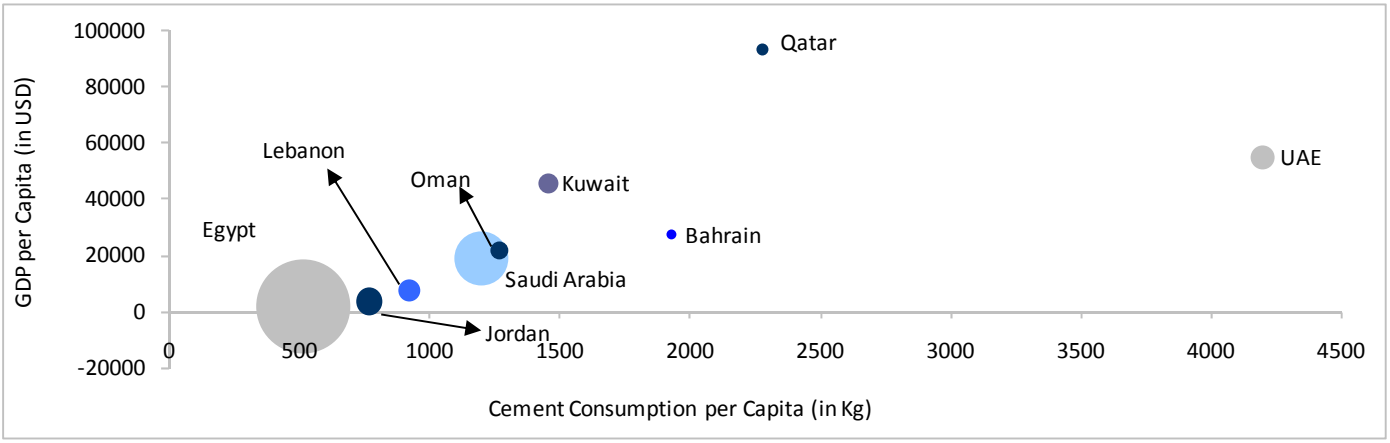
Although Egypt tops the MENA region in total cement consumption, it had the lowest consumption per capita in the region during 2008. Lower GDP per capita and a smaller percentage of urban population are the primary reasons for the relatively lower consumption levels in the country. Consumption per capita in Egypt stood at 511 Kg in 2008, lower than Lebanon and Jordan, which registered consumption per capita of 919 Kg and 769 Kg, respectively.

CAGR of Cement Consumption per Capita (2003-2008)								
Bahrain	Egypt	Jordan	Kuwait	Lebanon	Oman	Qatar	Saudi Arabia	UAE
9%	7%	13%	1%	4%	16%	-1%	3%	16%

Source: IMF, GIH, Blominvest

Among the MENA countries, the UAE and Oman registered the highest CAGRs of 16% in CCPC between 2003 and 2008, followed by Jordan (13%), and Bahrain (9%). CCPC in countries with large populations—Egypt and Saudi Arabia—increased at CAGRs of 7% and 3%, respectively. On the other hand, Kuwait and Qatar had relatively flat CCPC over the period under review. However, going forward, Qatar is likely to register higher CCPC growth compared to other MENA countries, given the relatively stable investments in real estate and construction projects.

Cement Consumption per Capita vs. GDP per Capita of MENA Countries (2008)



Source: IMF, GIH, Blominvest

4.2. Imports and Exports

The MENA region has had a significant impact on world cement trade. Historically, the production of cement in the region was primarily intended for domestic consumption. However, the phenomenal run-up in crude oil prices during the early 1980s multiplied the revenues for major oil exporting nations in the GCC region, leading to a massive increase in construction activity and the associated demand for cement. Since domestic production was insufficient to meet the demand spike, the additional requirement was met through imports from Western Europe and the Far East.

The MENA region was a net importer of cement during 2008. During this construction boom, the UAE was the leading importer of clinker and cement as demand (20 mn tons) surpassed production (16 mn tons). China accounted for 64% of the UAE's imports in 2007, while India, Pakistan, Thailand, and Indonesia contributed 19%, 9%, 5%, and 2%, respectively. Net imports by Kuwait and Jordan were 2.8 mn tons and 0.4 mn tons, respectively.

Cement trade in the MENA region is controlled by large conglomerates, while independent and small groups have only a 20% share. In addition to logistics issues that act as natural barriers for dumping of cement from major low-cost producers, the MENA countries have placed some form of taxes or restrictions on cement imports. As a result, exports from Saudi Arabia plummeted 18.9% during 2008 as opposed to the increase in domestic sales by 11.4%. Exports from Egypt, the major exporter in the region, are expected to rebound in 2010-11, as the construction sector in Europe—Egypt's major export destination—is likely to witness a recovery.

Going forward, the MENA region will need to explore more export markets as the ongoing and planned capacity additions could lead to a situation of oversupply. In general, export opportunities are limited for MENA cement producers as the region is home to low-cost production centers in Iran and Turkey. Abundant raw material and inexpensive natural gas are the prime reasons for the low-cost production in Iran. Besides lower production costs, Iran was a net exporter of cement in 2008 with approximately

44.4 mn tons of production and 43.5 mn tons of consumption. The relatively lower transportation costs to Europe and the presence of modernized plants provide an edge to Turkey.

In the long term, exports to Africa could be a key growth driver for MENA cement producers, because the industry is underdeveloped and is unable to meet domestic demand. However, in the short term, transportation networks and logistical hurdles to Africa are likely to remain a challenge and sustain Europe's position as the major export destination for producers in the MENA region.

4.3. Heavily Dependent on Construction Industry

The construction activity in the MENA region has been expanding rapidly over the years on the back of projects across the real estate, infrastructure and industrial sectors. The real estate and construction and building sectors contribute a higher percentage to the GDP in GCC countries than in non-GCC countries. For instance, during 2008, these sectors contributed around 7% to total GDP of Egypt and nearly 16% to that of the UAE. However, the global financial crisis and the recent Dubai debt crisis adversely impacted the real estate sector in the GCC region, but had a very limited effect on the non-GCC countries. Going forward, we expect the GDP contribution of real estate and construction sectors to register higher growths in the non-GCC region than in the GCC region.

In the late 1990s, when the GCC region was heavily dependent on oil revenues and global prices, governments in the region realized the importance of diversifying their economies after a price crash slowed down the region. Increased liquidity in the region with the huge inflow of petrodollars, the emphasis on economic diversification, expansion of industrial facilities and economic cities, and the need to improve employment opportunities for the rising population have fueled infrastructure investments in recent years. These projects have had a trickle-down effect by touching a broad cross-section of the economy. Moreover, the deregulation of property involving freehold foreign ownership in designated areas further boosted investments in the construction sector.

A unique characteristic of the region's cement production is its high correlation with oil revenues, in addition to real estate activity and government spending. Governments in GCC countries have utilized surplus oil revenues to diversify their economies, investing heavily into development through real estate, infrastructure, and industrial projects. The UAE accounted for the largest number of projects followed by Saudi Arabia, Qatar, and Kuwait.

4.4. Impact of the Financial Crisis

Before the financial crisis, the region experienced a period of buoyant cement demand, fueled by the use of petrodollars toward developing infrastructure, housing, power, utilities, and petrochemicals. Several massive projects in the MENA region before the crisis spurred the region to the top of the consumption scale. Supply shortages, tariff protection, and long construction lead times pushed prices and margins to historical highs. This created a demand-supply mismatch, causing severe price hikes before the financial crisis. The onset of the financial crisis, liquidity crunch, and the slide in oil prices, however, applied the brakes on cement demand.

The global financial crisis had limited direct impact on the MENA region, as financial institutions in the region did not have a huge exposure to subprime mortgage securities. However, the crisis had a ripple effect on the economies in the form of lower export volumes, tight liquidity, reduced tourism, and panic in capital markets. In addition, the unprecedented plunge in oil prices from the all-time high of USD 147 to USD 31 per barrel by the end of 2008 dampened government spending. Dry credit markets deteriorated the situation further, as access to project finance became extremely difficult with mortgage lenders seeking higher down-payments to cover exposure. Only the economically feasible projects or infrastructure initiatives with adequate financing survived to some extent, although many suffered significant delays. In contrast, many projects that were more speculative in nature—mostly ambitious luxury real estate ventures—witnessed complete cancellations.

The GCC cement sector was hit badly during the last quarter of 2008 as several of the region's ambitious construction projects started feeling the impact. However, the decline in cement prices could not revive the construction activity, as these were not enough to fuel investments in the absence of project financing and the slump in demand. Nonetheless, stimulus packages from governments to enhance public spending on socio-economic development projects and injection of new money prevented a severe plunge in cement prices.

In the aftermath of the financial crisis and the resultant impact on the construction sector, several global cement companies scaled down or deferred capacity expansion plans and/or relocated new plants to the more cost-effective emerging markets. In developed markets, companies focused on vertical integration into ready-mix concrete in a bid to protect market share and profitability. For instance, the world's leading cement producer Lafarge revised its 2006-2010 capacity expansion plan from 60 mn tons to 48 mn tons and extended the horizon by one year to 2011. Further, Lafarge moved up the planned share of capacity expansion in developing countries from 90% to 100%.

In recent years, major international players have shifted their attention to ensuring stronger cash flows and liquidity through cost optimization, conservative investments, and low leverage. Low-cost producers from the MENA region and other emerging markets will likely pose a serious threat to producers from developed economies, being better positioned to survive lower cement prices and export excess production at competitive prices despite transportation costs. As a result, the increasing influence of these emerging market players will significantly alter the global competitive landscape of the industry.

Saudi Arabia

The Saudi Arabian cement industry witnessed a dramatic change during 2008 when cement prices reached all-time highs, coercing the government to intervene and enforce export restrictions in June. As a result, cement exports declined 18.9% from 3.5 mn tons (or 12% of total cement sales) in 2007 to 2.8 mn tons (or 9.5% of total cement sales). Lower demand due to the financial crisis, in addition to the export ban, led to inventory pile-ups and lower utilization rates.

By the end of the year, cement inventories reached 728,000 tons, up 73.3% over the previous year, while clinker inventories increased more than three-fold to 7.3 mn tons. Saudi Cement led the pile-up with clinker inventories reaching 1.5 mn tons, up 937% over 2007 levels. The financial crisis and export ban affected Southern Cement as well, where clinker inventories increased 405% to 1.2 mn tons. The average utilization rate at cement companies in Saudi Arabia was down to 78.2% by the end of 2008, compared to 94.3% in 2007 and 98.6% in 2006. Saudi Cement registered the lowest utilization rate of 60.3%, a dramatic slump from 87.9% reported in 2007.

UAE

The construction boom prior to the financial crisis created clinker shortages further limiting the overall cement production in the country. The UAE has nine fully integrated factories that produce both clinker and cement and six cement factories that depend on clinker imports. In 2008, even though the country was capable of producing 24.9 mn tons of cement at 100% utilization, production stood at only 15.3 mn tons of clinker, while the deficit was met through imports. Higher clinker import prices, in comparison to domestically produced clinker, hurt the profitability of cement companies during 2008.

The financial crisis impacted construction activity and dependent industries such as cement in the UAE. In stark contrast to the bullish sentiment until 1H08, cement producers and traders faced an uncertain environment with a dampened demand outlook further amplified by project delays, cancellations, and low cement prices eventually.

Egypt

In general, non-GCC countries were less vulnerable to the global financial crisis. In fact, the cement industry in Egypt enjoyed robust growth even during the crisis, as construction was spurred by lower steel prices with developers seizing the opportunity to complete their projects. In addition, the national housing program fueled the demand for cement as individuals were obligated to receive the required building permits and finalize construction of their homes within a pre-specified time. The sustained demand propelled cement prices from EGP 420 per ton in early 2008 to EGP 700 per ton by February 2009. In addition, the government further stimulated the construction sector by increasing its infrastructure investment budget by EGP 15 bn over and above the originally planned EGP 418 bn as part of the 5-year plan for FY08-FY12.

4.5. Regulatory Issues

Given that cement is a strategically critical commodity required for all kinds of construction, the governments in the region have enforced several restrictions on market participants in order to regulate trading and control prices.

Major Government Regulations

Country	Regulations	Effective date
Egypt	Price cap of USD 58.5/ton	August 2006
	Export duty of USD 12/ton	February 2007
	Export duty of USD 15/ton	August 2007
	Export ban	March 2008 to September 2008
	Removal of export duty of USD 15/ton	October 2008
	Allowing imports	April 2009
	Export ban	April 2009 to August 2009
Saudi Arabia	Price cap of USD 68/ton	June 2008
	Export ban	June 2008
	Removal of export ban	May 2009
UAE	Price cap of USD 81/ton	2007
	Price cap of USD 99/ton	2008
	Reintroduction of 5% imports duty	February 2009
Oman	Export duty USD 78/ton	June 2008 until now

Source: GIH, Various news agencies, Blominvest

Egypt

Until the mid-1950s, Egypt had only four cement producers - Tourah, Helwan, Alexandria, and National Cement which also operated their retail and wholesale stores. In 1957, the government replaced the cement stores with the central cement selling office, which was responsible for marketing cement in both domestic and international markets. The centralized management and control led to price distortions due to mismanagement and, ultimately, the office was discontinued in 1991. Also, cement producers were allowed to set prices based on supply and demand dynamics, instead of being dictated by the government.

In recent years, the government intervention is on the rise because of higher domestic prices resulting from short supply in the local market despite domestic production exceeding consumption. The situation arose because cement producers and traders preferred to export at higher prices than address the local demand. In order to ease the situation and avert a supply shortage in the domestic market, the government imposed a duty of EGP 65 per ton on cement exports in February 2007. The government further increased the export duty to EGP 85 per ton in August, since the earlier tariff could not offset the price differential. This situation created a problem during the construction boom, as domestic producers passed on the higher costs to customers, since the government's regulation restricted companies from halting production without a special permit. As part of its measures to control the market and stabilize prices, the government extended the ban on cement exports for six months from April 2008 to September 2008.

Egypt's Ministry of Trade and Industry filed a case of anti-competitive practice, for the period between May 2005 and end of 2006, against domestic cement producers. The government argued that the producers had formed a cartel to fix domestic prices. In August 2008, the court found the producers guilty of monopolistic behavior and imposed a fine of EGP 200 mn. However, the government went defensive in October 2008 and lifted the export duty of EGP 85 per ton. The move was in the best interests of the producers, as the financial crisis had dented the country's cement exports.

Subsequently, domestic cement prices rose following an organized strike by truck drivers to protest against the government's ban on the use of trailers. Furthermore, trading inefficiencies and surging domestic demand further raised cement prices. In February 2009, cement producers eased the situation by voluntarily halting exports for three months to meet the local demand. In April 2009, the government ordered an investigation into anti-competitive practices over the previous six months and issued regulations to control local prices. The government banned cement exports for four months until August 2009 and reduced the clearing period for imports from 30 days to 3 days. In order to control price manipulation by traders, the government asked manufacturers to display the selling prices on cement bags. However, these regulations could not ease prices due to the continued strength in local demand. However, a four-month ban on cement exports for the second time in a year played only a minor role in jeopardizing the competitiveness of exporters, as Egypt's key export markets, Italy and Spain, were also in the midst of a sharp decline in cement demand.

Saudi Arabia

In the 1980s, Saudi Arabia fixed a price range based on the average prices for local and imported cement. The pricing mechanism prevented price wars among the producers in overcapacity and underutilization scenarios. While such a pricing mechanism protects local producers against dumping, it does not allow them to fully capitalize on construction booms.

In Saudi Arabia, cement prices increased from an average of USD 67 per ton in 2007 to more than USD 100 per ton by June 2008, forcing the government to impose a ceiling at USD 68 per ton. In addition, the government banned all cement exports effective June 2008, in response to increasing complaints from contractors and individuals about traders' preference for higher margin exports. The export ban led to a supply glut in the country with inventory pile-ups. Some companies were forced to halt production to avoid stockpiling and associated costs. For instance, Eastern Province Cement Company had to shut a 3,500 tons per day production line for four months for maintenance, as the ban resulted in piled inventories. Saudi cement firms posted lower profits as income from outside the kingdom was blocked. In particular, companies in Eastern and Southern regions were highly impacted by the ban on exports, which previously accounted for almost 75% of total Saudi exports.

On May 25, 2009, the Saudi government lifted the export ban under the condition that cement companies applying for export license offer one cement bag at SAR 10 (or SAR 200 per ton). Further, the government asked domestic producers to hold 10% of the commodity as reserve stock to meet any unexpected demand increase in local market.

Effective January 01, 2010, the Saudi government imposed a 5% customs duty on cement imports. However, the duty varies depending on the supply-demand situation in the country. We expect other GCC countries to follow the Saudi example of imposing duties in view of the oversupply situation in their respective countries in the near future, particularly in the absence of the anticipated rise in construction activity.

