Qatar National Cement Company

Neutral

CMP 08-Mar-2015	QAR 135.0
Target Price	QAR 140.1
Upside/Downside	+3.8%

Investment Thesis

Initiate coverage with 'Neutral' rating ; fair value of QAR 140.1 per share results in 3.8% upside: *We believe the 32% run-up in stock price since Nov - 2013 already factors in the impact of new 1.575 million tons per annum (mtpa) plant. Additionally the stock is likely to face short-term headwinds arising from a 33% cut in 2014 DPS (QAR 4 per share compared to QAR 6 in 2013). As a result, the current dividend yield of 3% is well below the GCC average of 5.4%. The management reasons out that cut in dividend was due to provision for a prior period item (QAR 159.7 million) relating to gas and equipment supplies from Qatar Petroleum that we expect is likely to be settled in 2015.*

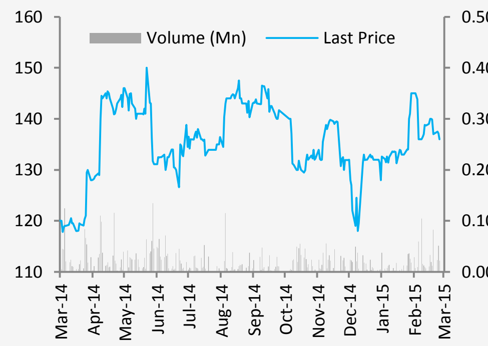
New plant operationally material but financial impact already priced in: *The QAR 950 million plant will increase installed capacity by a third. We assume the new plant to be operational by 2017 beginning that will allow the company to encash on the significant rise in cement demand in Qatar going forward and thus will result in a tighter grip on local market share (has been on a decline since 2010). We estimate the new plant to have notable financial payoff: IRR of 19.1%, WACC of 3.9% (76.6% debt at 2%), NPV of QAR 1.32 billion / QAR 26.8 per share. But the stock reflects all this.*

Positive outlook on Qatari cement sector underpinned by impressive project pipeline: *The Qatari government is committed to spend around USD 150 billion over the medium-term as part of its FIFA World Cup 2022 and Qatar National Vision 2030 plans. This is likely to act as a catalyst to bolster cement demand during this period. We forecast current cement demand of c.a 6.5 mtpa (2014 end) to significantly increase to 10.2 mtpa by 2019. However once FIFA World Cup related projects get completed we do not rule out a potential over-supply situation in Qatar. Accordingly we forecast clinker utilization rates for Qatar National Cement to drop to 85% in 2024 (terminal year) compared to full utilization rates in 2021.*

Stock appears attractive on EV/EBITDA compared to its peers but stretched on EV/ton: *The stock currently trades at a forward EV/EBITDA multiple of 10.9x compared to GCC average of 12x. However, on an EV per ton basis the stock currently trades at a 41.5% premium (USD 380 per ton) compared to the GCC average (USD 268 per ton) and more than double of current replacement cost (USD 166 per ton for the new plant).*

	2014	2015f	2016f	2017f	2018f	2019f
Revenue (QAR Mn)	1,050	1,066	1,227	1,445	1,483	1,497
EBITDA (QAR Mn)	557	563	592	808	861	843
Net profit (QAR Mn)	420	421	449	625	680	664
GPM (%)	55.9%	55.8%	51.0%	58.3%	60.6%	58.9%
EBITDA margin (%)	53.1%	52.9%	48.3%	55.9%	58.1%	56.3%
ROAE (%)	16.6%	15.6%	15.5%	19.8%	19.5%	17.5%
PE (x)	15.8	15.7	14.8	10.6	9.7	10.0
EV/EBITDA (x)	10.6	10.9	10.3	7.6	7.1	7.3
Div. yield (%)	3.0%	4.1%	4.1%	4.9%	5.7%	6.1%
FCF yield (%)	5.5%	-2.6%	2.9%	11.4%	12.3%	12.3%

Sources: KAMCO Research, Bloomberg and Qatar National Cement



Price Perf.	1M	3M	12M
Absolute	-6.9%	2.3%	12.5%
Relative	-6.1%	3.7%	3.4%

Stock Data	
Bloomberg Ticker	QNCD QD
Reuters Ticker	QANC QA
Last Price (QAR)	135.0
M.Cap (QAR Mn)	6,629
M.Cap (USD Mn)	1,821
52-Week Range (QAR)	150 / 113
52-Week ADVT (QAR Mn)	2.9

Sources: KAMCO Research and Bloomberg

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Valuation and Recommendation

"Neutral" rating with a price target of QAR 140.1 per share resulting in an upside of 3.8%

We have arrived at a fair value of QAR 140.1 per share for Qatar National Cement by using two valuation methods: discounted cash flow (DCF) and relative valuation based on forward EV/EBITDA multiple. We have assigned specific weights to each method as seen in the table below to arrive at our fair value.

Weighted Average Fair Value

Weighted Average Fair Value	Fair value per share (QAR)	Weight (%)	Weighted Value (QAR)
DCF	132.5	80%	106.0
Relative valuation	170.2	20%	34.0
Weighted Average Fair Value per Share			**140.1**
Current market price			135.0
Upside/Downside			***3.8%***

Sources: KAMCO Research

Discounted cash flow method

Our DCF method values the stock at QAR 132.5 per share. Our DCF valuation is based on explicit forecast of free cash flows (accounts for 65% of value of operations) for the next ten years (2015f-2024f) and terminal value thereafter. We have assumed terminal growth rate of 3.5%.

DCF Valuation

	Fair Value of Equity (QAR Mn)	Fair Value Per Share (QAR)
Present value of FCFF	3,507	71.4
Present value of terminal value	1,885	38.4
Present value of cash flow	**5,392**	**109.8**
Investments / non-core assets (2014 end)	547	11.1
Cash and cash equivalent (2014 end)	568	11.6
Debt (2014 end)	0.0	0.0
Fair Value of Equity	**6,508**	**132.5**

Sources: KAMCO Research and Qatar National Cement

The investments / non-core asset portfolio mainly consists of available-for-sale (AFS) investments amounting to QAR 168.5 million, investment in associates amounting to QAR 49.3 million and investment properties worth QAR 7.68 million. We have made necessary adjustments to book value of each of these items which are as follows:

- **20% discount to AFS portfolio; investment in associates at book value:** AFS portfolio mainly comprises of local listed equities. We have adopted a conservative approach and have applied a 20% discount to the book value of AFS portfolio for valuation purposes mainly to account for any potential correction in Qatari equity markets. Investment in associates consists of a 33.32% stake in Qatar Saudi Gypsum Industries Co. (QAR 26.92 million) and a 20% stake in Qatar Quarries & Building Materials (QAR 22.39 million). We have considered investment in associates at 2014 book value.

- **60% discount to market value of investment properties as per gross rental yield approach:** The company has real estate properties (residential real estate leased to government) which is shown at a net book value of QAR 7.68 million (cost of QAR 42.55 million and accumulated depreciation of QAR 34.87 million) as of 2014 end. As per management, estimates this property portfolio was valued at QAR 535 million as of 2014 end that has remained unchanged since 2012. The property portfolio generates annual rental income of QAR 8.5 million (has remained the same since 2012) and hence implies a gross rental yield of 1.6% based on the market value as per management estimates. We have applied a gross rental yield of 4% to arrive at a market value of QAR 212.6 million which implies a discount of around 60% compared to the market value as per management estimates. Qatar real estate market overview by Colliers International released in Q22014 highlighted gross rental yields of 6% for residential properties in Qatar. We believe a gross rental yield of 4% is appropriate considering age of company's property portfolio which is almost fully depreciated.

We have assumed cost of equity of 10.33% which we have arrived at by using risk free rate of 2.69% (YTM for 10-year sovereign bond), Qatar's equity risk premium of 7.64% and beta of 1. The company is currently debt-free. However we forecast the company to borrow USD 200 million (QAR 728 million) during 2015/2016 to finance its new plant (as per management guidance). We have assumed an average cost of borrowing of 2%, which we believe is conservative, compared to management guidance. We believe the company will borrow from international markets, which is likely to result in attractive rates and will act as a natural hedge against the foreign currency exposure for meeting the payment for the new plant.

Weighted Average Cost of Capital

Factors		**Source**
Risk Free Rate (Qatar)	2.7%	YTM for 10-year govt. bond
Equity Risk Premium (Qatar)	7.6%	Ashwath Damodaran - 2015
Cost of Equity	**10.3%**	

Weighted average cost of capital computation

Components	**Weights**	**Cost (%)**	**Cost of Capital**
Debt	13.5%	2.0%	0.3%
Equity	86.5%	10.3%	8.9%
WACC	**100%**		**9.2%**

Sources: KAMCO Research, Bloomberg and Ashwath Damodaran's website

We highlight below main assumptions relating to our DCF model. We assume the new plant (1.575 mtpa capacity) to be operational by 2017 beginning. We further assume a delay of 2-3 months compared to scheduled completion, which is expected to be around end of Q32016. We expect the new kiln to operate at 85% utilization in 2017 and then scale up to full utilization by 2018. We forecast Qatar National Cement to import 450,000 tons and 150,000 tons of clinker in 2016 and 2017 which is roughly half of the excess cement demand we forecast for Qatari cement sector during those two years (refer to Qatari Cement Sector – page 10). We have assumed landed cost of USD 60 per ton for imported clinker. We expect clinker imports to result in sharp decline in margins in 2016 as can be seen in the table below. From 2017 onwards we expect margins to recover due to absence of clinker imports. Contribution from the new plant will also help boost margins.

DCF – Main Assumptions

	2015f	2016f	2017f	2018f	2019f	Terminal year 2024f
Revenue						
Clinker capacity (mtpa)	3.57	3.57	4.77	4.77	4.77	4.77
Clinker capacity utilization (%)	95.0%	97.5%	95.0%	100.0%	100.0%	85.0%
Clinker production (million tons)	3.39	3.48	4.53	4.77	4.77	4.05
Clinker imports (million tons)	0.00	0.45	0.15	0.00	0.00	0.00
Cement capacity (mtpa)	4.43	4.43	5.69	5.69	5.69	5.69
Cement capacity utilization (%)	80.5%	93.3%	86.5%	88.1%	88.1%	74.9%
Cement production (million tons)	3.56	4.13	4.92	5.01	5.01	4.26
Cement sales volume (million tons)	3.56	4.13	4.92	5.01	5.01	4.26
Cement sales price (QAR / ton)	253.0	254.0	255.0	255.0	255.0	252.5
Cement revenue (QAR million)	901	1,048	1,253	1,277	1,277	1,075
Total revenue (QAR million)	1,066	1,227	1,445	1,483	1,497	1,241
Cement revenue as a % of total revenue	84.6%	85.5%	86.7%	86.1%	85.3%	86.6%
Margin						
Gross profit margin (%)	55.8%	51.0%	58.3%	60.6%	58.9%	56.5%
EBITDA margin (%)	52.9%	48.3%	55.9%	58.1%	56.3%	53.4%
EBIT margin (%)	38.5%	35.8%	42.5%	44.8%	42.9%	35.4%
Capex						
Expansionary capex (QAR million)	483.9	322.6	0.0	0.0	0.0	0.0
Maintenance capex (QAR million)	68.4	86.5	66.1	70.4	76.7	108.2
Cost of capital and terminal growth rate						
Weightage of equity (%)	86.5%	80.4%	84.2%	87.6%	90.4%	100.0%
Weightage of debt (%)	13.5%	19.6%	15.8%	12.4%	9.6%	0.0%
Cost of equity (%)	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Cost of debt (%)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
WACC (%)	9.2%	8.7%	9.0%	9.3%	9.5%	10.33%
Terminal growth rate (%)						3.50%

Sources: KAMCO Research and Qatar National Cement

Risks: The main risk to our DCF method arises from variations in cement demand in Qatar compared to our forecasts. Downside risk to our forecasts mainly arises from potential delay or cancellation in any high-value infrastructure/ real estate project in Qatar that will negatively affect overall cement demand in the country thus affecting the sales volume of the company. Any positive surprises to our cement demand forecast is likely to result in higher capacity utilization of excess grinding capacity (0.676 mtpa) available to Qatar National Cement by importing clinker. Presently we do not forecast for such a scenario from 2018 onwards.

