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Arabian Cement Company

FY 2016 Investors Presentation

# Highlights

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# Contents

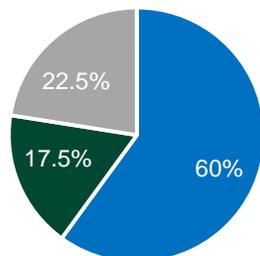
- Introduction to ACC.....4
- Period Highlights .....10
- Egyptian Cement Market .....12
- Sales Overview .....13
- COGS Overview .....15
- CAPEX Overview .....16
- Debt Status .....17
- Financials .....18

# Introduction to ACC

## ACC in a Snapshot

- The company operations started in 2008 and ACC is currently a leading cement producer. Majority owned by Cementos La Union (“CLU”), a Spanish cement player with operations in several countries such as Chile and Congo.
- ACC has two production lines with a total production capacity of 5.0 Mmpta, making it one of Egypt’s largest cement plants, with a market share of 7.1% as of FY 2016.
- ACC’s operations include the production of clinker, production and sale of high quality cement.
- The Company outsources its manufacturing through an operational management contract with FLSmidth.
- ACC has adopted and implemented quality, environment and safety management systems, complying with the requirements of the international standards ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007.
- Through its dedicated sales and marketing teams the Company has managed to position its product amongst the market’s premium price brands.
- ACC pioneered shifting towards diversifying its sources of energy and will substitute 100% of its current energy requirements to use a mix of solid and alternative fuels.
- In 9M 2016, ACC distributed 46% of its production through own channels, “Wassal”; delivery service.
- ACC has been also the first cement company in obtaining the Energy Management certificate ISO 50001:2011 at the beginning of 2016 and not obtained by any other Egyptian competitor yet.

Shareholding Structure



■ Aridos Jativa ■ El Bourini Family ■ Free Float

## Investment Highlights

Strong and Dynamic Management Team

New Strategically Located Facility with an Integrated Operation

Outsourcing the Production Process while Maintaining a Highly Qualified Internal Supervision Team