Others

During the construction boom, cement prices in the **UAE** went up due to shortages and surge in raw material and fuel costs. Regular government interventions capped prices at USD 81 per ton in 2007, which was later increased to USD 94 per ton and finally to around USD 99 per ton in 2008. In order to control anticipated shortages, the government executed an agreement with domestic producers to increase production, remove import duties, and reduce port handling fees. These decisions were taken to stabilize the real estate market, as well as address problems faced by contractors, land owners, and consumers. The global financial crisis has dampened construction activity in the country and reduced the demand for cement. As a result, in order to avoid oversupply, the government re-imposed an import duty of 5% in February 2009 to protect local manufactures.

In March 2008, the government of **Oman** agreed to raise the retail price of cement by OMR 0.2 per bag to OMR 1.5 per bag (or OMR 30 per ton) effective June 2008. In addition, the government lifted the 2-year ban on cement imports to ease the supply deficit during the period of construction boom.

In **Jordan**, the government amended the customs tax on cement in order to maintain the supply-demand balance and also to increase cement imports. It reduced the customs tax on imports from 25% earlier to 10% in 2006. However, in 2007, customs duties were again increased in view of the domestic demand decline.

Environmental Regulations

In the MENA region, the standard limits for dust emissions are in line with the standards in several other countries across the world. Major multinational companies and several local companies in the region have taken measures to reduce CO_2 emissions as part of their commitment to check global warming. The government of Jordan in particular has played a prominent role in shaping the country's environmental regulations. Although the country is rich in oil shale reserves, the government does not encourage the use of this energy source due to higher CO_2 emissions compared to those from crude oil and natural gas.

Standard Limits for Dust Emissions

Country	Standard Limits	Remarks
Egypt	100 - 150 mg / Nm^3	50 mg / Nm^3 for modern plants
Jordan	70 mg / Nm^3 Max. 100 mg / Nm^3	Regulations allow exceeding this limit three times per month
Kuwait	100 mg / Nm3 (Kilns) 50 mg / Nm3 (Coolers)	
Oman	100 mg / Nm^3	Max. Limit
U.A.E.	100 mg / Nm^3	Max. Limit
Germany	50 mg / Nm^3 Dry	
U.K.	100 mg / Nm^3 Wet	

Source: Yamama Cement, Blominvest

4.6. Cost Structure and Profitablity

The production cost of cement varies across countries depending on factors such as availability of raw materials, cost of energy, and labor. According to Lafarge, energy accounts for 32% of total production costs, while raw materials and consumables contribute 29%; production, labor, and maintenance account for 28%; and depreciation has the remaining 11% share. In addition, environmental regulations to restrict CO_2 emissions add an incremental cost to overall production costs.

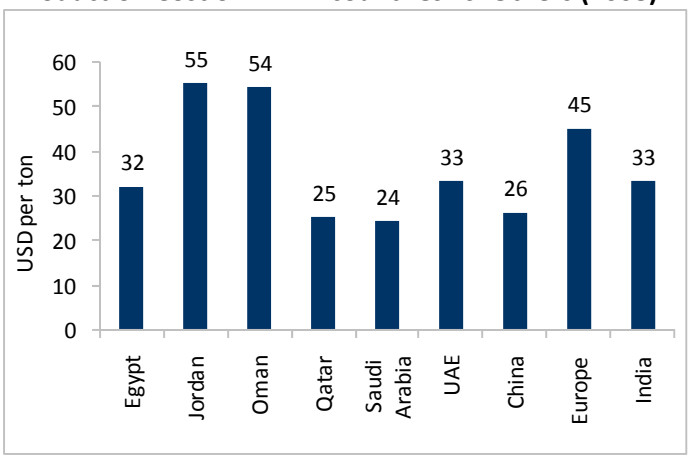
Most of the cement manufacturers shifted to natural gas as the primary energy source as it was cheaply available with marginal price variability and lower environmental impact. Fuel prices in the MENA region are relatively lower and more stable compared to other parts of the world because of government control over the oil and gas sector in the region. Raw material costs represent the second-largest percentage cash cost item in cement production. With raw material being abundantly available in most parts of the world, variances across regions and companies depends primarily on the producer's operating efficiency.

Maintenance forms a major component of total production cost, since plants require continuous repair and maintenance. The annual cost of maintenance depends primarily on the age of the plant. The massive capacity additions and upgrades planned in the MENA region translate into an additional competitive advantage for the region's producers over international peers with relatively old facilities. Finally, labor costs in the MENA region are lower than in the western world, although higher than those in China and India.

Supported by the availability of inexpensive natural gas, producers in the GCC region can market cement at competitive prices compared to their global counterparts. In the non-GCC countries of the region, Egypt with abundant natural gas has the lowest cash costs of production. On the other hand, producers in Jordan rely on natural gas imported at higher prices, translating into the highest cash costs among the regional producers.

Relaxed environmental regulations in developing countries translate into lower cash cost of production. Asian giants China and India have a massive and inexpensive labor pool, which translates into lower cash cost of production of USD 26 per ton and USD 33 per ton, respectively, implying stiff competition for MENA producers. In comparison, Saudi Arabia and Qatar have the lowest cash costs of production in the MENA region with USD 24 per ton and USD 25 per ton, respectively. Lower production costs and massive construction activity in the developing economies have steadily shifted the epicenter of cement production toward these countries over the past 60 years. European producers have higher cash costs of production because of stringent environmental regulations, and higher labor costs and fuel prices. In the 1950s, North America and Europe had a combined market share of around 80% of world cement consumption, which has declined to around 20% in recent years.

Production Cost of MENA countries vs. Others (2008)



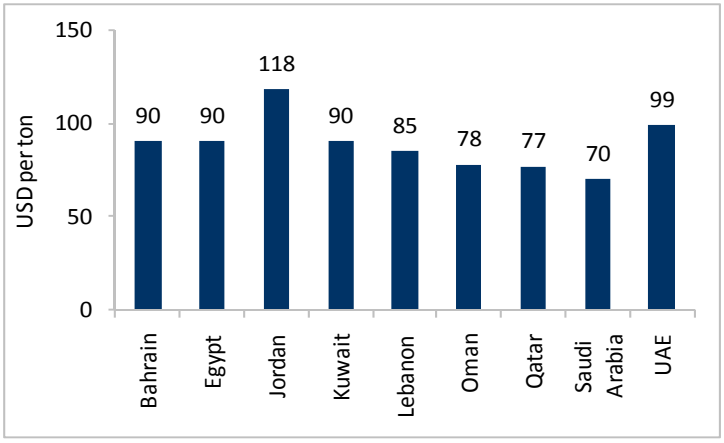
Source: GIH, Blominvest

Any increase in energy costs bumps up the total production cost, prompting cement producers to raise selling prices in order to maintain target margins. The extent to which cement prices respond to this increase depends mainly on prevailing market conditions in the construction sector. Cement producers in the MENA region tend to sustain their profit margins through an effective product mix with a larger share of high-margin products such as pozzolana and sulphur resistant cements. The scale of production is an important factor as well. Cost optimizations in fuel, raw material, labor, maintenance, and transportation are possible in larger production plants, as the producers have the advantage of securing favorable long-term contracts with major developers. So far, producers in the MENA region are at a relative disadvantage on this aspect compared to large multinational corporations that have larger production facilities.

In the MENA region, exogenous factors such as the controls on pricing, government spending on construction projects, public spending on housing and transportation, and energy costs are pivotal to determining cement prices. On the other hand, raw materials such as limestone, clay, and silica result in minimal price fluctuations, as most of these are largely excavated from the

companies' own mines. However, the proximity of cement plants to raw material sources and end-user markets is critically important to keep transportation costs under check.

Profit margins across MENA countries differ based on variations in retail prices and cash costs of production. In 2008, producers in Jordan and the UAE realized higher retail prices because of the deficit in the domestic markets. Retail prices in Kuwait and Bahrain were also high, as demand was met through cement and clinker imports. Retail prices in Egypt were high because domestic producers and traders created a shortage of cement in the local market. Cement producers in Saudi Arabia enjoy stronger profit margins due to cheaper energy, strong demand growth, and protection from foreign competition through custom duties on imports.



Source: GIH, Blominvest

Going forward, the expected oversupply situation in the region will guide MENA companies to reschedule new capacity additions and shut down unviable plants. However, price wars are not likely in the region, because of high government intervention in cement pricing. Overall, MENA producers with lower cash costs of production will benefit from exporting the surplus capacity at competitive prices, a definite advantage over their international counterparts.

4.7. Country-wise Industry Analysis

The competitive landscape of the MENA region's cement industry differs from that of the world in a number of ways.

- Strong domestic demand for cement helped regional producers to sell most of their production. Therefore, so far the regional producers did not resort to pricing wars in order to gain market share. However, going forward, the potential oversupply scenario could stiffen internal competition and pressurize profit margins. Nonetheless, regional producers will likely remain at an advantage compared to their international peers because of higher government intervention.
- Buyer power will increase considerably as cement surplus in the region will hurt the ability of producers to pass on additional costs. However, depending on how the government policy plays out, cement producers are likely to actively lobby for increasing exports in order to preserve profitability.
- A tax-free environment in the GCC and relatively low energy costs across the region allow producers to maintain higher margins compared to their peers in other regions.

The MENA region has around 50 publicly listed and several small private and multinational companies. The wave of privatization across the region reduced government ownership in some companies, as a result of which the private sector now controls a significant chunk of production in the region. The entry of multinationals helped enhance the industry's productivity and efficiency through automation and technology upgrades. Foreign ownership in regional companies has increased over the years as the maximal allowance for foreign investors was raised to 49%. However, the percentage of ownership varies widely across the region, and even within the same country. For example, Arkan Building Materials, UAE does not permit any foreign or non-UAE investors' stake, whereas Gulf Cement operating in the same region allows 100% ownership for GCC investors.

4.7.1. Bahrain

Bahrain meets its cement demand through imports, mainly from Saudi Arabia. Since the country lacks abundant raw materials for cement production, both the new and existing mills import most of the raw materials from India and the UAE. The Falcon cement factory owned by the country's financial company Capivest started its plant with a daily production capacity of 1,000 to 1,200 tons in October 2009. Another player, Star Cement invested USD 15 mn in August 2008 to increase cement production from 400,000 tons to 500,000 tons per annum, thereby easing the shortage in the country.

Bahrain imports most of its cement from Saudi Arabia, which excluded the former from the export ban that was lifted in May 2009. However, in order to ease traffic congestion by eliminating the operation of 200 trucks a day, Saudi Arabia banned cement and sand transport to Bahrain via the King Fahad Causeway starting October 2009.

Major Cement Producer in Bahrain (2008)

'000 tons per year	Cement Capacity	Cement Production
Hyundai Tiger Cement	288	190

Source: AUCBM, Blominvest

Bahrain now depends on the sea route to receive its cement export quota of 25,000 tons per week. Therefore, cement prices in Bahrain are rather vulnerable to marine transportation costs and supply disruptions, in addition to the dependence on a single country for all its needs. However, the overdependence on Saudi cement imports will likely reduce by 2012, when the causeway to Qatar will be completed.

4.7.2. Egypt

In 2008, Egypt's cement production, capacity, consumption and exports were 39.7 mn tons, 43.3 mn tons, 38.4 mn tons and 5.9 mn tons, respectively. In the 1970s, the production capacity of Tourah Portland Cement, Helwan Cement, Alexandria Cement and National Cement stood at around 4 mn tons. Driven by the construction boom in the late 1970s and 1980s, Egypt had to import most of its cement requirement since demand surpassed production even after opening three new cement companies viz. Suez, Assiut, and Ameriyah. By the mid-80s, Egypt became the largest cement importing nation in the world. During the 90s, six more companies were established to meet the surging demand from suburban areas, on account of the booming construction and increased government spending on infrastructure. Furthermore, incumbent players increased production capacities and improved utilization rates to meet this demand, doubling production from 14.1 bn tons in 1990 to 28.1 bn tons by 2002.

As a result, Egypt transformed into a net exporter of cement by 2002 and went on to become one of the largest cement exporting nations in the world by 2004. Over 2004-07, cement production grew from 28.7 bn tons to 38.4 bn tons in 2007. Consumption grew at a CAGR of 12.9% between 2004 and 2008, compared to a CAGR of 6% over the past 40 years. Production grew at a slower pace with a CAGR of 8.9%, while utilization improved from 77% to 92%. In 2008, declining domestic prices and lower utilization rates due to oversupply forced domestic producers to aggressively explore export possibilities, eventually making the country the ninth biggest cement exporter in the world.

Major Cement Producers in Egypt (2008)

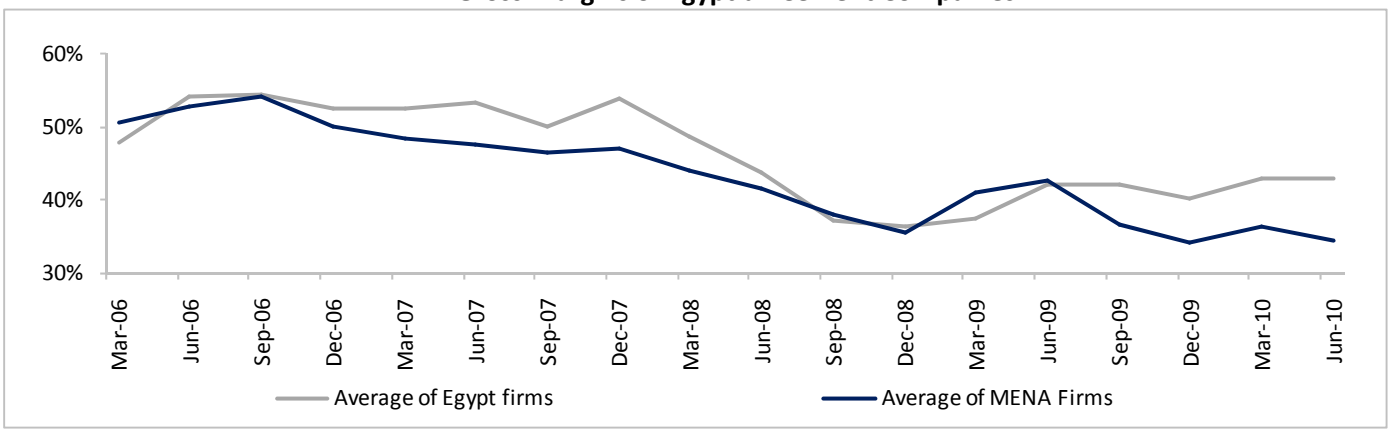
'000 tons per year	Cement Capacity	Cement Production	Clinker Capacity	Clinker Production
Sinai Cement Company	1,500	2,370	1,300	2,112
Suez Cement Company (Italicementi)	13,685	11,012	11,467	9,911
Tourah Portland Cement (Italicementi)	4,275	4,604	3,400	2,610
Lafarge Titan Group (Lafarge)	2,800	3,329	2,550	2,904
Ameriyah Cement Company	4,450	3,194	4,000	2,949
Assiut Cement Company	4,752	4,992	4,200	4,502
Beni Suef Cement Company	2,800	3,329	2,550	2,904
Egyptian Cement Company (Lafarge)	9,600	9,369	8,500	7,908
ASEC Cement Holding Co.	3,615	2,372	3,090	1,737
National Cement Co.	3,100	2,922	3,300	2,810
Misr Cement Co. (Qena)	1,400	1,974	1,350	1,778
South Valley Cement	1,400	NA	1,400	NA
Sinai White Portland Cement	410	490	410	462

Source: AUCBM, Blominvest

Currently, the Egyptian cement industry has 13 major companies. Foreign ownership in the country is the highest in the region with six multinational companies holding stakes in nine companies. The government owns only one company (National Cement), while the private sector operates three - Misr Beni Suef Cement, Misr Cement Qena, and South Valley Cement.

Multinational companies entered Egypt after 1996, when privatization of government-owned cement companies started in line with the free economy policy. Subsequently, several multinationals such as Lafarge, Titan, Ciment Française, Cemex, Cimpor, Holcim, Aalborg, and Vicat entered Egypt as strategic partners. Currently, multinational companies have an 85.5% stake in Egypt's cement production capacity. With respect to total domestic and international cement sales, Italicementi group, including Suez, Helwan, and Torah had the largest market share of approximately 28% as of 2008. Egyptian Cement company, owned by

Gross Margins of Egyptian Cement Companies



Note: Average of Sinai, Suez, Tourah Portland, National and Misr

Source: Company Reports, Blominvest

Lafarge, was ranked second with a market share of around 21%. Lafarge entered Egypt in 1999 through a joint venture with Titan, which had two plants with a total production capacity of 3.1 mn tons. CEMEX is one of Egypt's leading companies with a production capacity of 5.3 mn tons as of end 2008.