Sensitivity Analysis

We show below a sensitivity analysis to highlight changes in our fair value with respect to changes in cost of equity and terminal growth rate.

Sensitivity Analysis

		Cost of Equity				
Terminal growth rate		**9.33%**	**9.83%**	**10.33%**	**10.83%**	**11.33%**
	3.00%	142.7	137.3	132.4	127.8	123.7
	3.25%	142.8	137.4	132.4	127.9	123.8
	3.50%	142.9	137.5	**132.5**	128.0	123.8
	3.75%	143.0	137.6	132.6	128.1	123.9
	4.00%	143.2	137.7	132.7	128.2	124.0

Source: KAMCO Research

Relative Valuation

We compared Qatar National Cement to a peer group of 20 GCC based cement players. However for computing our fair value using this method we used forward EV/EBITDA (2015 EBITDA) multiple for only Saudi cement companies (12.9x) and not for the entire GCC cement peer basket. The main reason for doing so was the similarity in EBITDA margins/profitability between the Saudi cement players (average EBITDA margin of 57.4% during 2014) and Qatar National Cement (53.1% in 2014 and an average of 55.8% during the last 5 years). This level of EBITDA margin is significantly higher than margins of cement players in other GCC countries – UAE average of 16.6%, Omani average of 37.9% and Kuwait Cement Co.'s 25.4%. The other reason for restricting our comparison to only Saudi cement companies was due to lack of information on consensus-forward estimates for 2015 EBITDA for non-Saudi cement companies which did not allow us to compute forward EV/EBITDA multiple.

We arrived at our fair value of QAR 170.2 per share as per relative valuation method thus implying an upside potential of 26.1%. As mentioned earlier we have calculated enterprise value for Qatar National Cement based on simple average (excluding outliers) of the forward EV/EBITDA multiple for only Saudi cement companies. The stock currently trades at a forward EV/EBITDA multiple of 10.9x compared to Saudi average (excluding outliers) of 12.9x. The stock also appears attractive on trailing twelve month (ttm) FCF yield of 5.5% compared to peer basket average of 4.7% (average excluding outliers).

EV per ton shows stretched valuation both on relative and on replacement cost basis: We also compared Qatar National Cement against its peers on a trailing EV per-ton basis. Qatar National Cement (USD 380 per ton) currently trades at a 41.5% premium compared to the simple average (excluding outliers) for EV per ton for our GCC peer basket (USD 268 per ton). However compared to the Saudi average of USD 357 the stock trades at a premium of 6.4%. In fact Qatar National Cement is the sixth-most expensive stock within our GCC cement basket on EV per ton. Based on the capital outlay for the new plant (QAR 950 million for a 1.575 mtpa integrated capacity), EV per ton for a green field plant works out around USD 166 per ton which is less than half of the company's current EV per ton. Even if we were to consider the new capacity in our calculations, the forward EV per ton (based on new cement capacity of 5.685 mtpa) would be around USD 295 per ton, which still is significantly higher compared to current replacement cost.

Peer Comparison

Company Name	Capacity	Market Data			EBITDA margin	Valuation							Stock Perf.	
		CMP	MCap.	EV	2014 (%)	PE (x)	Fwd PE (x)	EV / ttm EBITDA	EV / 2015 EBITDA	EV / Ton	Dividend Yield	FCF Yield	YTD	1 yr
	('000 Tons)	(LC)	(USD Mn)	(USD Mn)		TTM	2015 eps	(x)	(x)	(USD / ton)	2014 payout	TTM	(%)	(%)
Saudi Arabia														
Saudi Cement	9,300	95.3	3,893	4,036	65.6%	13.6	13.1	11.4	11.2	434	3.7%	7.9%	-0.2%	-17.7%
Southern Province Cement Co	11,000	101.8	3,797	3,856	59.2%	13.6	14.3	13.0	12.5	351	6.9%	2.9%	-7.0%	-15.6%
Yanbu Cement Co	6,300	68.9	2,886	2,926	65.8%	13.5	13.3	10.7	10.5	464	5.8%	7.4%	11.5%	-5.5%
Yamama Cement Co	6,300	47.9	2,591	2,193	63.8%	14.5	12.9	9.7	8.9	348	6.3%	9.2%	0.1%	-17.2%
Qassim Cement Co	4,000	100.8	2,322	2,091	66.9%	15.5	16.3	11.9	45.1	523	6.2%	7.5%	8.6%	5.8%
Arabian Cement	5,200	78.1	2,092	2,082	49.5%	12.1	11.4	9.2	9.0	400	6.4%	10.8%	1.2%	38.2%
Najran Cement Co	5,600	29.0	1,314	1,546	53.3%	20.0	16.8	14.4	13.4	276	3.6%	2.9%	9.7%	15.1%
Eastern Province Cement Co	4,100	55.8	1,288	1,185	50.1%	13.0	15.6	10.5	10.1	289	7.1%	4.8%	1.6%	-10.1%
City Cement Co	3,700	23.3	1,201	1,138	63.7%	20.2	18.8	14.7	14.9	307	-	-2.2%	4.7%	3.3%
Northern Region Cement Co	3,100	23.5	1,128	1,370	37.1%	18.1	16.9	14.6	13.5	442	2.1%	0.5%	11.4%	-6.7%
Tabuk Cement	2,800	26.2	631	712	60.1%	17.2	16.4	13.3	12.5	254	6.1%	-10.1%	6.1%	-8.3%
Al Jouf Cement Co	3,600	15.8	547	779	53.2%	34.3	32.7	20.4	20.9	216	-	0.4%	12.4%	-13.5%
KSA Average					**57.4%**	**17.1**	**16.5**	**12.8**	**15.2**	**359**	**5.4%**	**3.5%**		
KSA Average(Ex-outliers)					**58.4%**	**15.9**	**15.4**	**12.4**	**12.9**	**357**	**5.6%**	**4.1%**		
KSA Weighted Average						**15.2**	**14.8**	**11.9**	**14.8**	**-**	**5.1%**	**5.4%**		
KSA Median					**59.6%**	**15.0**	**15.9**	**12.5**	**12.5**	**349**	**6.1%**	**3.9%**		
UAE														
Gulf Cement Co PSC	2,700	1.07	239	190	16.0%	14.3	-	6.1	-	70	5.1%	16.3%	-10.8%	-37.4%
Fujairah Cement Industries Co	2,100	1.35	131	285	15.1%	23.1	-	11.2	-	136	0.0%	4.6%	0.0%	8.0%
Union Cement Co	4,200	1.30	237	203	22.9%	11.8	-	5.9	-	48	7.7%	14.7%	12.1%	-16.7%
Sharjah Cement & Industrial Development Co	4,600	1.14	172	244	11.7%	10.1	-	11.2	-	53	4.4%	-3.8%	9.6%	-12.3%
Ras Al Khaimah Cement Co	1,100	0.98	146	136	17.2%	38.4	-	12.5	-	124	5.2%	7.8%	-4.0%	-42.3%
UAE Average					**16.6%**	**19.5**	**-**	**9.4**	**-**	**86.2**	**4.5%**	**7.9%**		
UAE Average (Ex-outliers)					**16.1%**	**16.4**	**-**	**9.5**	**-**	**82.4**	**4.9%**	**9.0%**		
UAE Weighted Average						**17.9**	**-**	**8.7**	**-**	**-**	**4.9%**	**9.2%**		
UAE Median					**16.0%**	**14.3**	**-**	**11.2**	**-**	**70.4**	**5.1%**	**7.8%**		
Oman														
Raysut Cement	4,000	1.75	906	938	38.3%	12.7	11.9	10.0	10.8	235	4.3%	6.7%	4.5%	-20.5%
Oman Cement	2,520	0.52	443	416	37.6%	9.2	10.3	8.3	8.6	165	5.8%	4.6%	-0.4%	-38.0%
Oman Average					**37.9%**	**11.0**	**11.1**	**9.1**	**9.7**	**200**	**5.1%**	**5.7%**		
Oman Median					**37.9%**	**11.0**	**11.1**	**9.1**	**9.7**	**200**	**5.1%**	**5.7%**		
Kuwait														
Kuwait Cement Co.	5,000	0.395	1,054	1,310	25.4%	15.4	13.2	21.4	-	262	4.4%	-1.4%	-1.3%	1.3%
Kuwait Average					**25.4%**	**15.4**	**13.2**	**21.4**	**-**	**262**	**4.4%**	**-1.4%**		
GCC Average					**43.6%**	**17.0**	**-**	**12.0**	**-**	**270**	**5.4%**	**4.6%**		
GCC Average (ex-outliers)					**44.1%**	**16.3**	**-**	**11.8**	**-**	**268**	**5.4%**	**4.7%**		
Median					**49.8%**	**14.4**	**-**	**11.3**	**-**	**269**	**5.5%**	**4.7%**		
Qatar National Cement	**4,425**	**135.0**	**1,821**	**1,679**	**53.1%**	**15.8**	**15.7**	**11.0**	**10.9**	**380**	**3.0%**	**5.5%**	**2.3%**	**12.5%**

Sources: KAMCO Research, respective companies' financials and Bloomberg

Upcoming clinker capacity of 1.5 mtpa: Our view

During Q12014 the company decided to construct a new cement plant comprising of a clinker kiln with an annual rated capacity of 1.5 mtpa (5,000 tons per day) and two grinding mills with a combined capacity of 1.575 mtpa.

Project schedule: Qatar national cement signed contract with equipment suppliers for the new plant in July 2014. Management expects the two cement mills to be ready within 17 months (2015 end) and 19 months (February 2016) respectively from the date of signing the contract. Management also expects the kiln to be ready by October 2016 (around 27 months from date of signing the contract). We have assumed 2-3 months delay in the project plan and hence expect the new kiln to be operational by 2017 beginning. We expect the new kiln to operate at 85% capacity utilization in 2017 and then scale up to full utilization by 2018.

