Holcim (Liban)

BLOMINVEST BANK S.A.L.

FULL YEAR UPDATE FOR 2013

Sector:	Basic Materials & Industrial Products	Share Price (USD):	13.76
Country:	Lebanon	Target Price (USD):	14.96
Date:	21 July, 2014	Upside:	8.72%
		Recommendation:	HOLD

Maintaining a HOLD recommendation with a target share price of USD 14.96 per share on lack of robust growth in fundamental indicators

We value Holcim Liban (HL) at USD 14.96 per share on absence of strong signs of fundamental growth in the near-term unless a capacity expansion plan is approved. Holcim shares are currently yielding a very attractive above 6% in dividends but Lebanon's deteriorating political and security situations along with external headwinds from the Syrian war keep on pressuring Lebanese equities, leading us to maintain our HOLD recommendation. When comparing HL to its regional peers, we find that with a P/E ratio of 12.3, the cement producer may be undervalued against its peers which hold an average P/E of 14.8. However, we believe this discount could be attributable to the country's security and political risks in which HL operates on top of the impact of the ongoing political turmoil in neighboring Syria. Moreover, investors view Lebanon's cement market as a smaller market that offers limited growth potential for a cement producer in addition to its trading in an illiquid market with only 18% of Holcim shares tradable by the public.

Modest growth in HL's top-tine despite strong cement market recovery

Although the size of the Lebanese cement market grew by an impressive 9.8% in 2013 to hit a record high of 5.8 million tons, Holcim Liban didn't profit from the recovery as production wasn't enough to meet the upward market demand with faster pickup in the yearly sales of its two main competitors dragging its market share to 38.2% from 41.6% recorded a year earlier. This has resulted in a modest upswing of 1.7% in 2013 revenues to reach USD 190 million. Grey cement rose by 0.9% to 2.1 million tons, accounting for 95.7% of the company's total sales volume, while white cement sales inched up by a mere 0.3% to reach 95,700 tons. Looking forward, we expect revenues at HL to remain almost flat at USD 190.2 million as the weakening market position and the absence of any capacity expansion plan in the near-term may continue to pressure HL's opportunity to benefit from the recovering cement market in Lebanon.

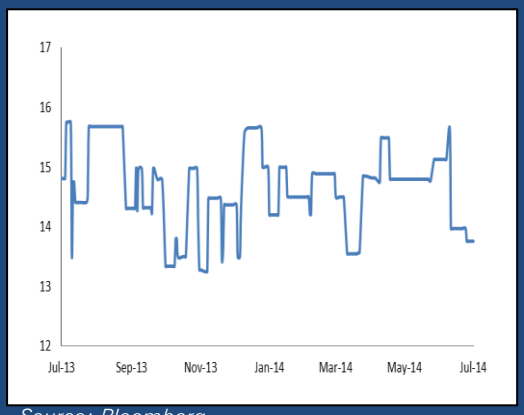
Improving production efficiency lifts margins

HL recorded higher gross margin of 30.3% as opposed to 26.7% in 2012, mainly due to improving production efficiency. Earnings followed suit, showing a 15.3% upsurge to USD 21.8 million, supported by a USD 3.4 million gains from sales of non-strategic assets and a USD 150,000 lower finance expenses. We expect 2014 earnings to come around 2013 level at USD 21.9 million, maintaining flat revenues and an average historical level of margins. However, we anticipate growth at a CAGR of 18.3% in the coming three years, mostly due to improved production efficiency. HL's investment in Waste Heat Recovery (WHR), which started in May 2013, couldn't come at a better time. The company will benefit from enhancing margins through lowering profit variability in relation to oil prices and cutting production costs by USD 2 million per year.

Share Data

Bloomberg Symbol	HOLC LB
Reuters Symbol	HOLC.BY
Market Cap	268,540,710
Number of Shares	19,516,040
Free Float	17.8%
Price-to-Earnings 2014e	12.30
Price-to-Book 2014e	1.66

Share Performance



Source: Bloomberg

1 Month Return	-9.1%
3 Month Return	-7.2%
6 Month Return	-3.1%
12 Month Return	-7.1%
52 Week Range	13.25 – 16.27

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Performance and Forecasts

Year	2012	2013	2014e	2015f	2016f
Revenues (USD millions)	186.8	190.0	190.2	194.0	200.5
Net Income (USD millions)	18.9	21.8	21.9	24.4	34.1
EPS (USD)	0.97	1.12	1.12	1.25	1.75
BVPS (USD)	8.06	8.65	8.55	8.31	8.10
ROA	6.5%	7.6%	7.6%	8.6%	11.9%
ROE	9.0%	10.4%	10.3%	11.4%	15.8%