Egypt's Trade ministry plans to issue 12 new licenses anticipating the increase in demand for cement in the long-run. Several of the new licenses were issued for production in upper Egypt, which requires several infrastructure and utilities development projects. The Ministry expects demand to increase to 77 mn tons by 2020. Future housing demand is likely to remain robust with around 350,000 new housing units per annum until 2014, in addition to the backlog of 2.5 mn housing units. Along with the large population, Egypt's favorable demographics with around 33% of the population under the age of 15 and 50% in the 15-45 age group present strong future growth potential.

4.7.3. Jordan

The construction sector in Jordan registered a mild growth of only 2.3% during 2008 as opposed to its strong performance in 2007, following the financial crisis and tightening of mortgage financing.

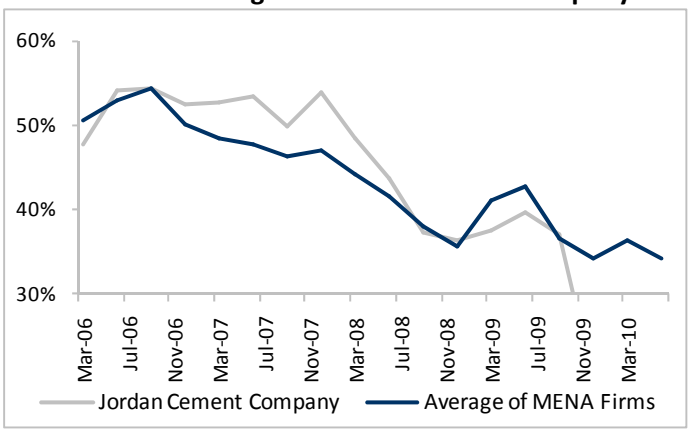
Major Cement Producers in Jordan (2008)

'000 tons per year	Cement Capacity	Cement Production	Clinker Capacity	Clinker Production
Jordan Cement Company	4,990	4,284	4,097	3,579
Arab Company for White Cement	125	91	119	82
Al-Rajhi Cement Holding	NA	NA	NA	NA
Northern Cement Co.	NA	NA	NA	NA

Source: AUCBM, Blominvest

The largest cement company in Jordan is the Lafarge-owned Jordan Cement Company. The gross profit margin of the company varied more widely than the regional cement producers owing to its dependence on imports for natural gas supplies. During the construction boom prior to the financial crisis, the company's profitability was stronger than the average margins of producers in the MENA region. However, during the last quarter of 2008, the company witnessed a decline in gross profit margin compared to that of other regional producers due to higher cost of natural gas supplies.

Gross Margin of Jordan Cement Company



Source: Company Reports, Blominvest

Lafarge entered Jordan in 1998 and currently has two cement factories in Fuhais and Rashadiya, located strategically in the

north and south regions of the country. Currently, Lafarge accounts for the majority of cement and clinker production, while the state-owned Arab Company for White Cement accounts for the remaining.

4.7.4. Kuwait

Given the shortage of raw materials in the country, Kuwait imports limestone from the UAE and Iran, and gypsum from Iran. The import of raw materials adds to the cost of production and is the primary reason behind the gross profit margins of domestic companies being lower than the regional average.

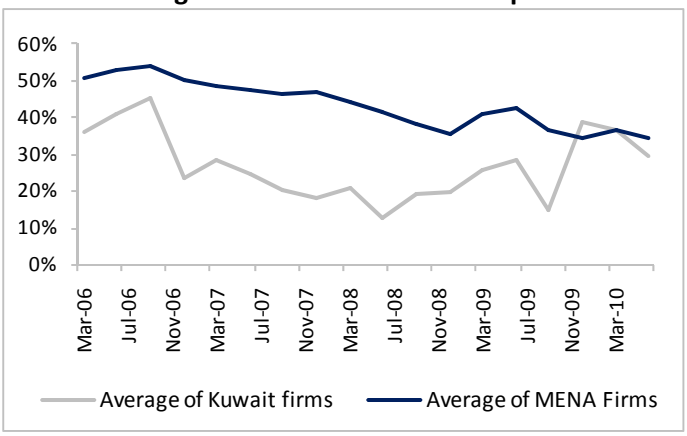
Kuwait Cement Company is the major cement producer with a production capacity of 2.2 mn tons and actual production of 1.3 mn tons in 2007. Another company, Kuwait Portland Cement (KPCC) is engaged in the marketing, import, and distribution of cement. According to AUCBM, KPCC's production and capacity stood at 0.74 mn tons and 1.2 mn tons, respectively, in 2008. Hilal Cement, established in 1984, is another active player in the import, storage, and distribution of cement and other bulk building materials.

Major Cement Producers in Kuwait (2008)

'000 tons per year	Cement Capacity	Cement Production
Kuwait Cement Co.	2,175	1,320
Kuwait Portland Cement	1,200	738

Source: AUCBM, Blominvest

Gross Margins of Kuwait Cement Companies



Note: Average of Kuwait Cement and Kuwait Portland Cement

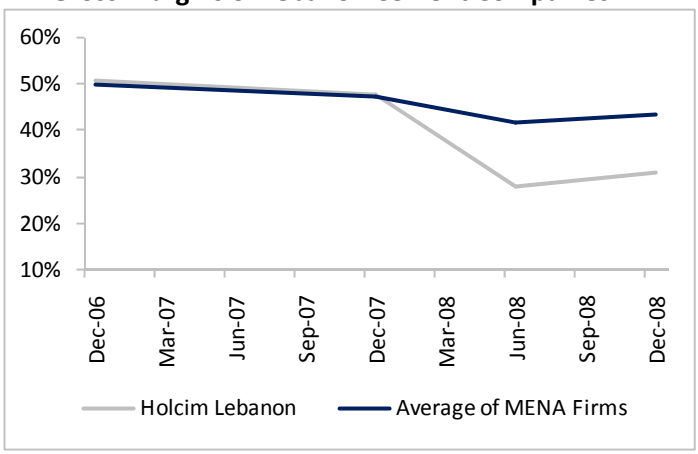
Source: Company Reports, Blominvest

4.7.5. Lebanon

Lebanon's economy has made impressive progress since the launch of "Horizon 2000" in 1993, a reconstruction program sponsored by the government. The country has rebuilt much of its war-torn physical and financial infrastructure. Between 2003 and 2008 and buoyed by the growth especially in 2007-2008, construction permits and total value of real estate transactions increased at CAGRs of 12.6% and 17.6%, respectively, leading to an increase in cement deliveries at a CAGR of 9.2%.

In the longer run, we expect the cement industry to benefit from the strong growth in the construction sector, although currently the market is relatively less mature and is characterized by more bagged deliveries in favor of bulk shipments. As a result, most of the concrete is mixed at the production site and is often inferior in quality due to poor local aggregates and mix design.

Gross Margins of Lebanon Cement Companies



Source: Company Reports, Blominvest

The Lebanese cement industry underwent a major transformation in the mid to late 1990s following a technology upgrade by Holcim, which had the largest clinker line in the MENA region. Holcim is a major player with a current total capacity of 2.9 mn tons at Chekka, 65km north of Beirut, up from 2.2 mn tons in 2008. Cementerie Nationale exports cement to Syria and Iraq, and has been a major contributor to the country's cement exports.

Major Cement Producers in Lebanon (2008)

'000 tons per year	Cement Capacity	Cement Production	Clinker Capacity	Clinker Production
Holcim Lebanon	2,200	1,644	1,800	1,744
Cimenterie Nationale S.A.L.	2,500	1,637	2,200	1,555
Cimenterie du Moyen-Orient	500	167	600	102
Societe Des Chaux Et Platres Du Liban	NA	NA	NA	NA
Ciment de Sibline	1,200	1,050	1,050	811

Source: AUCBM, Blominvest

4.7.6. Oman

Oman's cement consumption is not as high as that in other GCC countries. Nonetheless, other GCC countries serve as excellent export markets, which have driven production in Oman. In addition, the growth has been fueled by the accelerating pace of construction projects in the Sultanate. Oman's exposure to the global crisis was limited because of the tight regulation in the banking system and the government's continued focus on public infrastructure. Real estate in Oman suffered only a minor setback as demand for property and office space in Oman is still underserved. In addition, mortgage lending in the Sultanate was under control even during the financial crisis given the relatively conservative nature of the banking sector.

Major Cement Producers in Oman (2008)

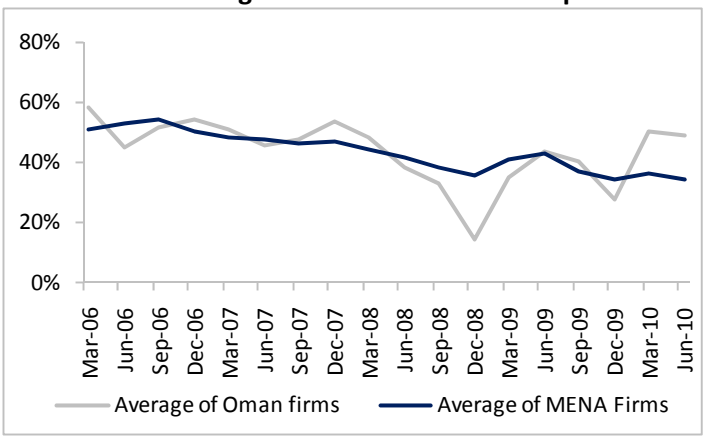
'000 tons per year	Cement Capacity	Cement Production	Clinker Capacity	Clinker Production
Oman Cement Company	2,500	1,915	1,200	1,182
Raysut Cement Company	2,700	2,121	2,500	2,045

Source: AUCBM, Blominvest

The industry structure in the Sultanate is a duopoly between Raysut Cement and Oman Cement, each accounting for about half of the total production. The gross profit margins of the two companies have remained comparable over the years. However, the global financial crisis impacted these companies more than their peers in the MENA region, as seen in the sudden drop in gross margins during the last quarter of 2008. Cement prices have come under a lot of pressure as the country's production of 4.2 mn tons during 2008 far exceeded the consumption of 3.5 mn tons.

Raysut Cement opened a terminal at Sohar port to supply northern Oman that will likely strengthen the company's position in the domestic market. Oman Cement benefits from its location at Ruwi in northern Oman, which accounts for a higher percentage of infrastructure projects such as Blue City and Dubai Resort & Spa.

Gross Margins of Oman Cement Companies



Note: Average of Oman Cement & Raysut Cement

Source: Company Reports, Blominvest

4.7.7. Qatar

Along with government-led infrastructure and construction activities, the encouragement for foreign investments in construction and tourism has boosted the demand for cement. The cement industry in Qatar has

Major Cement Producers in Qatar (2008)

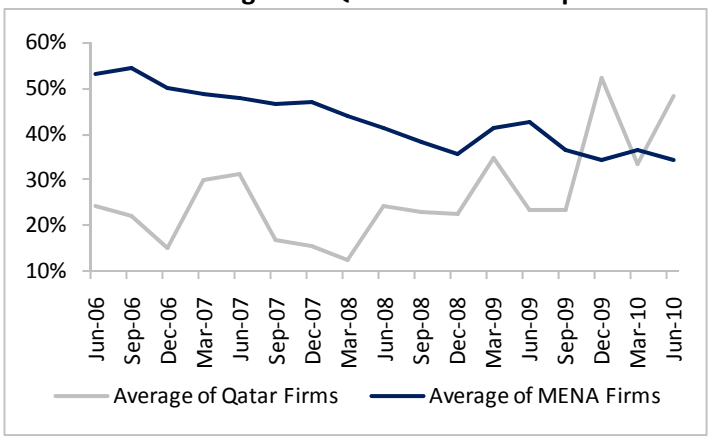
'000 tons per year	Cement Capacity	Cement Production	Clinker Capacity	Clinker Production
Qatar National Cement Co.	3,700	4,095	1,700	2,229
Aljabor Cement Industries Co	300	197	NA	NA

Source: AUCBM, Blominvest

two main players: Qatar National Cement and Gulf cement, both publicly traded, accounting for majority of the production.

The leading manufacturer Qatar National Cement produced 4.1 mn tons of cement in 2008. The capacity of the company stood at 3.7 mn tons of cement. Aljabor Cement Industries, owned by Al Jabor Holdings (75%) and Holcim (25%), is another notable industry player with an annual capacity of 0.3 mn tons in 2008.

Gross Margins of Qatar Cement Companies



Note: Average of Oman Cement & Raysut Cement

Source: Company Reports, Blominvest

4.7.8. Saudi Arabia

The demand for cement in Saudi Arabia has remained buoyant over the past few years. The industry has come a long way since the establishment of Arabian Cement in 1955. The dynamics of the industry tend to differ across the kingdom's five key regions: eastern, western, northern, southern, and central. The long distances between important cities and the associated transportation costs have not allowed much consolidation of the industry across these regions. The variation in consumption and the concentration of fuel reserves in the east has led to noticeable differences in cost and price across the regions.

The eastern, southern, and central regions dominate the country's cement production and consumption, because of strong construction activity, abundant limestone, cheaper natural gas, and proximity to export markets. Saudi Arabia has substantial reserves of cement-grade limestone in the central and western regions. Other raw materials such as gypsum and clay are easily available in close proximity to the plants. In addition, limestone deposits are located in the Phanerozoic rocks that flank the northern and eastern margins of the Arabian Shield. Deposits are also abundant in the central region of the Kingdom along the Red Sea coastline and in Jizan in the southwest. The largest cement producer of the country Saudi Cement is located in the eastern region. While Southern Cement dominates the southern region, Yamama Cement commands the central region and Yanbu dominates the west. Collectively, these four companies accounted for 57.5% of the total cement production in 2008.

The western region includes the major cities of Jeddah, Mekkah, Al Madinah, and King Abdullah Economic city, which are known for heavy tourism, infrastructure, and real estate activity. Currently, the western region is the epicenter of the cement demand and is expected to account for 30% of all residential projects in the country. The region has rich deposits of minerals that support lower production costs for cement companies in the region: Yanbu, Arabian Cement, and Western Cement. The proximity to the Red Sea facilitates export to countries like Egypt from the region. In 2008, the western region accounted for 22.8% of total cement production in the kingdom. This region was less vulnerable to the financial crisis and the export ban, thanks to major construction projects on the coast and in the holy cities of Mecca and Medina.

The eastern region is characterized by abundant natural gas, which supports companies like Saudi Cement and Eastern Cement, whereas cement producers in other regions depend on a dual feed system. As a result, producers in this part of the country have the advantage of cheaper natural gas in addition to the proximity to other GCC countries. Cement exports by eastern producers accounted for approximately 26% of the production in 2007. The region accounted for a 65% share in the kingdom's total exports during the year and hence was impacted the most by the government's export ban until May 2009.

Region-wise Strength of Cement Industry

West	Very strong Construction Activity Abundant limestone Proximity to export markets through Red sea
East	Abundant natural gas Proximity to GCC countries Abundant limestone
Central	Abundant limestone Strong construction activity

Source: Blominvest

The central region ranks second in infrastructure and real estate investments and has greater proximity to the eastern region that accounts for most of the country's exports. Producers in this region—Yamama Cement, Qassim Cement, Riyadh Cement, and Madina Cement—accounted for 30.6% of the country's total production in 2008. The central region would be affected the most in the event of any disruptions in demand, since production plants of most of the new entrants and expansion projects of incumbents will be located in the region.

The production by companies located in the northern and southern regions is mostly consumed within the regions. In the north, Tabuk Cement accounted for 3.5% of total production. On the other hand, another company Northern Cement started its operations recently in 2008. Southern Cement and Najran Cement in the south contributed 14.9% and 2.4% to total production, respectively.