New Plant – Main Assumptions

	2014	2015f	2016f	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f
Clinker capacity ('000 tons)		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Clinker capacity utilization (%)		0%	0%	85%	100%	100%	100%	100%	98%	90%	85%
Clinker production ('000 tons)				1,275	1,500	1,500	1,500	1,500	1,463	1,350	1,275
Cement to clinker ratio		1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Cement capacity ('000 tons)		1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575
Cement production ('000 tons)		0	0	1,339	1,575	1,575	1,575	1,575	1,536	1,418	1,339
Cement sales volume ('000 tons)		0	0	1,339	1,575	1,575	1,575	1,575	1,536	1,418	1,339
Blended cement price (QAR/ton)		253.0	254.0	255.0	255.0	255.0	255.0	255.0	252.5	252.5	252.5
Cement revenue (QAR '000)		0	0	341,381	401,625	401,625	401,625	401,625	387,745	357,919	338,034
EBITDA margin (%)		51.9%	47.3%	54.9%	57.1%	55.3%	54.5%	53.7%	53.7%	53.1%	52.4%
EBITDA (QAR '000)		0	0	187,328	229,277	222,193	218,738	215,686	208,353	189,885	177,017
Interest expenses (QAR '000)		8,736	11,648	13,520	11,440	9,360	7,280	5,200	3,120	0	0
Operating income before depr. but after interest		(8,736)	(11,648)	173,808	217,837	212,833	211,458	210,486	205,233	189,885	177,017
Tax - @ 2.5% of EBT (QAR '000)		(218)	(291)	3,134	4,032	3,898	3,841	3,792	3,677	3,267	2,894
Net operating profit less adjusted taxes (QAR '000)		(8,954)	(11,939)	170,673	213,805	208,935	207,617	206,694	201,556	186,618	174,123
Capex for plant V (QAR '000)	(148,428)	(510,662)	(340,442)	(49,977)	(49,977)	(49,977)	(49,977)	(49,977)	(49,977)	(49,977)	(49,977)
Free cash flow (QAR '000)	(148,428)	(519,616)	(352,381)	120,697	163,829	158,958	157,641	156,717	151,579	136,641	124,146
Terminal value (QAR' 000)											1,881,277

IRR (%)	**19.1%**
NPV (QAR '000)	**1,318,182**
New cement plant	950,000
Total capex (QAR '000)	**950,000**
Debt (QAR '000)	728,000
Equity (QAR '000)	222,000
Weight of debt (%)	76.6%
Weight of Equity (%)	23.4%
Total (%)	100.0%
Cost of debt (%)	2.0%
Cost of equity (%)	10.33%
WACC (%)	**3.9%**
Terminal growth (%)	**3.5%**

Sources: KAMCO Research and Qatar National Cement

Total project cost of QAR 950 million; 76.6% financed by debt: The new plant will cost QAR 950 million (USD 260 million) implying an EV per ton of USD 166. It will be financed by a mix of debt and equity. As per management the company plans to borrow USD 200 million (QAR 728 million / 76.6% of total project cost) to finance the project. The rest will be financed by internal cash flows /

reserves. We have assumed an average cost of borrowing of 2% which we believe is conservative compared to management guidance. The company has already paid QAR 143.5 million (15% of total project cost) as an advance to contractors. We expect the company to spend 60% of the remaining amount in 2015 and the balance in 2016. The project also involves an additional outlay of QAR 49.53 million relating to a new sub-station for the new plant. QAR 4.95 million or 10% has already been paid during 2014. We have not included the sub-station for IRR and NPV calculations

Financial viability of new plant: WACC of 3.9%, IRR of 19.1%, NPV of QAR 1.32 billion: For our calculation purposes we have assumed that the overall risk profile of the new plant is similar to the existing company and accordingly applied a cost of equity of 10.33% for the new plant. This would result in weighted average cost of capital of 3.9% for the overall project. We calculate a project IRR of 19.1% and expect the new plant to breakeven by mid-2023. As seen in the table above we arrive at a NPV of QAR 1.32 billion / QAR 26.8 per share. Our main assumptions are as follows:

- We assume a 2-3 months delay in the project plan and hence expect the new kiln to be operational by 2017 beginning. We expect the new kiln to operate at 85% capacity utilization in 2017 and then scale up to full utilization by 2018
- We assume EBITDA margin for the cement business to be around 1% less compared to the company's overall EBITDA margin. The company does not disclose segmental information and hence we do not have exact margin for the cement business
- We assume the new plant to have useful life of 20 years and accordingly calculated depreciation on a straight-line method. We also assume annual maintenance capex (QAR 49.97 million) for the new plant to be equal to annual depreciation charge
- We assume terminal growth rate of 3.5%

Qatari Cement Sector: Positive outlook underpinned by impressive project pipeline

We have a positive outlook on Qatari cement sector due to robust pipeline of government-backed infrastructure and real estate projects. The Qatari government is committed to spend around USD 150 billion over the medium-term as part of its FIFA World Cup 2022 and Qatar National Vision 2030 plans. This is likely to act as a catalyst to bolster cement demand during this period. We forecast current cement demand of c.a 6.5 mtpa (2014 end) to significantly increase to 10.2 mtpa by 2019.

Cement Demand in 2019: A Case for 10 Mtpa

We used a top-down method to forecast cement demand in Qatar for the period 2015-2019. Main assumptions relating to our forecast are as follows:

- **Main assumption:** To forecast demand for cement we analyzed the historical trend of two main variables – i) total cement revenue for three Qatari cement companies (Qatar National Cement, Qatar Investors Group and Aljabor Cement) and ii) value of building and construction activity in Qatar. We further analyzed the historical trend of cement revenue as a percentage of construction activity and used it as a proxy to cement-related expenditure in building and construction activities in future. Finally we extrapolated this trend to forecast cement demand assuming cement prices (OPC bulk prices) to be constant at QAR 250 per ton over our forecast period.
- **Trend in building and construction activity:** We assume building and construction activity as a percentage of nominal GDP to increase to a 5-year average of 6.5% during 2015-2019 which is higher than all historical averages - 35-year and 25-year average of 5.4%, 20-year average of 5.6%, 15-year average of 5.3%, 10-year average of 5.5% and 5-year average of 5.1%. Building and construction activity as a percentage of nominal GDP has reached 6.5% or above only on 7 occasions since 1980. Though historical trend clearly suggests that we may have been aggressive in our assumption but we believe that government-backed infrastructure spending relating to FIFA World Cup 2022 and Qatar National Vision 2030 supports our assumption for comparatively greater contribution from construction activity to nominal GDP during 2015-2019. The most recent update on Qatar Economic Outlook (2014-2016) by Ministry of Development Planning and Statistics (MDPS) Qatar released in December 2014 forecasts building and construction activity to contribute 6.3% and 7% of nominal GDP in 2015 and 2016 respectively which falls in line with our overall assumption
- **Cement revenue – proxy to cement-related costs used in building and construction activity:** We assume total cement revenue (three Qatari cement companies) as a percentage of building and construction activity to average 3.35% during 2015-2019. This is lower when compared to last 5-year average of 4.4% seen during 2010-2014. However, we assume cement revenue as a percentage of building and construction activity to gradually increase each year from 2015 onwards to reach 3.5% by 2019 (at 4.4% cement demand would reach almost 13 million tons by 2019 end).
- **Domestic cement prices:** We assume cement prices in Qatar to remain constant at QAR 250 per ton (OPC bulk) for forecasting purposes. Price for OPC bulk cement has remained constant at QAR 250 per ton since 2007 as per data from Qatar National Cement

Cement Demand Forecast

	2011	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
Nominal GDP (QAR million)	618,089	692,655	739,776	787,861	826,646	889,257	952,761	1,016,119	1,084,179
YoY growth (%)	*35.7%*	*12.1%*	*6.8%*	*6.5%*	*4.9%*	*7.6%*	*7.1%*	*6.6%*	*6.7%*
Building and construction (QAR million)	28,329	30,786	35,439	43,332	52,079	56,912	61,929	67,064	73,182
YoY growth (%)	*3.0%*	*8.7%*	*15.1%*	*22.3%*	*20.2%*	*9.3%*	*8.8%*	*8.3%*	*9.1%*
Combined revenue of Qatari cement companies (QAR million)	1,287	1,419	1,512	1,624	1,693	1,850	2,013	2,347	2,561
YoY growth (%)	*-3.3%*	*10.3%*	*6.5%*	*7.4%*	*4.2%*	*9.3%*	*8.8%*	*16.6%*	*9.1%*
Cement revenue as a % of building and construction activity (%)	4.5%	4.6%	4.3%	3.7%	***3.3%***	***3.3%***	***3.3%***	***3.5%***	***3.5%***
Cement revenue as a % of Nominal GDP (%)	0.21%	0.20%	0.20%	0.21%	0.20%	0.21%	0.21%	0.23%	0.24%
Cement prices in Qatar - OPC bulk (QAR/ton)	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Sales volume (mtpa)	5.1	5.7	6.0	6.5	6.8	7.4	8.1	9.4	10.2
YoY growth (%)	*-3.3%*	*10.3%*	*6.5%*	*7.4%*	*4.2%*	*9.3%*	*8.8%*	*16.6%*	*9.1%*
Total cement demand (mtpa)	**5.1**	**5.7**	**6.0**	**6.5**	**6.8**	**7.4**	**8.1**	**9.4**	**10.2**
YoY growth (%)	*-3.3%*	*10.3%*	*6.5%*	*7.4%*	*4.2%*	*9.3%*	*8.8%*	*16.6%*	*9.1%*

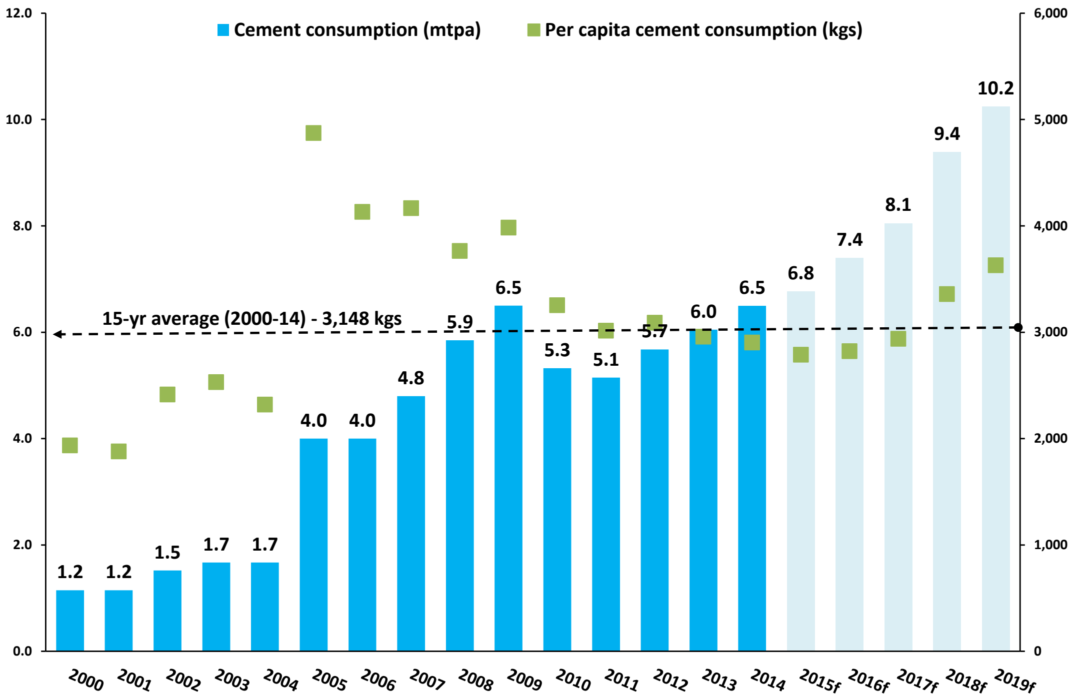
Sources: KAMCO Research, IMF, Ministry of Development Planning and Statistics (MDPS) Qatar, Cemtech and respective company financials