Better Positioned for Diversifying Energy Sources

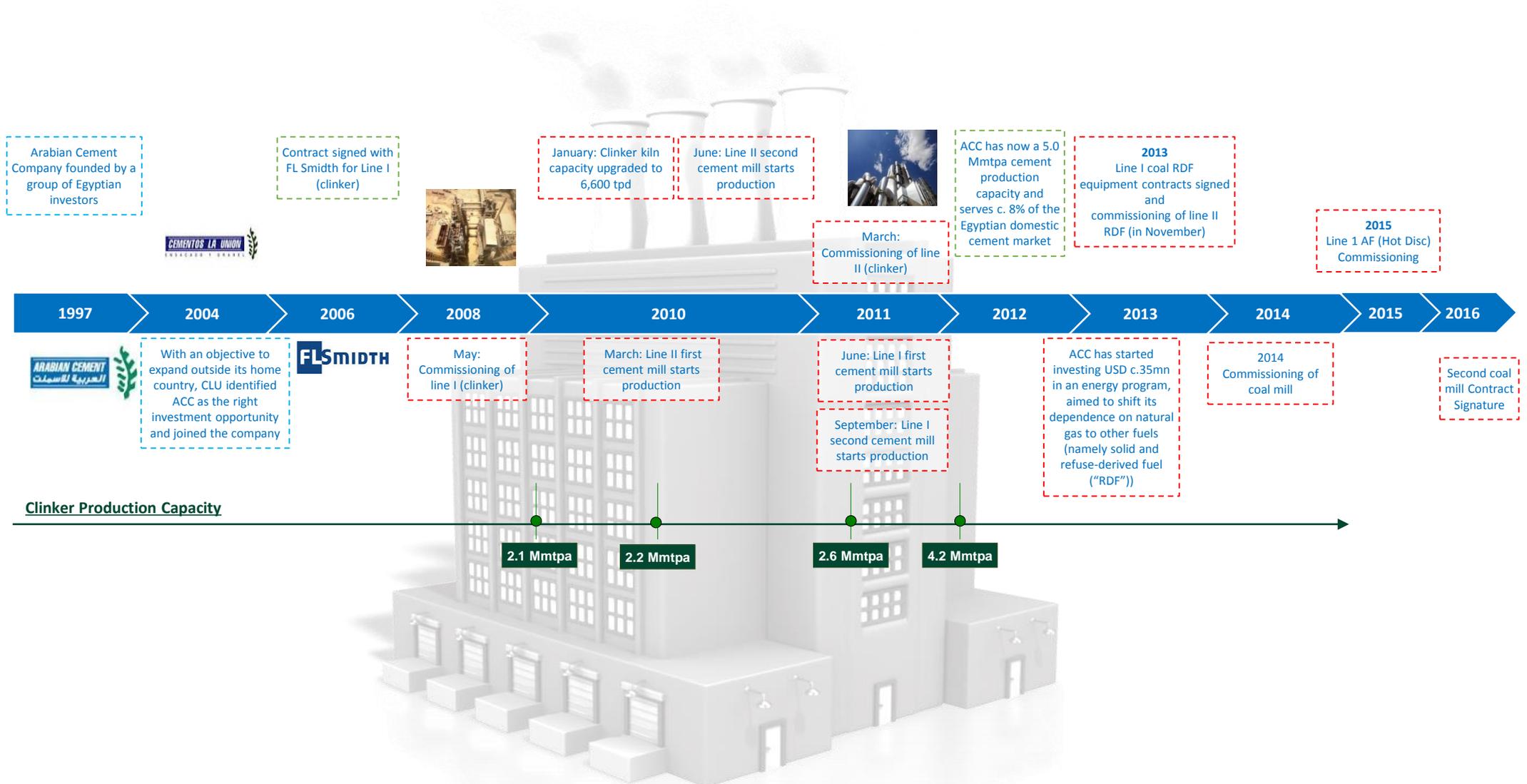
An Excellent Sales & Marketing Team

In-House Distribution Platform

Low Customer Concentration

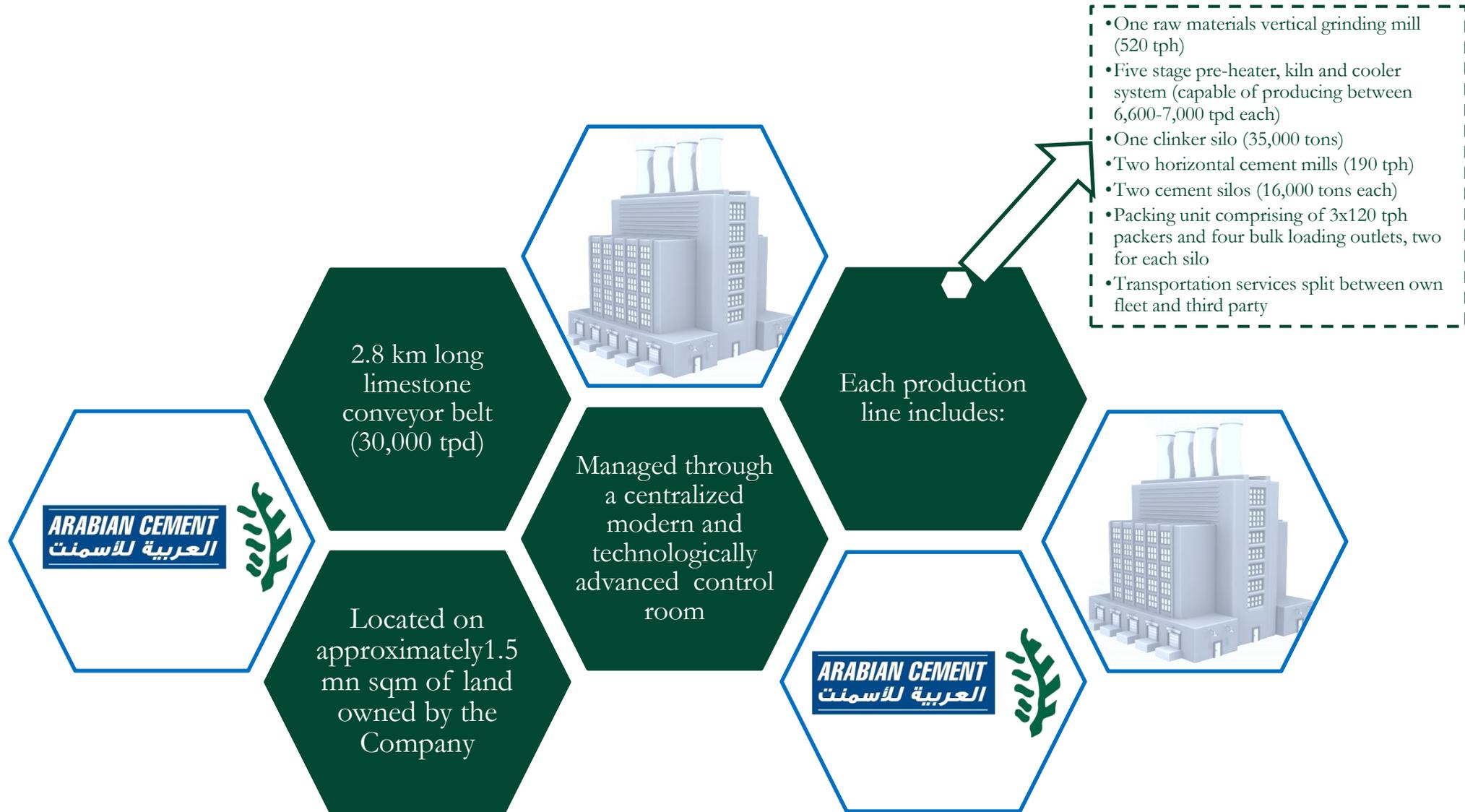
# Introduction to ACC

## Corporate Evolution



# Introduction to ACC

## Plant Information



### Sergio Alcantarilla

Chief Executive Officer



Mr. Alcantarilla is graduated from the Superior Industrial Engineering School in the University of Seville (Spain). He spent some time sharing his studies and Final Project, passed with Cum Laude, with works in different departments of the Engineering School, where he published articles related to energy generation with biomass in international magazines.  
In 2002, he started his career in the cement industry and, since then, has participated practically in all fields of the business' technical side. After more than five years as Plant Manager in Spain, he moved to Egypt in 2009 to form part of the Company's Management, first as Plant Manager and later on, from mid-2012, as Chief Operation Officer. The Company's strengthening performance since the start of cement commercialization is a direct reflection of his passion for optimization and operational excellence. Mr. Alcantarilla participated actively in the preparation phase of Arabian Cement Company IPO.  
In 2015, Mr. Alcantarilla was Executive MBA graduated, with honors, from the IE Business School, Madrid, and shortly after, in August 2016, became CEO of Arabian Cement Company.



### Hasan Gabry

Chief Commercial Officer

Mr. Gabry is a graduate of the Faculty of Commerce - Ain Shams University - Cairo Egypt, year 1991, with 24 years of Commercial Experience, 11 of which are in the Cement Industry as a Senior Commercial Director. The Cement journey started with Lafarge Sudan, moving to ASEC Algeria, GFH Bahrain, Khalij Holding Qatar, and since 2009 with Arabian Cement Company in Egypt



### Allan Hestbech

Chief Financial Officer

Mr. Hestbech has 14 years of experience in the Egyptian cement industry. He joined ACC in 2014. Before joining ACC, Mr. Hestbech assumed the role of Financial Director of Sinai White Cement. He has experience in financial management of cement companies, including cost optimization, reduction of financial costs and working capital as well as the financial management of plant erection projects.



### Sameh Saleh

Chief Operations Officer

Mr. Saleh has 23 years of experience in the Egyptian cement industry. He joined ACC 2012 as Plant Manager. Prior to that he worked for RHI as ACC consultant for the construction of its green field project starting 2005 till 2012. In 2005 he was a member of ASEC group engineering division. Mr. Saleh has diversified cement industry experience portfolio (i.e. engineering, upgrades and turnkey project management). He graduated from faculty of engineering Cairo University 1992. later on, AUC Project management diploma 2009 and last but not least, AUC Executive Master of Business Administration EMBA 2016.

## Our Strategy

### Medium Term Strategy

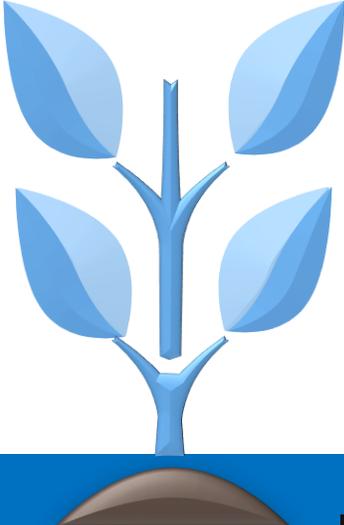
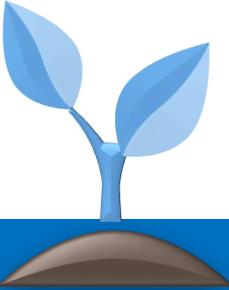
### Long Term Strategy

1- Position ACC Among the Top Brands in the Market and Command a Price Premium and the Highest Profitability

2- Continue to Pay a Healthy Dividend Stream While Optimizing Capital Structure

3- Vertical Expansion:  
• Andalus Ready Mix  
• RDF Plants

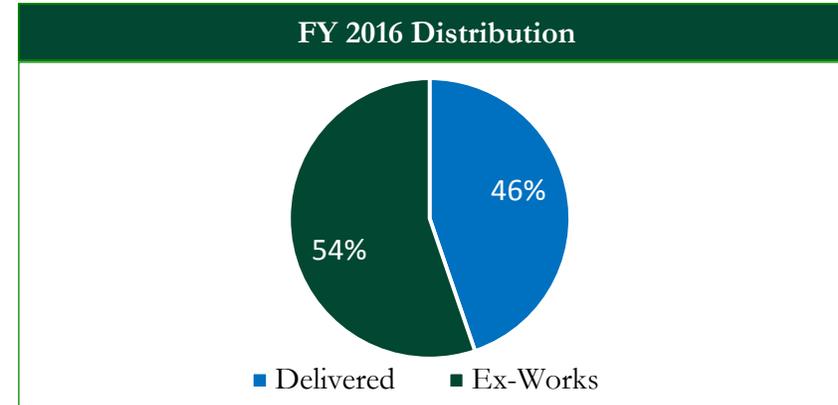
4- Expanding production in Egypt or abroad



# Introduction to ACC

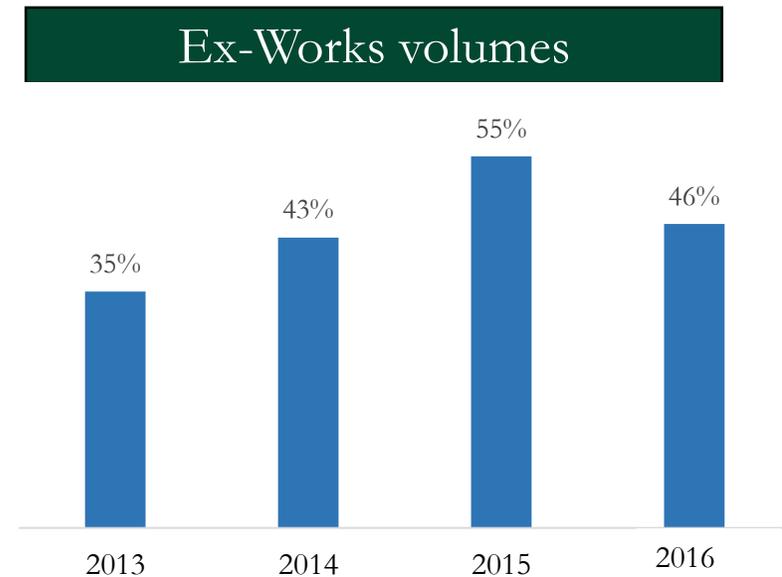
## Distribution Network Overview

- In FY2016 Arabian Cement distributed through direct Ex-Factory sales and Delivery.



