



شركة ريسوت للأسمنت (ش.م.ع.ع.)

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



Director report For the period ended 30 June 2019

Dear Shareholders,

It gives me pleasure to present the Financial Statements for the period second quarter ended 30 June, 2019 of the Company.

Review of operations and financial performance:

Production:

Group: The Group as a whole have produced 1,686,743 Tons of Clinker and 1,560,746 Tons of Cement during the period against 1,584,079 Tons of Clinker and 1,698,169 Tons of Cement during the same period of last year respectively. The overall production of Clinker is higher by 6.48% and Cement went down by 8.09%.

Parent Company: The Parent Company in its Salalah plant produced 1,024,452 Tons of Clinker and 971,230 Tons of Cement during the period against 953,929 Tons of Clinker and 1,071,589 Tons of Cement in the same period of last year. Overall there is an increase of Clinker production by 7.39% and Cement went down by 9.37% as compared to corresponding period.

Subsidiary companies: At Pioneer Cement, a subsidiary company, plant in UAE, the productions of Clinker and Cement stood at 662,291 Tons and 535,753 Tons respectively during the period, against 630,150 Tons of Clinker and 626,580 Tons Cement respectively in the same period of last year. Clinker productions is higher by 5.10% and Cement production lower by 14.50% as compared to corresponding period.

At Sohar Cement Factory LCC, newly acquired subsidiary company, the productions of Cement stood at 53,763 Tons during the period from 20 May 2019 to 30 June 2019.

Sales:

Group: The Group as a whole has sold 1,609,901 Tons of Cement during the period against 1,701,936 Tons of Cement in the same period of last year. Overall there is a decrease by 5.41%. Further, the Group has sold 559,548 Tons of Clinker against 380,933 Tons in the same period of last year, indicating an increase by 46.89%.

Parent Company: The Parent Company has sold 1,121,218 Tons of Cement and 385,735 Tons of clinker during the period against 1,178,806 Tons and 152,853 Tons of cement and clinker in the same period of last year, a decrease of cement sale by 4.89% and clinker sale is higher by 152.36% that is in export market.

Subsidiary company: At Pioneer Cement, a subsidiary company, plant in UAE, has sold 546,517 Tons of Cement against 629,850 Tons in the same period of last year, a decrease by 13.23%. Further, there is a sale of clinker 173,813 against 228,080 Tons in the same period of last year, a decrease by 23.79%.

At Sohar Cement Factory LCC, the sale of Cement stood at 48,525 Tons during the period from 20 May 2019 to 30 June 2019.

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 41.72 Million against RO 42.81 Million in the same period of last year, a decrease by 2.55%. 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 0.52 Million as against RO 1.23 Million in the same period of last year, a decrease by 57.72%. The Group operating profit has decreased to RO 1.33 Million in the current period from RO 2.20 Million in the same period of last year i.e. a decrease by 39.54% due to following reasons:

Lower sales realization per ton of Cement sold (RCC by 6% and Pioneer 5%).

Higher raw materials costs mainly due to product mix

Increase in finance cost is due higher interest rate on term loan and additional term loan obtained during the period.

The Profit after Tax for the Group has decreased to RO 0.51 Million from RO 0.70 Million, a decrease of 27.14% 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 revenue of RO 30.23 Million during the period against RO 30.47 Million during the same period of last year, a decrease by only 0.79%.

Profit before Tax of the Parent Company stood at RO 0.57 Million for the period against RO 4.94 Million earned during the same period of last year, a decrease by 88.46%. After adjusting for the Pioneer dividend of 3.67 million, the drop is 54.59% 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 0.57 Million against RO 4.16 Million, a decrease of 86.30% during the period.

Subsidiary company: During the year, the Sales Revenue, earned by Pioneer Cement, a subsidiary company in UAE amounted to RO 12.71 Million as compared to RO 14.45 Million achieved in same period of the last year, a decrease by 12.04%.

Pioneer Cement has made a profit of RO 0.06 Million same as earned during the last year.

Further Sohar cement Factory LLC has earned a revenue of RO 0.89 Million and a made a profit of RO 0.01 Million during the post acquisition period.

Other subsidiary and associated companies: Raysea Navigation, a subsidiary company which provide with shipping services, has earned revenue of RO 0.71 Million against RO 0.11 Million and incurred a loss of RO 0.09 Million against a loss of RO 0.5 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 has acquired 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.

Further, the Parent company has agreed to establish a cement grinding unit in Somaliland with production capacity of 1 million ton cement per year with MSG Group of Companies Limited, having 55% share in the proposed Joint Venture.

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