- **Risks:** We believe that the cloud around FIFA World Cup 2022 investigation is already behind us and hence points to minimal execution risk associated to the World Cup-related projects. Downside risk to our forecasts mainly arises from potential delay or cancellation in any high-value infrastructure/ real estate project. Any upside risk to our forecast resulting in capacity/supply constraint is likely to be met by clinker/cement imports from regional countries (mainly Saudi Arabia, Iran and United Arab Emirates)

Cement Demand Forecast: A Per Capita Consumption Perspective

In this section we highlight the historical trend in per capita consumption in cement in Qatar and analyze the future trend based on our demand forecast discussed in the earlier section. Based on our forecast we expect average per capita cement consumption of 3,107 kilograms during 2015-2019 almost at par compared to the 15-year average (2000-2014) of 3,148 kilograms and 23.6% higher compared to the 25-year average. Our forecasted cement demand of 10.2 mtpa in 2019 would result in per capita consumption increasing to 3,629 kilograms which is 25% higher compared to 2,903 kilograms in 2014. However our forecasted average of per capita cement consumption during 2015-2019 is around 27% lower compared to pre-financial crisis average of 4,234 kilograms during 2005-2008 (highest of 4,872 kilograms in 2005). This clearly shows that our forecasts appear reasonable when compared to historical trends.

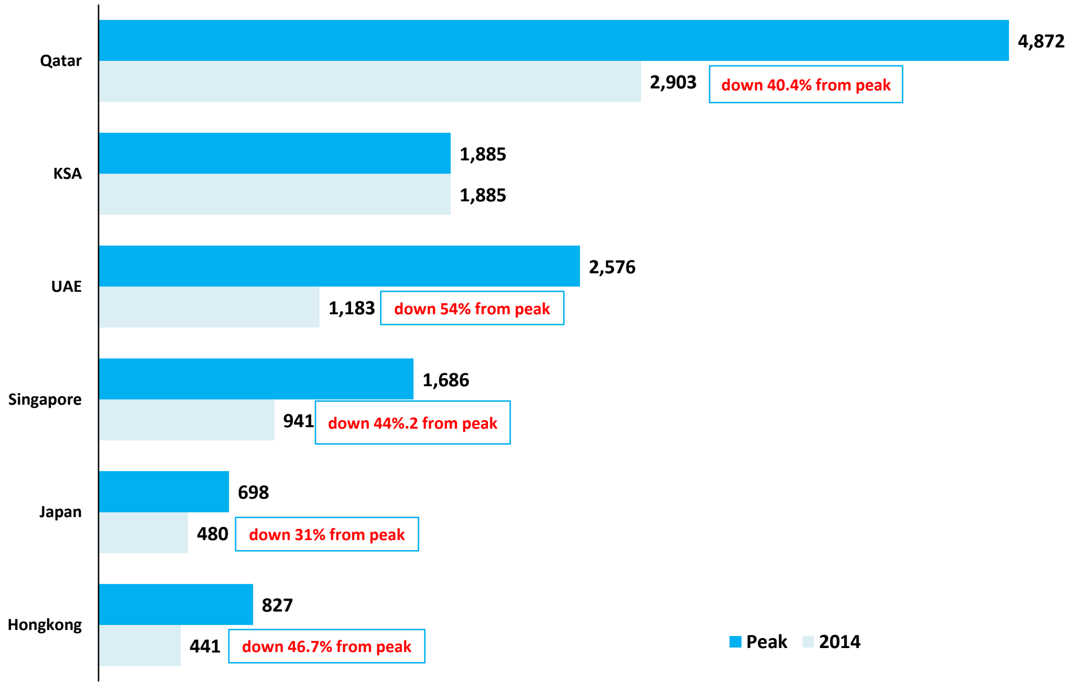
Trend In Per Capita Cement Consumption



Sources: KAMCO Research, IMF, Ministry of Development Planning and Statistics (MDPS) Qatar, Cemtech and respective company financials

However an analysis on per capita cement consumption across selected countries (selection based on countries with high per-capita GDP and a high ratio of investment-to-GDP) shows that Qatar's per capita cement consumption is easily the highest with the selected group of countries and probably the highest globally on current figures . Qatar's per capita cement consumption of 2,903 kilograms in 2014 is almost six times the current global average of around 500 kilograms. Considering a slew of high-value projects and Qatari government's financial capacity to fund these projects we believe that the country can sustain these lofty levels of cement consumption over the medium term as discussed in earlier sections.

Comparison In Per Capita Cement Consumption Across Selected Countries



Sources: KAMCO Research, International Monetary Fund and Cemtech

Impressive Pipeline of Projects Underpins Our Positive Outlook

We believe Qatari cement sector is one of the best proxy to play the Qatar Inc. story. Qatar's impressive pipeline of high-value infrastructure and real estate projects as part of its preparation for FIFA World Cup 2022 and Qatar National Vision 2030 plan lay a strong foundation for robust cement demand going forward. According to Meed projects and Business Monitor International, Qatar is expected to spend a staggering USD 150 billion on infrastructure projects over the next decade. Big-ticket infrastructure projects in the pipeline include a USD 40 billion plan for railways; a USD 20 billion investment in roads; USD 15.5 billion new airport project; USD 7.4 billion outlay on a deep-water seaport; USD 4 billion for FIFA World Cup stadiums; USD 1 billion on transport corridor project in Doha; and sizeable spending on construction of new hotel rooms.

In February 2015, Qatari govt. declared a staggering QAR 45.52 billion (USD 12.5 billion) towards a massive housing project. This could be an important catalyst for overall cement demand in Qatar. If we were to assume that: i) QAR 45.52 billion would be spent equally over the eight-year period of the project starting 2015; ii) cement prices to remain constant at QAR 250/ton; and iii) at least 3.5%-4% of project value is to be spent towards cement related expenses then it would translate in incremental annual cement demand of 0.85-1 mtpa (13%-15% of current demand of 6.5 mtpa) and cumulative cement demand of around 7-8 mtpa over the life of the project.

High-Value Projects In Qatar

Name of project	Awarded by	End date	Project Value (USD bn)	Status
Mixed-used developments / Stadiums				
Lusail Mixed-Use Development	Qatari Diar	2019	45	on going
Barwa Al Khor Development	Barwa	2023	10	on going
Barwa City	Barwa	2015	8.3	on going
Pearl Qatar	United Development Co.	2017	6.5	69% comlete
Musheireb Mixed-Use Development	Qatar Foundation	2016	5.5	69% comlete
2022 World Cup Stadiums		2020	4	tendering stage
Expressways				
East West Corridor	Ashghal	Q22017	1.1	in progress
Dukhan Highway East	Ashghal	Q22017	1.0	in progress
Lusail Expressway	Ashghal	Q22017	1.0	in progress
Rawdat Al Khail Street	Ashghal	Q42016	0.63	in progress
North Road Enhancements	Ashghal	Q42016	0.59	in progress
Dukhan Highway Central	Ashghal	Q42016	0.38	in progress
Transportation				
Hamad International Airport	Qatar Airways	2017	15.5	second and third phase ongoing
New Doha Port		2020	7.4	issue of tenders completed
Qatar Intergrated Rail		2026	40	Tunneling and construction of a number of stations is already underway

Sources: KAMCO Research, Meed Projects, Business Monitor International, Qatar Economic Insight by QNB(Sept-2014 issue)

Supply Side Forecasts: Planned Capacity Addition Going Forward

We anticipate short supply in the range of 0.230 – 0.9 mtpa in the next three years as cement demand picks up in Qatar. We expect this gap to be almost bridged through planned capacity additions by the two Qatari players by 2018 end. Qatar National Cement is expected to add a new integrated capacity of 1.575 mtpa by 2017 beginning (net addition will be 1.275 mtpa due to possible closure of one of the old lines). This would entail a capital expenditure of QAR 950 million. Qatari Investors Group is expected to double its existing capacity by adding a new integrated cement capacity of 1.89 mtpa by 2018 end. The above-mentioned capacity additions would result in a 50% jump in the country's total installed cement capacity to 9.7 mtpa by 2018 compared to 6.5 mtpa in 2014.

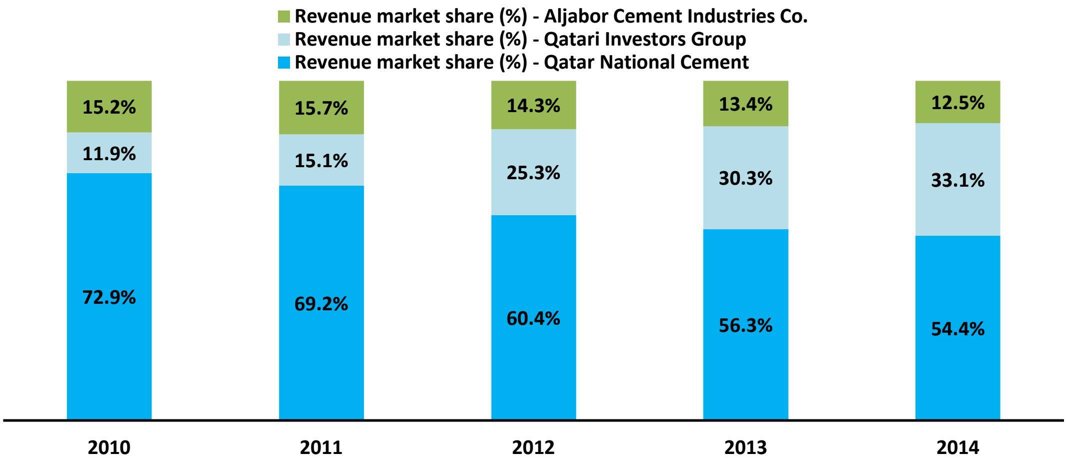
Supply Side Forecast

	2010	2011	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
System-wide clinker capacity (mtpa)	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.6	8.4	8.4
System-wide effective cement capacity (mtpa)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	7.8	9.7	9.7
System-wide excess cement grinding capacity (mtpa)	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
System-wide installed cement grinding capacity (mtpa)	8.1	8.1	8.1	8.1	8.1	8.1	8.1	9.4	11.3	11.3
Total cement demand (mtpa)	5.3	5.1	5.7	6.0	6.5	6.8	7.4	8.1	9.4	10.2
Surplus/(deficit) supply	**1.2**	**1.4**	**0.9**	**0.5**	**0.0**	**-0.23**	**-0.86**	**-0.25**	**0.30**	**-0.56**

Sources: KAMCO Research, Cemtech and respective company financials

Qatar National cement, which is the market leader, currently accounts for 57% of system-wide effective cement capacity, enjoys 54.4% share in cement volumes resulting in an identical revenue market share. Qatar national cement's revenue market share has declined since 2010 (72.9%) to currently at 54.4% in 2014. During the same period Qatari Investor Group's market share has trebled from 11.9% in 2010 to 33% in 2014. For populating revenue market share data we have assumed that Aljabor cement, which is 25% owned by Holcim and currently operates a grinding mill of 0.9 mtpa, historically operated at 90% capacity utilization and sold cement at QAR 250 per ton.

