

# THE LEBANON BRIEF

ISSUE 871

Week of 26 - 31 May , 2014



ECONOMIC RESEARCH DEPARTMENT  
Rashid Karame Street, Verdun Area  
P.O.Box 11-1540 Beirut, Lebanon  
T (01) 747802 F (+961) 1 737414  
[research@blominvestbank.com](mailto:research@blominvestbank.com)  
[www.blom.com.lb](http://www.blom.com.lb)

## TABLE OF CONTENTS

<b>FINANCIAL MARKETS</b>	<b>3</b>
Equity Market	3
Foreign Exchange Market	5
Money & Treasury Bills Market	5
Eurobond Market	6
<b>ECONOMIC AND FINANCIAL NEWS</b>	<b>7</b>
Lebanon's Trade deficit widens to \$5.97B by April	7
Number of Tourists Plummeted to 331,708 by April	8
Lebanese Gross Public Debt Surged to \$65.11B in March	8
Cleared Checks Value Reveals a 5.11% Yearly Growth by March	9
Value of Real Estate Sales Transactions Hits the \$2.05B by April	9
BMI: Reduced Telecom Tariffs a Small Step Forward	10
<b>CORPORATE DEVELOPMENTS</b>	<b>11</b>
Bank Audi S.A.E's Profit Declined to \$15.59M during Q1	11
RYMCO Hosts Ordinary General Assembly Meeting	11
<b>FOCUS IN BRIEF</b>	<b>12</b>
Lebanon's Cement Sector: a Progress to Continue	12

*This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.*

# FINANCIAL MARKETS

## Equity Market

### Stock Market

	30/05/2014	23/05/2014	% Change
BLOM Stock Index*	1,220.68	1,200.40	1.69%
Average Traded Volume	369,166	72,984	405.82%
Average Traded Value	1,925,231	1,379,513	39.56%

\*22 January 1996 = 1000



### Banking Sector

	Mkt	30/05/2014	23/05/2014	%Change
BLOM (GDR)	BSE	\$9.30	\$9.27	0.32%
BLOM Listed	BSE	\$8.90	\$8.77	1.48%
BLOM (GDR)	LSE	\$9.30	\$9.35	-0.53%
Audi (GDR)	BSE	\$6.56	\$6.40	2.50%
Audi Listed	BSE	\$6.23	\$6.09	2.30%
Audi (GDR)	LSE	\$6.60	\$6.40	3.05%
Byblos (C)	BSE	\$1.60	\$1.58	1.27%
Byblos (GDR)	LSE	\$73.00	\$73.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$2.00	\$2.00	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.82	\$1.82	0.00%

	Mkt	30/05/2014	23/05/2014	% Change
Banks' Preferred Shares Index *		104.32	104.41	-0.09%
Audi Pref. E	BSE	\$100.00	\$100.20	-0.20%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Audi Pref. G	BSE	\$100.00	\$100.00	0.00%
Audi Pref. H	BSE	\$100.10	\$100.10	0.00%
Byblos Preferred 08	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 09	BSE	\$100.10	\$100.80	-0.69%
Bank of Beirut Pref. E	BSE	\$25.60	\$25.60	0.00%
Bank of Beirut Pref. I	BSE	\$25.50	\$25.45	0.20%
Bank of Beirut Pref. H	BSE	\$25.50	\$25.50	0.00%
BLOM Preferred 2011	BSE	\$10.25	\$10.25	0.00%
BLC Pref C	BSE	\$100.50	\$100.50	0.00%
Bemo Preferred 2013	BSE	\$100.00	\$100.00	0.00%

\* 25 August 2006 = 100

Contrary to expectations, the first week of presidential vacuum showed positive performance on the Beirut Stock Exchange (BSE). Both real estate and financial stocks went up over the week despite investors' persisting concerns of the country's political deadlock. Accordingly, the BLOM Stock Index (BSI) rose by 1.69% from last week's level of 1,200.40 points to reach 1,220.68 points. The daily average volume traded this week reached 369,166 shares worth \$1.93M up from last week's level of 72,984 worth \$1.38M. As for the market capitalization, it widened by \$163.54M to settle at \$9.78B.

On a comparative scale, the BSI outperformed the Morgan Stanley emerging index (MSCI) that posted a weekly loss of 0.24% to 1,038.64 points. However, the Lebanese gauge was outpaced by the S&P AFE40 index and the S&P Pan Arab Composite LargeMidCap index. The former edged up by a weekly 4.06% to 73.27 points, while the latter added 2.41% over the week to 154.82 points.

Abu Dhabi, Dubai and Qatar led the Arab bourses this week with respective increases of 6.65%, 5.27% and 4.59%.

After ranking as a top performer for 2 consecutive weeks, Egypt stock market stood as the worst player revealing a weekly loss of 5.55%. The bourse was not impacted by the presidential elections that took place over the week but was hit by the government's decision to impose a 10% capital gains tax on stock market profits.

Kuwaiti and Tunisian indices also posted negative results with respective 0.76% and 0.63% weekly slips.

The banking sector maintained its dominance on the BSE this week grasping a 71.30% share of total trading activity. BLOM listed shares rose by 1.48% to \$8.90, while its GDR shares showed a 0.32% uptick to \$9.30. Audi listed and GDR shares also improved by weekly 2.50% and 2.30% to \$6.56 and \$6.23, respectively. Byblos common shares increased 1.27% to end the week at \$1.60.

## Real Estate

	Mkt	30/05/2014	23/05/2014	%Change
Solidere (A)	BSE	\$13.75	\$13.18	4.32%
Solidere (B)	BSE	\$13.50	\$13.13	2.82%
Solidere (GDR)	LSE	\$13.50	\$13.25	1.89%

The BLOM Preferred Shares Index (BPSI) shed by 0.09% this week to close at 104.32 points. Audi preferred shares class "E" and Byblos Preferred 09 slipped by 0.20% and 0.69% to reach \$100.00 and \$100.10, respectively. In contrast, Bank of Beirut preferred shares class "I" rose by a weekly 0.20% to reach \$25.50.