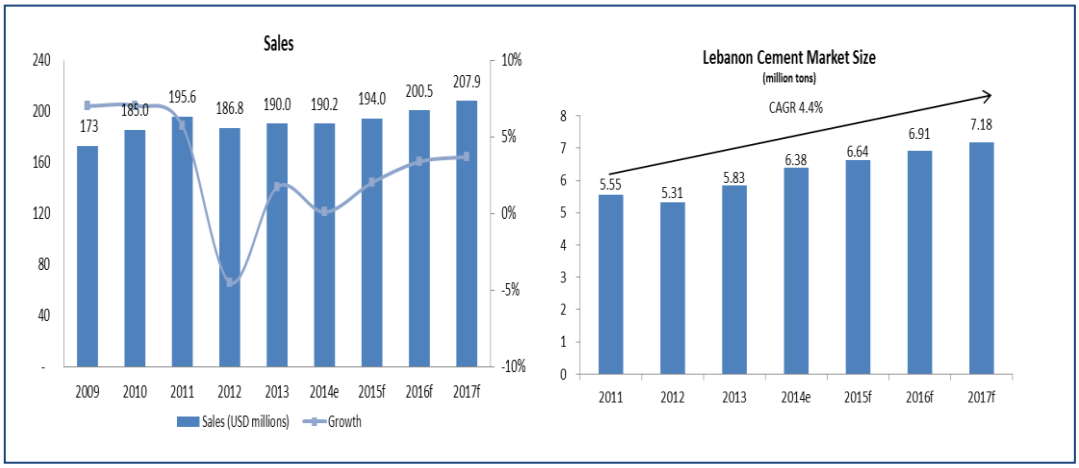
Source: Holcim, Blominvest

INCOME STATEMENT HIGHLIGHTS

Revenues: modest growth amidst robust cement market recovery

After treading on the heels of the Lebanese cement market for several years, growth at Holcim Liban lagged way behind the boom in the cement market size during 2014, harshly hit by severe competitive pressure and technical problems triggering a decline in cement production. This has resulted in a modest upswing of 1.7% in 2013 revenues to reach USD 190.0 million.

The size of the Lebanese cement market, contrary to the slowing construction and real estate activities, grew by an impressive 9.8% in 2013 to reach a record high of 5.8 million tons after dwindling by 4.3% during 2012. This was mainly due to higher public spending, previously licensed products and illegal construction, rather than demand stemming from a revived construction sector. However, HL didn't profit from the market growth as production wasn't enough to meet the upward market demand with faster pickup in the yearly sales of its two main competitors dragging its market share to 38.2% from 41.6% recorded a year earlier. Hence, sales volume at HL edged up by only 0.9% to 2.2 million tons, while Cimenterie Nationale registered a 14.3% jump to 2.4 million tons, grasping the largest share of 41.2%. As for Ciment de Sibline sales, they went up by an annualized 8.8% to 1.2 million tons, catching a market share of 20.6%.



Source: Banque du Liban, Holcim, Blominvest

2013 showed a minimal demand for HL's products. Grey cement, which is mainly used for most construction works and buildings, rose by 0.9% to 2.1 million tons, accounting for 95.7% of the company's total sales volume. As for white cement, which is used for prestige construction projects and decorative work in apartments, it inched up by a mere 0.3% to reach 95,700 tons, running at near full capacity of 100,000 tons. This has led to almost stable revenues of USD 14.5 million at Societe Libanaise des Ciments Blans (SLCB), HL's subsidiary and the sole producer of white cement in Lebanon. As for ready-to-use concrete sales, they fell by 29.6% to reach to 250,000 cubic meters.

Looking forward, we anticipate ongoing solid recovery in the Lebanese cement market during 2014 as cement deliveries already registered a 9.3% y-o-y increase up to April 2014, while construction permits, an indicator of future demand for cement, surged by 15% y-o-y to 6.0 million sqm up to May 2014. However, despite the estimated 9.5% growth in the cement market size in 2014, we expect revenues at HL to remain almost flat at USD 190.2 million as the weakening market position and the absence of any capacity expansion plan in the near-term will continue to pressure HL's opportunity to benefit from the recovering cement market in Lebanon. In the coming three years, we expect Holcim's top-line to grow at a CAGR of 3.0% as we believe improving economic conditions in the country and potential cheaper raw material supply from Lafarge Cement Syria may translate into stronger local presence and healthier fundamentals.

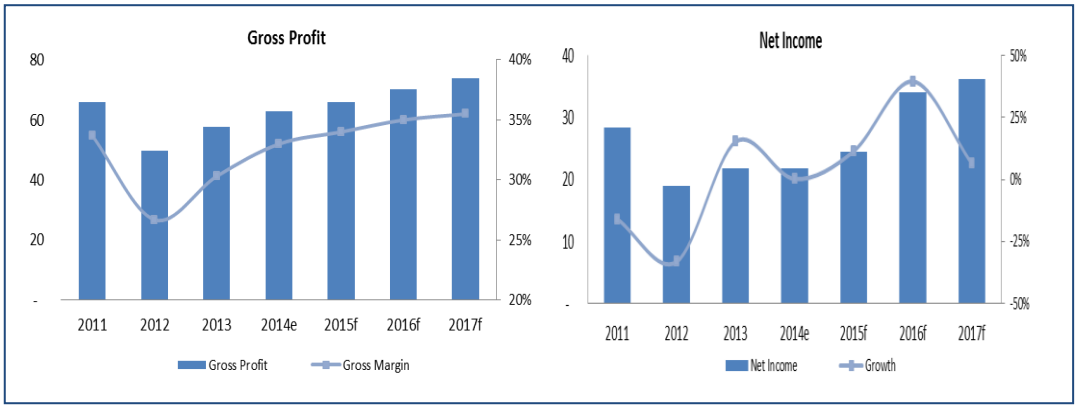
Syria's political turmoil continue to threaten Holcim exports

HL's 2013 revenues were weighted towards local sales as international revenues remained negligible with minor export activity to Syria and northern Cyprus where the company took over Bogaz Endustri Madencilik. In 2013, grey cement export sales were inexistent as the capacity of the company turned primarily towards the satisfaction of the growing demand in the Lebanese market. As for white cement, the volume of sales increased by 5% in the local market during the year, while export sales tumbled by 10% to 27,600 tons, affected by Syria's political crisis, down from a contribution of almost 40% to total white cement sales during Syria pre-war years.