### Express Wassal

- Express Wassal is a full transportation service for bulk and/or bagged products provided by the company's fleet of 25 trucks as well as by 3rd party business partners. Express Wassal was launched in 2011
- Express Wassal offers ACC a number of benefits such as;
  - Reducing ACC's dependency on external transport providers which is fragmented and can be unreliable
  - Controlling products flow to strategic markets
  - Ensuring price positioning in these markets
  - Penetrating high demand scattered markets
  - The Company's own fleet also provides it with insight with regards to the operational costs associated with transportation, allowing it to better gauge 3rd party transportation rates
- Now ACC operates its Express Wassal's hotline for 24 hours per day, 7 days a week.
- The additional availability has increased customer satisfaction as it allows them fast access to the Company's products at any time





- Egypt has floated its currency in a move that has reduced its value by about 50% against the dollar.
- The country's central bank said the move was one of a list of reforms designed to strengthen confidence in the economy.
- Egypt's main stock index jumped by more than 8% after the EGP floatation.
- The central bank has also increased interest rates by 3 percentage points to 14.75%.
- The move is a key requirement of the International Monetary Fund (IMF), from which Egypt is asking for a \$12bn loan over three years.
- The IMF's mission chief for Egypt, Chris Jarvis, said the move would make more foreign exchange available and would "help foster growth, job creation and stronger external position for the country".



- ACC produced 3.62 MT of clinker in FY 2016 compared to 3.53 MT at the same period the previous year.
- ACC operated at 86% clinker utilization in FY 2016 compared to 84% in the same period last year.
- This small but important drop in clinker production has been due to several technical issues, like the hot disc commissioning, that has been already overcome.

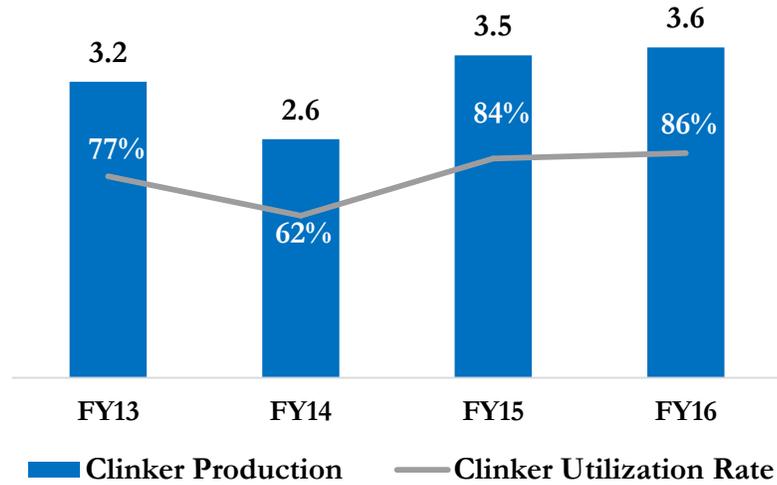


- ACC was able to run its maximum coal capacity for both lines. On the back of the availability of diesel and AF as a complimentary source of fuel.
- The fuel mix in FY2016 was 73% Coal, 11% Alternative Fuel and 16% Diesel vs 74% Coal, 8% AF and 19% Diesel in FY2015.
- With the current installations in place, ACC expects to operate at the maximum clinker utilization rate in 2017.

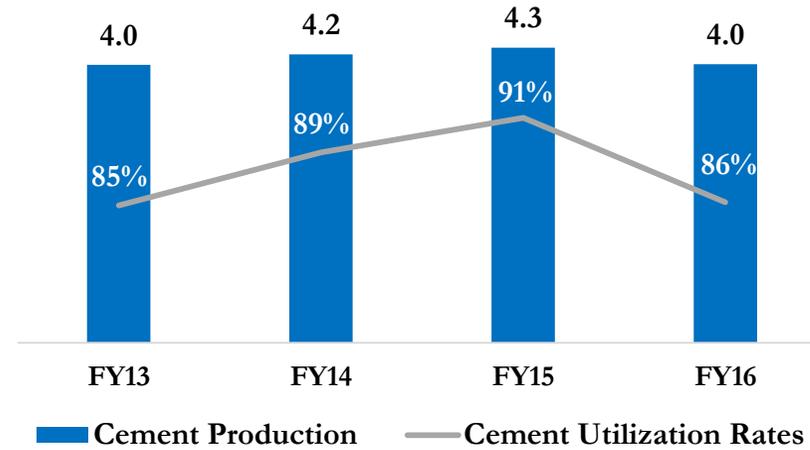
# Period Highlights (continued)

## Main KPIs

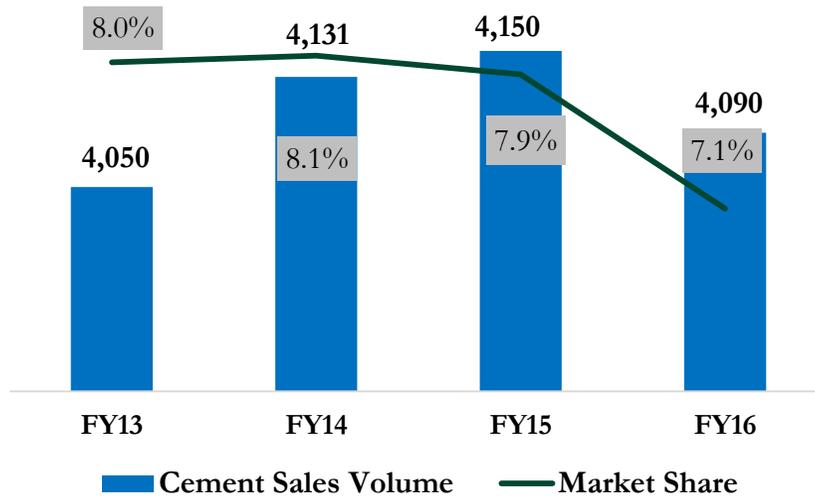
### Clinker Production (MN MT) and Utilization Rates



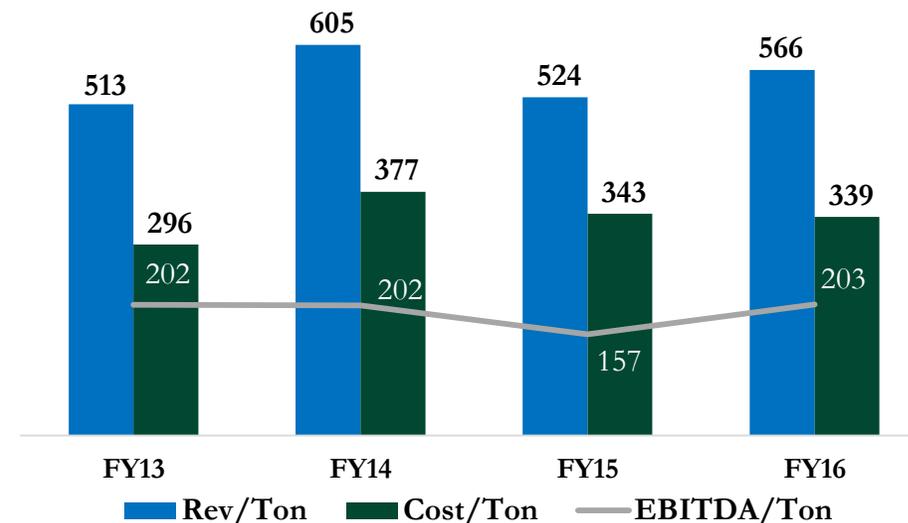
### Cement Production and Utilization Rates