## Manufacturing Sector

	Mkt	30/05/2014	23/05/2014	%Change
HOLCIM Liban	BSE	\$14.80	\$14.80	0.00%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

On the London Stock Exchange (LSE), Solidere and Audi GDR shares grew by 1.89% and 3.05% to end the week at \$13.5 and \$6.60, respectively. Meanwhile, BLOM GDRs slipped by 0.53% to \$9.30.

Performance of the real estate stocks was noticeable over the week. In details, Solidere "A" shares edged up by 4.32% to \$13.75, while its "B" counterpart added 2.82% to \$13.50.

## Funds

	Mkt	30/05/2014	23/05/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,292.95	\$7,239.89	0.73%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,211.74	\$5,172.19	0.76%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,539.04	\$5,498.74	0.73%
BLOM Bond Fund	-----	\$9,578.13	\$9,578.13	0.00%

In conclusion, the BSI enhanced its performance compared to the previous weeks and became 6.14% in the green as for its year to date activity. The relative stability on the security front is weighing positively on the index and may continue to do so in the future.

## Retail Sector

	Mkt	30/05/2014	23/05/2014	% Change
RYMCO	BSE	\$3.50	\$3.50	0.00%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

## Tourism Sector

	Mkt	30/05/2014	23/05/2014	% Change
Casino Du Liban	OTC	\$425.00	\$425.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

## Foreign Exchange Market

### Lebanese Forex Market

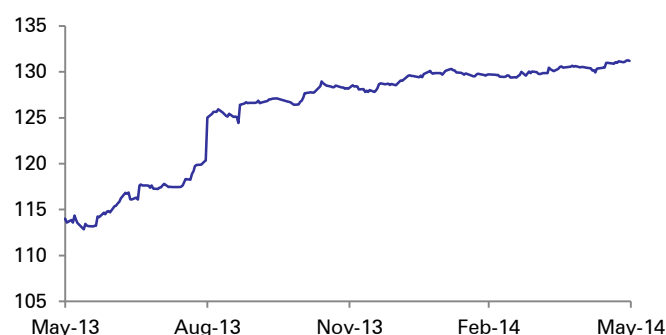
	30/05/2014	23/05/2014	% Change
Dollar / LP	1,509.00	1,512.00	-0.20%
Euro / LP	2,051.71	2,053.22	-0.07%
Swiss Franc / LP	1,680.60	1,681.16	-0.03%
Yen / LP	14.83	14.81	0.14%
Sterling / LP	2,522.35	2,540.14	-0.70%
NEER Index**	131.20	131.14	0.05%

\*Close of GMT 09:00+2

\*\*Nominal Effective Exchange Rate; Base Year Jan 2006=100

\*\*The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

### Nominal Effective Exchange Rate (NEER)



Demand for the dollar decreased over the past week, as shown by the Lebanese pound's peg against the dollar, going from \$/LP 1510-1514 with a mid-price of \$/LP 1512 to \$/LP 1507-1511 with a mid-price of \$/LP 1509. Foreign assets (excluding gold) at the Central Bank stood at \$36.12B by April compared to \$36.30B by March. Meanwhile, the dollarization rate of private sector deposits stood at 65.45% in March compared to 66.1% in December 2013.

Excessive low inflation in the Eurozone and the unexpected increase in Germany's unemployment rate caused a further depreciation of the euro against the dollar this week to €/\$.13610 from last week's close of €/\$.13620.

Stronger European and U.S bonds market, and a weakening in gold's physical demand by top buyer, China, deteriorated gold's price which reached \$1253.79/ounce, a 0.03% fall from its last week's price of \$1292.61/ounce.

By Friday May 30 2014, 12:30 pm Beirut time, the dollar-pegged LP, it appreciated to €/LP 2,051.71 compared to last week's €/LP 2,053.22. The Nominal effective exchange Rate (NEER) edged up by 0.05% over the cited period to 131.20 points, while its year-to-date gain stood at 1.66%.

## Money & Treasury Bills Market

### Money Market Rates

	30/05/2014	23/05/2014	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

### Treasury Yields

	30/05/2014	23/05/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.35%	5.35%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

In the course of the week ending May 15, 2014, broad Money M3 decreased by LP 192B (\$127M), to reach LP 171,332B (\$113.65B). M3 growth rate reached 6.75% year-on-year and 2.24% on a year-to-date basis. As for M1, it also plummeted by LP 171B (\$113M) due to the decrease in money in circulation by LP 92B (\$61M), and demand deposits by LP 79B (\$52.40M).

Total deposits (excluding demand deposits) inched down by LP 21.28B (\$14.12M), given the decline in deposits denominated in foreign currencies by \$77M, while term and saving deposits in domestic currency surged by LP 95B. Over the above mentioned period, the broad money dollarization steadied at 59.20%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of March 2014.

In the TBs auction held on May 22nd 2014, the Ministry of Finance raised LP 61.31B (\$40.67M), through the issuance of 3M and 6M treasury bills, and 5Y treasury notes. The highest demand was achieved by the 6M bill, having 61.52% of total subscriptions, while the 3M bills and 5Y notes captured shares of 11.50% and 26.98%, respectively. The 3M and 6M bills yielded 4.39% and 4.87% respectively, while the average coupon rate for the 5Y notes stood at 6.74%. New subscriptions exceeded maturing T-bills by LP 20.57B (\$13.65M).

## Eurobond Market

## Eurobonds Index and Yield

	29/05/2014	22/05/2014	Change	Year to Date
BLOM Bond Index (BBI)*	107.640	107.140	0.47%	1.89%
Weighted Yield**	5.32%	5.41%	-9	30
Weighted Spread***	375	386	-11	-55

\*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

\*\* The change is in basis points

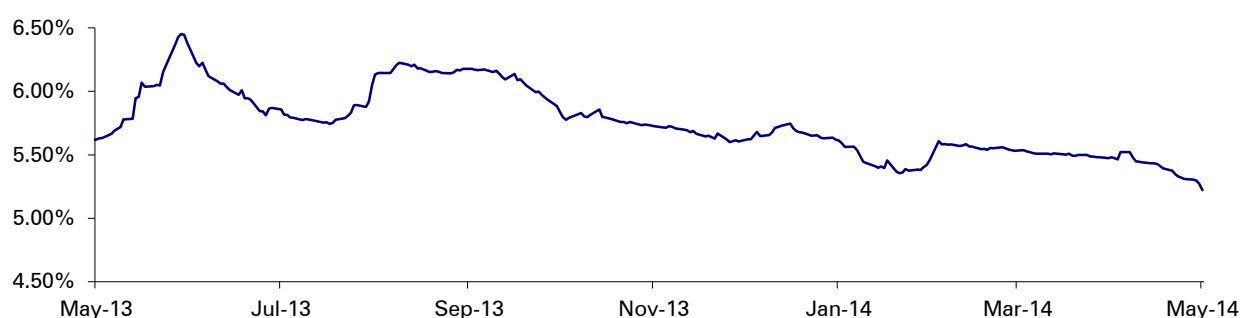
\*\*\*Against US Treasuries (in basis points)