Recently, Swiss cement group Holcim announced a merger with French rival Lafarge, aiming to create a dominant supplier of cement in the global construction industry. Following this merger, different scenarios could take place once the reconstruction phase in Syria starts. First, Lafarge has an estimated annual capacity of about 3 million tons in Syria, which could suffice a large portion of the Syrian market's demand. Hence, we believe Lafarge Cement Syria, with its already-established factories and widespread presence throughout Syria, will play a major role in satisfying the country's solid demand for cement. However, Holcim may continue to supply the Syrian market, the main Lebanese cement export hub, if Lafarge capacity is not sufficient to fulfill the market demand. As well, we believe Holcim Liban might benefit from lower raw material prices supplied by Syria's factories, which may lead to higher profitability and pave the way for improved market position in Lebanon and possible exports to other countries if a plan for capacity expansion is approved.

Wider margins on lower production costs

Holcim Liban reported higher gross margin of 30.3% as opposed to 26.7% in 2012, mainly due to improving production efficiency. Production costs declined to 69.7% of sales from 73.3% a year earlier as both the use of Pet coke instead of coal and lower fuel oil prices weighed positively on Holcim's efficiency. This translated into a 15.5% y-o-y surge in gross profit to reach USD 57.6 million.



Source: Holcim, Blominvest

Similarly, and despite higher other expenses, Holcim managed to show a remarkable 15.3% surge in earnings during the year to reach USD 21.8 million, supported by a USD 3.4 million gains from sales of non-strategic assets and a USD 150,000 lower finance expenses as HL continues to reduce the amount of outstanding debt it carries on its balance sheet. Hence, net margin widened to 11.5% from 10.1% recorded in 2012.

As for Societe Libanaise des Ciments Blancs, it registered a 16.13% y-o-y surge in gross profit to USD 5.1 million, driving gross margin up to 35.2% from 30.4% a year earlier. This was mainly attributable to lower production costs of 64.8% of revenues as opposed to 69.6% of revenues in 2012. As well, net profit margin at the white cement maker reached 23.8%, up from 17.7% recorded in 2012 with the bottom-line rising by 34.5% to USD 3.4 million, further supported by lower SG&A expenses.

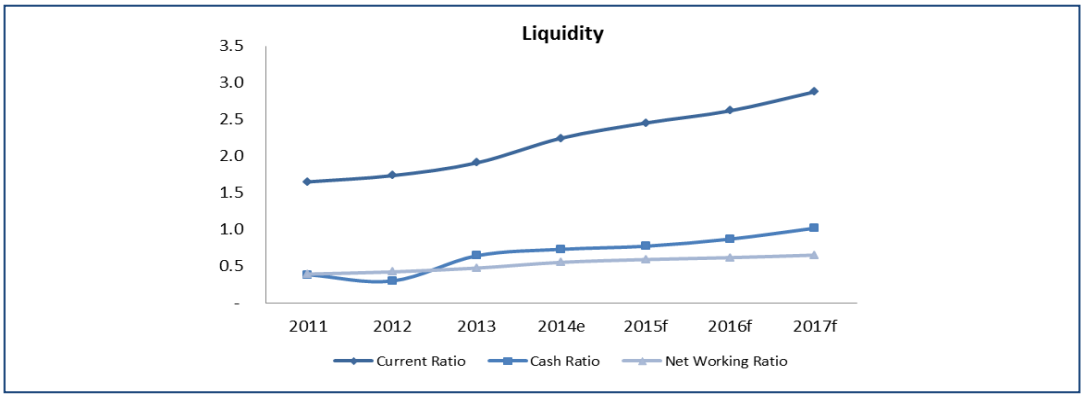
Looking forward, we expect 2014 earnings to come around 2013 level at USD 21.9 million, maintaining flat revenues and an average historical level of margins. However, we anticipate growth at a CAGR of 18.3% in the coming three years, mainly due to improved production efficiency. The Waste Heat Recovery power generation, which started in May 2013, is expected to cut HL's production costs by USD 2 million per year, gradually enhancing the company's profitability. HL will benefit from the WHR project by reducing fuel consumption and lowering its profit variability in relation to oil prices. To note that the WHR did not yet reach its full capacity. Besides, new initiatives are still being studied by the company to further improve its efficiency, particularly by reducing the cost of energy.

BALANCE SHEET HIGHLIGHTS

Liquidity

In 2013, HL enjoyed a solid financial position backed by strong liquidity levels whereby its balance sheet witnessed a $21 million increase in its cash against a $6 million rise in current liabilities, mainly due to sales of non-strategic assets and higher EBITDA than 2012. Hence, current assets reached 1.9 its current liabilities compared to 1.7 recorded a year earlier. Likewise, the cash and net working capital ratios increased to 0.64 and 0.48 from a respective 0.30 and 0.42 registered in 2012.