### Sales and Market Share (MN MT)



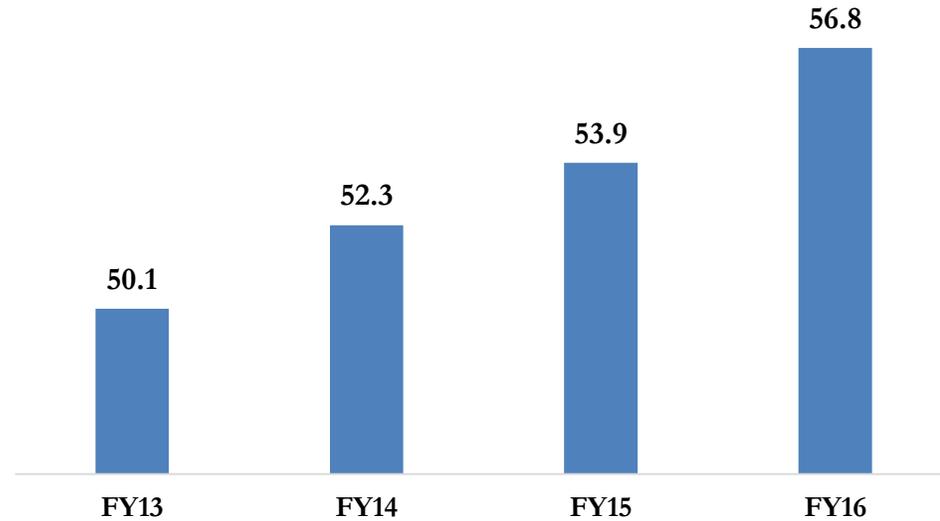
### Revenues, COGS and EBITDA (EGP/ton)



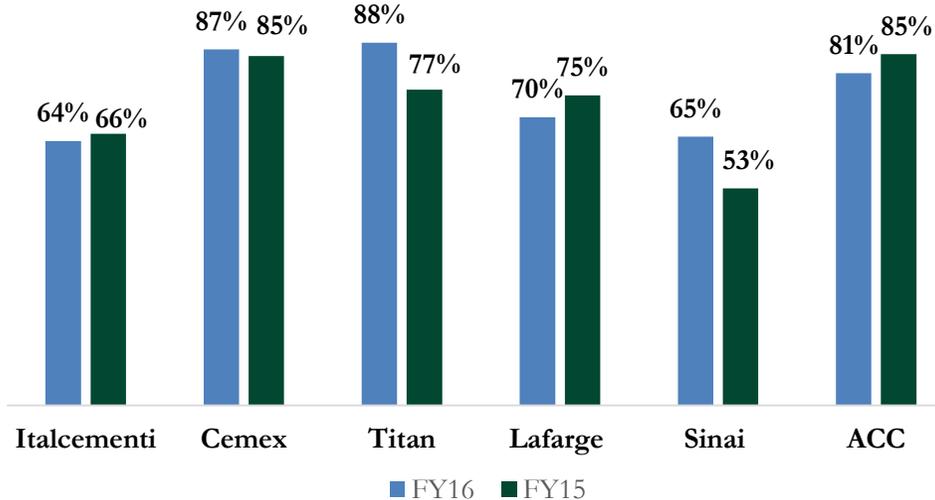
# Egyptian Cement Market

## Demand and Supply Synopsis

Domestic Consumption (MMT)



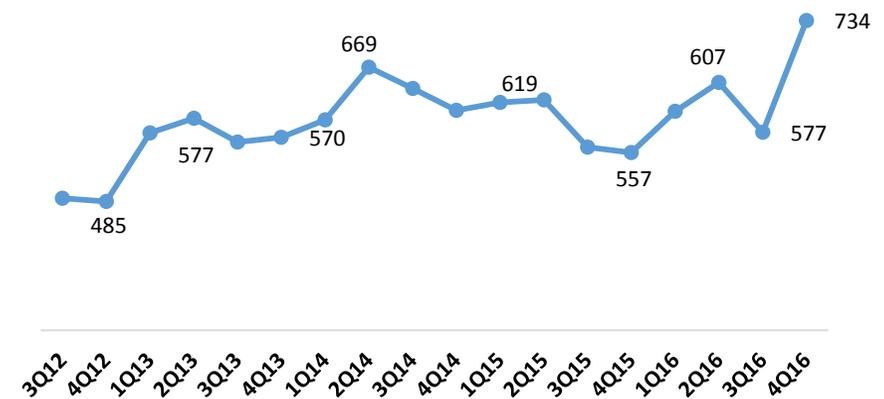
Cement Domestic Capacity Utilization



Egyptian Market Overview

- The market is driven by local consumption, which has been relatively increasing over the past few years despite economic unrest.
- Egypt current installed capacity is 70 mm tons cement and the consumption in 2016 will be around 57 mm tons which represents a 6% growth rate, in 2019 the army will add 6 new lines to the market with capacity of 12 mm tons and IDA awarded 3 new licenses with 6 mm tons capacity, however some investment banks estimate cement demand will grow by a CAGR of 8.1% over 2016-19 vs. 2.4% over 2011-15a, driven mainly by strong GDP growth and recovery of top/down investment dynamics post-EGP flotation .
- Residential housing demand is expected to continue to be driven by its growing population and marriage rates, ensuring a consistent demand.
- Egypt suffers from low levels of spending on infrastructure. Also the quality of the infrastructure is relatively low that requires constant maintenance and repair.
- Cement prices increased starting from Q2 2016 but accelerated right after the EGP flotation and the increase in petroleum products prices that took place in November, which affected both the production cost/t and the transportation cost.

Average Market Retail Prices (EGP/ton)

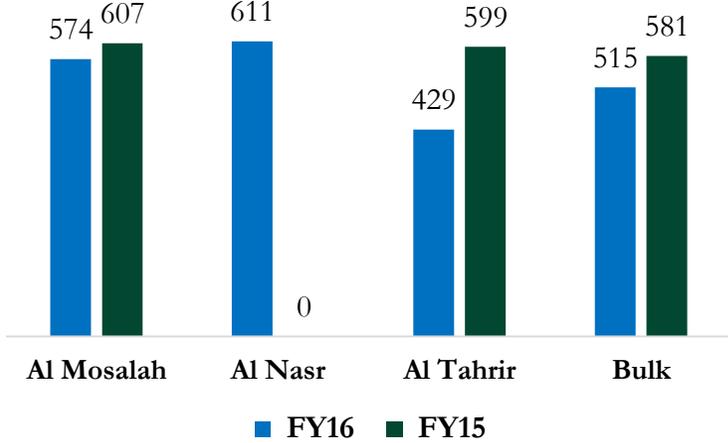
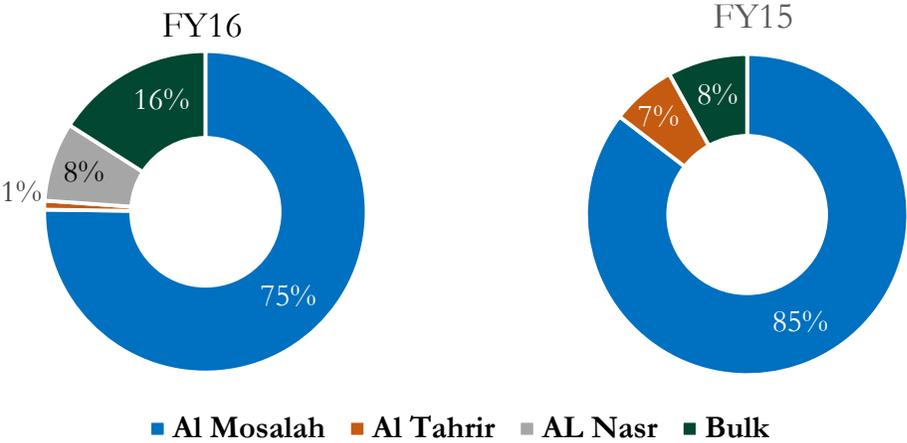