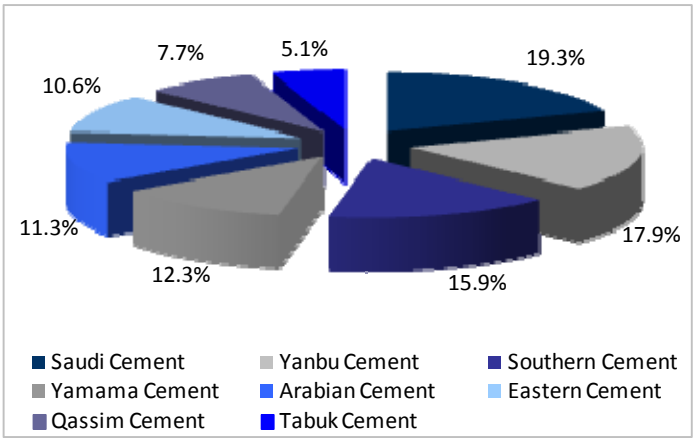
Region-wise Saudi Arabian Cement Companies

Company	Region	Established	Production (Mn Tons) 2002	2007	2008	Capacity (Mn tons)
Yamama Cement	Central	1961	2.9	4.7	4.4	6.3
Qassim Cement		1976	1.8	3.5	3.2	4.1
Riyadh Cement		2005	-	-	1.4	2.1
Madina Cement		2005	-	-	1.1	1.5
Saudi Cement	Eastern	1955	4.5	5.3	5.4	11.9
Eastern Cement		1983	2.5	3.5	3.1	3.5
Tabuk Cement	Northern	1994	1.2	1.4	1.2	1.5
Northern Cement		2008	-	-	-	2.0
Southern Cement	Southern	1978	3.7	4.6	4.9	6.0
Najran Cement		2005	-	-	0.8	2.1
Yanbu Cement	Western	1976	4.2	4.6	4.3	3.8
Arabian Cement		1955	2.6	2.8	2.7	3.5
Western Cement		2008	-	-	0.5	-

Source: Yamama, GIH, NCB, Blominvest

Major players in Saudi Arabia (2002)

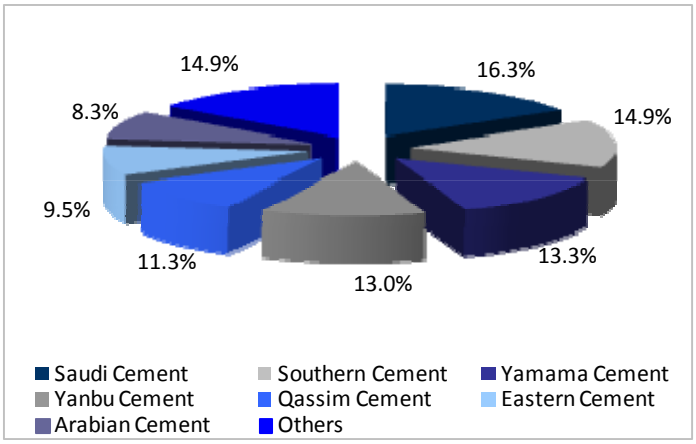
Total Production: 23.2 mn tons



Source: Yamama, GIH, NCB, Blominvest

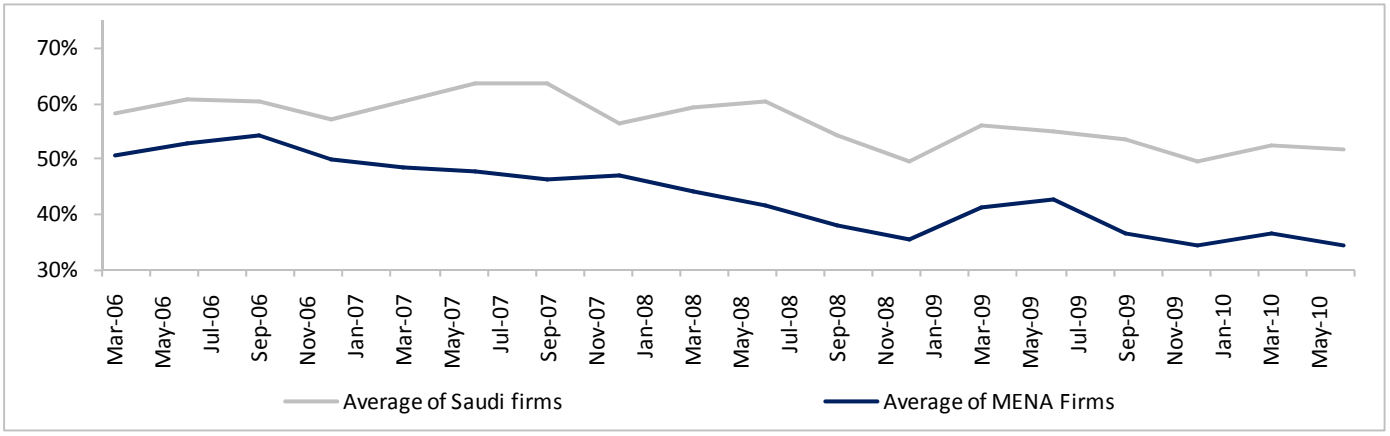
Major players in Saudi Arabia (2008)

Total Production: 32.9 mn tons



Source: Yamama, GIH, NCB, Blominvest

Gross Margins of Saudi Cement Companies



Note: Average of Saudi, Yamama, Yanbu, Southern, Tabuk, Arabian, Qassim, and Eastern Cement Companies

Source: Company Reports, Blominvest

Currently, the Kingdom has 12 cement companies with an estimated annual production capacity of 48 mn tons. Although Saudi Cement had the largest market share in 2008, other producers are not far behind. The robust demand for cement prior to the financial crisis supported the expansion plans of both new and incumbent players. With the entry of four new players since 2005, the industry has become even more competitive, as reflected in the declining market shares of incumbents.

Since mid-2008, new entrants in Saudi Arabia—Riyadh Cement, Najran Cement, Medina Cement, and Northern Cement—have added 7 mn tons in new capacity. In tandem, Saudi Cement's market share declined from 19.3% in 2002 to 16.3% in 2008. Moreover, companies such as Al Safwa Cement, Al Jazeera Cement, and Al Jouf Cement are likely to commence production by 2010 in addition to the capacity expansion plans of major incumbents. We expect the industry to become more fragmented, as producers continue to cater to increasing demand from specific geographical markets within the Kingdom.

The government—directly as well as through agencies such as Public Investment Fund, General Organization for Social Insurance (GOSI), and Public Pension Authority (PPA)—collectively owns major stakes in the country's cement companies. Prominent Saudi individuals such as Prince AlWaleed Talal Abdul Aziz Al Saud and Sulaiman Abdul Aziz Saleh Al Rajhi hold major stakes in many of these companies.

Major Shareholders in Saudi Arabian Cement Companies (As of September 27, 2010)

Arab Cement		**Yanbu Cement**	
Sulaiman Abdul Aziz Saleh Al Rajhi	11.8%	Sulaiman Abdul Aziz Saleh Al Rajhi	23.7%
National Commercial Bank (NCB)	9.9%	General Organization for Social Insurance (GOSI)	11.8%
Abdullah Abdul Aziz Saleh Al Rajhi	7.5%	Public Investment Fund	10.0%
Abdul Aziz Abdullah Sulaiman Al Sulaiman	5.7%	Abdullah Abdul Aziz Saleh Al Rajhi	5.8%
Public Pension Authority (PPA)	5.1%		
Yamama Cement		**Saudi Cement**	
Prince Sultan Mohammed Saud AlKabeer Al Saud	9.7%	General Organization for Social Insurance (GOSI)	8.5%
General Organization for Social Insurance (GOSI)	7.1%	Khalid Abdul Rahman Saleh Al Rajhi	7.9%
Public Pension Authority (PPA)	5.0%	Public Pension Authority (PPA)	5.0%
Qassim Cement		**Eastern Cement**	
Public Investment Fund	23.3%	Public Pension Authority (PPA)	10.6%
General Organization for Social Insurance (GOSI)	19.9%	Public Investment Fund	10.0%
Public Pension Authority (PPA)	5.2%	General Organization for Social Insurance (GOSI)	10.0%
Southern Cement		**Tabuk Cement**	
Public Investment Fund	37.4%	Khalid Saleh Abdul Rahman Al Shethry	7.1%
General Organization for Social Insurance (GOSI)	15.0%		

Source: Bloomberg, Blominvest

4.7.9. The United Arab Emirates (UAE)

The UAE is at the heart of the cement industry in the MENA region. In particular, the massive construction activity in Dubai has attracted the world's attention in recent years. The first cement factory in the UAE, Al Ittihad Cement Company, was established in Ras Al Khaimah in 1975, followed by several others in Al Ain, Sharjah, Dubai, Fujairah, Ajman, and Umm Al-Qaiwain. By early 1980s, all the seven emirates had independent cement factories. Since then, cement production has significantly grown on the back of consistent increase in demand and exports over the years.

Since 2003, the UAE's cement industry has registered phenomenal growth riding on the unprecedented boom in construction activity. Between 2003 and 2007, the construction sector grew at a record CAGR of 27%, while cement consumption grew more or less in tandem with a CAGR of 21%. The remarkable growth boosted the demand for cement, thereby necessitating higher imports in order to meet the shortfall in supply. However, since the financial crisis reached the

UAE Cement Companies Capacity

Company	2006	2011E
Union Cement	1.2	4.5
Gulf Cement	2	2.7
Fujairah Cement	2.2	4.6
Sharjah Cement	3.3	3.3
National Cement	1.5	1.5
RAK Cement	1.1	1.1
Um Al Quain Cement	0.7	0.7
Arkan Building Materials	1.2	5.7
RAK White Cement	0.5	0.5
Sub-Total	**13.7**	**24.6**
Unlisted Co's	6	17
Grand Total	**19.7**	**41.6**

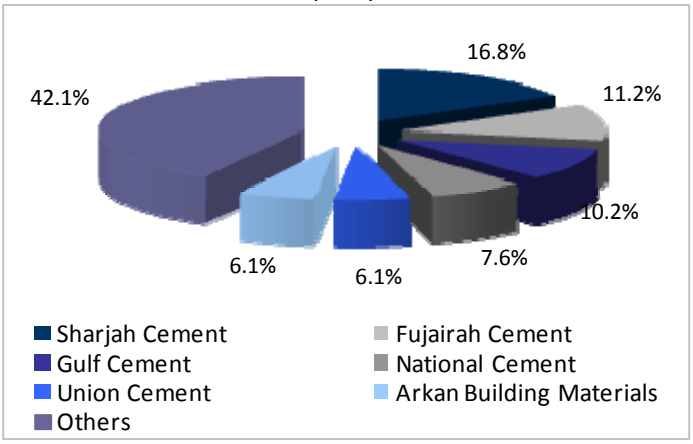
Source: GIH, Blominvest

MENA region in late 2008, construction activity in the UAE has been on a downhill plunge. The country's cement sector is now in the middle of a severe demand crunch and an oversupply situation. Nonetheless, the spectacular opening of the Burj Khalifa and infusion of additional funds into the property sector have helped restore confidence –to some extent—in the real estate and construction sector.

The UAE has over 11 integrated production facilities and 8 dedicated local grinding operations that use imported clinker to produce cement. In addition, the country has large-scale trading operations for importing cement for local sales and distribution. Recently, producers in the UAE have been increasing production of a special grade ready-mix on rejuvenated demand for the construction of nuclear power plants west of Abu Dhabi.

Major players in the UAE (2006)

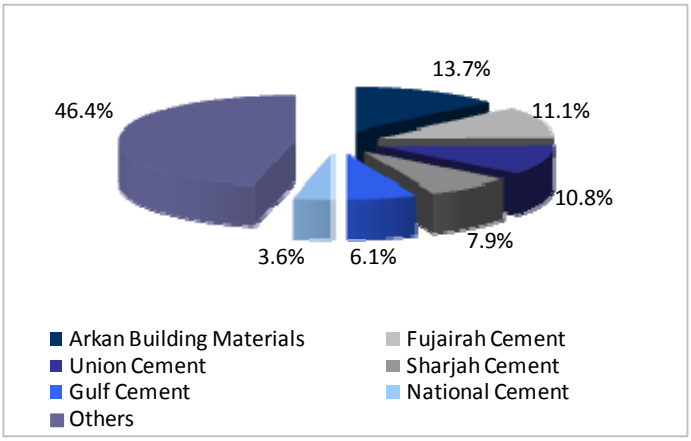
Total Capacity: 19.7 mn tons



Source: GIH, Blominvest

Major players in the UAE (2011E)

Total Capacity: 41.6 mn tons

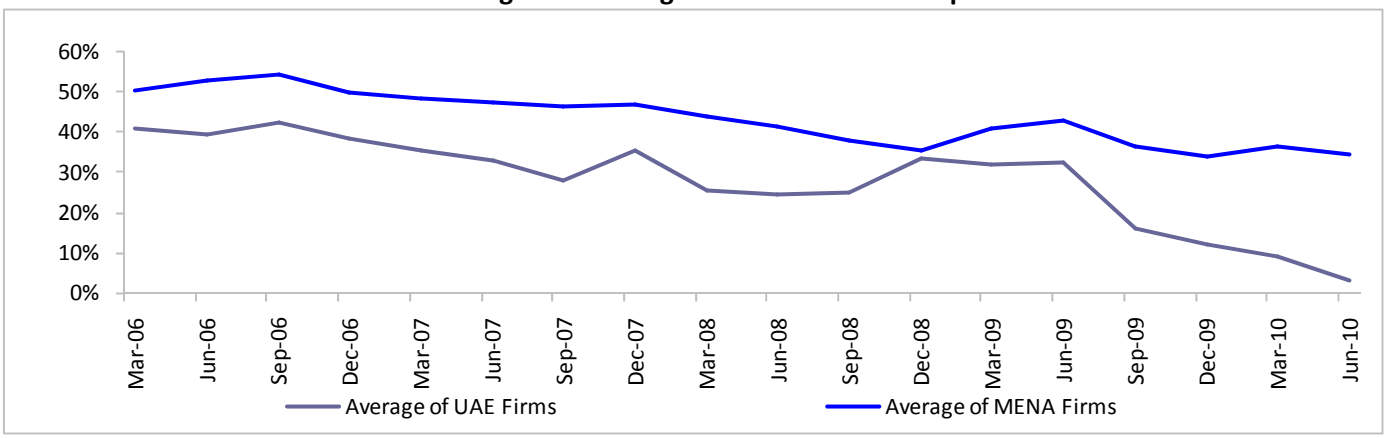


Source: GIH, Blominvest

The UAE has the largest limestone deposits in the Gulf region. Ras Al Khaimah has been at the center of the UAE's cement industry, thanks to abundant limestone reserves and the establishment of the country's first cement factory in 1975. Hajar Mountains in Ras Al Khaimah have huge deposits of limestone and are the hub of cement manufacturing with major companies such as Gulf Cement Company, Union Cement Company, RAK Cement, and RAK White Cement located there. Overall, Ras Al Khaimah accounts for more than 34% of cement and 58% of clinker produced in the country. However, transportation costs for delivering to major customers located in Dubai are very high. Therefore, the current oversupply situation will impact the producers in the emirate more than those located in other emirates.

The country's cement industry is highly competitive with nine listed cement companies and several small privately owned companies whose operations are mostly limited to grinding clinker. Of the listed companies, eight produce Portland cement, whereas one plant in Ras Al-Khaimah manufactures white cement. Major players in the UAE include Sharjah Cement, Fujairah Cement, Gulf Cement, National Cement, Union cement, and Arkan Building Materials, which together accounted for nearly 58% of total cement production in 2006.

Average Gross Margin of UAE Cement Companies



Note: Average of Union, Gulf, Fujairah, Sharjah, National & RAK

Source: Company Reports, Blominvest

By 2011, the top five cement producers of the UAE are expected to account for 50% of the total production capacity. Unlisted smaller companies are expected to increase their market share to 40% from 30% in 2006 due to capacity expansions by notable names such as Pioneer Cement, Star Cement, Al Ain Cement, Binani Cement, Bin Harmel, and Nael Cement.

The gross profit margins over the years have been below the average value of MENA cement producers. Most of the UAE companies witnessed a sudden drop in gross profit margins during 3Q09 due to the reduction in cement prices.

Currently, the UAE cement industry is facing an extended dull sales season with ex-work prices ranging between AED 180 and AED 220 per ton and delivered prices from AED 200 to AED 210 per ton, despite the January 2010 decision by the UAE Cement Manufacturers Association's (CMA) move to fix prices at around AED 240 in Dubai. The market is beginning to pick up in terms of construction of projects but the pricing situation is expected to change rather slowly. Prices of 50 kg bags stand at AED 12. Many companies are trying for exports to East Africa, Qatar and Bahrain. The majority is focused on clinker exports since the companies in Ras Al Khaimah are having enough of clinker stocks, and clinker shipment is easier than bulk cement.

5. Oppurtunities and Challenges

5.1. Opportunities

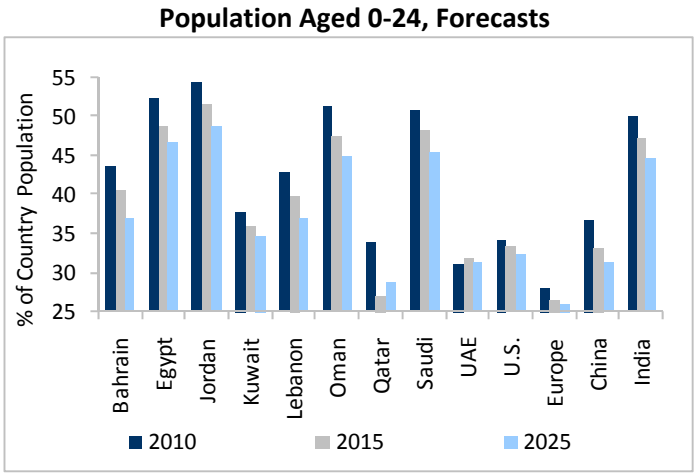
5.1.1. Government Policies

The commitment of regional governments to diversify their economies is expected to persist in the foreseeable future. The region is likely to sustain and even scale up investments in basic infrastructure such as schools, hospitals, roads, railways, and expansion of industrial facilities for power, water purification, chemicals, steel, telecom, and tourism. These government-backed development projects will throw out a plethora of opportunities for cement producers of the region in the long term. In addition to revitalizing the demand for cement, governments have also been instrumental in providing financial support to cement producers at a time when banks had restricted credit to the private sector for capacity expansions.