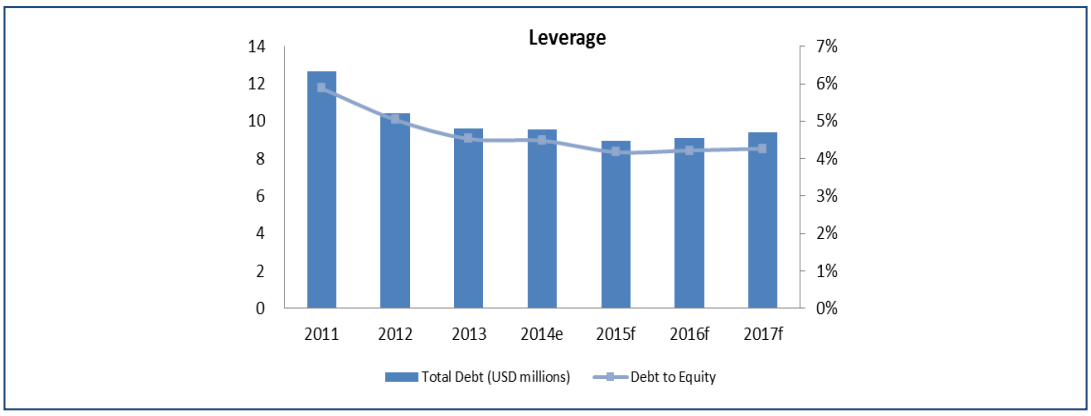
Cash Ratio = Cash / Current Liabilities
Net Working Capital Ratio = (Current Assets – Current Liabilities) / Current Assets



Source: Holcim, Blominvest

Financial Leverage

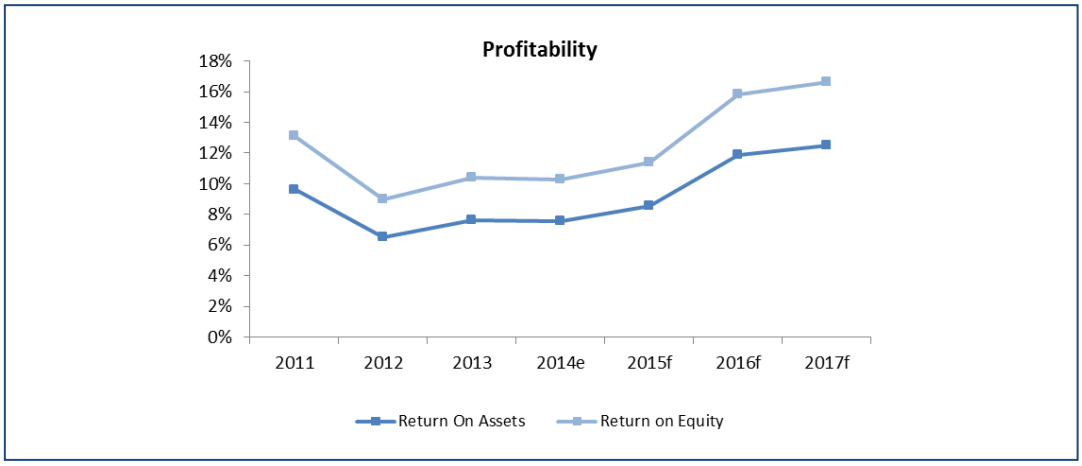
Holcim barely relies on debt and controlled debt levels continue to contribute to Holcim Liban's financial health as the total debt-to-equity ratio dropped to 4.5% in 2013 from 6.9% a year earlier. We expect the leverage ratio to remain stable in 2014 and slightly decrease in the near future as the company is paying back its borrowing in a timely manner with no announcement of any new major capital expenditure plans.



Source: Holcim, Blominvest

Profitability

Holcim's Return-on-Assets (ROA), which measures how well the company manages its assets in generating the maximum return to its shareholders, improved to 7.6% after falling to 6.5% in 2012. Similarly, Return-on-Equity (ROE), an indicator of how well the company is managing stakeholders' capital, rose to 10.4% from 9.0% a year earlier. We expect this trend to persist in 2014 with estimated ROA and ROE of 8.6% and 11.8% respectively.



Source: Holcim, Blominvest

Sustainable dividend payment

Holcim has a high dividend payout ratio as it distributes all of its earnings to shareholders after deducting legal reserves requirements. HL's dividend payout ratio stood at 85.4% in 2013 compared to 85.6% a year earlier. In 2013, the company announced the distribution of USD 18.63 million in dividends on 2013 earnings for a gross dividend yield of 6.1% on the year-end 2013 closing share price of USD 15.58. In 2012, the company distributed USD 15.4 million in dividends on the profits of 2012 for a dividend yield of 5.0% on the year-end 2012 closing share price of USD 15.75 per share. We believe the company will continue to have a high payout ratio with similar dividend yields in the near future as there are no signs of any changes in its parent's policy in relation to this matter.

	2007	2008	2009	2010	2011	2012	2013
Price / Share	20.75	15.93	12.52	17	16.98	15.75	15.58
Dividend Paid / Share	0.908	0.698	0.898	1.55	1.29	0.79	0.96
Dividend Yield	4.4%	4.4%	7.2%	9.1%	7.6%	5.0%	6.1%
Earnings/Share	0.96	1.06	1.50	1.73	1.45	0.92	1.12
Dividend Payout Ratio	94.4%	66.0%	60.0%	89.8%	88.8%	85.6%	85.4%

Source: Holcim, Blominvest

VALUATION

Maintaining a HOLD rating amidst local and regional instabilities

We revise down our target price on HL to USD 14.96 per share on absence of strong signs of fundamental growth in the near-term unless capacity expansion is approved. Holcim shares are currently yielding a very attractive above 6% in dividends but Lebanon's deteriorating political and security situations along with external headwinds from the Syrian war keep on pressuring Lebanese equities, leading us to maintain our HOLD recommendation

When comparing HL to its regional peers, we find that with a P/E ratio of 12.3, the cement producer may be undervalued against its peers which hold an average P/E of 14.8. However, we believe this discount could be attributable to the country's security and political risks in which HL operates on top of the negative impact from the political turmoil in neighboring Syria. Besides, investors view Lebanon's cement market as a smaller market that offers limited growth potential for a cement producer in addition to its trading in an illiquid market with only 18% of Holcim shares tradable by the public. This further supports our view for a HOLD rating for HL's stock.

