HOLCIM LIBAN – H1 2011

BLOMINVEST BANK s.a.l.

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Holcim Liban posted an 11% y-o-y increase in the unconsolidated earnings for H1 2011 despite a slowdown in the local demand for cement in bulk; SLCB disappointed with a 6% y-o-y decline on dampened exports demand.

Political turmoil in the region threatens HL's export sales, further supporting our expectations for a decline in consolidated revenues.

Holcim Liban grows its operations against expectations of a bearish local real estate sector

Holcim Liban (HL) seems to have unexpectedly shielded its grey cement operations from the slowdown in the Lebanese real estate sector, as its unconsolidated net sales grew by 4.7% y-o-y in the first half of 2011 to LL 146.3 billion. Continued demand for grey cement which mostly serves the local market was supported by a boom in illegal residential construction on public property, leading unprecedented sales growth of grey cement bags. We believe this situation would hardly persist through the end of the year with the government interventions to limit construction violations.

On the other hand, revenues at HL's junior counterpart white cement producer, the Societe Libanaise des Ciments Blans (SLCB), fell by 9% y-o-y to LL 10.4 billion as production activity in the company's facilities dropped due to dampened demand for the company's output in both local and export markets. Political turmoil in Syria has largely been largely pressuring white cement export sales which used to contribute to almost 40% of the top line of the company, while the increased availability of cheaper substitute from Turkey further cut SLCB's sales.

HL's gross income increased by 13.5% y-o-y to LL 58.8 billion in H1 2011 led by revenue growth and increased production efficiency as underlined by the increase in gross margin to 40% during the period, up from 37% in H1 2010, on improved production efficiencies and better management of resources. Similarly, the EBITDA margin at HL slightly improved to 27% from 26% previously, while the unconsolidated net income recorded an 11% y-o-y increase to LL 30 billion pushing the net profit margin upward to 21% up from 19% in 2010.

Conversely, SLCB witnessed a 14% y-o-y decrease in gross profit to LL 3.2 billion, as the drop in sales was coupled with a decline in the gross margin to 30% in the first half of the year, down from 33% last year. The EBITDA and net profit margins at the white cement maker both stagnated at around 21% while the bottom line fell by 6% y-o-y to LL 2.2 billion.

The political turbulence in neighboring Syria further threatens exports of Holcim Liban

Adding to the feeble local demand for cement amidst the slowing real estate sector which has been incapable of exhausting the total capacity of Lebanese cement producers, these are now finding it difficult to export the excess output to neighboring countries as the continued political tensions in Syria, the main Lebanese cement export hub, are showing no signs of ease through the second half of 2011. The situation further deteriorates when considering that Syria is the sole shipping route to the lucrative Iraqi market, which pushes Holcim Liban and its competitors to look for markets located further away. This option however seems critical when considering the massive transportation costs that would burden the profitability of local cement producers and their junior competitive position against cheaper regional producers like Turkey, while the severe recession in Cyprus, one of Holcim's main markets of operations, promises no haven through the end of 2011. It is worth noting that revenues generated from export markets made up 12% of Holcim's consolidated sales for 2008, 2% for 2009 and were negligible in 2010. The decline in the export sales over the past few years was mainly due to the local market exhausting the company's total capacity led by the booming real estate market during the period.

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Equity Rating Key

Buy: A recommendation with a potential return greater than 10% based on our current 12-month view of total shareholder return*.

Hold: A recommendation with a potential return between -10% and 10% based on our current 12-month view of total shareholder return.

Sell: A recommendation with a potential return of less than -10% based on our current 12-month view of total shareholder return.

* Total Shareholder Return is calculated by the potential price growth over a 12-month period along with the expected dividend yield.

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