



شركة ريسوت للأسمنت (ش.م.ع.)

Raysut Cement Company (S.A.O.G.)



Director report For the period ended 31 March 2019

Dear Shareholders,

It gives me pleasure to present the Financial Statements for the period first quarter ended 31 March, 2019 of the Company.

Review of operations and financial performance:

Production:

Group: The Group as a whole have produced 838,967 Tons of Clinker and 843,217 Tons of Cement during the period against 815,365 Tons of Clinker and 875,272 Tons of Cement during the same period of last year respectively. The overall production of Clinker is higher by 2.90% and Cement went down by 3.66%.

Parent Company: The Parent Company in its Salalah plant produced 544,102 Tons of Clinker and 558,282 Tons of Cement during the period against 456,975 Tons of Clinker and 527,692 Tons of Cement in the same period of last year. Overall there is an increase of Clinker production by 19.07% and Cement by 5.80% as compared to corresponding period.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, the productions of Clinker and Cement stood at 294,865 Tons and 284,935 Tons respectively during the period, against 358,390 Tons of Clinker and 347,580 Tons Cement respectively in the same period of last year. Clinker productions is lower by 17.72% and Cement production by 18.02% as compared to corresponding period. The lower production is due to the shutdown during the period.

Sales:

Group: The Group as a whole has sold 851,625 Tons of Cement during the period against 886,543 Tons of Cement in the same period of last year. Overall there is a decrease by 3.94 %. Further, the Group has sold 356,022 Tons of Clinker against 65,964 Tons in the same period of last year. The changes in volume is mainly due to closure of Muscat Terminal and consequent loss of market in north for parent company for Cement. For Pioneer, the exports especially in to Oman have gone down by 52%

Parent Company: The Parent Company has sold 601,982 Tons of Cement and 228,577 Tons of clinker during the period against 609,616 Tons and 64,964 Tons of cement and clinker in the same period of last year, a decrease of cement by 1.25% and clinker is higher by 251.85% due to the reasons as mentioned above.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, has sold 288,341 Tons of Cement against 349,175 Tons in the same period of last year, a decrease by 17.42%. Further, there is a sale of clinker 127,442 against 1,000 Tons in the same period of last year.

The major markets for the Parent company are domestic, Yemen and East African markets, and for Pioneer, the main markets are UAE, Bangladesh and Oman.

Revenue and profit:

Group: During the period, the Group has earned a Revenue of RO 23.088 Million against RO 20.962 Million in the same period of last year, an increase by 10.14%. As mentioned above the changes in revenue is due to change in product mix as well as change in company strategy relating to the sales.

The Profit Before Tax of the Group stood at RO 0.248 Million as against RO 1.087 Million in the same period of last year, a decrease by 77.18%. The Group operating profit has decreased to RO 0.734 Million in the current period from RO 1.206 Million in the same period of last year i.e. a decrease by 39.14% due to following reasons:

Lower sales realization per ton of Cement sold (lower by 8% for RCC and by 4% for Pioneer).

Higher raw materials costs mainly due to change in product mix and marginal increase in other factory overheads due to maintenance activities carried out during current period and hire of services from third parties.

Increase in finance cost is due higher interest on term loan and additional term loan obtained during the last quarter in UAE.

Reduction in fair market value of securities.

The Profit after Tax for the Group has decreased to RO 0.243 Million from RO 0.450 Million, a decrease of 46% during the period.

Parent Company:

In spite of severe price competition from the UAE suppliers, and the volatility in the export market, the Parent Company could achieve an overall Sales volume of 831k MT as against 675k MT an increase of 23%. But due to price competition and change in market pricing strategy the revenue is RO 16.376 Million during the period against RO 15.740 Million during the same period of last year, an increase by only 4%.

Profit before Tax of the Parent Company stood at RO 0.286 Million for the period against RO 4.493 Million earned during the same period of last year, a decrease by 94%. After adjusting for the Pioneer dividend of 3.67 million, the drop is 65% that is attributable mainly to lower price realization and increased costs as explained above

The Profit after tax of the Parent Company has stood at RO 0.281 Million against RO 3.839 Million, a decrease of 92.68% during the period.

Subsidiary company: During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 7.483 Million as compared to RO 6.650 Million achieved in same period of the last year. While the volume increase is 19%, the drop in average realization (12%) resulted in an increase revenue only by 12.53%.

Pioneer Cement has incurred a loss of RO 0.057 Million against a profit of RO 0.645 Million earned during the same period of last year. This is because of reasons mentioned above.

Other subsidiary and associated companies: Raysea Navigation, a subsidiary company which provide with shipping services, has earned revenue of RO 0.363 Million against a revenue of RO 0.112 Million and earned a profit of RO 0.035 against a loss of RO 0.261 Million in the same period of last year.

Capital Structure Change: During the period under review no capital restructuring like increase or reduction in capital or issue of bond has happened.

Future Outlook

Various cost reductions initiatives coupled with optimization of distribution of cement keeping market share and profitability in mind, would be the major area of attention in the coming years. With those internal initiatives the Company is hopeful to minimize the market pressure to a great extent.

The management continues to focus on the dynamic and competitive market for cement, additionally emphasis on operational excellence is an important factor to achieve success of the company. The company has highly experienced management and will continue to strive on a strategy that focuses on the creation of long term value for all stakeholders while ensuring sustainability in the operations.

Expansions:

The Parent company is in the process of acquiring 100% stake in Sohar Cement Factory LLC (a cement grinding unit with distribution network), and signed letter of intent. The Sohar Cement Factory is located in Sohar and has a capacity of 1.7 million tons of cement production.

Investments:

The Company has been placing the surplus funds in Fixed Deposits from time to time out of the surplus generated both from Parent Company and its subsidiary in UAE, in order to take as much as possible advantage from these deposits.

Employees:

The Company is always on the lookout for professionally qualified staff members in the management to enrich its base, and is striving for training and development of employees for a sustainable growth focused organization. The Company continues to sponsor employees on training to various institutes both within and outside the country, apart from holding large number of in house training program.

Social Responsibility:

The Company does recognize its social responsibility and need for environmental protection. Maintaining pollution free environment as per international standards and continuously endeavoring to its improvement has been the guiding principles of Company.

The Company has become a Centre for many Institutions of higher learning and Technical Colleges to train their students under the guidance of our executives with practical hands on experiences.

Internal Control:

Internal control system is being regularly assessed by the Internal Audit Team as well as by the management.

Acknowledgement:

On behalf of the Board of Directors and on my personal behalf, I take this opportunity to express our deep sense of gratitude to His Majesty and His Government for their unstinted support and guidance.

I would like to thank you for your support and confidence in us. I would also like to thank our associates, dealers, customers, the management team and all our employees for their loyalty, integrity contributions, commitment and continued support to the overall success of the Company.

Ahmed bin Yousuf bin Alawi Al Ibrahim
Chairman of the Board of Directors