## Eurobonds Lebanese Government

Maturity - Coupon	29/05/2014 Price*	22/05/2014 Price*	Change %	29/05/2014 Yield	22/05/2014 Yield	Change bps
2015, Jan - 5.875%	101.671	101.816	-0.14%	3.24%	3.45%	-21
2015, Aug - 8.500%	106.075	106.236	-0.15%	3.31%	3.42%	-11
2016, Jan - 8.500%	107.324	107.809	-0.45%	3.89%	3.85%	4
2016, May - 11.625%	114.325	114.684	-0.31%	3.99%	3.96%	3
2017, Mar - 9.000%	112.052	111.417	0.57%	4.42%	4.53%	-12
2018, Jun - 5.150%	100.954	100.188	0.76%	4.89%	4.97%	-9
2020, Mar - 6.375%	103.958	102.961	0.97%	8.35%	8.45%	-10
2021, Apr - 8.250%	114.249	112.582	1.48%	5.72%	5.82%	-10
2022, Oct - 6.100%	100.552	98.888	1.68%	6.01%	6.19%	-17
2023, Jan - 6.00%	99.566	97.577	2.04%	6.06%	6.20%	-14
2024, Dec - 7.000%	104.773	103.554	1.18%	6.37%	6.44%	-7
2026, Nov - 6.600%	101.26	99.441	1.83%	13.57%	13.77%	-20
2027, Nov - 6.75%	101.387	100.088	1.30%	6.59%	6.67%	-8

\*Bloomberg Data

## Weighted Effective Yield of Eurobonds



Lebanese Eurobonds extended their weekly strength on higher demand for medium and long term maturities. In details, the BLOM Bond Index (BBI) added a weekly 0.52% to hit a 14-Month high at 108.20 points, widening its year-to-date gain to 2.42%. The 5Y yield on the Lebanese Eurobonds lost 11 basis points (bps) over the week to 5.07%, while the 10Y yield declined 13 bps to settle at 6.22%. Furthermore, the BBI kept on outperforming the JP Morgan emerging markets' bond index that edged up by 0.01% to 681.27 points.

Investors in the U.S went back to Treasuries this week on mixed economic data. While consumer confidence is expected to flourish, the government announced earlier this week the contraction of U.S economy at an annual rate of 1% in Q1 2014. Concerns of further economic weakening pushed investors back to the safe assets market sending 5Y and 10Y yields down. The former lost 5 bps to 1.52%, and the latter slipped by 11 bps to 2.45%. Accordingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmarks tightened by 6 bps and 2 bps to 355 bps and 377 bps, respectively.

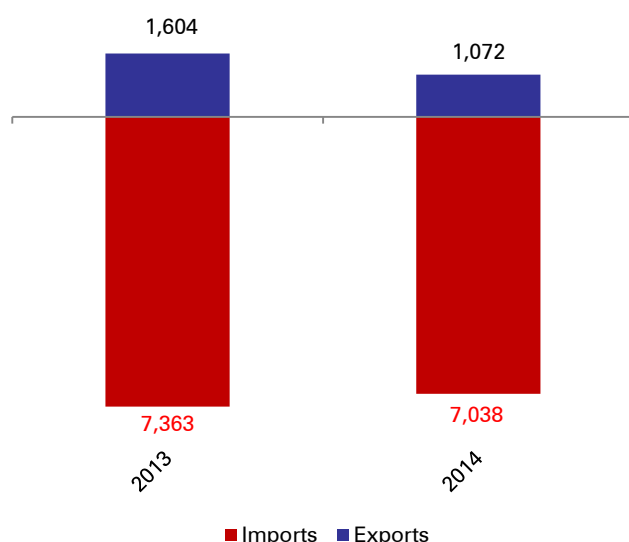
Lebanon's credit default swap for 5 years (CDS) was last trading at 320-350 bps, narrowing from last week's quote of 340-360bps. In regional markets, Saudi Arabia 5Y CDS steadied at 41-46 bps, while Dubai 5Y CDS quote narrowed from 150-160 bps last week to 145-155 bps. As for emerging economies, insurance premiums against state-debt default in Brazil and Turkey closed with respective quotes of 139-141 bps and 178-182 bps compared to last week's quotes of 156-158 bps and 182-185 bps, respectively.



## ECONOMIC AND FINANCIAL NEWS

### Lebanon's Imports and Exports

Up to April (In \$M)



Source: Ministry of Finance

### Lebanon's Trade deficit widens to \$5.97B by April

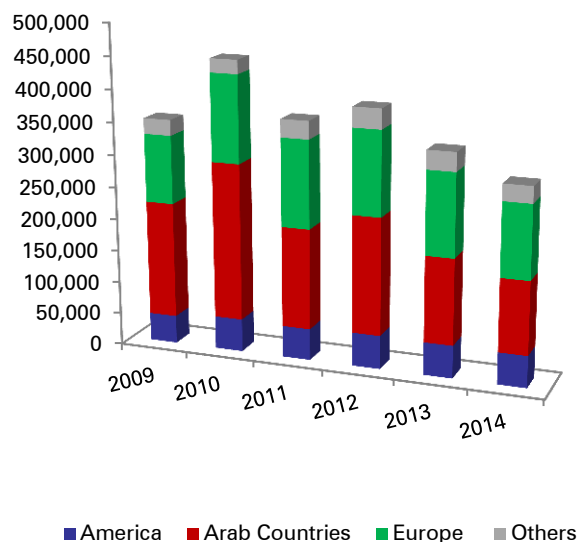
The Lebanese trade balance deficit widened by 3.60% to \$5.97B during the first four months of 2014, compared to a deficit of \$5.76B during the same period in 2013, due to exports falling more than the decline in imports. Exports covered 15.24% of imports by April edging down from 2013's ratio of 21.78%. Total imports dropped by 4.40% year-on-year (y-o-y) to reach \$7.04B, essentially caused by the plunge in the value of pearls, precious stones and metals imported by 30.00%. This drop was not only caused by the 27.19% reduction in volume, but also by falling prices, whereby average price of gold and silver declined by 22.39% and 21.39% y-o-y, respectively. Mineral products ranked first among total imports accounting for 25.09% of the total at \$1.77B, and falling by 7.55% y-o-y. This drop was also caused by the decline in mineral products' prices, where oil price slumped by 7.34%, while the volume imported edged down slightly by 1.26%. Second and third highest shares of total imports were machinery and electrical instruments at 11.39% (or \$0.80B) and products of the chemical or allied industries at 9.76% (or \$0.69B). China led the rank among countries that Lebanon imports from, with a 12.50% stake and was followed by Italy and US with respective shares of 8.70% and 7.71%.

