



2016

CFC Project Lafarge Cement Jordan JOCM



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List of Acronyms

JPMC	Jordan Cement Factories - Lafarge
SWOT	Strengths, Weaknesses, Opportunities, and Threats
IASB	International Accounting Standards Board's
CAPM	Capital Asset Pricing Model
WACC	Weighted Average Cost of Capital
ASE	Amman Stock Exchange

1- Investment Analysis:

- JOCM (Lafarge Jordan) is a subsidiary of the global Group Lafarge Holcim & It is the leader of Cement Production in Jordanian Market. Total JOCM Power of Cement Production was 4.8 million tons in 2014 which was the same as 2013. In 2014 & despite the extremely extensive competition & the difficulties faced (Al- Fuheis plant Production Cut), JOCM succeeded to maintain its market share. 2014 Total Sales was 114.310 million JOD with an increase of 24.9% relative to 2013. CGS was 93.778 million JOD with a decrease of 8% compared to 2013 due to the JOCM commitment to the strategy of cutting costs. JOCM has 2 main products: Cement & Ready Mix Concrete. 2014 Cement Sales was 65.505 million JOD (57.3% of Total 2014 Sales) with a growth of 24.6% from 2013. 2014 Concrete Sales was 48.803 million JOD (42.7% of Total 2014 Sales) with a growth of 25.4% from 2013. The Sales are distributed between Jordan which was 108.839 million JOD in 2014 (95.2% of Total 2014 Sales) with a growth of 23.7% compared to 2013, and Sales through Aqaba (Outside Jordan) which was 5.469 million JOD in 2014 (4.8% of Total 2014 Sales) with a growth of 56.7% compared to 2013.
- According to the expected Growth of Global Cement Production which is expected to increase by 33.6% in 2020 from 2010, The expected growth of Global Cement Consumption which is about 4% (2015-2016), The extensive competition in Jordanian market & the region & the fact that JOCM succeeded to maintain its market share , Taking into consideration the relatively low price of energy in the world which continued to be low in 2015 & 2016 , Taking into consideration that JOCM should find a solution for Al-Fuheis plant to get back in the production cycle, The political situation & wars in the region & the positive effect on Cement market once these wars come to an end. We expect that JOCM Sales to grow at a low rate. For that reason we expect sales to grow at 4% annually for the period 2015-2017. So total Sales will be 128.582 million JOD in 2017 with a growth of 12.4% from 2014. Gross Profit percentage was 18% in 2014 compared to negative result in 2013. Gross Profit percentage expected to be 20% for the years 2015-2017 due to the company Strategy to cut operating costs.
- Reported Net Income was 3.366 million JOD in 2014 compared to reported loss in 2013. We expect a negative loss in 2015 & a positive Net Income for 2016 & 2017. Although the General & Administrative expenses was higher in 2014 by 7.3% from 2013, we expect these expenses to decline for 2015-2017 (Cutting Costs). We expect Selling & Distributive expenses to increase (2015-2017) according to the trend of Sales. The Depreciation expense will decline in 2015 (Also the Net Fixed Assets will decline in 2015) due to the absence of any new major plans for Capital Expenditures or expansions. The Depreciation & Net Fixed Assets will have equal amounts for years 2015-2017 to maintain the same operational capacity of JOCM. The Total Capital Investment for

JOCM & its Subsidiaries was 402 million JOD in 2014 with a decrease of 2% compared to 2013.

- Due to the economic changes in the world particularly related to the decline in energy costs & to the increase of importing cements from outside Jordan (that has low costs) , JOCM expects that market competition to increase during the future years & for that reason a lot of future objectives were decided :
 - 1- **Health & Security:** JOCM will continue applying Health & Security procedures specially those related to contractors administration. Also JOCM will continue applying Leadership skills Training courses for supervisors due to its importance in Industrial process.
 - 2- **Human Recourses:** By improving & developing employees' capabilities & skills continuously with great concentration on Sales & Marketing.
 - 3- **Cutting Costs:** JOCM has a Strategy to cut operating & production costs to be the lowest between all other companies in Jordan (to maintain & increase market Share).
 - 4- **Innovation:** The commitment of continuous innovation for Lafarge is the main reason to have the leadership in producing building materials. Innovation means to review the current products & services & to replace them with advanced ones constantly. So innovation will be an important priority for JOCM in the future.
 - 5- **Social Responsibility:** To maintain good relationships with local community & to participate in Social Responsibility programs as much as possible.