# Sales Overview

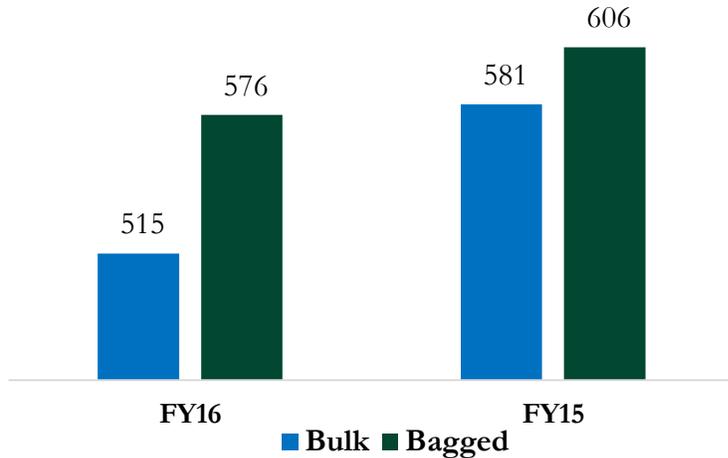
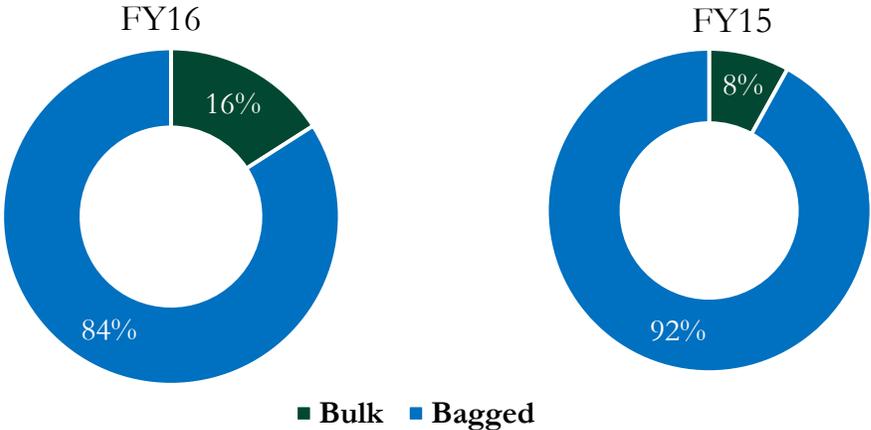
## Quantities Breakdown

Quantities Breakdown	Prices (EGP/ton)
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### Breakdown by Brand



### Breakdown by Type

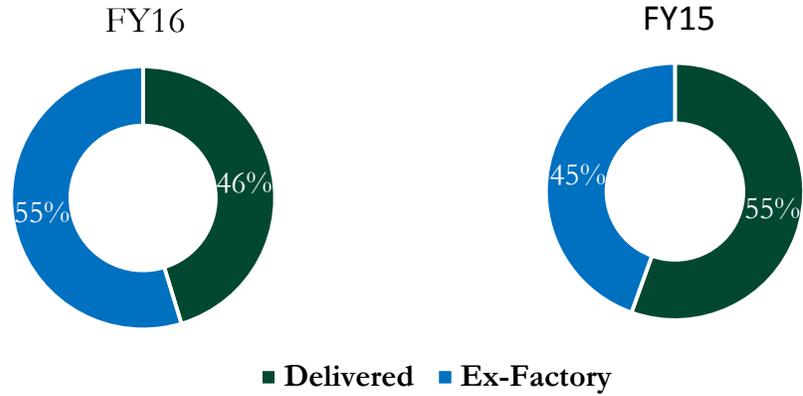


# Sales Overview

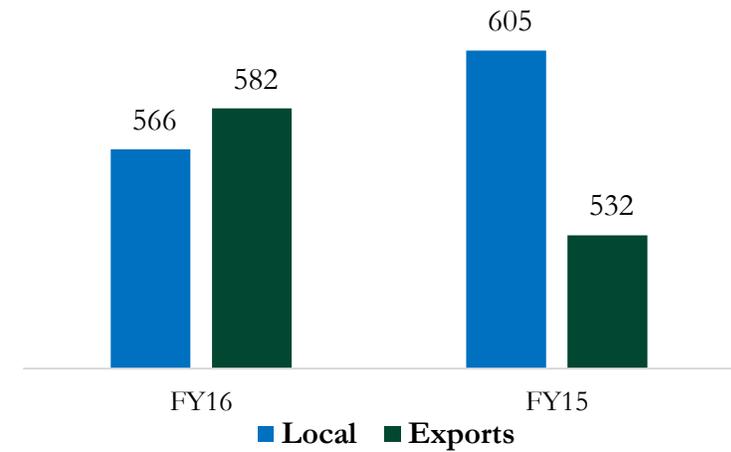
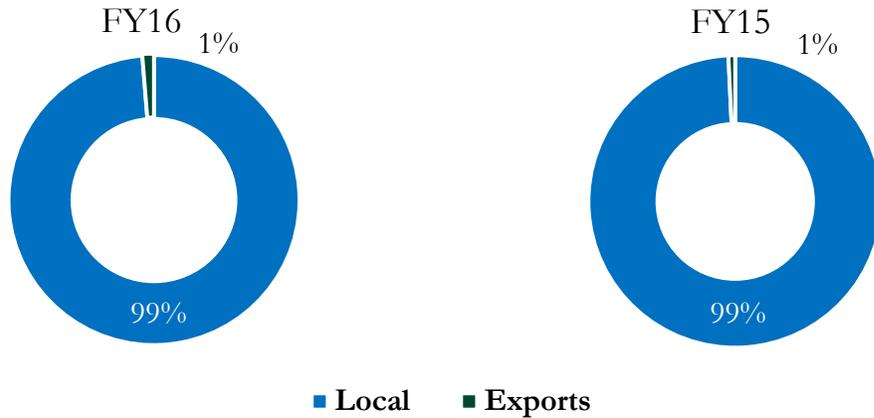
## Quantities Breakdown

Quantities Breakdown	Prices (EGP/ton)
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### Breakdown by Point of Sale