Country-wise, Saudi Arabia revealed the largest budget ever for 2010, projecting expenditures to the tune of SAR 540 bn and revenues of SAR 470 bn. The budget allocated SAR 260 bn for new welfare projects and SAR 137 bn for education in order to boost spending and instill confidence in the economy. Such budget allocations will help increase cement consumption in the country, driven by infrastructure development including new industrial cities such as Jubail and Yanbu, and growth in existing commercial hubs. Dubai's budget for 2010 allotted 49% of the total budgetary expenditure of AED 35.4 bn to infrastructure, economic, and transportation sectors. Similarly, Oman announced the largest budget in the country's history as well, with expenditure of OMR 7.18 bn for 2010, up 9% over the budget expenditure in 2009.

5.1.2. Demographics

The population of the MENA region is projected to grow by more than 2% annually over the upcoming years, higher than that in developed countries with growth rates in the range of 0.2-0.3%. The high population growth rate will likely emerge as the key driver for housing demand in the future. Furthermore, the population pyramid of the region shows a high percentage of youth that will further support the demand for housing. In addition, a few countries such as Qatar are among the highest per capita GDP countries in the world. As a result, the higher disposable income will translate into increased funds flowing to the housing sector. Together, these factors imply a robust growth outlook for housing and, in turn, buoyant long-term demand for the cement industry.



Source: UN, Blominvest

5.2. Challenges

5.2.1. Increasing Fuel Costs

Cement producers in the MENA region enjoy substantial fuel subsidies and consequently are at an advantage over their international counterparts. The impact of any changes or removal of such subsidies could be detrimental to the competitiveness and profitability of regional cement producers. The Egyptian government's decision to reduce subsidies for energy-intensive industries from 2010 will certainly increase the cost of production.

During the unusually hot summer months of 2008, increased demand for air conditioning led to a shortage of natural gas in the UAE. As a result, cement companies, especially those in Northern Emirates, without multi-fuel plants had to curtail production. Several cement producers using cheaper natural gas were compelled to switch to the expensive and less efficient diesel and heavy fuel oil. As a result of the disruption in the supply of natural gas and higher energy prices, coupled with the cap on cement prices, profit margins of producers in the UAE came down from 44% in 2006 to 29% in 2008.

5.2.2. Dependence on Oil

Despite the efforts of governments in GCC countries, these economies continue to remain dependent on the hydrocarbon sector and vulnerable to volatility in oil prices. Higher oil prices help these countries pile on strong surpluses that translate into

heightened government spending on infrastructure and other construction activities. On the other hand, any major decline in oil prices—as was seen after mid-2008—can be detrimental to cement demand, thereby implying the GCC industry's high dependence on oil revenues.

5.2.3. Oversupply

Until 3Q08, buoyant demand across the region; shortage of cement in the UAE, Kuwait, and Jordan; and higher cement prices attracted new players, while incumbents planned huge capacity expansions. However, the subsequent slowdown in regional and world cement demand resulted in a supply glut in the region, even as a number of cement companies prepared to commence production during 2010. During 2008, 27 licenses were issued in Saudi Arabia alone for establishing cement factories. The Saudi Ministry of Commerce and Industry estimates the Kingdom's cement capacity to increase to 50 mn tons by the end of 2010. In 2009, the country produced 40 mn tons of cement and had a surplus of 5 mn tons. With domestic demand not being able to keep pace with the increased production, the market could see intense competition and easing of prices in the near future.

The ongoing capacity expansion projects by existing players and the entry of new players will continue to pressurize profit margins of regional cement producers over the next few quarters, unless construction bounces back to pre-crisis levels, which is highly unlikely in the short term.

6. Future Outlook

In the present industry scenario, cement producers are anticipating a three- to five-year rebound period before demand reaches peak levels. The global cement industry outlook appears bleak through 2011 and will continue to depend on the demand from emerging economies. It will be a while before the cement industry in developed countries, on both sides of the Atlantic, witnesses demand levels that are equal to—or at least close to—those seen in the pre-crisis period. The influence of North America and Western Europe will continue to diminish, both in terms of consumption and production. Construction activity is yet to recover fully in the developed economies, and spending is expected to further decline by an additional 5.6% during 2010. According to Cemweek, cement demand is likely to decline by 28% between 2007 and 2010 in Europe and by 44% between 2006 and 2010 in the US. The American Clean Energy and Security Act, effective 2013, will imply an additional cost of USD 10 to USD 37 per ton on cement manufacturers. In addition, the US Environmental Protection Agency's (EPA) limitations on emissions of hydrochloric acid, hydrocarbons, and mercury will put further pressure on producers.

We believe that countries with lower cash cost of production will endure the short-term hurdle of declining cement prices amid an overcapacity situation. Currently, the majority of new capacity additions are directed toward developing economies, which are expected to offset the consumption slowdown in developed countries. In addition to lower cash costs of production, cheaper labor, lower energy costs, and relatively less stringent restrictions on CO_2 emissions will help producers support the large-scale infrastructure development plans in developing economies. China is expected to redefine the growth trajectory of the global industry in the short- to medium-term, accounting for almost 50% of world production and consumption. India's cement industry is likely to experience oversupply by the end of 2010 following the addition of 43.2 mn tons between January 2010 and March 2011, on top of the existing production capacity of 234 mn tons per annum. These capacity additions will pressurize profit margins, as average utilization rates will likely come down from 88% in 2009 to 80% by 2011.

The short-term outlook for the industry in the MENA region remains bleak due to the continued slowdown in construction activity. Cement companies are already reeling under reduced demand and we do not expect any significant improvement at least until the end of 2010, given the slow recovery in real estate and construction. The structure of the industry could undergo significant changes in the short-term, as incumbent players expand capacity and entrants set up new plants. The cancellation and delay in projects will further aggravate the market dynamics as more capacity comes online. The oversupply will hurt utilization rates, ultimately weakening the prices of cement in the region and pressurizing margins for producers. Therefore, short-term volatility in both prices and profitability will likely be the case for the regional industry. We do not foresee the local cost of production increasing until 2011, since fuel subsidies are likely to continue. On the export front, however, MENA producers will find it difficult to offload excess production to other markets because of capacity additions elsewhere, competitive pricing, and higher logistics costs.

Particularly in Saudi Arabia, Egypt and the UAE, the overcapacity will intensify competition and potentially alter the dynamics of the industry despite government interventions, given the fragmentation. With new licenses being awarded, producers are likely to look for ways to reduce their costs by achieving economies of scale. The situation could trigger mergers and acquisitions in these countries in order to consolidate costs and maintain margins. In the absence of product differentiation, companies capable of providing value-added services will likely be better positioned to increase market share and retain existing customers.

Even though the economic crisis severely affected the demand for cement during 2009, the longer-term prospects for the industry remain favorable. The positive outlook is attributable to higher growth in construction activity going forward, driven by the governments' plans to boost investments in infrastructure and industrial development. The governments in non-GCC countries plan to promote low-income housing and improve the underdeveloped areas. The Middle East Economic Digest (MEED) Gulf project index—for projects worth more than USD 50 mn—stood at USD 2.27 tril as of April 26, 2010. Accordingly, we believe that despite short-term concerns, most of these development plans will eventually lead to sustained demand growth in future.

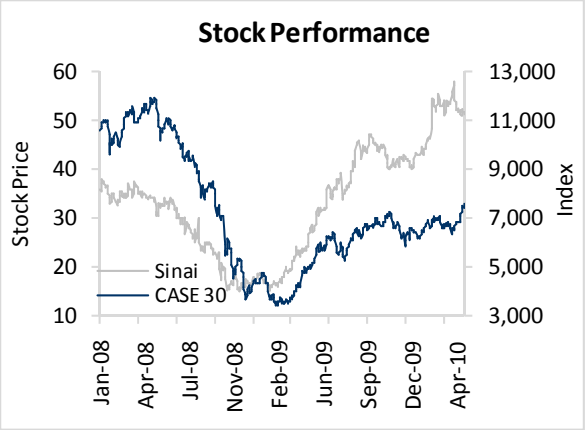
Country-wise, the Saudi Arabian General Investment Authority (SAGIA) has embarked on a mission to position the country among the top ten most competitive countries by 2010. The mission has already attracted foreign direct investments for the construction of the six economic cities, which are expected to contribute USD 150 bn to GDP growth by 2020 and house around 4.8 mn of the total population. According to industry officials, the performance of the UAE's cement industry is expected to improve over the next 18-24 months. The UAE is home to major developers such as Emaar, Aldar, Nakheel, and Sorouh who have several long-term development projects involving residential, commercial, retail, and hospitality segments.

We expect competition to intensify in the Egyptian cement market following the entry of Saudi Arabian producers. The decision to remove energy subsidies on energy-intensive industries beginning 2010 will not help the production cost for Egyptian producers. The lifting of the export ban by the Saudi Arabian government has allowed its western region's producers to export to Egypt at lower prices. The internal competition in the Egyptian market is set to intensify further with domestic capacity additions surpassing demand growth, leading to lower profitability and extended payback periods for new entrants.

7. Appendix

7.1. MENA Cement Company Profiles

7.1.1. Sinai Cement Company



Source: Bloomberg, Blominvest

Market cap (Oct 5, 2010)	Market Cap (Oct 5, 2009)
EGP 3,338.3 mn	EGP 3,151.4 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	35.77%
Government	9.41%
Corporate	54.82%

Source: Bloomberg, Blominvest

Key Financials (EGP '000)	2009	2008
Total revenues	1,513,073	906,316
EBITDA	737,535	471,112
Net earnings	671,488	414,131
Free cash flow	(238,799)	423,233
Total Assets	2,003,358	1,759,639
Total Liabilities	154,236	211,621
Shareholders' Equity	1,849,122	1,548,018
Enterprise Value	2,527,681	1,094,218

Source: Bloomberg, Blominvest

Company Overview

Sinai Cement Company is based in Egypt and is engaged in the manufacturing of cement and cement-related products. The company which has a capital base of EGP 250 mn operates a cement mill in North Sinai, Egypt. Sinai Cement wholly-owns Sinai Cement Company for Services and has a 25.4% stake in Sinai White Portland Cement Company. For the nine months period ended September 2009, the company controlled a market share of 7% with domestic cement sales amounting to 2.57 mn tons. The nation-wide export ban, that was on until October 2010, had halted exports.

Recent Developments

While many countries in the region have seen their construction sector growth stall, Egypt's construction industry grew. Driven largely by housing needs of a growing population and a cash-fuelled economy, cement demand rose 25% last year. In a recent development, Egypt opened bidding for two cement production licences on May 03, 2010, but existing Egyptian cement firms are not allowed to bid in an effort to boost competition and bring down prices. The two licences will replace ones that had been held by El Wadi Cement and North Sinai Cement but which were cancelled late last year over start-up delays and financing shortfalls. Both firms were granted their licences in 2007.

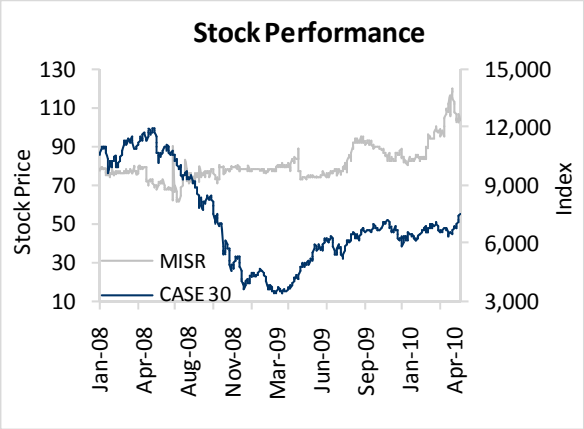
Financial Analysis

During 2009, Sinai Cement Company posted a 66.9% increase in total revenues to EGP 1.51 bn from EGP 906.32 mn in 2008. The growth in revenues can be attributed to a 47.5% rise in total sales volume and a 13% jump in average selling price. Sales volumes increased after production commenced from the new 1.5 mn tons second production line in late 2008, while the selling price rose on the back of higher demand for cement in the local market spurred by the acceleration in construction activity. The company's net earnings soared 62.1% to EGP 671.49 mn from EGP 414.13 mn in the previous year. However, the company registered cash outflow of EGP 238.80 mn as opposed to a cash inflow of EGP 423.23 mn in 2008. During 3Q09, the company increased its capital base through a 1:1 rights issue taking its total issued and paid-in capital to EGP 700 mn. Besides, the company announced a cash dividend distribution of EGP 4 per share, or a dividend yield of 7.3%.

Production

By 2015, Egyptian cement firms are expected to boost output by 40% to meet the rising local demand, driven by the growing need for cheaper homes and construction projects. As per the latest available data that came out in 2008, Sinai Cement Company's nominal capacity of cement and clinker stood at 1.50 mn tons and 1.30 mn tons, respectively. Meanwhile, the company's actual production levels stood at 2.57 mn tons of cement and 2.11 mn tons of clinker.

7.1.2. Misr Cement Company



Source: Bloomberg, Blominvest

Market cap (Oct 5, 2010)	Market Cap (Oct 5, 2009)
EGP 3,017.4 mn	EGP 2,773.2 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	13.83%
Corporate	47.41%
Government	38.58%
Private	0.18%

Source: Bloomberg, Blominvest

Key Financials (EGP '000)	2009	2008
Total revenues	844,604	773,339
EBITDA	377,291	335,939
Net earnings	352,260	302,950
Free cash flow	417,663	349,293
Total Assets	1,280,687	1,140,605
Total Liabilities	264,049	189,846
Shareholders' Equity	1,016,638	950,758
Enterprise Value	1,892,658	1,850,052

Source: Bloomberg, Blominvest

Company Overview

Misr Cement Qena (Qena), also known as Misr Cement Company, is an Egypt-based public shareholding company engaged in the production of cement and building materials. The company's manufacturing plant, spread over 3.3 mn square meters, is located in Qena. Its products include ordinary Portland cement and clinker. The company's annual production capacity as of December 31, 2008 was 1.48 mn tons of clinker and 1.97 mn tons of cement. Qena markets its products in Egypt and several overseas markets.

Recent Developments

- At the end of 2009, Misr Cement announced a ready-mix joint venture with ASEC Cement. Misr provided 45% of capital for the firm while ASEC provided the remaining 55%.
- Misr Cement has agreed in principal to take a 10% stake worth USD 15 mn in Egypt's al-Arabiya al-Wataniya, as the new company plans to build a cement plant in southern Egypt. The new 1.6 mn tons per year grey cement plant is expected to cost an estimated USD 324 mn with 48% financed by capital, and 52% by bank loans.

Financial Analysis

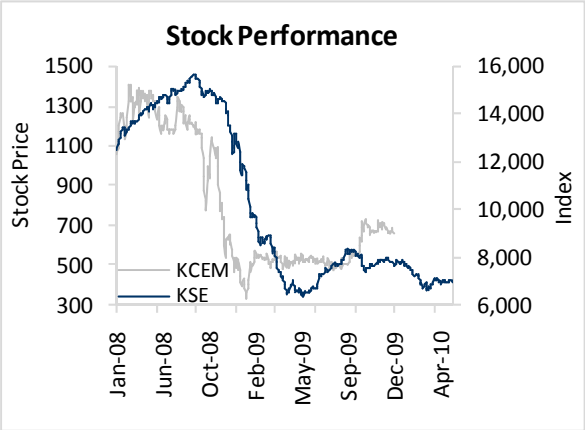
During 2009, Misr Cement reported a 9.2% increase in total revenues to EGP 844.60 mn from EGP 773.34 mn in 2008, mainly attributable to local sales volumes which grew 14.4% during the year. The Egyptian cement sectors' growth was driven by the acceleration in the Egyptian construction sector, with local cement demand growing by 25%. Also, the average selling price increased 14.6%, which spurred domestic sales by 31.2%. On the other hand, exports sales slumped more than 80% in 2009 following the Egyptian government's decision to ban cement exports beginning April 2009 until October 2010. The company's net profit was up 16.3% to EGP 352.26 mn from EGP 302.95 mn recorded in the previous year. Meanwhile, total assets stood at EGP 1.28 bn, up 12.3% YoY.