Trend In Revenue Market Share

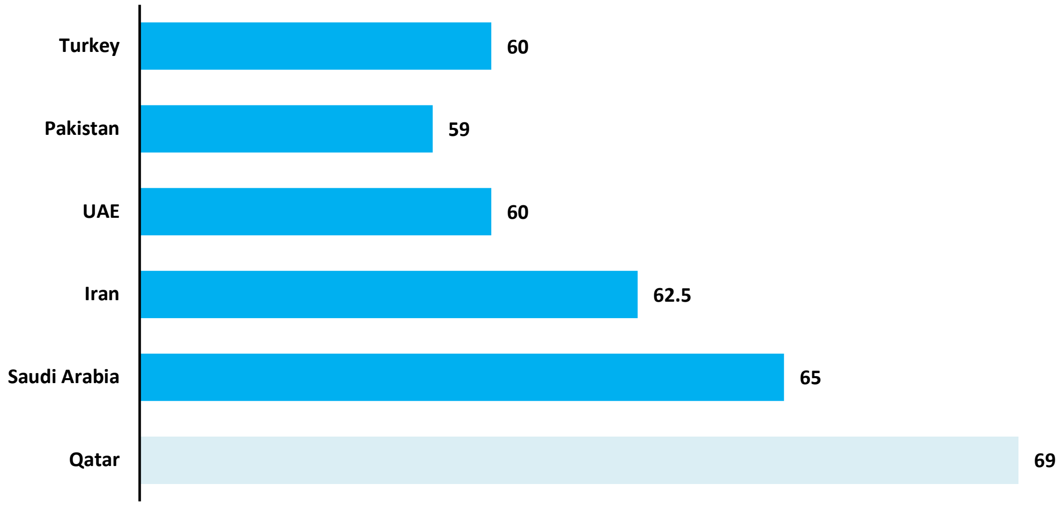


Source: KAMCO Research, Cemtech and respective company financials

Domestic Cement Pricing: Government Cap Restricts Upside; Competitively Priced On Import Parity Pricing

We believe the Qatari cement sector is largely insulated from the turmoil in the regional cement market. We weigh the risks related to domestic cement pricing, taking into consideration possible imports from Saudi Arabia and the UAE. The prevailing cement price in Qatar is among the lowest within the Gulf Cooperation Council (GCC) and, hence, acts as a natural shield to an extent for any expected price decline going forward. The Qatari cement sector is extremely competitive in terms of pricing within the regional context since the current price of bulk ordinary Portland cement (OPC) of around USD 69 per ton is lower than average landed price of USD 70-72 from the UAE and Saudi Arabia, which makes any possible imports from these countries unviable. The prevailing price for OPC is QAR 250 per ton (USD 69 per ton) and has remained the same since 2007. On the domestic front, we anticipate short supply in the range of 0.230 – 0.9 mtpa in the next three years as cement demand picks up in Qatar. We expect this gap to be almost bridged through planned capacity additions by the two Qatari players by 2018 end.

Country-wise comparison of domestic cement prices (USD per ton fob basis)



Source: KAMCO Research, Cement industry sources and company financials

Dumping from Saudi cement companies not likely in the current price scenario: Qatar has imported cement from Saudi Arabia in the past mainly for meeting excess demand. However, hypothetically, there is always a likelihood of cheap cement exports from Saudi Arabia but we do not have any historical precedence of the same. We feel Saudi Cement Co., located in the eastern province of Saudi Arabia, is best suited to reap the benefits of exports to Qatar due to its proximity to Doha (around 200–250 km away). The company is currently selling cement at an average price of SAR 240–250 per ton (USD 63–65 per ton).

Our interaction with market players in Qatar and other industry sources in Saudi Arabia has led to our understanding that Saudi Cement Co. would incur transportation charges in the range of SAR 30–40 per ton (USD 8–10 per ton) in order to sell cement in Qatar. In that case, it would be economically unviable at current price levels. As for the other cement players in Saudi Arabia, the transportation charges will be even higher considering the companies' distance from Doha. Hence, we feel, at the prevailing prices, Saudi players will not find Qatar an attractive destination.

Qatar Cement Sector: Summary

Demand Outlook	Infrastructure spending relating to FIFA World Cup 2022 and Qatar National Vision 2030 likely to be main catalyst for cement demand We forecast domestic cement demand to grow significantly from 6.5 mtpa (2014 end) to 10.2 mtpa by 2019 implying a 5-year CAGR of 9.5% Historical demand grew at a 4-year CAGR of 5% during 2010-2014
Supply Outlook	We anticipate short supply in the range of 0.230 – 0.9 mtpa in the next three years We expect almost 50% jump in the country's total installed effective cement capacity to 9.7 mtpa by 2018 end compared to 6.5 mtpa in 2014 Capacity additions likely to bridge demand-supply gap by 2018 end
Capacity Addtions	Planned capacity addtions by both companies - Qatar National Cement (1.575 mtpa) and Qatari Investors Group (1.89 mtpa) Capital expenditure - QAR 950 million for Qatar national cement
Cement Prices	Cement prices are governement regulated and currently have a price cap of QAR 250 per ton for OPC bulk Price for OPC bulk cement has remained constant at QAR 250 per ton since 2007 as per data from Qatar National Cement Prevailing domestic cement prices are competitively priced on import parity pricing and hence are largely insulated from any potential weakness in cement prices in the regional markets
Competition	Qatari cement sector is a virtual duopoly. Aljabor, the third and the smallest player, operates a 0.9 mtpa grinding mill Qatar National cement - accounts for 57% of Qatar's total installed effective capacity and enjoys 54.4% share in cement volumes (2014 figures) Investor Group's market share has trebled from 11.9% in 2010 to 33% in 2014
Government's Role	Energy subsidies from government play an important role is artificially increasing company's profitability However we think local cement companies are at a comparative disadvantage to Saudi cement companies in terms of energy subsidies. Our understanding is that though Qatari cement companies do not procure gas at market prices like that of the UAE cement companies but shell out more compared to their Saudi peers. All kilns are fired with natural gas while grinding mills run on electricity The government controls all raw materials—limestone as well as natural gas. The companies have long-term contracts with the government for both

Sources: KAMCO Research, Cemtech and respective company financials

Qatar Cement Sector – Key Figures

	2010	2011	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
Year end clinker capacity - **Qatar National Cement** (mtpa)	3.6	3.6	3.57	3.57	3.57	3.57	3.57	4.77	4.77	4.77
Year end clinker capacity - **Qatari Investors Group** (mtpa)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	3.6	3.6
System-wide clinker capacity (mtpa)	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**	**5.4**	**6.6**	**8.4**	**8.4**
Effective year end cement capacity - **Qatar National Cement** (mtpa)	3.75	3.75	3.75	3.75	3.75	3.75	3.75	5.0	5.0	5.0
Excess cement grinding capacity - **Qatar National Cement** (mtpa)	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
Effective year end cement capacity - **Qatari Investors Group** (mtpa)	1.89	1.89	1.89	1.89	1.89	1.89	1.89	1.89	3.78	3.78
Excess cement grinding capacity - **Qatari Investors Group** (mtpa)	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Cement grinding capacity - **Aljabor Cement Industries Co.** (mtpa)	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
System-wide effective cement capacity (mtpa)	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**	**7.8**	**9.7**	**9.7**
System-wide excess cement grinding capacity (mtpa)	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**
System-wide installed cement grinding capacity (mtpa)	**8.1**	**8.1**	**8.1**	**8.1**	**8.1**	**8.1**	**8.1**	**9.4**	**11.3**	**11.3**
Total cement demand (mtpa)	**5.3**	**5.1**	**5.7**	**6.0**	**6.5**	**6.8**	**7.4**	**8.1**	**9.4**	**10.2**
Surplus/(deficit) supply	1.2	1.4	0.9	0.5	0.0	-0.23	-0.86	-0.25	0.30	-0.56
Cement prices (OPC bulk) - QAR per ton	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**	**250**

Sources: KAMCO Research, Cemtech and respective company financials

Company Background

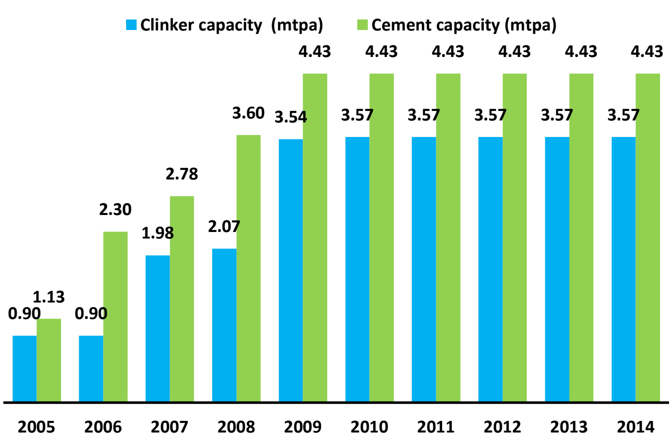
Qatar National Cement, 43% owned by the Qatari government, was the first cement player in the country. Established in 1965, the company began its commercial operations in 1969 with a 100,000-ton-per-annum single-line production facility. The company has enjoyed a monopoly status from its inception and currently controls around 55% of the domestic cement market. Current clinker and cement capacity stands at 3.57 mtpa and 4.425 mtpa (excess grinding capacity of 0.676 mtpa), respectively. With the addition of the new plant clinker and cement capacity will increase to 4.77 mtpa and 5.685 mtpa respectively. The company plans to retire one of its old lines (300,000 tons) as and when the new plant will be ready.

The company's main cement product is ordinary Portland cement (around 90% of total sales volume) and sulphate resistant cement. The company's cement plants are located at Umm Bab (82 km from Doha) close to rich raw material deposits. The new plant will be in the same location as well. The company currently operates through four lines of production, all of which are European make. The new cement plants are fully computerized and run on state-of-the-art technology. The cement plants are equipped with automatic weighing and bagging units, and the company's own fleet of tankers ensures delivery of bulk and bagged cement to customers.

In 2003, the company acquired a sand treating plant with a capacity of 20,000 tons per day. The company commissioned a second sand treating plant in 2008 thus doubling its capacity. The plant desalinates and filters the sand, which is later sold to ready mix and other construction companies. Revenue for this segment accounted for around 12.7% of total revenue in 2014 (last 5-year average of 10.8%).