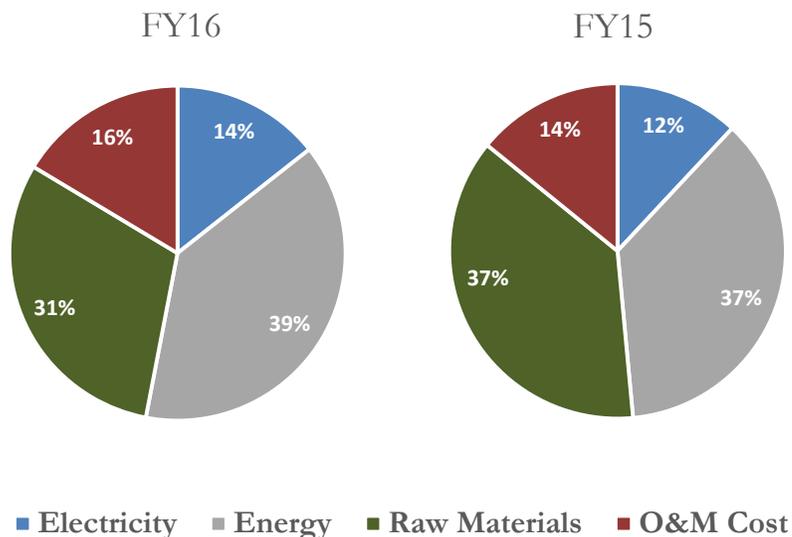
### Breakdown by Market



# COGS Overview

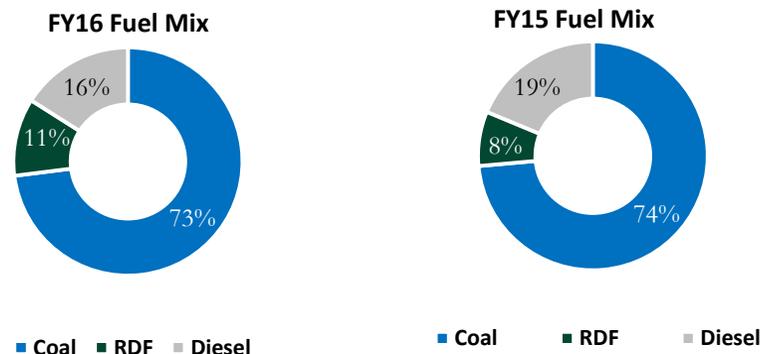
## COGS and ACC Cost Advantages

### COGS Breakdown



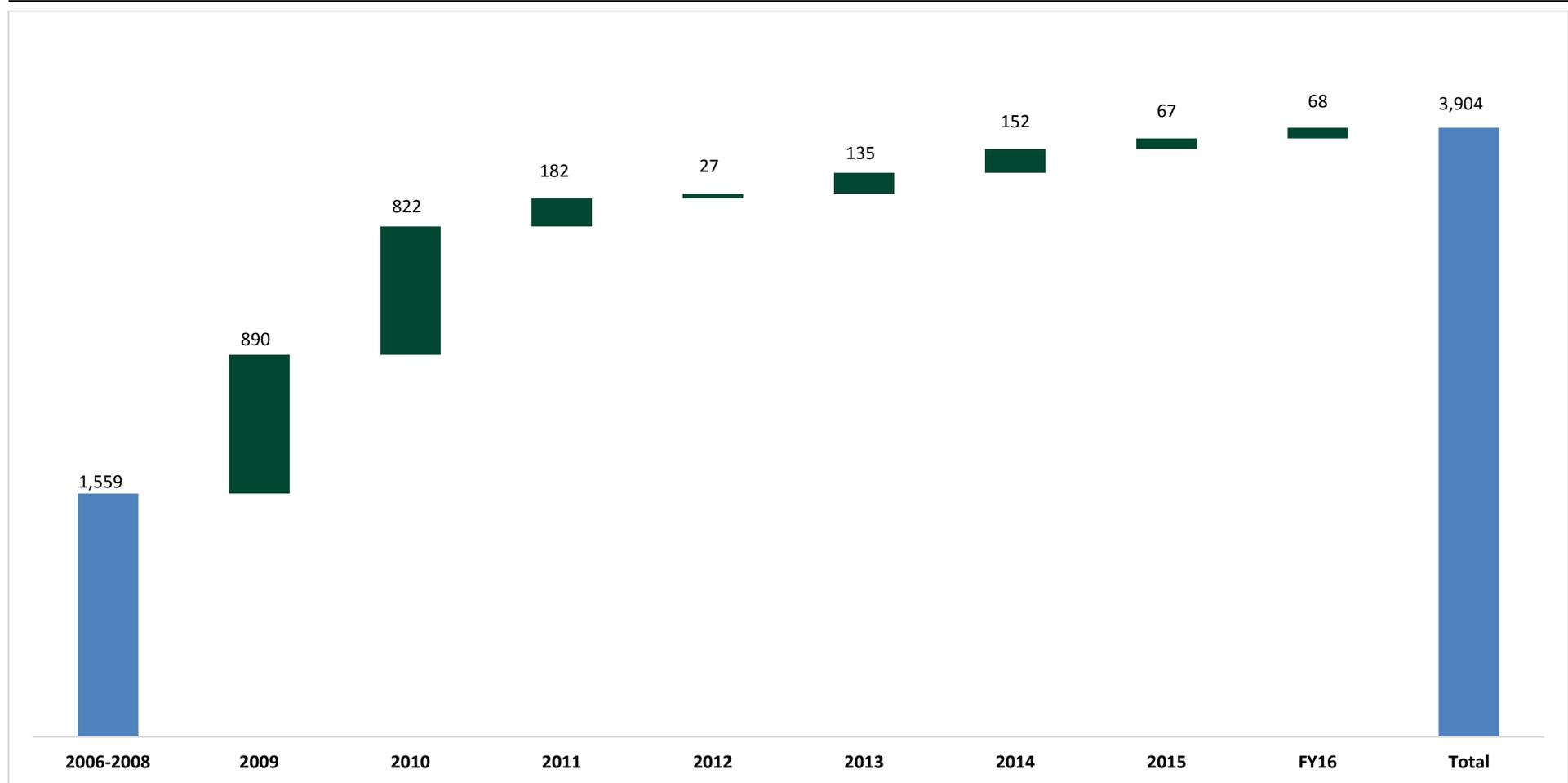
### ACC Cost Advantages

- ACC moved ahead of other industry players with embarking on alternative energy investments with aims to offer the ability to substitute up to 100% of its energy needs.
- RDF:**
  - The Company started using RDF in November 2013 in Line II.
  - Starting June 2015 the company started commissioning the hot disc to enable using a higher percentage of Alternative fuels in Line I, and in the total factory.
  - During 2016, the company used RDF to generate around 11% of its energy requirements.
- Coal:**
  - The company now has the technical capability to substitute > 70% of energy needs through coal and 20% through RDF. The remaining should be diesel.
  - Over the coming year, the company will invest in a second coal mill. This will enable the use of both Petcoke and Coal. Further, it will reduce the need for using diesel when one mill is under maintenance.



# CAPEX Overview

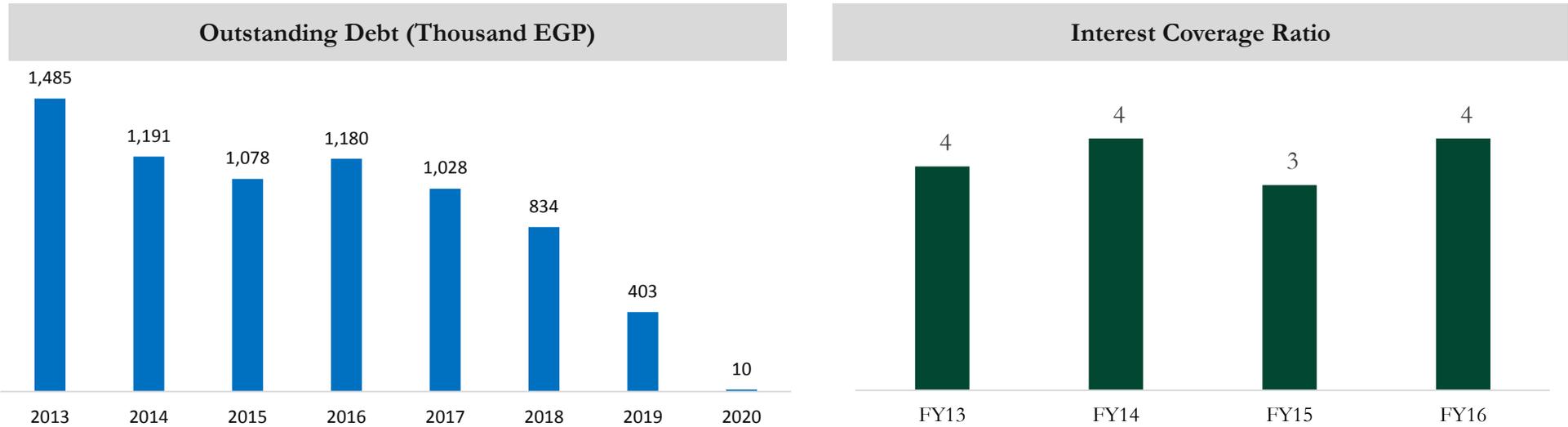
CAPEX (MN EGP)



- Total CAPEX for 2016 is around the same as 2015 which is mainly maintenance CAPEX.