Recently, the company approved the participation in the formation of Arab National Cement Company with a USD 15 mn stake, representing 10% of the new company's capital. The company proposed cash dividends of EGP 10 per share, implying a dividend yield of 10.3%.

Production

As of 2008 (latest available data), Misr Cement Company's nominal capacity of cement and clinker stood at 1.97 mn tons and 1.48 mn tons, respectively. The actual production levels stood at 1.97 mn tons of cement and 1.78 mn tons of clinker.

7.1.3. Kuwait Cement Company



Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
KWD 431.2 mn	KWD 318.1 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	36.59%
Corporate	34.05%
Government	29.36%

Source: Bloomberg, Blominvest

Key Financials (KWD '000)	2009	2008
Total revenues	61,792	86,399
EBITDA	33,824	24,926
Net earnings	12,813	4,311
Free cash flow	16,569	16,451
Total Assets	249,059	239,384
Total Liabilities	111,920	106,044
Shareholders' Equity	137,139	133,339
Enterprise Value	345,324	302,208

Source: Bloomberg, Blominvest

Company Overview

Kuwait Cement Company KSC (KCC), an affiliate of Kuwait Investment Authority, is engaged in the production, supply, and transportation of cement, and in the investment and construction of cement manufacturing factories and laboratories. The company's manufacturing facility has a grinding capacity of over 2 mn tons of cement and 75,000 tons of white portland cement. The plant is also equipped with packing and loading facilities for a range of products. The product line includes Ordinary Portland Cement, sulphate-resistant Type V, Moderate sulphate-resistant Type II, White Portland, and Masonry Cement. KCC invests its surplus funds in financial and real estate portfolios managed by specialized firms, both locally and globally. The company has two wholly-owned subsidiaries - Shewikh Cement Co. (KSCC) and Amwaj International Real Estate Co. (KSC).

Recent developments

In early 2009, Kuwait Cement Company signed a deal worth KWD 15.5 mn with Pakistan-based Descon Engineering for the expansion of a cement factory in Kuwait. The company revealed that the work would double annual clinker production capacity at the Shuaiba plant (KCEM's plant) to 5 mn tons per year from 2.5 mn tons.

Financial Analysis

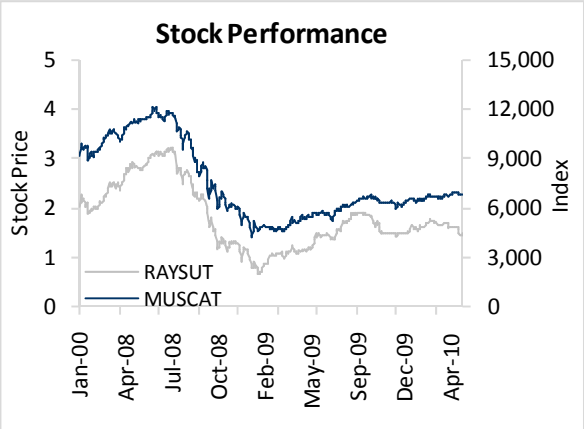
During 2009, Kuwait Cement Company's total revenues declined 28.5% to KWD 61.79 mn from KWD 86.40 mn in 2008. However, net earnings more than doubled to KWD 12.81 mn from KWD 4.31 mn during the same period. Furthermore, the Board of Directors recommended a cash dividend of 10% and a 5% bonus issue.

Looking ahead, Kuwait Cement Company expects to complete the construction of its second clinker furnace in the first half of 2011. The management expects this new furnace to boost the company's annual clinker production capacity by 2.5 mn tons, sufficing to meet its entire clinker requirement, which is foreseen at around 5 mn tons a year.

Production:

As of 2008 (latest available data), Kuwait Cement Company's nominal capacity of cement stood at 2.18 mn tonnes. Meanwhile, the company's actual production levels stood at 1.32 mn tonnes of cement.

7.1.4. Raysut Cement Company



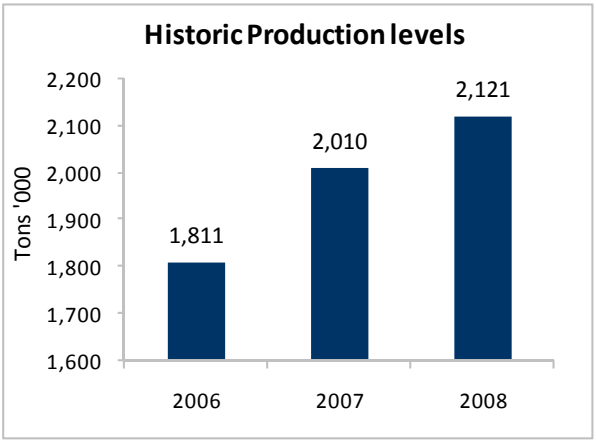
Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
OMN 255.2 mn	OMN 375.2 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	37.62%
Corporate	22.37%
Government	21.71%
Private	18.3%

Source: Bloomberg, Blominvest



Source: Company Report, Blominvest

Key Financials (OMR '000)	2009	2008
Total revenues	89,346	89,081
EBITDA	32,215	35,503
Net earnings	28,683	27,108
Free cash flow	23,693	20,072
Total Assets	123,337	117,644
Total Liabilities	16,601	19,590
Shareholders' Equity	106,736	98,054
Enterprise Value	289,542	206,149

Source: Bloomberg, Blominvest

Company Overview

Raysut Cement Company SAOG is an Oman-based public shareholding company engaged in the manufacturing and sales of Portland cement, sulfur resistant cement, oil well class 'G' cement, and Pozzolana well cement. The company's plant is equipped with containerized and general cargo shipment facilities. It has four production lines with an annual capacity of 3 mn tons of clinker and cement. Raysut's wholly-owned subsidiary Raysea Navigation SA operates five special bulk cement transport ships.

Recent Developments

Raysut Cement and Oman Cement plan to announce a new project with a production capacity of 2.5 mn tons. The construction of the new unit is scheduled for completion in mid-2010. In 2008, the companies accounted for around 3.5 mn tons of the total domestic cement demand of 4.5 mn tons.

Raysut is also exploring the prospect of substantial capacity expansion through overseas acquisitions, and through the addition of facilities at its existing set-up. Additionally, it aims to achieve full utilization of its clinker capacity and strengthen its traditional export markets in East Africa, Somalia, Zanzibar, and the Gulf states.

Financial Analysis

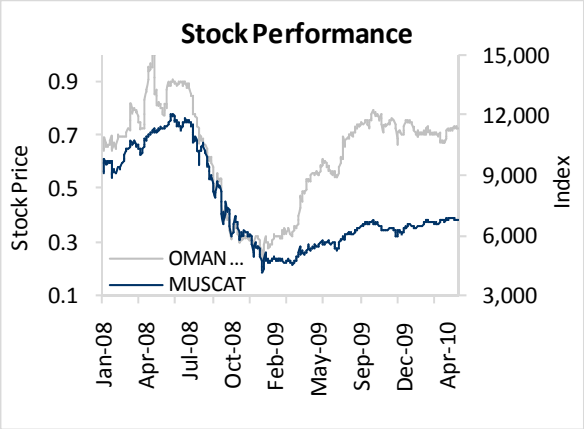
During 2009, Raysut Cement Company's total revenues increased marginally to OMR 89.35 mn from OMR 89.08 mn in 2008. The company sold 2.92 mn tons of cement and clinker in place of 2.77 mn tons in 2008. The company's free cash flow increased 18.0% to OMR 23.69 mn from OMR 20.07 mn recorded earlier. Meanwhile, net earnings increased 5.8% to OMR 28.68 mn from OMR 27.11 mn.

The domestic demand for cement is expected to decline marginally during 2010. Also, the local market may witness additional competition given the cheaper cement imports and a new cement plant being set up in the country.

Production

The rehabilitation of cement grinding plants and related long delivery time for the required parts to be replaced have resulted in decrease in production of cement to 1.66 mn tons in 2009 from 2.12 mn tons in 2008. On the other hand, clinker production remained steady with 2.043 mn tons in 2009, as against the previous year's production of 2.045 mn tons. To satiate domestic demand, the company imported cement and sold 1.13 mn tons during 2009 in place of 0.575 mn tons in the previous year.

7.1.5. Oman Cement Company



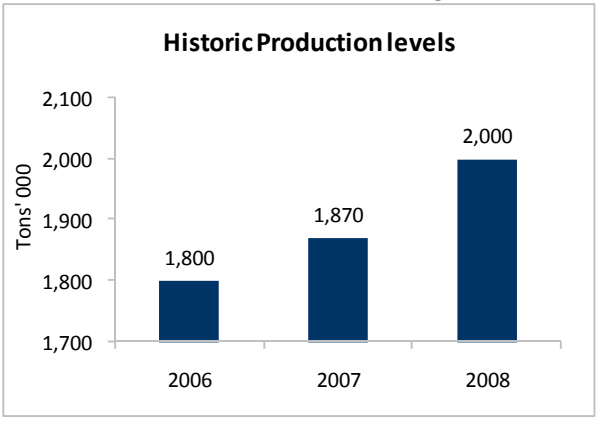
Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
OMN 223.0 mn	OMN 251.8 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	20.64%
Corporate	22.67%
Government	56.69%

Source: Bloomberg, Blominvest



Source: Company Report, Blominvest

Key Financials (OMR '000)	2009	2008
Total revenues	68,284	63,523
EBITDA	26,962	14,922
Net earnings	24,232	12,541
Free cash flow	(2932)	(16,270)
Total Assets	153,480	132,987
Total Liabilities	17,543	15,056
Shareholders' Equity	135,938	117,931
Enterprise Value	245,153	95,261

Source: Bloomberg, Blominvest

Company Overview

Oman Cement Company SAOG (OCC) is engaged in the manufacturing and sales of cement and related products. The company's products include ordinary sulfate-resistant cement, ordinary Portland cement, moderate sulfate-resistant cement, and oil well cement. OCC is listed on the Muscat Securities Market and the Bahrain Stock Exchange.

Recent Developments

- Oman Cement and Raysut Cement plan to announce a new project with a production capacity of 2.5 mn tons. Construction is expected to be to complete by mid-2010, which will help increase the domestic production capacity. Both companies have undergone major expansions in recent years. During 2008, the two companies accounted for around 3.5 mn tons of the total domestic cement demand of 4.5 mn tons.
- Oman Cement is seeking to ramp up clinker capacity from 4,000 tons per day (TPD) to 8,000 TPD for which it has decided to set up a new clinker plant. The new plant which is being built by China National Building Materials Equipment Corporation (CNBMEC), at a cost of USD 162 mn, became operational in the first quarter of 2010. The cost of the plant was financed through a OMR 20 mn loan from BankSohar and company's resources.

Financial Analysis

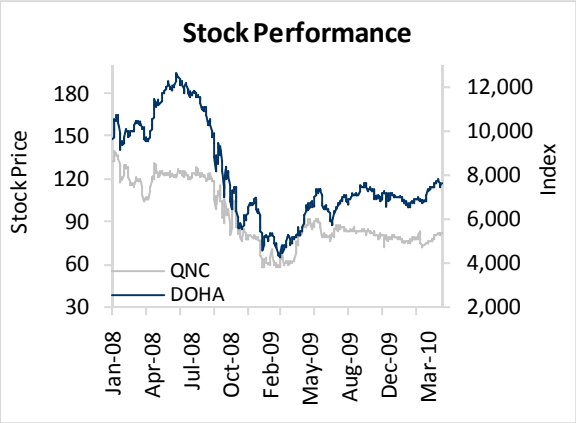
During 2009, Oman Cement Company recorded an increase of 7.5% in total revenues to OMR 68.28 mn from OMR 63.52 mn in 2008, due to increased sales volumes and higher average selling price. Total sales of the company stood at 2.27 mn metric tons during FY09 compared to 2.15 mn metric tons last year. Supported by higher margins and income from investments, the company's net earnings in 2009 soared 93.2% to OMR 24.23 mn from OMR 12.54 mn recorded in 2008. Free cash flow narrowed to a negative OMR 2.93 mn from a negative OMR 16.27 mn in 2008. Total assets increased 15.4% to OMR 153.48 mn from the 2008 figure of OMR 132.99 mn.

Looking ahead, the domestic demand for cement is expected to decline marginally during 2010. Also, the local market may experience additional competition given the cheaper cement imports, and a new cement plant being setup in the country leading to capacity augmentation.

Production

At the end of 2009, Oman Cement Company's nominal capacity of cement and clinker stood at 2.50 mn tons and 1.20 mn tons, respectively. The company's actual production stood at 2.075 mn metric tons of cement, up 3% over 2008. Its clinker production stood at 1.16 mn metric tons representing a capacity utilization of 96.8%. The firm imported 656, 887 tons of clinker as against 922,343 tons, a drop of 28.8%.

7.1.6. Qatar National Cement Company



Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
QAR 3,704.9 mn	QAR 3,736.1 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	55.7%
Private	1.3%
Government	43%

Source: Bloomberg, Blominvest

Key Financials (QAR '000)	2009	2008
Total revenues	1,519,125	1,412,993
EBITDA	420,084	329,089
Net earnings	417,036	413,645
Free cash flow	503,358	(629,180)
Total Assets	2,526,160	2,853,137
Total Liabilities	603,215	1,210,610
Shareholders' Equity	1,922,945	1,642,527
Enterprise Value	3,952,643	4,430,037

Source: Bloomberg, Blominvest

Company Overview

Qatar National Cement Company QSC (QNCC) is a public shareholding company, primarily engaged in the production and sales of ordinary cement, washed sand, and lime. It manufactures and distributes Ordinary Portland cement (OPC), sulfate-resistant Portland cement (SRC), and hydrated and calcined lime. The manufacturing facility is equipped with a testing laboratory for raw materials, a water desalination plant to supply water for the cement plant, and a residential and employee housing compound.

The company also owns a fleet of tankers for the delivery and distribution of its products. Since inception, Qatar National Cement enjoyed a monopoly status, and currently controls almost 80- 85% of the domestic cement market.

Recent Developments

- QNCC has recently announced the completion of its fourth cement plant with a production capacity of 5,000 tons of clinker and 5,500 tons of cement per day. The completion of the plant raised QNCC's clinker production to 12,500 tons and cement production to 15,500 tons per day. Through this capacity expansion, the company expects to meet an anticipated increase in demand.
- Recently, the company announced a joint venture paper packaging unit in partnership with Shuaiba Company of Kuwait.

Financial Analysis

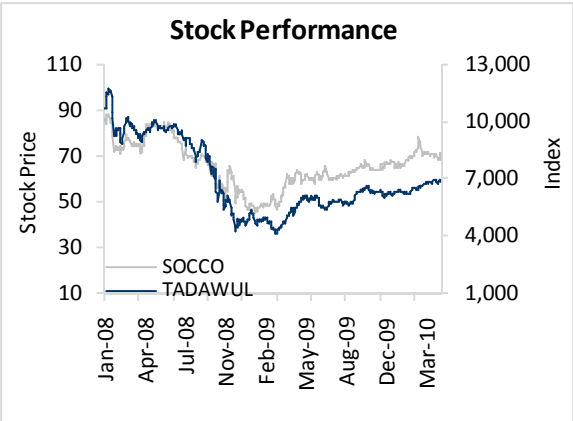
Qatar National Cement reported a 7.5% increase in 2009 total revenues to QAR 1.52 bn from QAR 1.41 bn during 2008. Net earnings were up marginally to QAR 417.04 mn from QAR 413.65 mn. During 2009, the company's free cash flow turned positive with a balance of QAR 503.36 mn, as opposed to the negative balance of QAR 629.18 mn in 2008. Meanwhile, the company recommended a cash dividend of 60% for the year.

Sales of all types of cement during 2009 increased to 5.2 mn tons, up 8% from 2008. Meanwhile, washed sand maintained a flat growth at 6.6 mn tons, all types of lime declined 14% to 20,700 tons. Hence, the total sales value rose about 8% to QAR 1.5 bn in 2009.

Production

During 2009, the company's production in both categories of cement – OPC & SRC – increased to 4.1 mn tons compared to 3.8 mn tons during 2008. The production of washed sand increased to 7.5 mn tons compared to the previous years' figure of 6.5 mn tons. Lime production in both categories – Calcined & Hydrated – amounted to 22,200 tons compared to 25,300 tons recorded during the previous year.