Total exports fell by 33.13% y-o-y, reaching \$1.07B, mostly due to mineral products plummeting by 94.93% to reach \$12M. Worth mentioning that since the start of the war in Syria, mineral products exported increased and reached its peak of \$239.20M in 2013, where 90.48% of the total was exported to Syria. Thus, the difficulties in transportation on the Lebanese-Syrian border caused this huge decline. Pearls/precious stones and metals topped the list with 18.77% of total exports at \$0.20B although they decreased by 51.99% y-o-y, while prepared foodstuffs came in second at 15.86% (or \$0.17B). South Africa is at the top of the list of countries Lebanon export to accounting for 12.01% of the total, followed by Saudi Arabia and UAE with respective shares of 10.67% and 9.20%.

For the month of April alone, Lebanon's trade deficit narrowed by 6.72% y-o-y to \$1.34B compared to \$1.44B registered in April 2013 as imports edged down by 11.27% to reach \$1.64B, while exports retreated by 27.18% y-o-y to \$0.30B.

## Number of Tourists

Up to April



Source: Ministry of Tourism

## Number of Tourists Plummeted to 331,708 by April

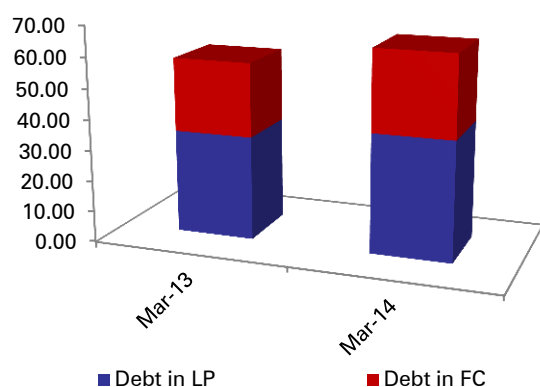
According to the Ministry of Tourism, the number of incomers during the first four months of 2014 plummeted to 331,708, an 11.91% plunge from the same period last year.

European Visitors, amounting to 33.90% of the total, slid by 11.64% y-o-y, reaching 112,446. The number of incomers from the United Kingdoms, France, and Germany dropped by 11.99%, 8.01% and 7.12% respectively. Italians were the only European tourists to register an increase of 8.27%, since last year. Arab tourists, constituting 33.78% of the total, displayed the largest year-on-year (y-o-y) decline of 15.04%, to settle at 112,053 by April 2014. Compared to last year, the number of tourists from the UAE, Saudi Arabia, and Kuwait deteriorated by 50.09%, 47.71%, and 46.59% respectively. However, the number of Iraqi incomers, that grasped the highest share of total Arab tourists (39%), increased by 8.36%, being the sole increase in the number of Arab visitors. As for the number of American travelers, accounting for the third largest share of the total, they reached 49,101 in the first four months of 2014, compared to 50,473 in the same period last year. The number of African tourists also went down by 14.82% since last year, settling at 15,303.

In April alone, the number of tourists inched up slightly by 0.55% y-o-y. This was mainly due to the drastic improvement in the security situation in the country. Moreover, the number of tourists is expected to increase in the coming months, as the Arab countries lifted their travel ban advisory to Lebanon.

## Gross Public Debt

Up to March (in \$B)



Source: Banque du Liban

## Lebanese Gross Public Debt Surged to \$65.11B in March

The Lebanese gross public debt reached \$65.11B by March 2014, escalating by 12.65% from its value the same month last year, recording a year to date gain of 2.60%. Debt in domestic currency, representing 60% of total gross debt, swelled by 14.55% to reach \$38.77B; while foreign currency debt grew by 9.98% to \$26.34B.

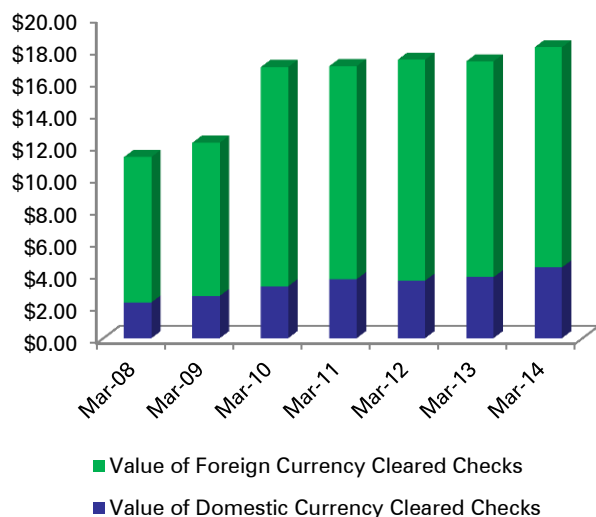
The Net Public Debt, which deducts public sector deposits at commercial banks and the Central Bank (BdL), settled at \$54.33B, up by 8.41% annually.

Commercial banks continued to be the major holders of LBP denominated government debt, with a share of 52%, followed by 30% for BDL, and 18% for the non-banking sector.