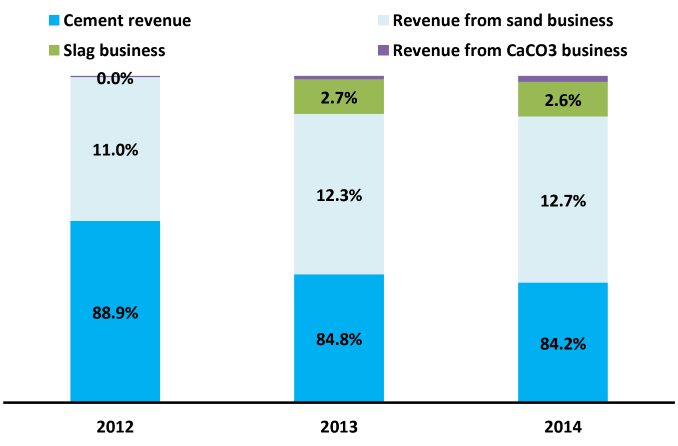
The company started its calcium carbonate plant in 2012 at an investment of QAR 22 million. The annual rated capacity of the plant is 75,000 tons (250 tons per day). The company has an agreement with Kahramaa to supply calcium carbonate for 25 years. The segment reported revenue of QAR 4.92 million and thus accounted for 0.47% of total revenue during 2014.

Cement And Clinker Capacity



Sources: KAMCO Research and Qatar National Cement

Revenue Mix



Sources: KAMCO Research and Qatar National Cement

Financial Performance and Forecasts

Total Revenue

In this section, we discuss the historical and future trends of total revenue for Qatar National Cement. We perform detailed analysis on the cement business by analyzing the trend in clinker and cement capacity utilization, clinker-to-cement production ratio, clinker and cement production, cement prices, sales volume, and, finally, revenue for our explicit forecast period. We also comment on our main assumptions for other business segments – sand, slag and calcium carbonate

Cement Segment

Our main assumptions for the cement segment are as follows:

Production capacity: We assume clinker and cement capacity to remain constant at 3.57 mtpa and 4.425 mtpa (effective grinding capacity of 3.75 mtpa with excess grinding capacity of 0.676 mtpa) for the next two years. We assume the new plant (integrated capacity of 1.575 mtpa) to be operational by 2017 beginning. We assume a delay of 2-3 months compared to scheduled completion, which is expected to be around end of Q32016. The company plans to retire one of its old line (Plant 1 – 0.3 mtpa) as and when the new plant will be ready. Taking into account the closure of Plant 1 we forecast clinker and cement capacity to remain constant at 4.77 mtpa and 5.685 mtpa (effective grinding capacity of 5.008 mtpa with excess grinding capacity of 0.676 mtpa) for the period during 2017 to 2024.

Capacity utilization: We expect existing clinker capacity to operate at 95% and 97.5% utilization (last 3-year average of 93.8%) during 2015 and 2016 respectively. We expect the new kiln to operate at 85% capacity utilization in 2017 (100% utilization for the existing capacity and hence blended utilization of 95% for 2017) and then scale up to full utilization by 2018. Accordingly we expect the clinker capacity to operate at full capacity for all years during 2018 and 2021. We then scale down utilization rates to 90% and 85% in 2023 and 2024 (our terminal year). Hence we forecast average utilization rate of 96% over our explicit forecast period (2015-2024). Applying cement to clinker ratio of 1.05 we expect cement utilization rate to average 85.3% over our forecast period. However if we were to exclude the excess grinding capacity average cement utilization rates would climb to 97.6% over our forecast period.

Clinker/cement imports: We forecast Qatar National Cement to import 450,000 tons and 150,000 tons of clinker in 2016 and 2017 which is roughly half of the excess cement demand we forecast for Qatar cement sector during those two years. We have assumed landed cost of USD 60 per ton for imported clinker. We do not forecast any cement imports.

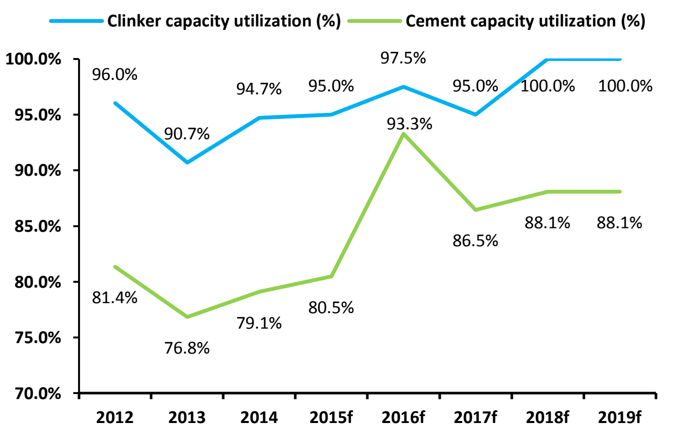
Clinker and cement production: Applying the above assumptions we forecast clinker production to increase at a five-year (2015- 2019) CAGR of 7.1% to reach 4.77 mtpa by 2019. However we expect 10-year CAGR (2015-2024) to be much lower at 1.8% mainly due to our assumption of scaling down utilization rates post FIFA World Cup related projects get completed. As for cement production we expect a similar trend compared to our forecast for clinker production. We forecast cement production to increase at a 5-year and 10-year CAGR of 7.4% and 2%.

Cement sales volume: We expect the company to sell what it produces and hence forecast cement sales volume to mimic production numbers (5-year and 10-year CAGR of 7.4% and 2%).

Cement price: As mentioned earlier we expect domestic cement price (OPC bulk) to remain constant at QAR 250 per ton. We expect blended cement prices for Qatar National Cement to average QAR 254 per ton over our forecast period. We expect blended cement prices to peak at QAR 255 per ton during 2017 – 2021 and then decrease to QAR 252.5 per ton during 2022-2024. Price for OPC bulk cement has remained constant at QAR 250 per ton since 2007 as per data from Qatar National Cement.

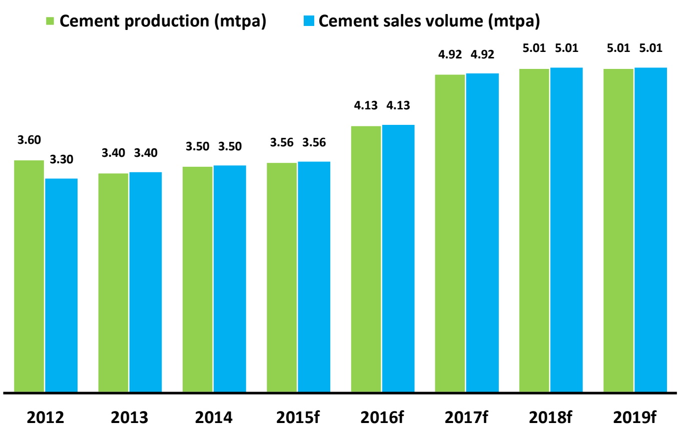
Cement revenue: Applying the above assumptions for sales volume and cement price we forecast cement revenue to increase at a 5-year and 10-year CAGR of 7.6% and 2%. We expect cement revenue to peak at QAR 1.28 billion during 2018 – 2021. We forecast our terminal year revenue to be almost 16% lower than peak revenue. We expect cement revenue to account for an average of 85.7% of total revenue over our forecast period (last 3-year average of 86% and 2014 figure of 84.2%)

Capacity Utilization



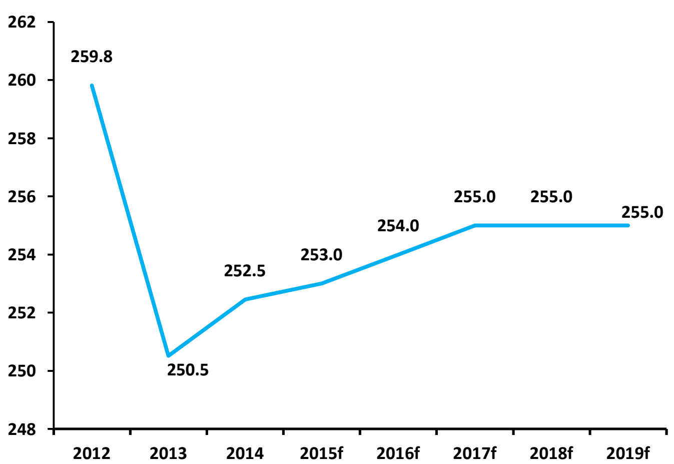
Sources: KAMCO Research and Qatar National Cement

Cement Production and Sales Volume



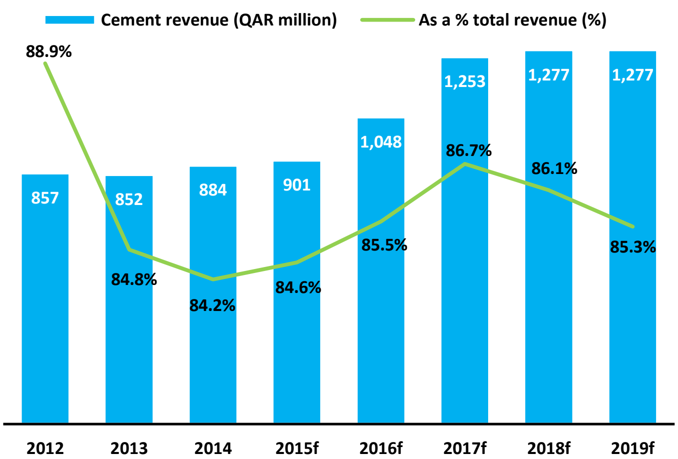
Sources: KAMCO Research and Qatar National Cement

Cement Price (QAR per ton)



Sources: KAMCO Research and Qatar National Cement

Cement Revenue



Sources: KAMCO Research and Qatar National Cement

Sand Segment

Since the prospect of this segment is closely related to the cement business, hence we forecast a gradual increase in sand sales volume going forward and expect capacity utilization to rise from 46.7% in 2014 to reach peak utilization of 70% in 2019. We forecast sales volume to increase from 20,000 tons per day (6 mtpa) in 2015 to reach peak volumes of 28,000 tons per day (8.4 mtpa) by 2019. We expect sales volumes to remain constant at 28,000 tons per day in 2020 and 2021 and then gradually drop back to 20,000 tons by 2024 once World Cup related projects are completed. As per management guidance we assume price of sand to remain constant at QAR 22 per ton over our forecast period (has remained constant since 2010). In general, we forecast revenue from the sand business to increase at a five-year CAGR of 6.7% from QAR 133.4 million in 2014 to QAR 184.8 million in 2019. We forecast sand revenue to drop back to QAR 132 million in our terminal year. We expect revenue from this segment to contribute an average of 11.8% of total revenue over the forecast period (last 3-year average of 12% and 2014 figure of 12.7%).

Slag Segment

In the absence of detailed information on the segment and lack of guidance from management, we assume revenue from this segment to be constant at 2014 level of QAR 27.7 million over our forecast period. Hence we expect revenue from this segment to contribute on an average 2% of total revenue over the forecast period.