# Debt

## Outstanding Debt & Debt Structure



Debt in EGP increased due to the flotation, however in USD terms during 2016 the debt was reduced from 65 to 44 MMUSD

### Debt Structure (EGP vs. USD)

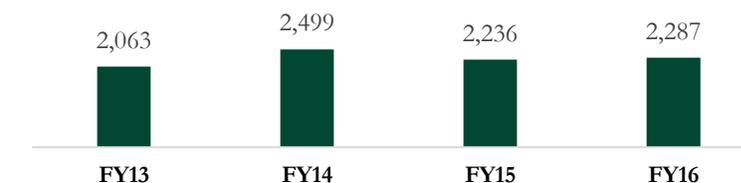


# FY16 Financials Review

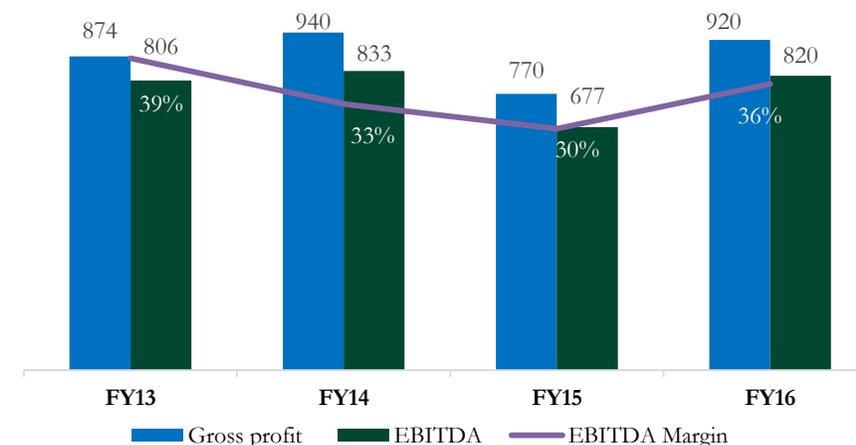
## Income Statement

MN EGP	FY13	FY14	FY15	FY16
Revenue	2,063	2,499	2,236	2,287
Cost of goods sold	1,190	1,559	1,466	1,368
<b>Gross profit</b>	<b>874</b>	<b>940</b>	<b>770</b>	<b>920</b>
<b>GPM</b>	<b>42%</b>	<b>38%</b>	<b>34%</b>	<b>40%</b>
SG&A Expenses	67	106	93	99
<b>EBITDA</b>	<b>806</b>	<b>833</b>	<b>677</b>	<b>820</b>
<b>EBITDA Margin</b>	<b>39%</b>	<b>33%</b>	<b>30%</b>	<b>36%</b>
Other income	7	-1	-8	14
Depreciation & Amortization	188	191	197	204
<b>EBIT</b>	<b>626</b>	<b>642</b>	<b>472</b>	<b>630</b>
<b>EBIT Margin</b>	<b>30%</b>	<b>26%</b>	<b>21%</b>	<b>28%</b>
Foreign exchange	69	26	44	246
Loss/gain on disposal of PPE			.3	-7
Finance cost, net	118	94	90	7
<b>Net Profit Before Tax</b>	<b>439</b>	<b>522</b>	<b>339</b>	<b>370</b>
<b>NPBT Margin</b>	<b>21%</b>	<b>21%</b>	<b>15%</b>	<b>16%</b>
Deferred tax	20	14	-22	10
Income tax expense	1	135	72	115
<b>Net Profit</b>	<b>419</b>	<b>373</b>	<b>289</b>	<b>246</b>
<b>NPM</b>	<b>20%</b>	<b>15%</b>	<b>13%</b>	<b>11%</b>

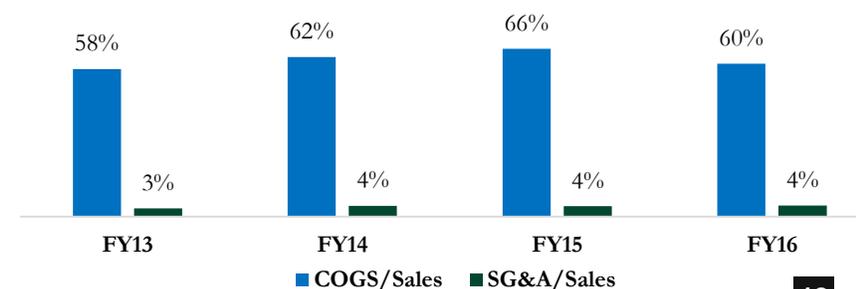
### Revenues (Thousand EGP)