In order to value HL shares, we used a Discounted Cash Flow method based on a 5-year forecast. The discount rate is kept at 15% as it already incorporates the additional risk of investing in a politically unstable country such as Lebanon, a liquidity premium due to trading in an illiquid market, and the risk associated with the impact of the Syrian war on Lebanese equities. As well, we maintain the terminal growth rate at 3% taking into account the outlook of the company and inflation in Lebanon.

Determining Free Cash Flow to Equity

From EBIT, we deduce Free Cash Flow to Equity (FCFE) by applying the following:

(in USD million)	2014e	2015f	2016f	2017f	2018f	2019f	Terminal
EBIT(1-t)	22.2	24.7	34.4	36.6	40.5	43.3	
Add: Depreciation	12.3	11.7	11.1	10.5	10.0	9.5	
Less: CAPEX	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)	
Less: Change in Net Working Capital	(10.4)	(7.4)	(4.0)	(5.3)	(5.5)	(3.0)	
Add: Net Borrowing	0.1	0.6	(0.2)	(0.3)	(0.4)	(0.5)	
Less: Interest expense (1-t)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)	
FCF	17.3	22.7	34.5	34.8	37.7	42.3	
Terminal value							363.2
Discounted FCF	17.3	19.8	26.1	22.9	21.5	21.0	180.6
Holcim Value	**291.9**						
Number of shares (in millions)	19.5						
Target Share Price (in USD)	**14.96**						

Source: Blominvest

As for the Terminal Growth Rate, we assumed a 3% growth rate for FCFE beyond 2019.

Sensitivity Analysis

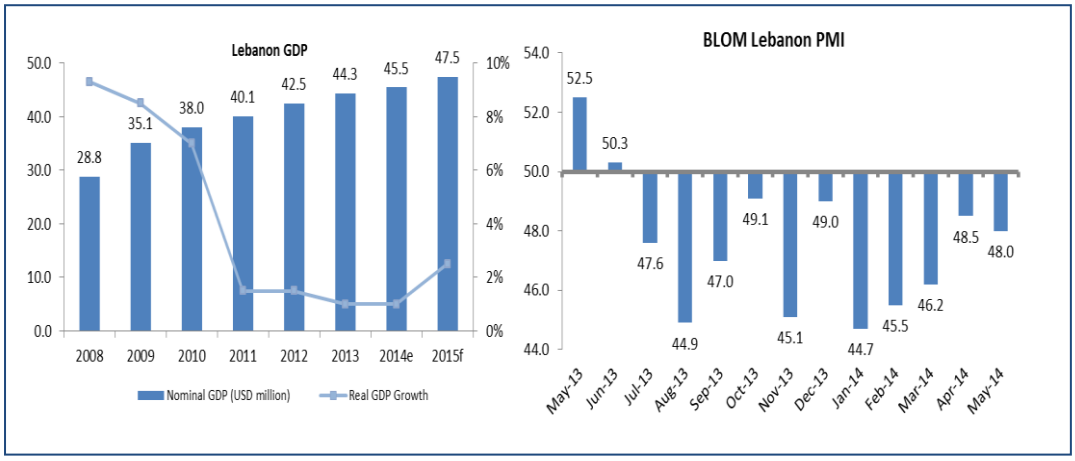
Discount Rate	Terminal Growth	Fair Value/Share	Upside
20%	2%	9.97	-27.54%
20%	3%	10.31	-25.07%
20%	4%	10.70	-22.24%
15%	2%	14.16	-2.91%
15%	**3%**	**14.96**	**8.72%**
15%	4%	15.90	15.55%
10%	2%	23.69	72.17%
10%	3%	26.34	91.42%
10%	4%	29.86	117.01%

Source: Blominvest

CEMENT INDUSTRY OVERVIEW

Economic overview

On the economic level, 2013 was another challenging year for Lebanon. Domestically, numerous gridlocks painted the political scene and several security incidents have shaken investment appetite. Regionally, the 3-year ongoing war in neighboring Syria kept on hindering the overall economic performance of the country with the International Monetary Fund (IMF) estimating Lebanon's real GDP growth at a marginal 1% in 2013. As well, BLOM Lebanon PMI (Purchasing Managers' Index) remained below the neutral 50.0 mark since July 2013, signaling contraction in economic activity as the heightened local and regional complications delayed any recovery.