### Value of Cleared Checks

By March (in \$B)



Source: ABL

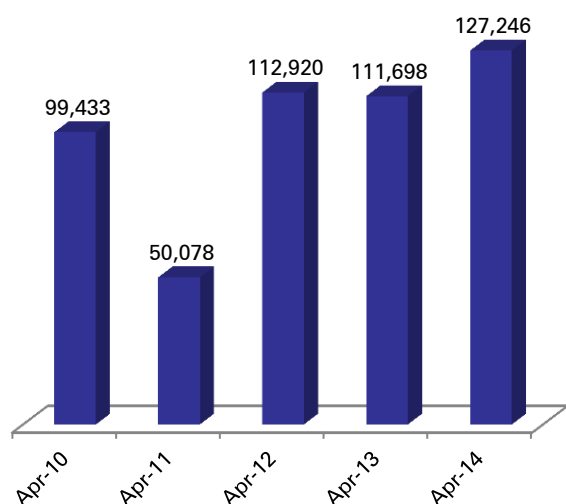
### Cleared Checks Value Reveals a 5.11% Yearly Growth by March

The value of cleared checks increased by 5.11% during the first quarter, revealing higher business spending. In fact, the number of checks cleared by Banque du Liban reached 3.16M worth \$18.15B in the first quarter of 2014 compared to a total of 3.16M checks valued at \$17.27B registered a year earlier. The value of checks denominated in Lebanese pounds jumped by 16.06% to reach \$4.42B up to March. Checks denominated in foreign currencies increased by 2.02% y-o-y to \$13.73B, while the dollarization rate of checks retreated from 77.96% to 75.67%. As for returned checks that account for 1.97% of the total value of checks, they declined by 24.20% y-o-y to \$357M.

In the month of March alone, the value of cleared checks increased by 7.54% from March 2013 to attain \$6.19B. The value of checks denominated in foreign currencies, which represents 75.45% of the total, inched up by 4.47% to \$4.67B, while that of checks denominated in LP rose by 18.23% to \$1.52B.

### Average Value of Property Sales Transactions

By April (in \$)



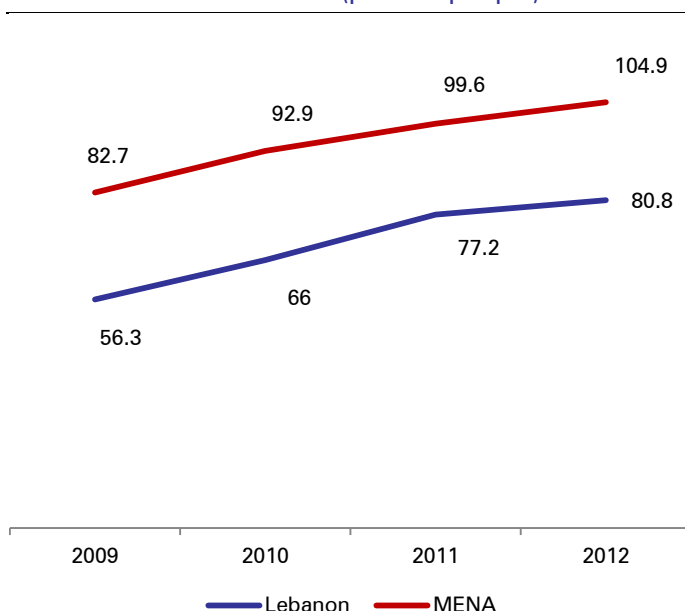
Source: Cadastre

### Value of Real Estate Sales Transactions Hits the \$2.05B by April

Total real estate transactions did not stray from its upward trend by April of 2014 to reach 22,273 transactions, achieving an 8.19% upsurge compared to the same period last year. In details, total value of property sales transactions surged by 23.25% y-o-y from \$2.30B in April 2013 to \$2.83B by April 2014. Therefore, the average value of a real estate transaction went higher to \$127,245.91 during the first four months of this year compared to \$111,698.49 in the same period of 2013. Sales to foreigners declined by 6.43% year-on-year, reaching 320 transactions. Moreover, foreigners' share of total real estate transactions went down from 1.66% by April 2013 to 1.44% this year. This means that Lebanese residents and non-residents are the main factors behind the improvement in the real estate market.

## BMI: Reduced Telecom Tariffs a Small Step Forward

### Mobile Phone Subscribers (per 100 people)



Source: The World Bank

The Ministry of Telecoms recently announced its decision to lower tariffs for telecom services. Starting July 1st, postpaid mobile subscribers will receive an additional 60 minutes of calls to compensate for the \$15 monthly subscription fee. Prepaid call tariffs will drop to \$0.25/min from a previous \$0.36/min and 1 SMS will cost 5 cents instead of 9 cents previously. For fixed-line services, the government has decided to abolish a \$33 one-off installation fee, while cutting monthly line rental fees from \$8 to \$6.

On the broadband market, ADSL subscribers who used to pay \$50 for a 20GB data allowance will now pay \$19 for double the data allowance, 40GB. HDSL subscriptions with 40GB quotas for \$150 will also benefit from double that quota for only \$83. In Business Monitor International's (BMI) view, the biggest beneficiaries would be the residential and small and medium sized enterprises and offers a gateway for services such as IPTV (Internet Protocol Television). Moreover, these measures will increase mobile penetration that stood at 90.4% in 2013 and was well below the regional average of 118.5%.

On the downside, BMI noted that in order to handle the increasing traffic, the government must upgrade the network by replacing copper networks with fiber optics. BMI also highlighted the fact that fundamental obstacles to growth in Lebanon's telecom market still exist namely, lack of competition and the fact that management contracts of operators Alfa and Touch handled by Global Telecom Holding and Zain are carried out on a three-month basis, a short-time frame that stands in the way of long term investment strategies.