### GP and EBITDA (Thousand EGP)



### Efficiency Ratios

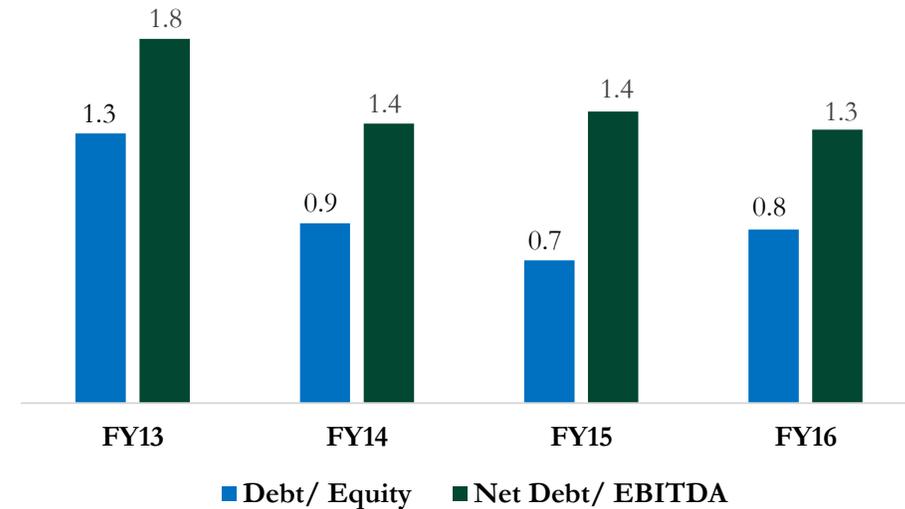


# FY16 Financials Review

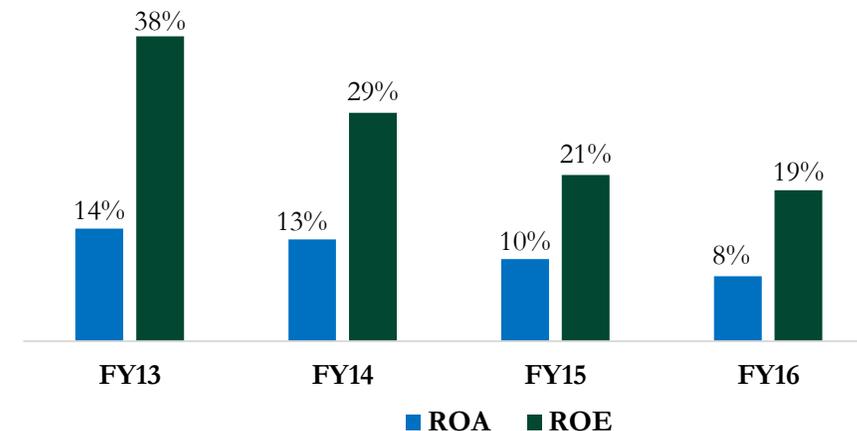
## Balance Sheet

MN EGP	FY13	FY14	FY15	FY16
<b>Assets</b>				-
Non-current Assets				
Property plant and equipment, net	2,647	2,665	2,534	2,877
Projects under construction	138	98	125	18
Intangible assets	154	132	109	87
Investment in subsidiaries	9	9	21	21
Payments under long-term investment				
<b>Total Non-current Assets</b>	<b>2,949</b>	<b>2,905</b>	<b>2,789</b>	<b>3,003</b>
<b>Current Assets</b>				-
Inventory	96	201	196	276
Debtors and other debit balances	47	48	59	103
Due from related parties	17	17	15	13
Cash and bank balances	158	156	365	130
<b>Total Current Assets</b>	<b>318</b>	<b>423</b>	<b>634</b>	<b>523</b>
<b>Current Liabilities</b>				-
Provisions	7	9	16	9
Current tax liabilities	1	135	72	116
Trade payables and other credit balances	326	324	522	518
Due to related parties	2	6	52	8
Borrowings - short term portions	338	294	206	436
Short-term liabilities	69	69	86	146
<b>Total Current Liabilities</b>	<b>743</b>	<b>837</b>	<b>955</b>	<b>1,235</b>
<b>Net (Deficit) Surplus in Working Capital</b>	<b>-425</b>	<b>-414</b>	<b>-320</b>	<b>-712</b>
<b>Total Invested Funds</b>	<b>2,524</b>	<b>2,490</b>	<b>2,469</b>	<b>2,291</b>
<b>Represented in:</b>	-	-	-	-
<b>Equity</b>				-
Paid up capital	757	757	757	757
Legal reserve	119	129	156	185
Retained earnings	213	408	468	350
<b>Total Equity</b>	<b>1,089</b>	<b>1,295</b>	<b>1,382</b>	<b>1,292</b>
<b>Non-current Liabilities</b>				-
Borrowings - long term portions	521	342	358	464
Deferred income tax liability	337	351	329	339
Long-term liabilities	577	503	400	196
<b>Total Non-current Liabilities</b>	<b>1,434</b>	<b>1,195</b>	<b>1,087</b>	<b>998</b>
<b>Total Equity and Non-current Liabilities</b>	<b>2,524</b>	<b>2,490</b>	<b>2,469</b>	<b>2,291</b>

## Gearing



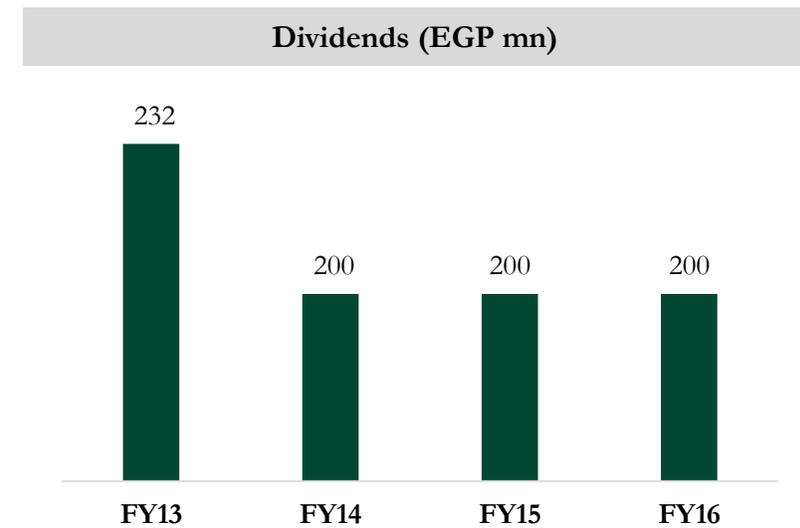
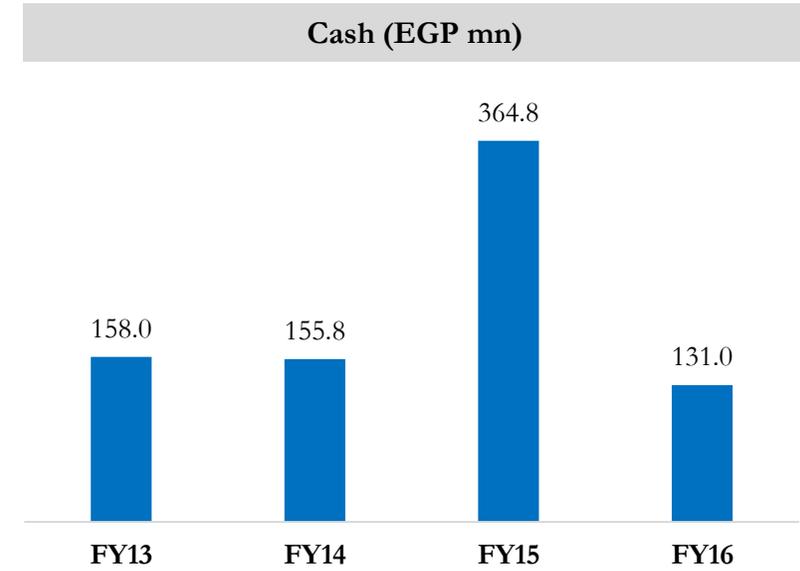
## Return Ratios



# FY16 Financials Review

## Cash Flow Statement

MN EGP	FY13	FY14	FY15	FY16
<b>Cash flows from operating activities</b>				
Net profit before tax	439.0	522.0	339.0	370.0
Interest income	-1.0	-1.0	-3.0	-7.0
Interest expense	120.0	95.0	131.0	7.0
Depreciation expense	165.0	168.0	174.0	182.0
Amortization of intangible assets	23.0	23.0	23.0	23.0
Gain from sale of property plant and equipment	0.0	0.0	-0.1	7.3
Dividends from joint venture	0.0	0.0	-0.1	0.0
Provision	6.0	2.0	7.0	-6.7
<b>Changes in working capital</b>	<b>752.0</b>	<b>809.0</b>	<b>670.8</b>	<b>575.6</b>
Debtors and other debit balances	3.0	-1.0	-11.0	-22.0
Inventory, net	-29.0	-105.0	5.0	-112.0
Trade payables and other credit balances	21.0	31.0	177.0	-5.0
Due from related parties	-7.0	-0.1	2.0	1.0
Tax paid		-0.1	-131.0	-67.0
Due to related parties	1.0	3.0	0.6	44.0
<b>Net cash from operating activities</b>	<b>741.0</b>	<b>736.8</b>	<b>713.4</b>	<b>414.6</b>
<b>Cash flows from investing activities</b>				
Proceeds from dividends from joint venture	0.0	0.0	0.1	0.0
Proceeds from sale of assets	0.0	0.0	0.2	7.0
Interest income	1.0	1.0	3.0	7.0
Purchase of property, plant and equipment	-9.0	-23.0	-16.0	-13.0
Additions in projects under construction	-80.0	-124.0	-53.0	-22.0
Payments under long-term investments	0.0	0.0	-11.9	-0.2
<b>Net cash flows used in investing activities</b>	<b>-88.0</b>	<b>-146.0</b>	<b>-77.6</b>	<b>-21.2</b>
<b>Cash flows from financing activities</b>				
Payments of license liability	-68.0	-74.0	-78.0	-104.0
Payments of borrowings	-276.0	-223.0	-114.0	-270.0
Interest paid	-120.0	-95.0	-78.0	
Dividends paid	-192.0	-201.0	-157.0	-205.0
Proceeds from bank overdraft	0.0	0.0	0.0	64.0
<b>Net cash flows from financing activities</b>	<b>-656.0</b>	<b>-593.0</b>	<b>-427.0</b>	<b>-515.0</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>-3.0</b>	<b>-2.2</b>	<b>208.8</b>	<b>-234.0</b>
Cash and cash equivalents at beginning of the period	161.0	158.0	156.0	365.0
<b>Cash and cash equivalents at end of the period</b>	<b>158.0</b>	<b>155.8</b>	<b>364.8</b>	<b>131.0</b>





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[www.arabiancementcompany.com](http://www.arabiancementcompany.com)