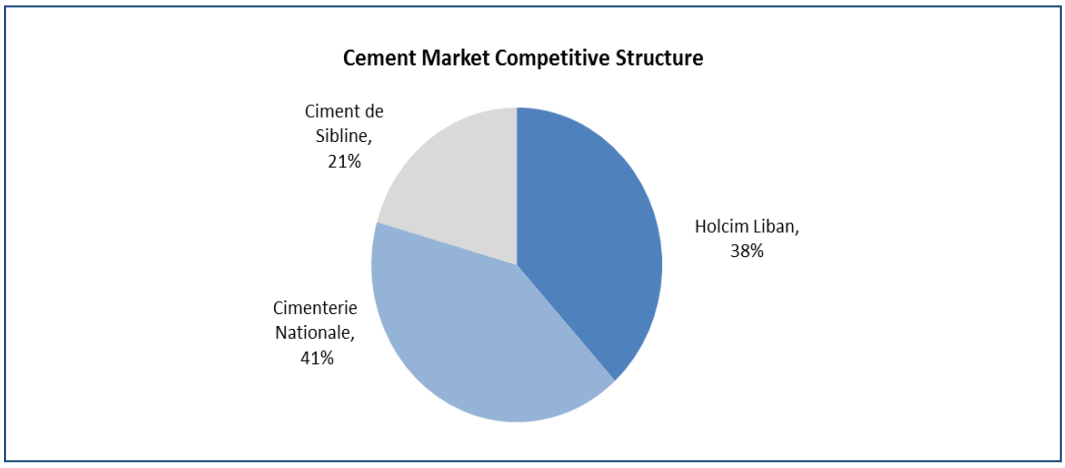
Source: IMF, Markit, Blominvest

The real estate sector and the cement market went opposite ways in 2013

The real estate sector, standing at 14% of Lebanon's GDP, faced numerous challenges as dominant developers postponed their investments' agendas amid lower demand from the GCC countries that switched to more secure areas. However, the Lebanese cement sector, and contrarily to expectations, showed an impressive 9.8% yearly growth to hit a record high of 5.8 million tons, mainly backed by higher public spending, previously licensed projects and illegal construction.

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, thereby reducing their costs and achieving their diversification strategy.



Source: Blominvest

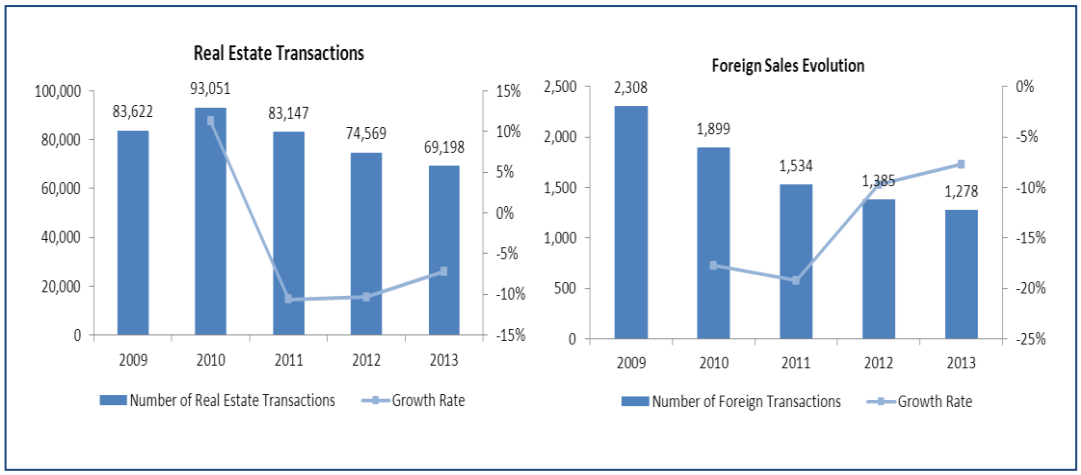
Lebanon's cement market is oligopolistic in structure. Cement supply is provided by 3 main cement plants: Cimenterie Nationale S.A.L. grasps the biggest market share, accounting for 41.2% of total cement sales in 2013 and producing grey cement only. HOLCIM (Liban) stands in the second place with a 38.2% stake and offering both types of cement, grey and white, as well as ready mixed concrete. Finally, Ciment de Sibline S.A.L ranks third with market share of 20.6% and produces grey cement only.

Syria's turmoil cut 2013 exports in half but local market absorbs excesses

Contrasting with the improving local demand, Lebanese cement exports were cut in half in 2013, as the main importer among Arab states is Syria. Accordingly, the Syrian war heavily hit Lebanese exports that tumbled 44% to 285,205 million tons in 2013, as compared to 509,488 million tons in 2012. HOLCIM revealed minimal export activity to Syria and northern Cyprus, where the company took over Bogaz Endustri Madencilik. Moreover, Cimenterie Nationale exported a marginal stake of its production to Syria, Libya and Egypt, while Ciments de Sibline mainly focused in 2013 on satisfying the local demand.

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 to own Lebanese properties can be measured thanks to the variation of real estate transactions.

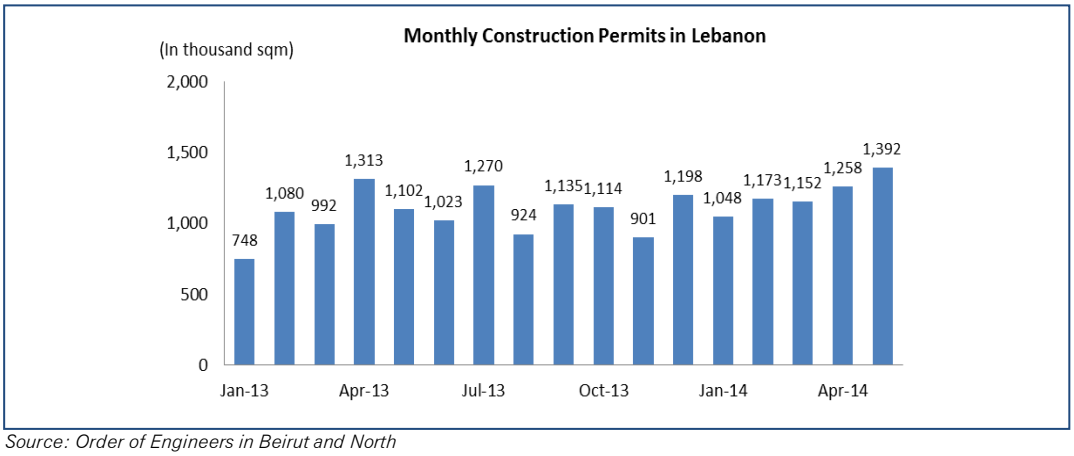


Source: Cadastre

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 USD 8.7 billion by 2013, down from USD 8.9 billion in 2012.