JOCM achieved a lot of success in these areas during 2014. There were no work injuries during 2014 & a lot of training courses were held for Health & Security. For environment JOCM obtained ISO 14001. Cutting costs was observed & it is helpful to mention here that the operational performance of Al-Rashadiyah plant was improved after using grounded coal as an energy source. Finally JOCM participated in developing projects in “Basira “municipality (Jordan) as a social responsibility program.

- The derived valuation of JOCM shares is JOD 1.96 per share. The stock closed at JOD 1.7 on December 31, 2014 at Amman Stock Exchange Market. So we recommend ‘BUY’ on JOCM stock according to its Current price levels.

2- Industry Analysis & Overview

❖ Introduction

Cement is a basic product that is used globally to increase the wheel of buildings , construction and to enhance the World Wide Economy . It is a commodity that refers to powdered materials which constitutes powerful qualities when mixed with water. It is produced by heating limestone with small quantities of other materials in very big factories . It has two types : First type is non hydraulic cement which will not set in wet conditions or underwater & needs air to become hard, and Second is hydraulic cement which is quite durable in water . Cement is typically sold in the form of grey or white powder . It was firstly invented by Egyptians and as its currently status was initially produced in the United States of America. Portland cements are mostly used around the world. These have various types used in different conditions like underwater or open air. World Wars badly affected the production level in whole Europe and America. But after that production level gone to peaks as constructions developed rapidly. Since construction is a leading factor of Economic Growth , We can say that the Recovery of Global Economy is concentrated in Cement. Recently & despite the Emerging Markets weak figures for Cement Exports & Manufacturings & although the Manufacturing Growth is expected to slow , The Cement Demand is forcasted to rise according to the most updated “ Global Concrete and Cement Market – Key Trends and Opportunities to 2017 “.

Cement is a very huge business in which the total Global Market Revenues exceed 250 billions for a year . More than 50% of the Global Cement (Supply & Demand) is controlled by China through local firms . Another 6 well known international companies (Buzzi , Cemex , Heidelberg , Holcim , Italcementi & Lafarge) together have approximately 40 % of the market according to the “ The Economist “.

❖ Oligopoly Market

Currently the new economic trends have shifted into more sophisticated world of Duopoly & Oligopoly instead of more Perfect Competition & Monopoly . An Oligopoly is a type of Market with low number of producers have high market share with control over prices & high barrier entry for a homogeneous product . It became easy & clear to notice that many markets are going to be an Oligopoly as time passes.to illustrate the nature of Oligopoly of Cement Market ,a good example will be the Oligopolistic Malaysian Cement Industry “ The Novice Economists “ . The Factors Clarifying the Oligopoly are as follows:

- 1- Producers :** 6 Major producers (Lafarge , YTL Cement , Tasek Corp. , Cement Industries of Malaysia , CMS Cement & Holcim) .
- 2- Prices :** The Automatic Price Mechanism (APM) was applied by the government in which the producers will control prices completely with no interference by the government or consumers.
- 3- Product :** Cement is a homogeneous commodity in which variation is limited & substitutes are rare.
- 4- Market Entry :** The large Sunk Costs & market Economies of Scale represent high barrier entry for any future potential competition.