7.1.7. Southern Province Cement Company



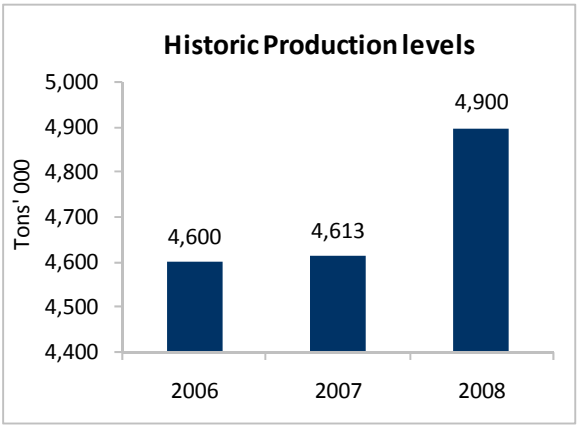
Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
SAR 9,100 mn	SAR 9,030 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	49%
Government	51%

Source: Bloomberg, Blominvest



Source: Company Report, Blominvest

Key Financials (SAR '000)	2009	2008
Total revenues	1,318,361	1,297,901
EBITDA	85,361	863,845
Net earnings	733,592	791,070
Free cash flow	679,453	691,686
Total Assets	2,801,769	2,748,730
Total Liabilities	340,129	389,102
Shareholders' Equity	2,461,639	2,359,628
Enterprise Value	8,773,371	5,948,818

Source: Bloomberg, Blominvest

Company Overview

Southern Province Cement Company is a Saudi Arabia-based public shareholding company engaged in the manufacturing and marketing of cement and related products. The company operates three factories with annual production capacity of 5.57 mn tons of clinker and 5.2 mn tons of cement as of December 31, 2008.

Recent Developments

Southern Province Cement Co. signed a memorandum of understanding with China's Sinoma International Engineering Co. for the addition of a 5,000 tons per day clinker line at its third plant. The new cement plant is estimated to cost USD 200 mn and would use low grade raw materials, a beneficiation system and a bypass system.

Financial Analysis

During 2009, Southern Province Cement reported a 1.6% increase in total revenues to SAR 1.32 bn from SAR 1.30 bn in 2008. The company's domestic sales grew at a CAGR of 6.4% over 2006-2009 to reach 5.1 mn tons in 2009. Notwithstanding higher sales and lower expenses during the year, the company's net profit was down 7.3% to SAR 733.59 mn from SAR 791.07 mn as revenues from investments dipped substantially. Free cash flow declined 1.8% to SAR 679.45 mn from SAR 691.69 mn during 2008. The company's dividend yield stood at 7% in 2009, continuing to maintain an average payout of almost 85% during the 2004-2009 period.

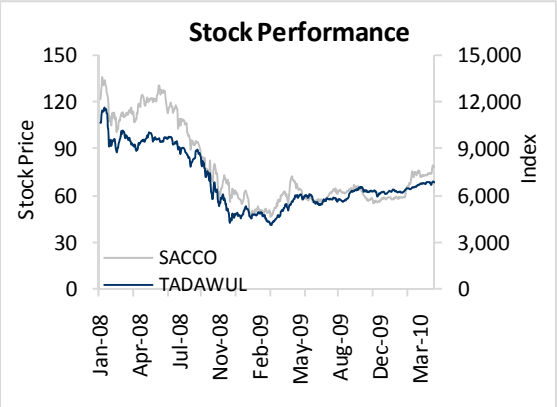
Affected by the entry of new players - Western Cement, Madina Cement, Najran Cement and Riyadh Cement - in the Saudi cement sector, the company's market share has declined to 13.6% in 2009 from 15.2% in 2007.

As per NCB Capital, Saudi cement sales are expected to grow 19% to 44 mn tons during 2010, as the Kingdom is planning to undertake multiple big-ticket infrastructure projects. However, prices are likely to drop, dragging margins down, as new entrants and a partial export ban saturate the market further. Production capacity is expected to increase to 51 mn tons by the end of 2010 as three new cement companies are expected to commence operations.

Production

The company's actual production levels stood at 5.2 mn tons of cement and 5.57 mn tons of clinker. The company recorded a CAGR of 3.8% in its cement production over the 2006-2009 period and a 10.4% CAGR over the same period in its clinker production.

7.1.8. Saudi Cement Company



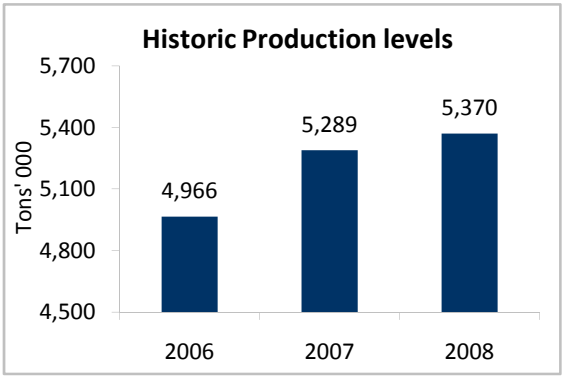
Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
SAR 6,686.1 mn	SAR 6,451.5 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	78.6%
Private	7.9%
Government	13.5%

Source: Bloomberg, Blominvest



Source: Company Report, Blominvest

Key Financials (SAR '000)	2009	2008
Total revenues	1,345,875	1,259,612
EBITDA	819,561	712,881
Net earnings	588,347	621,322
Free cash flow	190,257	(289,883)
Total Assets	4,955,220	4,539,671
Total Liabilities	1,878,369	1,691,967
Shareholders' Equity	3,076,851	2,847,704
Enterprise Value	7,187,376	6,939,502

Source: Bloomberg, Blominvest

Company Overview

Saudi Cement Company (SCC) is a joint stock company engaged in the manufacture of cement and related products, as well as investing in cement-related sectors. The company's products include ordinary Portland cement, sulphate-resistant cement, and oil-well cement in addition to other types of cement distributed domestically. Export markets comprise the Gulf countries such as Bahrain, Kuwait, and Qatar, and other countries in Europe, Africa, and North America. The company owns and operates an export terminal at King Abdulaziz Port in Dammam.

Recent Developments

On February 25, 2010, Saudi Cement Company announced plans to raise its share capital by 50% to SAR 1.53 bn. The offer of one free share for every two shares held will increase the total number of shares to 153 mn from 102 mn.

Financial Analysis

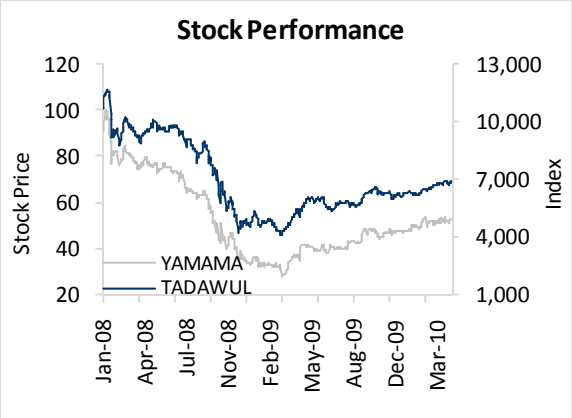
For 2009, the company posted total revenues of SAR 1.35 bn compared to SAR 1.26 bn reported in 2008, attributable to higher domestic sales volumes. Sales volumes increased 6.4% to 5.59 mn tons from 5.25 mn tons sold in 2008. Domestic dispatches increased by 14.4% YoY to 4.8 mn tons in 2009 reflecting strong demand in the local market. Free cash flows stood at a positive SAR 190.26 mn as against a negative 289.88 mn last year. However, net earnings declined 5.3% to SAR 588.35 mn from SAR 621.32 mn, due to higher costs and loan expenses, along with a decline in return on investments. Meanwhile, total assets were up 5.3% to SAR 4.96 bn from SAR 4.54 bn. For the year 2009, the company declared a dividend of SAR 3.50 per share.

As per NCB Capital, Saudi cement sales are expected to grow 19% to 44 mn tons during 2010, as the Kingdom is planning to undertake multiple big-ticket infrastructure projects. However, prices are likely to drop, dragging margins down, as new entrants and a partial export ban saturate the market further. Production capacity is expected to increase to 51 mn tons by the end of 2010 as three new cement companies are expected to commence operations.

Production

As of 2008, Saudi Cement Company's nominal capacity of cement and clinker stood at 11.50 mn tons and 11.30 mn tons, respectively. Meanwhile, the company's actual production levels stood at 5.48 mn tons of cement and 6.52 mn tons of clinker.

7.1.9. Yamama Cement Company



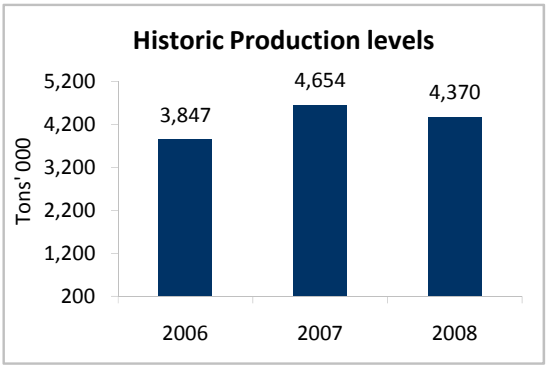
Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap (Oct 5,2009)
SAR 6,918.8 mn	SAR 6,210 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	78.2%
Private	9.7%
Government	12.1%

Source: Bloomberg, Blominvest



Source: Company Report, Blominvest

Key Financials (SAR '000)	2009	2008
Total revenues	1,163,006	1,122,933
EBITDA	765,673	791,574
Net earnings	561,747	610,885
Free cash flow	667,085	733,592
Total Assets	3,694,246	3,589,125
Total Liabilities	639,082	747,731
Shareholders' Equity	3,055,164	2,841,394
Enterprise Value	6,108,612	4,496,054

Source: Bloomberg, Blominvest

Company Overview

Yamama Saudi Cement Company Ltd. is a shareholding company engaged in the manufacture and marketing of cement and related products. The products include ordinary Portland cement and sulfate-resistant cement. The company has minor stakes in Industrialization & Energy Services Company, Kayan Petrochemicals, Sahara Petrochemicals, Kuwait-Sudan Holding Company, Arab Shield Cooperative Insurance Company, and Hail Cement Company.

Recent Developments

Yamama Cement signed a memorandum of understanding with Yemeni Saudi Cement Company -with a capital base of USD 75 mn- for acquiring a 20% stake in the latter. The final agreement would be signed after the company's shareholders approve the transaction. As per latest available information, Yemeni Saudi expects to start trial operations at its cement plant with a designed annual production capacity of 1.4 mn tons in early 2010.

Financial Analysis

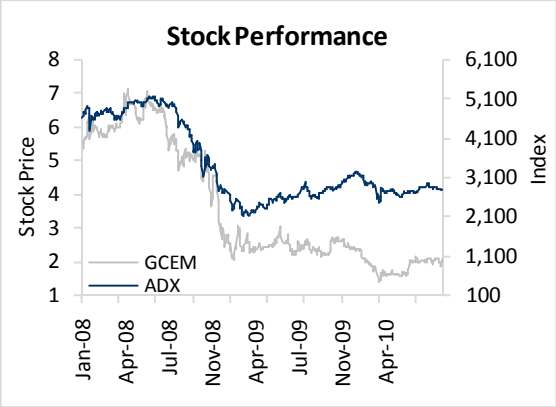
During 2009, Yamama Cement Company's total revenues increased 3.6% to SAR 1.16 bn from SAR 1.12 bn in 2008, due to the company's willingness to sell outside its traditional central region because of an oversupply in the local market. Despite higher sales, total earnings declined 8.0% to SAR 561.75 mn from SAR 610.89 mn. The major reason for the decline was excess supply as cement companies in the region continued to expand capacity in a market with an export ban. Furthermore, subsequent price falls led to lower profits. Free cash flow dipped 9.1% to SAR 667.09 mn from SAR 733.59 mn in 2008.

As per NCB capital, Saudi cement sales are expected to grow 19% to 44 mn tons during 2010, as the Kingdom is planning to undertake multiple big-ticket infrastructure projects. However, prices are likely to drop, dragging margins down, as new entrants and a partial export ban saturate the market further. Production capacity is expected to increase to 51 mn tons by the end of 2010 as three new cement companies are expected to commence operations.

Production

As of 2008, Yamama Cement Company's nominal capacity of cement and clinker stood at 6.00 mn tons and 5.75 mn tons respectively. Meanwhile, the company's actual production levels stood at 4.74 mn tons of cement and 4.70 mn tons of clinker.

7.1.10. Gulf Cement Company



Source: Bloomberg, Blominvest

Market cap (Oct 5,2010)	Market Cap(Oct 5,2009)
AED 1,338.4 mn	AED 1,970.6 mn

Source: Bloomberg, Blominvest

Major Shareholders	Holding (%)
Public	31.57%
Corporate	53.5%
Government	7.26%
Private	7.67%

Source: Bloomberg, Blominvest

Key Financials (AED '000)	2009	2008
Total revenues	743,156	1,078,140
EBITDA	n/a	373,602
Net earnings	36,165	2,119
Free cash flow	n/a	203,714
Total Assets	1,649,954	1,810,626
Total Liabilities	172,892	246,564
Shareholders' Equity	1,477,062	1,564,062
Enterprise Value	836,419	1,457,687

Source: Bloomberg, Blominvest

Company Overview

Gulf Cement Company PSC (GCC), based in the United Arab Emirates, is a public shareholding company engaged in the manufacturing and marketing of cement and related products. Its products include ordinary Portland cement, sulfate-resistant Portland cement, moderate sulfate-resistant Portland cement, ground-granulated furnace slag, and Portland blast furnace cement. GCC sells its production domestically as well as exports to 11 countries.

Financial Analysis

During 2009, total revenues plunged 31.1% to AED 743.16 mn from AED 1.08 bn in 2008 mainly due to a drop in average realised prices across the sector. The top-line was also affected by lower sales volume dented by lower regional cement demand and a month-long maintenance shutdown in 1Q09. Domestic revenues, contributing 95.1% to overall sales, fell 28.4% to AED 707 mn and export revenues dropped 59.9% to AED 37 mn. However, net earnings jumped to AED 36.17 mn from AED 2.12 mn as the company's cost of sales, operating costs and investment loss declined. Also, net earnings growth is attributed to the more than three times increase in interest income over the previous year. Also, the company reported an investment loss of AED 112 mn, 63.7% lower than the losses reported for the previous year. The company's total assets declined 8.9% to AED 1.65 bn from AED 1.81 bn.

The market is beginning to pick up in terms of construction of projects but pricing remains under pressure with the situation expected to change in the medium term, according to industry experts. The UAE cement industry is reporting weak sales with ex-work prices ranging between AED 180 and AED 220 a ton and delivered prices from AED 200 to AED 210 per ton, despite the January decision by the UAE Cement Manufacturers Association (CMA) move to fix prices at around AED 240 in Dubai. Cement manufacturers in the UAE are expected to concentrate on exports in the coming period to compensate for the fall in domestic demand.

Production

The company's actual production levels stood at 2.18 mn tons of cement and 2.55 mn tons of clinker. Looking ahead, Gulf Cement Company's production is expected to reach 5,000 tons of cement per day in 2Q10 and further 7,000 tons per day in early 2011 with the launch of a second production line. The company officials revealed that the country's demand for cement currently stands at 15,000 to 17,000 tons per day and Gulf Cement is pooling all efforts to cover 50% to 60% of the market.

7.2. Major MENA Cement Players

We profile the largest—based on respective market capitalizations—cement companies in the MENA region. The table shows only listed companies in the region, for comparing the financial performance and metrics.