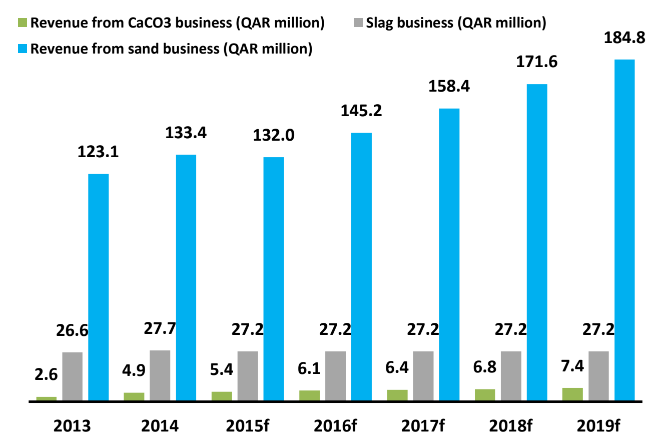
Calcium Carbonate (CaCo3) Segment

We expect sales volume to increase at a 5-year CAGR of 8.6% to 41,250 tons by 2019. Since we assume calcium carbonate prices to remain constant at QAR 180 per ton, hence revenue growth will be identical to growth in sales volume. We forecast revenue from this segment to contribute an average of 0.5% of total revenue over the forecast period.

Total Revenue

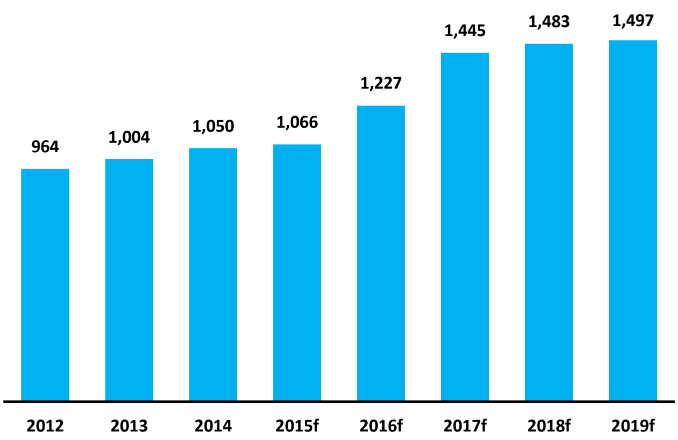
We forecast total revenue to increase at a 5-year and 10-year CAGR of 7.4% and 1.7%. We expect total revenue to peak at QAR 1.5 billion during 2020 – 2021. We forecast our terminal year revenue to be almost 17% lower than peak revenue.

Revenue From Non-Cement Segments



Sources: KAMCO Research and Qatar National Cement

Total Revenue (QAR million)

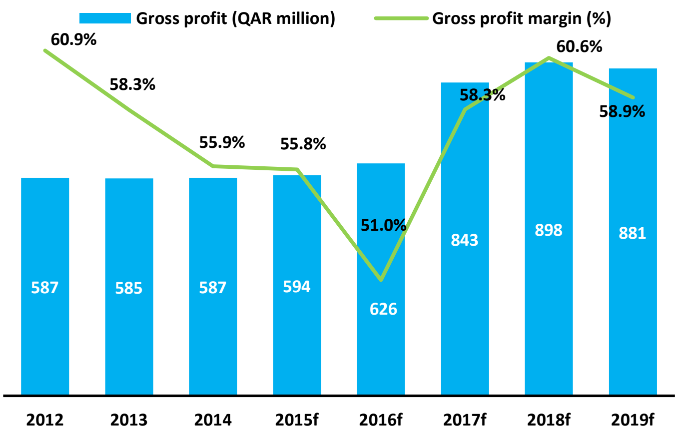


Sources: KAMCO Research and Qatar National Cement

Cost Structure and Margins

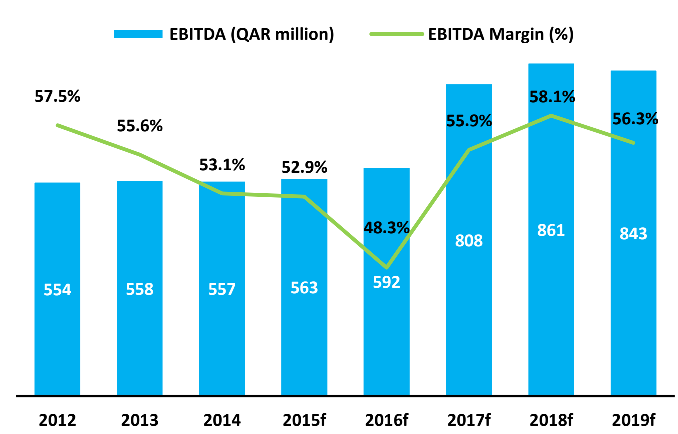
As mentioned earlier we expect the company to import 450,000 tons and 150,000 tons of clinker in 2016 and 2017 respectively. We assume landed cost of USD 60 per ton for imported clinker as per management guidance. We expect clinker imports to result in sharp decline in margins in 2016 as can be seen in the table below. From 2017 onwards we expect margins to recover due to absence of clinker imports. Contribution from the new plant will also help boosting margins. The company does not provide detail breakdown of cost of sales with the exception of a single item head – salaries. Hence, we have mainly relied on recent historical trend of gross profit margin to forecast the future trend. We have assumed salaries to increase by a 5-year CAGR of 5.5% during 2015-2019. In general we have assumed cost of sales as a percentage of total revenue to average 42.9% over our forecast period compared to the last 5-year average of 41.2%. We forecast general and administration expenses as a percentage of total revenue to average 3.2% over our forecast period which is similar to historical trend.

Gross Profit and Gross Profit Margin



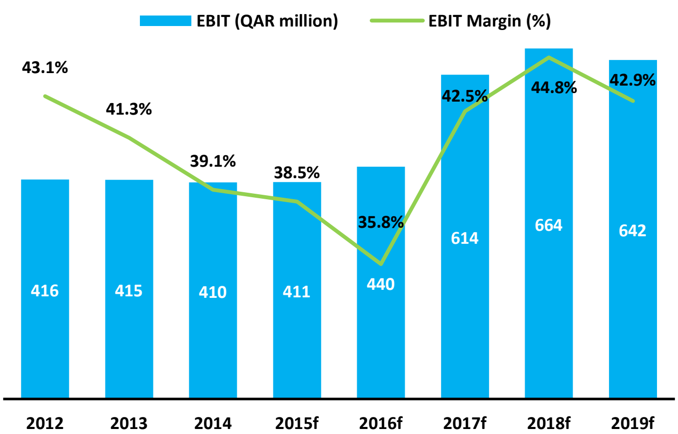
Sources: KAMCO Research and Qatar National Cement

EBITDA and EBITDA Margin



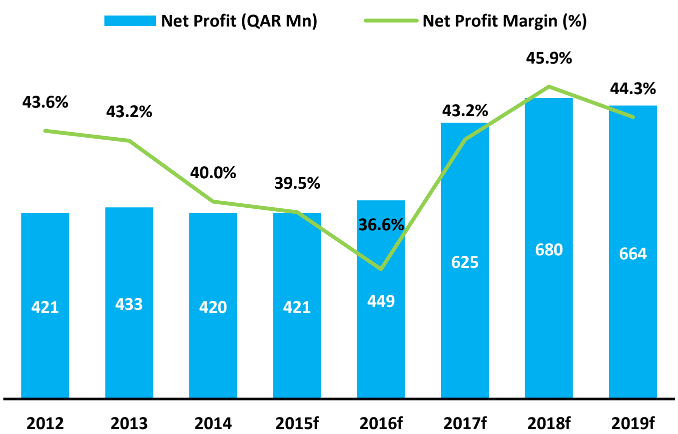
Sources: KAMCO Research and Qatar National Cement

EBIT and EBIT Margin



Sources: KAMCO Research and Qatar National Cement

Net Profit and Net Profit Margin



Sources: KAMCO Research and Qatar National Cement

Investment and Other Income

We have forecasted an annual return of 5.44% on the investment portfolio which is equal to last 5 year's average. We have assumed no growth in the investment portfolio from 2014 yearend balance of QAR 168.5 million.

The company has other sustainable and recurring income sources apart from its core businesses. The company has real estate properties (residential real estate leased to government) which is shown at a net book value of QAR 7.68 million at 2014 end. This property portfolio generated annual rental income of QAR 8.5 million in 2014 and it has remained the same since 2012. We have assumed annual rental income of QAR 8.5 million over our forecast period.

The company's fleet of bulk containers and tankers are also rented to third parties subjected to their availability. We assume transportation income as a percentage of cement revenue to remain constant at 0.5% over our forecast period (average of 0.48% during the last 3 years).

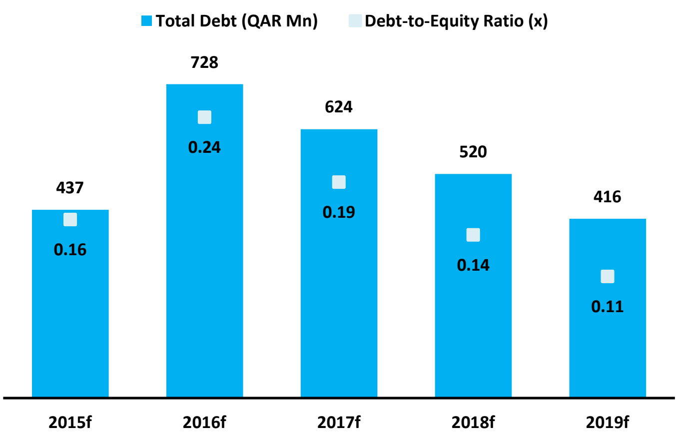
Capex and Depreciation

The new plant will cost QAR 950 million (USD 261 million) implying an EV per ton of USD 166. The company has already paid QAR 143.5 million (15% of total project cost) as an advance to contractors. We expect the company to spend 60% of the remaining amount in 2015 and the balance in 2016. The project also involves an additional outlay of QAR 49.53 million relating to a new sub-station for the new plant. QAR 4.95 million or 10% has already been spent during 2014. We forecast annual depreciation charge relating to PP&E block to average 4.6% of average gross block which is similar to historical trends (10-year and 5-year average of 4.4% and 4.7%). We forecast annual depreciation charge of 3.65% on investment property gross block over our forecast period which is also similar to historical trend.

Leverage and Return Ratios

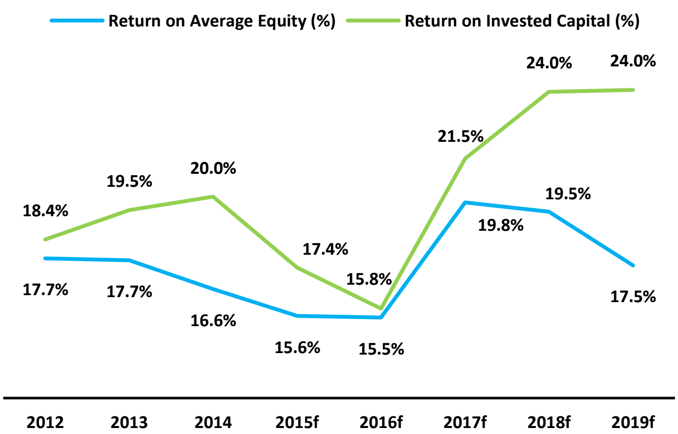
The new plant will be financed by a mix of debt and equity. As per management the company plans to borrow USD 200 million (QAR 728 million / 76.6% of total project cost) to finance the project. The rest will be financed by equity/reserves. We have assumed an average cost of borrowing of 2% for this 7-year borrowing which we believe is conservative compared to management guidance.