## CORPORATE DEVELOPMENTS

### Bank Audi S.A.E's Profit Declined to \$15.59M during Q1

#### Bank Audi (S.A.E) Financial Highlights for Q1

(in \$M)

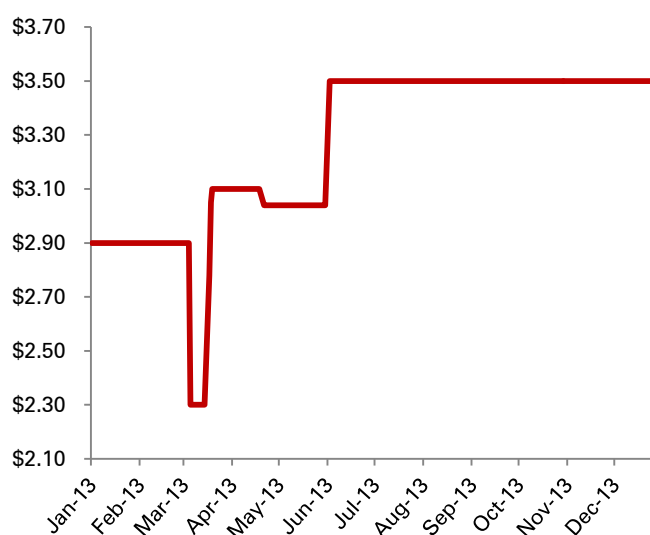
	Mar-14	Mar-13	% change
Customer's Deposits	3,034.83	2,768.15	9.63%
Net Loans & Advances to Customers	1,478.85	1,509.80	-2.05%
Total Assets	3,446.44	3,170.97	8.69%
Net Profit	15.59	17.04	-8.50%
Shareholders' Equity	276.62	307.17	-9.94%

Source: Beirut Stock Exchange

Bank Audi S.A.E, the bank's Egyptian subsidiary, recorded a profit of \$15.59M in the first quarter of 2014, an 8.50% year-on-year (y-o-y) decrease. In detail, although net interest income and net income from fees and commissions increased by 2.24% and 20.60% y-o-y to reach \$27.10M and \$6.54M, respectively, administrative expenses surged by 12.58% to \$12.53M. As for total assets, they increased by an annualized 8.69% to \$3.45B as receivables from banks broadened by 88.92% to \$510.59M. However loans and facilities to customers slid by 2.05% to \$1.48B. On the liabilities side, customers' deposits inched up by 9.63% to \$3.03B. Total shareholders' equity registered a yearly downturn of 9.94% to \$276.62M. .

### RYMCO Hosts Ordinary General Assembly Meeting

#### Performance of RYMCO's Listed Shares



Source: BSE, BLOMINVEST Research Department

RYMCO's board of directors invites its shareholders to the annual general assembly meeting set to take place at the company's headquarters in Hazmieh- Chiyah Boulevard on Friday the 26<sup>th</sup> of June at five o'clock. The meeting's agenda will include hearing the board of director's report and the auditors' findings, approving the 2013's financial statements and the allocation of profits, clearing the chairman and the board from 2013's administrative duties and electing a new board of directors with set credentials. Regarding the financial year of 2014, the chairman and members of the board along with the main auditor are to be elected.

## FOCUS IN BRIEF

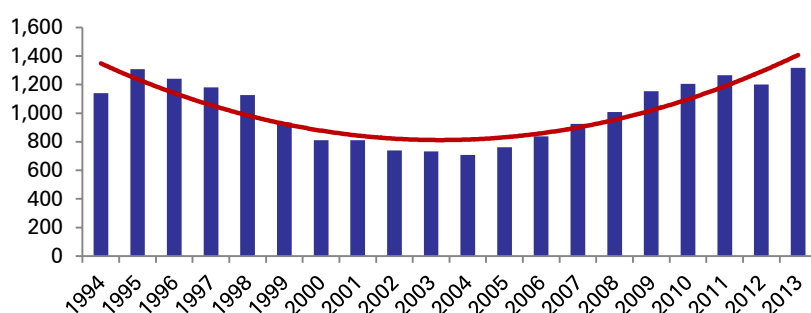
### Lebanon's Cement Sector: a Progress to Continue

2013 was one of the most challenging years of the Lebanese cement industry's 80-Year of history. Domestically, numerous gridlocks painted the political scene and several security incidents have shaken investment appetite. Regionally, the 3-Year ongoing war in the neighboring Syria kept on hindering the overall economic performance of the country with the International Monetary Fund (IMF) anticipating Lebanon's real GDP growth at a marginal 1% in 2013.

Contrarily to expectations, the cement sector showed a 9.8% yearly growth in the number of cement deliveries to 5.83M tons despite the slowdown in real estate and construction activities. This is probably explained by higher public spending, previously licensed projects and illegal construction.

Despite the several challenges faced over 2013, the sector was one of the few industries able to survive thanks to the strong fundamentals and the high level of expertise. Total production capacity hovered around 6.47Mt in 2013, compared to 6.32Mt recorded in 2012.

Cement Consumption per Capita (In kg/capita)



Source: Banque du Liban, World Bank

### Cement Market Suppliers

The Lebanese cement market is fully dependent on local production. Due to the high cost of cement shipment, international firms find it more profitable to build new plants in the targeted countries which help them in reducing their costs and achieving their diversification strategy.

The cement market in Lebanon is oligopolistic in structure. Cement supply is provided by 3 main cement plants: Cimenterie Nationale S.A.L. grasps the biggest market share, accounting for 41.7% of total cement sales in 2013 and producing grey cement only. HOLCIM (Liban) stands in the second place with a 36.9% stake and offering both types of cement, grey and white, as well as ready mixed concrete. Finally, Ciment de Sibline S.A.L. posted a 21.4% market share in 2013 and produces only grey cement.

HOLCIM saw its market share decrease in 2013 following faster increases in the yearly sales of its 2 main competitors: Cimenterie Nationale and Ciment de Sibline. In details, Cimenterie Nationale's sales for 2013 reached 2.40Mt, up by 14.3% from 2012's level. As for Ciment de Sibline, sales went up by an annualized 8.8% to 1.23Mt by the end of 2013. Finally, HOLCIM's aggregate sales, combined with its subsidiary Société Libanaise des Ciments Blancs (SLCB), totaled 2.12Mt in 2013, up from 2.00Mt recorded a year ago.

Accordingly, sales to production ratio ranged between 80% and 100% pointing to the fact that the majority of the Lebanese cement supply was liquidated. This can be considered as a healthy sign for the industry's perseverance and productivity.

Contrasting with the improving local demand, Lebanese cement exports were cut in half in 2013. Lebanon exports cement to a number of Arab states, namely Syria. Accordingly, the Syrian war heavily hit Lebanese exports that tumbled 44% to 285,205Mt in 2013, as compared to 509,488Mt in 2012. Cimenterie Nationale exported in 2013 a marginal stake of its

production to Syria, Libya and Egypt. HOLCIM also revealed minimal export activity to Syria and northern Cyprus, where the company took over Bogaz Endustri Madencilik (BEM). However, Ciments de Sibline mainly focused in 2013 on satisfying the local demand.