The neighboring war in Syria also took its toll on real estate activity sending authorized area for construction down by 12.0% y-o-y to 12.9 million 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 twisted towards smaller plot projects alluding to a smaller consumption of cement derivatives.

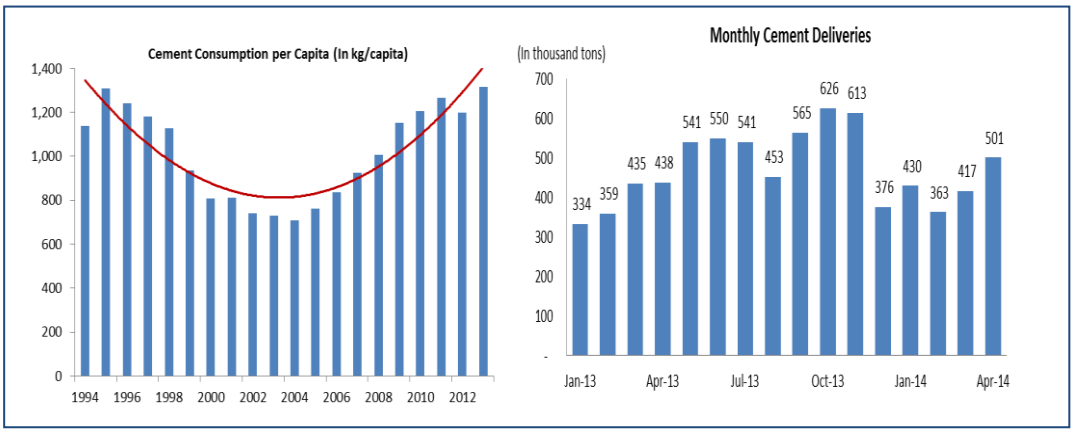
Hence, the real estate sector performance hints at a lower demand for cement. However, two other factors offset this decline. In mid-2013, the Ministry of Interior and Municipalities (MOIM) handed over the crackdown of illegal construction activity to the municipalities. Given the lack of authority within municipalities, illegal activity surged for almost 3 months until the MOIM intervened again to suppress illegal projects. Moreover, construction loans went up by 12.8% y-o-y to USD 9.2 billion in 2013 following the stimuli of Banque du Liban and the financial sector to boost local demand on housing especially for middle-income citizens and consecutively economic growth.



Source: Order of Engineers in Beirut and North

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, the expansion and restoration project at the Port of Beirut has definitely contributed to the cement deliveries yearly growth. HOLCIM won the tender and immediately positioned a mobile plant at the site.



Source: Banque du Liban, World Bank

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 USD 94 per ton - without VAT - for the grey cement, and almost a 3% slip for the white cement to average USD 173 per ton - without VAT-.

Cement prices stood unchanged in 2013 despite the decreasing cost of energy. Prices in the cement sector go hand-on-hand with energy prices given that cement production is one of the most energy intensive industries[1]. 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 theoretically trigger down Lebanese cement prices. However, the government kept prices fixed.

Average Price of Cement in Selected Countries

Country	Price (In $ per ton)
Egypt	105
Jordan	99
Lebanon	**92**
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 USD 105 per ton in Egypt, USD 95 per ton in Turkey, USD 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 some Arab countries in shortage with cement supply.

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

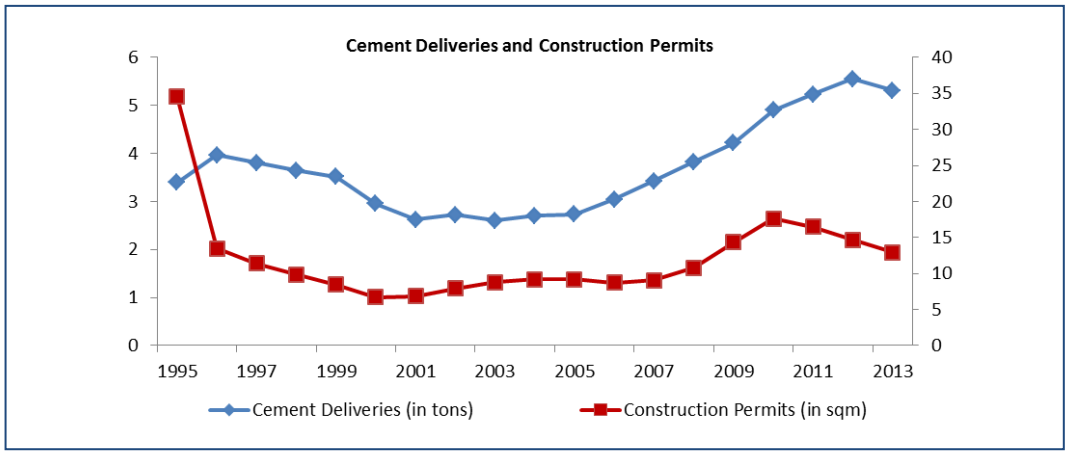
Activity on the Lebanese cement market floated over the past 20 years relatively to the country's economic and political position. The development of the industry started in 1995 when demand for cement witnessed considerable growth reflecting a growing urbanization. Large-scale reconstruction projects were initiated after the end of Lebanese civil 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[2]. Cement companies saw their total production absorbed by local market with cement deliveries surging by 17.1% y-o-y in 1995 to reach 3.9 million tons, up from 3.4 million tons 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 34.5 million sqm in 1995 to 13.5 million sqm in 1996. Local demand for cement followed suit

[1] *Each ton 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*
[2] *Flemings,1996*

given the constant reconstruction works and rehabilitation of infrastructure at a slower path, cement deliveries went down from 3.8 million tons in 1996 to 2.6 million tons in 2000. Cement consumption per capita drastically decreased by 34.7% in 2000 to reach a low of 810 kg/person.