Total Debt and Debt-to-Equity Ratio



Sources: KAMCO Research and Qatar National Cement

RoAE and RoIC



Sources: KAMCO Research and Qatar National Cement

Restatement Relating to Earlier Transactions with Qatar Petroleum

The company restated its 2013 financials and incorporated certain prior period figures due to the disclosure of claims from Qatar Petroleum related to the take or pay obligation of gas supplies (QAR 92.13 million), reimbursement of capital nature committed expenses (QAR 55.58 million) and corresponding interest charges on the outstanding dues (11.99 million). The total of QAR 159.7 million (QAR 3.25 per share) is reflected in 2014 accounts payable which we assume will be settled in 2015 and accordingly have made necessary adjustments to reflect in our forecasts. The stated figure accounts for 28% of 2014 year end cash and cash equivalent balance.

Free Cash Flow / Dividend Analysis

We expect the company to generate significant free cash flows once capex for the new plant is over. This is likely to result in higher payouts going forward. We expect future dividend payout to gradually increase from 52% in 2017 to reach 90% in 2024 (terminal year). On a trailing 12-month basis, the stock is trading at a dividend yield of 3% and free cash flow yield of 5.5%. Our free cash flow analysis suggests there is still significant upside potential for the dividend yield from current levels, taking into account notable free cash generation from 2017 onwards.

Free Cash Flow and Dividend Analysis

	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
FCF (QAR million)	451	547	337	-157	179	699	749	753
Cash dividends (QAR million)	294.6	294.6	196.4	270	270	324	378	405
Dividend per share (QAR)	6.0	6.0	4.0	5.0	5.0	6.0	7.0	7.5
FCF / Net Profit (%)	107%	126%	80%	-37%	40%	112%	110%	113%
Dividend Cover (x)	1.5	1.9	1.7	-0.6	0.7	2.2	2.0	1.9
Dividend Payout Ratio (%)	70%	68%	47%	64%	60%	52%	56%	61%
FCF Yield (%)	9.1%	9.4%	5.2%	-2.4%	2.7%	10.6%	11.3%	11.4%
Dividend Yield (%)	5.9%	5.0%	3.0%	4.1%	4.1%	4.9%	5.7%	6.1%

Sources: KAMCO Research and Qatar National Cement

The 33% cut in dividend in 2014 to QAR 4 per share came as a shock. The management reasons out that one of the main reasons for cut in dividend was due to provision for the prior period item discussed above.

Financial Indicators

Balance Sheet (QAR Mn)	2012	2013	2014	2015f	2016f	2017f	2018f
Assets							
Cash and cash equivalents	329.8	512.4	568.2	655.2	866.0	1,204.6	1,531.6
Receivables	147.1	179.8	181.6	189.1	185.5	202.9	216.7
Inventory	327.5	267.2	268.7	275.4	279.5	303.1	326.1
Total current assets	810.5	965.1	1,024.8	1,126.1	1,338.7	1,719.6	2,084.0
Net property, plant and equipment	1,658.9	1,618.5	1,580.5	1,984.2	2,242.1	2,115.7	1,990.4
Other assets	212.2	236.4	378.6	374.6	373.0	373.0	372.9
Total assets	**2,681.7**	**2,820.0**	**2,983.9**	**3,484.9**	**3,953.8**	**4,208.3**	**4,447.3**
Liabilities							
Long-term debt	0.0	0.0	0.0	436.8	624.0	520.0	416.0
Accounts payable and other liabilities	154.4	332.8	372.9	221.3	228.0	240.6	240.1
Current portion of long-term debt	81.9	0.0	0.0	0.0	104.0	104.0	104.0
Total liabilities	**247.3**	**345.5**	**387.3**	**674.2**	**974.1**	**884.8**	**782.4**
Shareholders' Equity							
Share capital	491.0	491.0	491.0	491.0	491.0	491.0	491.0
Retained earnings	1,238.4	1,269.3	1,384.5	1,609.1	1,788.1	2,142.7	2,499.1
Other reserves	705.0	714.2	721.1	710.6	700.5	689.8	674.8
Total Shareholders Equity	**2,434.4**	**2,474.5**	**2,596.6**	**2,810.7**	**2,979.6**	**3,323.5**	**3,665.0**
Total liabilities and equity	**2,681.7**	**2,820.0**	**2,983.9**	**3,484.9**	**3,953.8**	**4,208.3**	**4,447.3**

Income Statement (QAR Mn)	2012	2013	2014	2015f	2016f	2017f	2018f
Revenue	964.3	1,004.1	1,049.7	1,065.6	1,226.8	1,445.5	1,482.7
Cost of goods sold	(377.3)	(418.7)	(463.0)	(471.5)	(601.3)	(602.3)	(584.9)
Gross profit	**586.9**	**585.4**	**586.7**	**594.1**	**625.5**	**843.2**	**897.8**
General and administrative expenses	-46.2	-41.6	-42.2	-43.7	-46.9	-50.3	-51.4
Other operational Income/Loss	13.4	14.2	12.5	13.0	13.7	14.8	14.9
EBITDA	**554.1**	**558.0**	**557.0**	**563.4**	**592.4**	**807.6**	**861.3**
Depreciation	-138.5	-143.3	-147.0	-152.7	-152.8	-194.0	-197.4
EBIT	**415.6**	**414.7**	**409.9**	**410.7**	**439.6**	**613.6**	**663.9**
Finance costs	-2.2	-0.3	-1.4	-8.7	-11.6	-13.5	-11.4
Interest/investment income	13.0	13.1	13.5	15.3	16.8	19.5	22.9
Other Income/Loss	-5.5	5.8	-1.7	3.7	4.3	5.0	5.1
Net profit	**420.9**	**433.3**	**420.3**	**421.0**	**449.0**	**624.7**	**680.5**
EPS (QAR)	**8.6**	**8.8**	**8.6**	**8.6**	**9.1**	**12.7**	**13.9**

Cash Flow (QAR Mn)	2012	2013	2014	2015f	2016f	2017f	2018f
Net cash from operating activities	516.8	616.4	581.7	397.4	597.4	777.9	823.3
Net cash (used in) from investing activities	(65.0)	(57.4)	(231.3)	(542.1)	(396.1)	(51.7)	(56.8)
Net cash from (used in) financing activities	(376.5)	(376.5)	(294.6)	231.7	9.5	(387.6)	(439.5)
Change in cash and cash equivalents	75.3	182.5	55.8	87.0	210.8	338.6	327.0
Cash at the end of the year	**329.8**	**512.4**	**568.2**	**655.2**	**866.0**	**1,204.6**	**1,531.6**

Sources: KAMCO Research and Qatar National Cement

Key Ratios	2012	2013	2014	2015f	2016f	2017f	2018f
Asset Structure and Leverage Ratios							
Total Liabilities / Total Assets (%)	9.2%	12.3%	13.0%	19.3%	24.6%	21.0%	17.6%
Total Debt / Total Assets (x)	0.03	0.00	0.00	0.13	0.18	0.15	0.12
Total Debt / Equity (x)	0.03	0.00	0.00	0.16	0.24	0.19	0.14
ST- Debt/Equity (x)	0.03	0.00	0.00	0.00	0.03	0.03	0.03
LT-Debt/Equity (x)	0.00	0.00	0.00	0.16	0.21	0.16	0.11
Interest Coverage Ratio (x)	187	1374	293	47	38	45	58
Liquidity Ratios							
Current Ratio (x)	3.43	2.90	2.75	5.09	4.03	4.99	6.06
Quick Ratio (x)	2.02	2.08	2.01	3.82	3.17	4.08	5.08
Cash Ratio (Cash & Eq./Current Liabilities)	1.40	1.54	1.52	2.96	2.61	3.50	4.45
Operating Efficiency Ratios							
Inventory Turnover (x)	1.27	1.41	1.73	1.73	2.17	2.07	1.86
Days inventory outstanding	288	259	211	211	168	177	196
Receivables Turnover (x)	6.54	6.14	5.81	5.75	6.55	7.44	7.07
Days sales outstanding	53.2	57.4	61.4	65.7	57.8	51.1	53.9
Accounts Payable Turnover (x)	2.7	1.7	1.3	1.6	2.7	2.6	2.4
Days payable outstanding	119	132	142	152	125	129	135
Total Assets Turnover Ratio (x)	0.36	0.37	0.36	0.33	0.33	0.35	0.34
Cash conversion cycle	222.3	184.3	131.1	124.1	101.5	98.8	115.5
Profitability Ratios							
Return on Average Assets (%)	15.9%	15.8%	14.5%	13.0%	12.1%	15.3%	15.7%
Return on Average Equity (%)	17.7%	17.7%	16.6%	15.6%	15.5%	19.8%	19.5%
ROIC (%)	18.4%	19.5%	20.0%	17.4%	15.8%	21.5%	24.0%
Margins							
Gross profit margin (%)	60.9%	58.3%	55.9%	55.8%	51.0%	58.3%	60.6%
EBITDA margin (%)	57.5%	55.6%	53.1%	52.9%	48.3%	55.9%	58.1%
EBIT margin (%)	43.1%	41.3%	39.1%	38.5%	35.8%	42.5%	44.8%
Net profit margin (%)	43.6%	43.2%	40.0%	39.5%	36.6%	43.2%	45.9%
Market Data and Valuation Ratios							
Closing Share Price (QAR)	101.0	119.0	132.0	135.0	135.0	135.0	135.0
Number of Shares (Mn)	49.1	49.1	49.1	49.1	49.1	49.1	49.1
Market Capitalization (QAR Mn)	4,959	5,843	6,481	6,629	6,629	6,629	6,629
Enterprise Value (QAR Mn)	4,711	5,331	5,913	6,113	6,113	6,113	6,113
Earnings Per Share (QAR)	8.6	8.8	8.6	8.6	9.1	12.7	13.9
Book Value Per Share (QAR)	49.6	50.4	52.9	57.2	60.7	67.7	74.6
Dividend Per Share (QAR)	6.0	6.0	4.0	5.00	5.00	6.00	7.00
PE (x)	11.8	13.5	15.4	15.7	14.8	10.6	9.7
EV/EBITDA (x)	8.5	9.6	10.6	10.9	10.3	7.6	7.1
PB (x)	2.0	2.4	2.5	2.4	2.2	2.0	1.8
Dividend Yield (%)	5.9%	5.0%	3.0%	4.1%	4.1%	4.9%	5.7%
FCF Yield (%)	9.6%	10.3%	5.5%	-2.6%	2.9%	11.4%	12.3%

Sources: KAMCO Research and Qatar National Cement

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