Despite the negative performance of cement exports in 2013, local producers managed to liquidate their production in the domestic market. This helped them in maintaining their profits given that local price is almost the double of export price. Worth noting that cement exports have a much lower value than locally sold products as the big volume of exports helps in reducing the marginal cost.

### **Pillars of Demand in the Cement Industry: Real Estate and Construction**

Cement is at the heart of construction and real estate activities. Accordingly, any increase in the number of construction permits should lead to a rise in the demand for cement. Worth noting that permits are usually issued at least six months after applications are filed. Additionally, investors' appetite in owning Lebanese properties can be measured thanks to the variation of real estate transactions.

First, the real estate sector showed a slowdown in 2013. A weak investment sentiment was coupled to a frailer demand from GCC countries as the latter switched to more secure areas. The property sector recorded a 7.9% y-o-y slip in the total number of real estate transactions to reach 70,476 in 2013, compared to 75,954 transactions in 2012. Foreign demand also tumbled with the volume of sales to foreigners decreasing over the same year by an annual 7.7% to 1,278 transactions. In addition, total value of property sales transactions retreated by 2.6% y-o-y to reach \$8.71B by 2013, up from \$8.94B in 2012.

The neighboring war in Syria also took its toll on real estate activity sending construction permits, an indicator of future demand for cement, down by 12.0% year-on-year (y-o-y) to 12.92M square meters<sup>1</sup> (sqm). According to the latest data released by the Orders of Engineers in Beirut and the North, the number of issued permits declined from 18,193 in 2012 to 16,724 in 2013. Worth noting that the average area per permit has also decreased by approximately 11.0% to 775 sqm/permit in 2013, as developers were more twisted towards smaller plot projects alluding to a smaller consumption of cement derivatives.

Yet, the Ministry of Interior and Municipalities (MOIM) announcement by mid-2013 boosted construction in several regions without permits. In details, MOIM handed over the crackdown of illegal construction activity to the municipalities. Given the lack of authority within municipalities, illegal activity surged for almost 3 months when the MOIM intervened again to suppress illegal projects.

Though, construction loans went up by 12.8% y-o-y to \$9.18B in 2013 following the stimuli of Banque du Liban and the financial sector to boost demand and consecutively economic growth.

### **Government Infrastructure: Another driver of cement industry**

New governmental projects were almost inexistent especially with the political divide that marked 2013 and the Cabinet formation dilemma that persisted for more than 10 months. This directly impacted infrastructure projects as public works were automatically postponed waiting for a political breakthrough.

However, an ongoing expansion and restoration project at the Port of Beirut took place over 2013. It has definitely contributed in the cement deliveries yearly growth. HOLCIM won the tender and immediately positioned a mobile plant at the site and took immediate action.

### **Stagnant cement prices amid slowing property sector**

Despite the slowdown in real estate activity, cement prices preserved their average prices supported by the Lebanese government. The price of cement remained almost fixed, with a slight uptick of 2% to \$94 per ton - without VAT - for the grey cement, and almost a 3% slip for the white cement to average \$173 per ton - without VAT-.

<sup>1</sup> Construction permits reflects the investors' expectations of real estate activity in the coming 6 months

Cement prices stood unchanged in 2013 despite the decreasing cost of energy. Prices in the cement sector go hand in hand with energy prices given that cement production is one of the most energy intensive industries<sup>2</sup>. Accordingly, any variation in the prices of energy products will be highly reflected in the upcoming trends of cement prices and vice versa. In 2013, energy prices revealed a declining trend that should have triggered down Lebanese cement prices. Thus, cement production variable cost dropped by an average of 12% y-o-y to settle around \$39. According to HOLCIM, the total cost of production in 2013 has increased, despite the downturn in variable costs, which could be partly explained by respective hikes in raw materials' prices, wages and salaries or even due to inflation.

#### Average Price of Cement in Selected Countries

Country	Price (In \$ per ton)
Egypt	105
Jordan	99
<b>Lebanon</b>	<b>92</b>
Kuwait	70
Qatar	70
Oman	69
KSA	64

Source: BLOMINVEST compilation

The Lebanese cement companies managed to maintain prices reasonable when comparing to other regional countries that profit from subsidized energy products and cheaper working force. Prices hover around \$105 per ton in Egypt, \$95 per ton in Turkey, \$99 per ton in Jordan and \$64 per ton in Saudi Arabia. This reflects that any overflowing supply of Lebanese cement can be easily exported to Arab countries in shortage with cement supply. Dubai can be a potential client in the coming period with the booming real estate projects related to the 2020 World Expo.

Local cement suppliers profit from the government regulation related to cement imports that aim to protect the locally produced cement from foreign competition. In details, the government has not granted cement import licenses since 2001 and has imposed prohibitive tariffs on imports of cement derivatives that can reach up to 75% for grey cement, clinker and related products and 25% for white cement. The government decision is explained by the fact that the local supply exceeds by far the local consumption making imports unnecessary.

#### Performance of the industry over the past 2 decades

Activity on the Lebanese cement market floated over the past 20 years relatively to the country's economic and political position.

The development of the industry started in 1995 when demand for cement witnessed considerable growth reflecting a growing urbanization. Large-scale reconstruction projects were initiated after the Lebanese war such as buildings and infrastructure. Lebanon had a considerably high level of cement consumption per capita at 1,309 kg/person compared to lower levels of 900 kg/person in Saudi Arabia, 620 kg/person in Jordan and 313 kg/person in Egypt<sup>3</sup>. Cement companies saw their total production absorbed by local market with cement deliveries rising by 17.1% y-o-y in 1995 to 3.97Mt, up from 3.39Mt in 1994.