❖ Global Cement Supply

The Global Cement Production had doubled twice from 1,100 million tons in 1990 to 3,270 million tons in 2010 . The Global Production quantity is expected to be 4,370 million tons in 2020 with 33.6% increase compared to 2010 and is expected to be 4,830 million tons in 2030 with 10.5% increase compared to 2020 and 47.7% increase compared to 2010. Emerging Markets represent approximately 90% of the World wide market today while America & Europe account for the reminder . Globaly , China is the giant producer of Cement (51.3%) . It annually produces approximately 2,482 million tons which are mainly used in construction in that highly populated country. The major company producer in the world is Lafarge (France) with a capacity of 225 M/T per year & with 166 plants . The First 3 major producers companies have each a capacity equal to or above 200 M/T & with total capacity equal to 642 M/T per year . Among the largest 10 companies (Producers) in the world , 6 companies are from China .

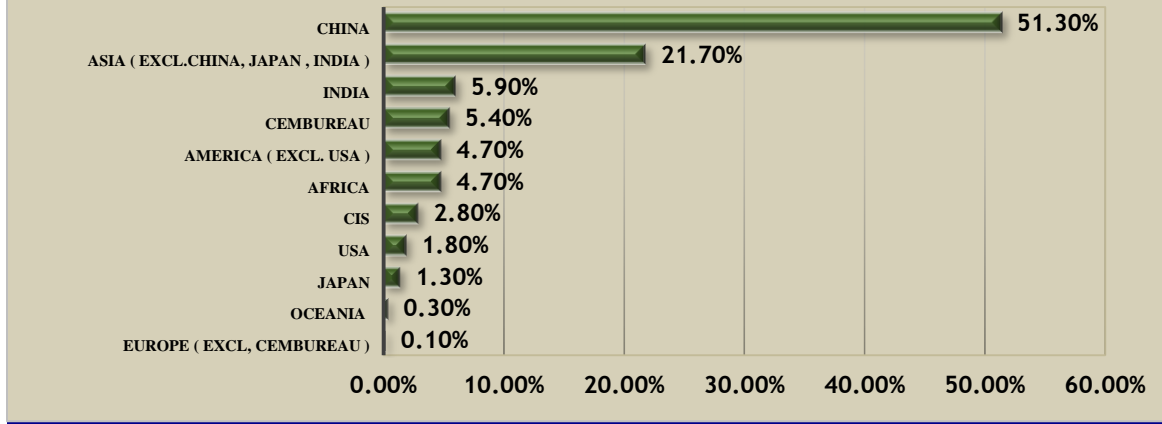
The following Table presents the largest 10 companies (producers) according to the “ Global Cement Site “ in 2011.

Rank	Company / Group	Country	Capacity (m/t)	No. of Plants.
1-	Lafarge	France	225	166
2-	Holcim	Switzerland	217	149
3-	CNBM	China	200	69
4-	Anhui Conch	China	180	34
5-	Heidelberg Cement	Germany	118	71
6-	Jidong	China	100	100
7-	Cemex	Mexico	96	61
8-	China Resources	China	89	16
9-	Sinoma	China	87	24
10-	Shanshui	China	84	13

Source : Global Cement Site

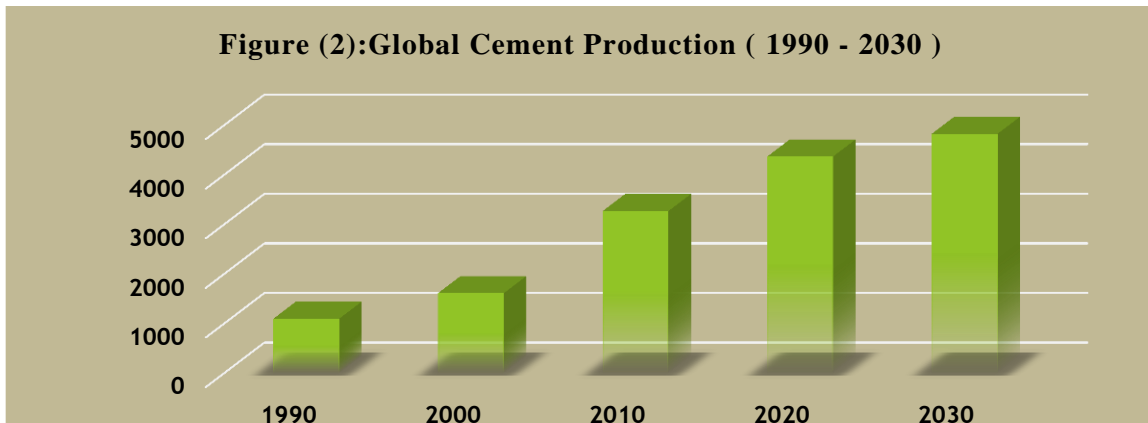
The Following figures show the “ World Cement Production 2015 by Region & Countries - 4.6 Billion Tons “ , the “ Global Cement Production (1990-2030)“ & the “ Largest 10 companies (Producers) - 2011 “.