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 USD 2.8 billion (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.



Source: Banque du Liban

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 to the cement industry. Cement deliveries and construction permits went up by respective 3.8% and 11.5% in 2003.

The 3-year 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 5.2 million tons of cement in the local market, up from 3.8 million tons in 2007. As for the consumption per capita, it surged by 30.0% over the 3-year 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 mostly weighed over the sector's performance starting 2012. In details, cement deliveries rose by 6.1% during 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 4.3% by the end of 2012 to 5.3 million tons. However, the cement industry's recovered in 2013.

Prospects of Growth

Lebanon's cement sector is expected to maintain strong footing. Projections remain positive about a flourishing Lebanese building materials' industry once the war in Syria ends. The reconstruction phase will entail high demand for cement that might be provided by the neighboring countries such as Lebanon and Jordan. According to the UN's Economic and Social Commission for Western Asia forecasts, the demand for cement in Syria will hover around 30 million tons per annum, or 3 times the level of demand prior to the conflict. In order to take advantage of this potential robust demand, Cimenterie Nationale intends to boost its production capacity by 2 million tons 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.

The other driver of the cement industry is government infrastructure, which is currently facing low investment levels. This caused infrastructure gaps especially in electricity, water, and road networks. The upcoming need for developing Lebanon's infrastructure, possibly with a public-private partnership, will boost demand for cement, partially compensating any slowdown in the real estate market.

PROJECTED INCOME STATEMENT

In USD million	2011	2012	2013	2014e	2015f	2016f	2017f
Sales of Goods	195.6	186.8	190.0	190.2	194.0	200.5	207.9
Production Cost of Goods Sold	(129.8)	(137.0)	(132.4)	(127.4)	(128.0)	(130.3)	(134.1)
Gross Profit	**65.9**	49.9	**57.6**	**62.8**	**66.0**	**70.2**	**73.8**
Distribution & Selling Expenses	(18.9)	(18.2)	(18.3)	(18.3)	(18.6)	(19.3)	(20.0)
Administrative Expenses	(5.8)	(5.5)	(5.9)	(5.9)	(5.8)	(6.0)	(6.2)
Gain (Loss) on Disposal of Investment Properties	(0.0)	0.8	4.1	-	-	-	-
Other Income	1.9	1.4	1.5	1.5	1.5	1.5	1.5
Other Expenses	(6.3)	(4.9)	(11.1)	(14.0)	(14.0)	(6.0)	(6.0)
Interest Income	0.3	0.2	0.3	0.6	0.6	0.6	0.5
Finance Costs	(1.5)	(1.5)	(1.3)	(1.0)	(0.9)	(0.9)	(0.9)
Profit Before Tax	**35.6**	**22.2**	**26.7**	**25.8**	**28.7**	**40.1**	**42.7**
Income Tax Expense	(7.3)	(3.2)	(4.9)	(3.9)	(4.3)	(6.0)	(6.4)
Profit for the Year	**28.3**	**18.9**	**21.8**	**21.9**	**24.4**	**34.1**	**36.3**
Number of Shares (in millions)	19.5	19.5	19.5	19.5	19.5	19.5	19.5
Earnings per Share (In USD)	1.45	0.97	1.12	1.12	1.25	1.75	1.9

Source: Holcim, Blominvest

BALANCE SHEET

In USD million	2010	2011	2012	2013
Current Assets				
Cash & Cash Balances	17	24	15	37
Inventories	40	56	50	44
Accts Receivables & Prepayments	23	24	24	29
Total Current Assets	80	103	89	109
Non-Current Assets				
Property, plant & equipment	143	137	136	126
Investment Properties	11	11	10	9
Goodwill	18	18	18	18
Intangible assets	32	27	24	20
Other Financial Assets	4	4	3	10
Total Non-Current Assets	207	197	192	183
Total Assets	288	301	281	292
Current Liabilities				
Bank Overdraft	-	-	4	0
Loans & Borrowings	8	2	1	1
Accounts Payable & Accruals	33	55	43	45
Taxes Payable	7	5	3	5
Provision for Risks & Charges	0	0	0	6
Total Current Liabilities	47	63	51	57
Non-Current Liabilities				
Loans & Borrowings	12	10	10	9
Provision for employee benefits	4	4	6	6
Provision for risks & Charges	6	8	7	8
Deferred Tax Liability	1	0	0	0
Total Non-Current Liabilities	24	23	23	23
Shareholders' Equity				
Share Capital	129	129	129	129
Statutory Reserve	19	23	26	27
Revaluation Reserve	34	34	34	34
Retained earnings	35	29	18	22
Total Equity	217	215	207	212
Total Liabilities & Equity	288	301	281	292

Source: Holcim

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Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%
Accumulate: Fair Value higher than Market Price by 10% to 20%
Hold: Fair Value ranges between -5% to +10% in relation to Market Price
Reduce: Fair Value lower than Market Price by 5% to 15%
Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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