Financial performance

In recent times, government control has not affected the sector's performance. Over the past five years, the region's cement companies have enjoyed net margins of well over 40 per cent as demand for their products soared, while sales revenue increased at a compound annual growth rate (CAGR) of 20.2 per cent between 2003-07. Net profits over the same period actually exceeded operating profits, highlighting the importance of non-core investment income as producers invested their profits in the equity market. Assets and equity for the industry more than doubled in the period while debt-to-equity ratios remained healthy.

Although the GCC real estate sector started to slow in the third quarter of 2008, there was no discernible impact on the sales performance of cement companies. In fact, revenues for the year showed an increase over 2007, hitting $4.7bn compared with $4.2bn thanks to higher sales by non-Saudi companies.

GCC cement sector: financial performance, 2003-07 ($m)

	2003	2004	2005	2006	2007
Sales revenue	2,085	2,674	3,247	3,700	4,350
Cost of sales	1,144	1,469	1,750	1,934	2,301
Gross profit	941	1,205	1,497	1,766	2,049
Operating profit	787	1,047	1,309	1,550	1,738
Net profit	958	1,249	1,774	1,676	2,200
Assets	5,887	6,765	9,133	10,384	12,238
Equity	4,876	5,748	7,546	8,579	10,189
Liabilities	1,010	1,017	1,587	1,805	2,049

Ratios (%)	2003	2004	2005	2006	2007
Gross margins	45.1	45.1	46.1	47.7	47.1
Operating margins	37.7	39.2	40.3	41.9	40.0
Net margins	45.9	46.7	54.6	45.3	50.6
Return on equity	19.6	21.7	23.5	19.5	21.6
Return on assets	16.3	18.5	19.4	16.1	18.0
Liabilities/assets	17.2	15.0	17.4	17.4	16.7
Liabilities/equity	20.7	17.7	21.0	21.0	20.1

Sources: Global Investment House; company reports; industry

However, while sales increased, net income actually fell by 22 per cent to $1.7bn in 2008 from $2.1bn in 2007, resulting in overall GCC net profit margins dropping from 50.8 per cent to 34.8 per cent. The reason for the discrepancy between rising sales and falling net income was the poor performance of the cement companies' non-core investments, especially in the regional stock markets.

There was little change in the performance of the Saudi cement sector in 2008, despite a series of setbacks during the year, including significant capacity additions, a ban on exports and the adverse second-half operating environment.

Drivers of demand

The key driver of demand for cement in the region has been the massive growth in the projects market, and especially in the real estate sector. In the five years since 2004, the GCC projects market more than tripled in value from less than $750bn to almost $3 trillion. Backed by the rising oil price, strong economic growth and an influx of foreign labour, the region was transformed into a giant construction site as it sought to upgrade its infrastructure and diversify its economy.

The highest growth in construction activity was experienced in the UAE, where real estate activity was at its greatest. In 2005, the value of construction contracts awarded in the UAE was $28.7bn; by 2008, this had surged to $74.1bn.

Even taking into account rising inflation in the region, the economic performance in the decade up to 2008 was unprecedented, with nominal growth averaging 15 per cent a year. Qatar was the standout country with nominal growth averaging 25 per cent a year due to a significant increase in energy exports and high energy prices. The growth in the region's aggregate current account surplus was even more exceptional, having a CAGR of 47 per cent over the period.

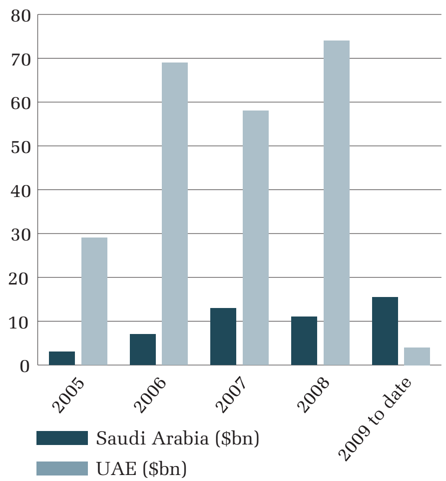
The IMF forecast in 2008 that the GCC population would grow to 41 million in 2011 from 36 million in 2007, although this estimate was drawn up prior to the collapse in oil prices in the second half

Value of construction contract awards in the UAE and Saudi Arabia, 2005-09

Year	Saudi Arabia ($bn)	UAE ($bn)	Ratio (%)
2005	2.4	28.7	12.0
2006	6.4	68.9	10.8
2007	13.0	57.9	4.5
2008	11.5	74.1	6.4
Total	33.3	229.6	6.9
2009 to date	15.7	4.1	0.3
Total including Q1 2009	49.0	233.7	4.8

Source: MEED Projects

Value of construction contract awards in the UAE and Saudi Arabia 2005-09



Source: MEED Projects