	Mkt. Cap*	P/E	EV/ EBITDA	P/S	P/CF	OM	ROA	ROE	D/E**	EPS
EGYPT										
Sinai Cement Company	586.08	5.24	4.30	2.32	5.28	44.84	33.52	36.31	(15.70)	9.59
Misr Cement Company	529.7	9.25	5.80	3.86	7.73	48.55	27.51	34.65	(62.99)	11.79
Suez Cement	1,328.2	5.46	2.99	1.11	4.14	29.16	13.51	18.63	(8.24)	7.15
National Cement Company	334.1	8.43	4.86	1.68	7.96	27.40	19.67	41.54	(48.06)	2.61
Tourah Portland	371.9	6.52	3.95	1.52	5.73	27.81	26.18	35.92	(54.37)	4.78
JORDAN										
Jordan Cement Company	386.5	8.60	3.87	1.38	5.19	26.34	15.42	24.19	(26.63)	0.76
SAUDI ARABIA										
Yamama Cement	1,826.9	12.74	9.76	6.15	10.62	49.86	15.21	18.39	12.29	4.16
Southern Province Cement	2,435.9	13.36	11.34	7.43	12.59	55.58	26.18	29.80	(2.27)	5.24
Saudi Cement	1,782.9	13.79	11.70	5.97	19.01	44.43	11.81	18.96	47.62	5.71
Yanbu Cement	1,133.9	9.69	8.04	4.95	7.71	51.70	17.03	19.95	1.42	4.59
Tabuk Cement	433.2	13.75	9.86	6.24	9.42	44.41	9.47	11.52	(1.01)	1.35
Arabian Cement	761.5	18.97	10.09	4.43	7.29	46.26	4.49	7.74	57.77	2.15
Qassim Cement	1,469.9	10.69	10.52	6.52	10.00	54.20	26.82	32.91	9.99	6.69
Eastern Province Cement	1,022.8	11.16	8.99	5.03	8.49	47.26	15.14	17.29	2.73	4.08
OMAN										
Raysut Cement Company	656.6	10.49	10.29	3.37	12.07	31.30	23.26	26.87	(12.30)	0.143
Oman Cement Company	584.4	9.91	9.00	3.52	7.36	34.34	15.79	17.83	(0.25)	0.073
QATAR										
Qatar National Cement Company	1,028.7	8.82	8.58	2.42	6.21	24.57	16.51	21.69	22.63	9.34
KUWAIT										
Kuwait Cement Company	1,501.9	31.76	24.23	6.58	13.99	28.05	5.14	9.34	31.56	0.023
Kuwait Portland Cement	437.9	10.32	9.42	2.03	15.79	18.28	19.50	21.96	(18.42)	0.147
UAE										
Union Cement	273.4	19.52	6.40	1.58	5.87	14.41	3.84	4.03	(3.38)	0.08
Sharjah Cement	175.8	6.93	5.82	0.77	2.13	12.12	5.42	7.11	14.87	0.20
National Cement	334.1	11.54	14.37	3.64	16.12	19.53	6.59	7.28	(5.72)	0.37
RAK Cement	331.1	6.13	4.24	1.55	3.26	21.82	8.29	8.77	(10.09)	0.15
Gulf Cement Company	364.4	42.23	6.51	2.06	4.94	21.04	2.19	2.45	(7.98)	0.04

* In USD mn, as of Oct 5, 2010 (all data for 2009 if not explicitly mentioned)

** D/E : Net Debt-to-Equity ratio

Source: Bloomberg, Blominvest

7.3. Major Cement Projects in the MENA

Major Cement Projects in the MENA Region

Country	Project	Status	Phase	Value (USD mn)
Bahrain	Falcon Cement Plant - Phase 1	Completed	N/A	50
Egypt	Al Nahda Company for Industries - Cement Plant	Ongoing	Construction - Awarded	350
	Arabian Cement Company - Cement Mill and Packing Plant	Ongoing	Supply & Installation - Awarded	32
	Arabian Cement Company - Cement Plant Expansion	Ongoing	Construction - Execution	240
	El Sewedy Cement - Cement Plant	Ongoing	Construction - Execution	95
	North Sinai Cement - Cement Plant	Cancelled	Construction - Awarded	266
	South Valley Cement - South Valley Cement Plant	Ongoing	Construction - Execution	183
	Suez Lime Company - Lime Plant	Ongoing	N/A	-
	Wadi El Nile Cement Company - Cement Plant	Ongoing	Construction - Execution	-
Kuwait	Kuwait Cement Company - Cement Plant Expansion	Ongoing	Construction - Execution	119
Oman	Al Madina Cement Company - Cement Plant	Ongoing	N/A	-
Qatar	Gulf Cement Company - Gulf Cement Factory	Ongoing	Commissioning	375
	Qasco/GCC - Lime Factory	On Hold	Study - Execution	-
Saudi Arabia	ADC - Al Ahsa Cement Plant	Delayed	Planning	320
	Al Safwa - Jeddah Cement Plant	Ongoing	Commissioning	300
	Al Watan Cement Company - Jalajil Cement Plant	Cancelled	N/A	300
	Arabian Cement Company/Italcementi - Cement Plant	Delayed	Study	600
	Eastern Province Cement Company - Cement Plant Expansion	Ongoing	Supply & Installation - Bid Evaluation	-
	NRC - Arar Cement Plant	Completed	N/A	320
	Najran Cement Company - Cement Plant	Completed	N/A	400
	Riyadh Cement Company - Cement Plant Expansion	Ongoing	Construction - Execution	222
	Southern Province Cement Company - Cement Plant Expansion	Ongoing	Construction - Awarded	147
	Yanbu Cement - Clinker Plant	Ongoing	Construction - Execution	453
UAE	Al Bana Cement Company - Cement Factory	Ongoing	Construction - Execution	200
	Al Qudra Holding/Nippon Oil - Cement Sulphate Factory	Ongoing	Study	-
	Arkan/CPC - Six Building Materials Manufacturing Plants	Cancelled	N/A	204
	Emirates Cement Company - Fujairah Cement Plant	Completed	N/A	360
	Emirates Cement Factory - Al Ain Cement Plant	Ongoing	Construction - Execution	350
	JK Cement - Fujairah Cement Factory	Delayed	Construction - Tendering & Bidding	400
	Jebel Ali Cement Factory - Cement and Clinker Plant	On Hold	Planning	193
	Nael Cement Products - Cement Plant - Phase 2	Ongoing	Construction - Execution	-
	Sharaf Group - Habbab Cement Factory	On Hold	PMC - Selected	272
	Star Cement - Ras Al Khaimah Cement Plant	Completed	N/A	200

N/A: Not Available

Source: Various News Agencies, Blominvest

7.4. Major Ongoing MENA Construction Projects

We profile the largest—based on contract value—ongoing construction projects in the MENA region which would ultimately lead to robust growth in the cement consumption of the region.

Country	Project Name	Value (USD mn)
Bahrain	Albilad Real Estate Investment Company - Water Garden City	9,750
	Durrat Al Bahrain	6,000
	Bahrain Ministry of Works - North Bahrain Town	4,500
	Diar Al Muharraq Company - Diar Al Muharraq	3,200
	Bahrain Bay Development	2,500
	GBCORP Bahrain - Marsa Al Seef	2,500
Egypt	International Real Estate Projects Group - Dream Farms	26,200
	Talaat Moustafa Group (TMG) - Madinaty	14,000
	Barwa Real Estate Company - Barwa New Cairo	9,000
	Al Futtaim - Cairo Festival City	9,000
	Damac Properties - Hyde Park	7,000
	SODIC - Egypt Westown	2,400
Jordan	Al Maabar - Marsa Zayed	10,000
Kuwait	Kuwait PAHW - Sabah Al Ahmad Future City	27,000
	Kuwait MPW - Bubiyan Island	6,000
	Kuwait University - Kuwait University City	3,500
Oman	Oman Ministry of Finance - Duqm New Downtown	20,000
	Blue City Company 1 - Al Madina A'Zarqa	20,000
	DSME/Omran - Frontier Town	20,000
	The Wave Muscat - Infrastructure	4,000
	Dhofar Tourism Company - Mirbat Beach Development	2,600
	Blue City Company 1 - Al Madina A'Zarqa - Phase 1	2,200
	SIDC - Sohar Special Economic Zone	2,000
Qatar	Qatar Railways Development Company - Qatar Rail Network Program	22,790
	UDC - The Pearl Qatar	14,000
	Lusail Real Estate Development Company - Lusail Development	5,500
	DOHALAND - Musheireb	5,500
	Arcapita/Al Imtiaz - Sidra Development	3,500
	Al Waab City	3,200
	Abu Dhabi Investment House - Qatar Entertainment City	3,000
	Qatar Railways Development Company - Doha Metro Network	3,000
	Gulf Finance House - Energy City Qatar - Commercial Hub	2,600
	Qatar Foundation - Sidra Medical and Research Center	2,300
Saudi Arabia	SAGIA - King Abdullah Economic City (KAEC)	50,000
	Modon - Sudair Industrial City	40,000
	SAGIA - Jazan Economic City	30,000
	Kingdom Holding Company - Kingdom City	27,000
	SAGIA - Ras Al Zour Resource City	25,000
	Modon - Jazan Industrial City	17,000
	Kingdom Holding Company - Kingdom Tower	13,600
	Limitless - Al Wasl Community	12,000
	Emaar Middle East - Jeddah Hills	11,200
	Prince Abdulaziz Bin Mousaed Economic City (PABMEC)	8,000
	Jeddah Municipality - Jeddah Central District	8,000
	PPA - King Abdullah Financial District	7,800
	Al Shoula Group of Establishment - Rawabi Rumah	7,000
	Madina Knowledge Economic City	7,000

Source: Various News Agencies, Blominvest

Country	Project Name	Value (USD mn)
Saudi Arabia	SAGIA - King Abdullah Economic City (KAEC) - Phase 1 - Industrial Zone	6,000
	SMHE/SMF - Princess Nora University - Packages 1, 2, and 3	4,000
	Jeddah General Presidency of Youth Welfare - King Abdullah Sports City	4,000
	Saudi Ministry of Interior - Rehabilitation Centers Network	3,500
	JODC - Jabal Omar Development	3,300
	King Abdullah University of Science and Technology (KAUST)	3,000
	SAGIA - Tabuk Economic City	3,000
	Injaz Development Company - Al Marina	2,700
	Modon - Sudair Industrial City - Phase 1	2,500
	Saudi Arabia Ministry of Pilgrimage - Prophet's Mosque Expansion	2,500
	King Saud University - Female University Campus	2,270
	Dar Al Arkan - Shams Al Arous	2,000
	Royal Protocol - Jeddah Convention Center	2,000
UAE	Meraas Development - Jumeirah Gardens City	95,000
	Dubailand - Bawadi	54,500
	ALDAR Properties - Yas Island Development	40,000
	Abu Dhabi Urban Planning Council - Capital District	40,000
	TDIC - Saadiyat Island Development	27,248
	Abu Dhabi Future Energy Company - Masdar Carbon Free City	22,000
	Sama Dubai - The Lagoons	21,000
	Bawadi - Asmaran Development	16,400
	ALDAR Properties - Al Raha Beach	15,000
	Al Zorah Development Company - Al Zorah Development	14,000
	Dubai Properties - Culture Village	13,600
	Nakheel - Mina Rashid	12,000
	Bunya for Projects - Reem Island	10,000
	RAKIA - RAK Gateway City	10,000
	Reem Developers - Najmat Abu Dhabi	8,000
	Nakheel - Dubai Waterfront - Badrah Development	8,000
	Abu Dhabi Municipality - Mohammed Bin Zayed City	7,100
	Sorouh - Shams Abu Dhabi	6,850
	Emaar Properties - Dubai Marina	6,000
	Capitala - Arzanah	6,000
	Dubai Properties - Business Bay	5,500
	RAK Properties - Mina Al Arab	5,400
	Sama Dubai - Dubai Towers Dubai	5,400
	Ilyas and Mustafa Galadari Group - City of Arabia - Mall of Arabia	5,000
	Mizin - Liwan	5,000
	Al Hanoo Holding Company - Nujoom Islands	4,900
	Waha Land - AlMarkaz	4,400
	Dubai World Trade Centre - Dubai Trade Center District (DTCD)	4,300
	Rakeen - Dana Island	4,100
	R Holdings - Emirates City Ajman	4,100
	Mizin - Majan	4,100
	Burooj Properties - Sharjah Marina	4,000
	Dubailand - Dubai Sports City	4,000
	Legends Development Company - Dubailand - The Legends	3,800

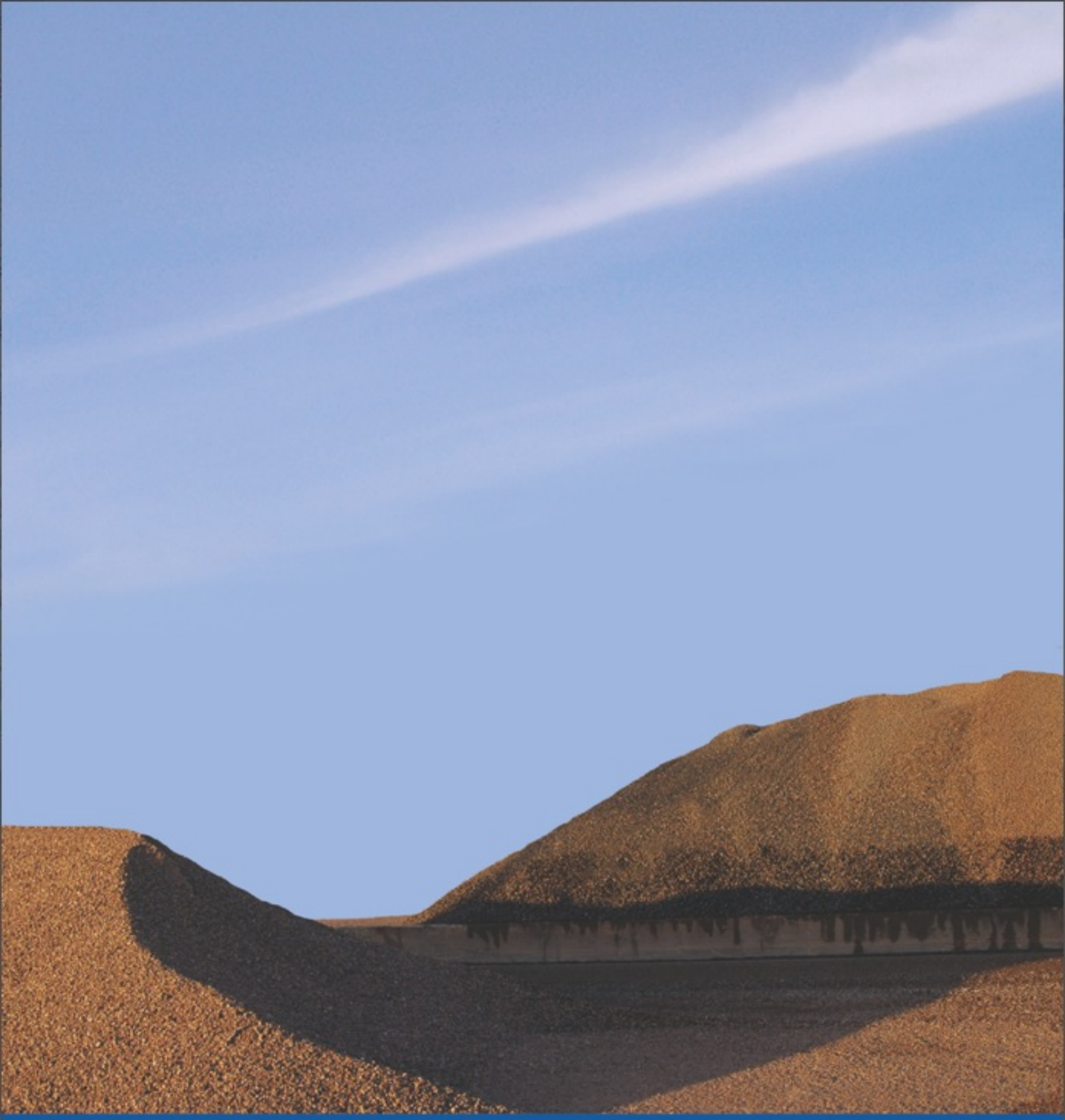
Source: Various News Agencies, Blominvest

Country	Project Name	Value (USD mn)
UAE	Nakheel - Dubai Waterfront	3,500
	Emaar Properties - Mushrif Heights	3,300
	Umm Al Quwain Marina	3,300
	ALDAR Properties - Motor World	3,000
	Al Murjan Real Estate - White Bay	3,000
	Mubadala - Sowwah Island (Phase 1)	3,000
	Sorouh - Shams Abu Dhabi - Gate District	3,000
	Mubadala - MGM Grand Abu Dhabi	3,000
	Aristocrate Holdings/Pearl Properties - The Palisades	2,700
	Chapal World - Emirates Lake Towers	2,700
	ALDAR Properties - Al Falah	2,560
	Abu Dhabi Center for Housing and Service Facilities Development - South of Shamkha - Infrastructure	2,400
	Dubai Pearl	2,300
	ADNEC - Capital Centre	2,200
	Al Mazaya Holding Company - The Villa	2,200
	Dubai World Central - Dubai Logistics City	2,200
	Dubai Racing Club - Meydan City - Horizons	2,100
	Sorouh - Lulu Island	2,000
	Presidential Affairs Department - Abu Dhabi Presidential Palace	2,000
	Ilyas and Mustafa Galadari Group - Dubailand - City of Arabia	2,000

Source: Various News Agencies, Blominvest

7.5. Acronyms

AUCBM	Arab Union for Cement and Building Materials	KPCC	Kuwait Portland Cement
BDI	Baltic Dry Index	MEED	Middle East Economic Digest
CCPC	Cement Consumption per Capita	NCB	National Commercial Bank
CNOOC	China National Offshore Oil Corporation	OPC	Ordinary Portland Cement
CNPC	China National Petroleum Corporation	PPA	Public Pension Authority
EPA	Environmental Protection Agency	SAGIA	Saudi Arabian General Investment Authority
GJ	Gigajoules	Sinopec	China Petroleum & Chemical Corporation
GOSI	General Organization for Social Insurance	USGS	US Geological Survey
ICF	Insulating Concrete Forms	WBCSD	World Business Council for Sustainable Development
ICR	International Cement Review		



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