When closely monitoring the period 1996-2000, cement producers suffered repetitive Israeli attacks on the Lebanese lands especially "Operation Grapes of Wrath" in 1996 that targeted south Lebanon and the Bekaa. Hundreds of Lebanese were displaced after their homes were completely ruined and their lives became in danger. New real estate projects were canceled as investment sentiment touched its lowest levels given the high degree of insecurity that overshadowed the period. Construction permits revealed their steepest yearly decline of 61% from 34.53M sqm in 1995 to 13.49M sqm in 1996. Local demand for cement followed the same path, yet at a slower path. Cement deliveries went down from 3.81Mt in

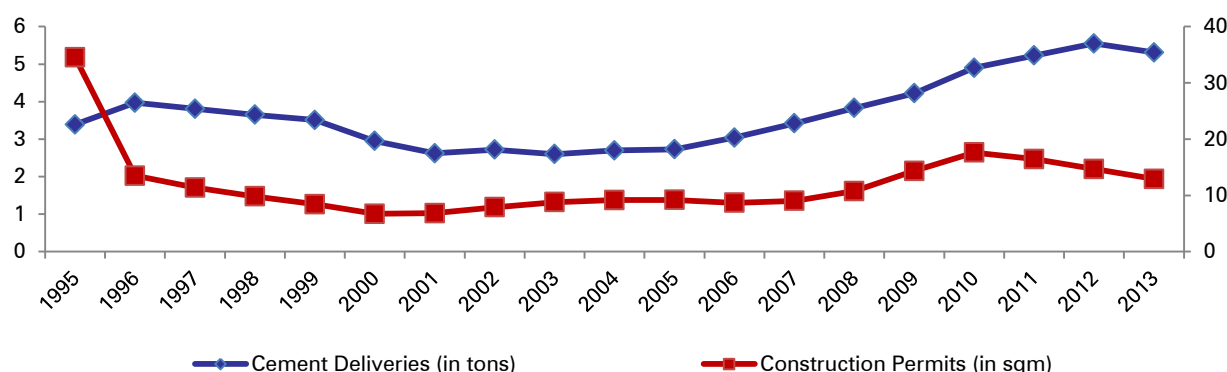
<sup>2</sup> Each tone of cement produced requires 60 to 130 kilograms of fuel oil or its equivalent, depending on the cement variety and the process used, and about 110 KWh of electricity

<sup>3</sup> Flemings, 1996



1996 to 2.62Mt in 2000. Cement consumption per capita drastically decreased by 34.7% in 2000 to reach a low of 810 kg/person.

#### Cement Deliveries and Construction Permits



Source: Banque du Liban, Blominvest Bank- Research Department

Construction activity started recovering in 2001 on improving political stability and despite the persisting economic difficulties. The Lebanese government was finding it difficult to finance its deficit as the balance of payments turned negative, and gross international reserves declined. In addition, Lebanon faced over the same period a fiscal deficit of \$2.8B (16% of GDP) as well as a vicious cycle of rising national debt and dwindling economic activity. However, the political stability and especially the withdrawal of Israeli troops from Southern Lebanon led reconstruction and restoration activities in the South and Bekaa to boom. Meanwhile, the reigning security over the period helped local and foreign contractors resuming their projects and initiating new plans widely diversified across the country.

The industry gained momentum during 2002-2006 revealing a 3.9% CAGR in cement deliveries. The unsustainable economic situation in Lebanon was reversed by Paris II conference in November 2002, which gave a boost of energy to the cement industry. Cement deliveries and construction permits went up by respective 3.8% and 11.5% in 2003.

The 3Y period going from 2007 to 2010 reflected the prosperous period that emerged after the Israeli war of 2006 and the withdrawal of Syrian troops in April 2005. Demand for cement surged following the boom in real estate projects. Cement companies delivered in 2010 more than 5.20Mt of cement in the local market, up from 3.83Mt in 2007. As for the consumption per capita, it surged by 30.0% over the 3Y time frame to hit 1,205 kg/person.

The eruption of Arab Spring did not fully impact cement deliveries in 2011, while the Syrian war weighed over the sector's performance in 2012. In details, cement deliveries rose by 6.1% y-o-y in 2011, yet at a much slower pace than years earlier. Exports to Syria were almost cut in half over the same period at 222,065 tons compared to 464,201 tons in 2010. This was due to the emergence of war in Syria by mid-2011. Spillovers of the Syrian war on the Lebanese economy in 2012 sent cement deliveries down by a yearly 4.3% by the end of 2012 to 5.31Mt. However, the cement industry's resiliency and strong fundamentals helped the sector recovering in 2013.

#### Prospects of Growth

According to Cimenterie Nationale, the Lebanese cement sector will remain highly impacted by the economic and political situation of the country. As for 2014, the total production of the sector is projected to settle around 5.88Mt. Medium term prospects appear to be gloomy over the coming five years and total production of cement may witness a slip to 4Mt, unless smuggling to Syria resumed. Activity in the industry will probably pick up over the long term as the settlement of the Syrian situation as well as infrastructure projects such as dams and road networks may boost the sector's performance. Lastly, Cimenterie Nationale intends to boost its production capacity by 2Mt by 2017.

HOLCIM Liban is currently postponing any future plan of expansion as the company is waiting for its-recently-announced merger with Lafarge to be completed early 2015, noting that the latter is operating in the neighboring Syria since 2010.

Meanwhile, Ciment de Sibline upgraded its production line in 2013 by increasing the production capacity from 30 tons per hour to 40 tons per hour.

When considering the whole cement sector in Lebanon, the market is expected to maintain strong footing. Projections remain strong about a flourishing Lebanese building materials industry once the war in Syria ends and the reconstruction phase begin. According to the UN's Economic and Social Commission for Western Asia forecasts, the demand for cement in Syria will hover around 30Mt per annum, or 3 times the level of demand prior to the conflict. This demand will be satisfied by imports from the neighboring countries, mainly Lebanon and Jordan.

Finally, the industry has strong basics but still needs to invest in more efficient production capacities in order to meet the growing competition on the markets.



**Research Department:**

Lana Saadeh

[lane.saadeh@blominvestbank.com](mailto:lane.saadeh@blominvestbank.com)

Riwa Daou

[riwa.daou@blominvestbank.com](mailto:riwa.daou@blominvestbank.com)

Mirna Chami

[mirna.chami@blominvestbank.com](mailto:mirna.chami@blominvestbank.com)

Marwan Mikhael

[marwan.mikhael@blominvestbank.com](mailto:marwan.mikhael@blominvestbank.com)



**Your Investment Reference**