Figure (1): World Cement Production 2015, by Region & Main Countries.



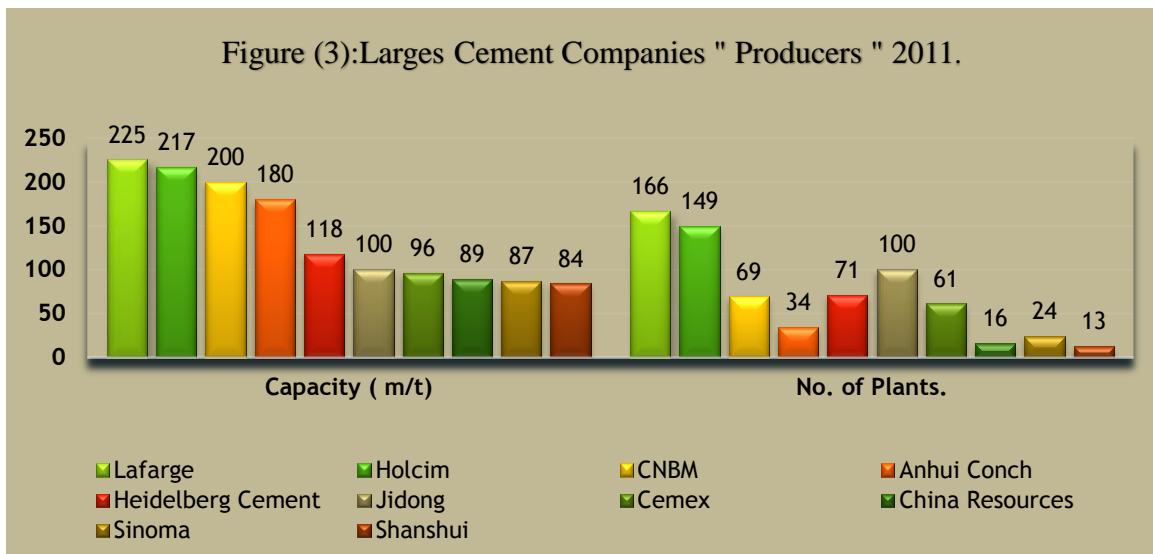
Source: CEMBUREAU

Figure (2): Global Cement Production (1990 - 2030)



Source: @ Statista 2016

Figure (3): Largest Cement Companies " Producers " 2011.

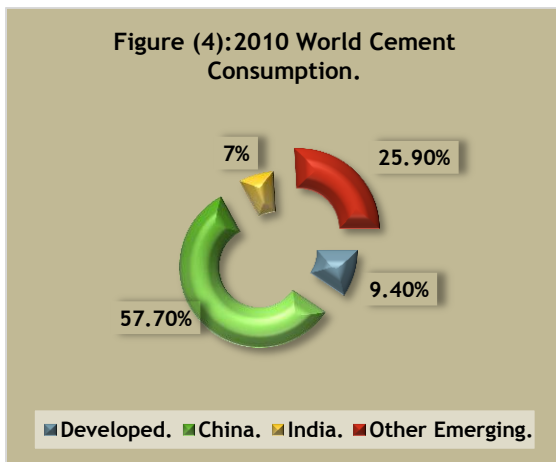


Source: Global Cement Site

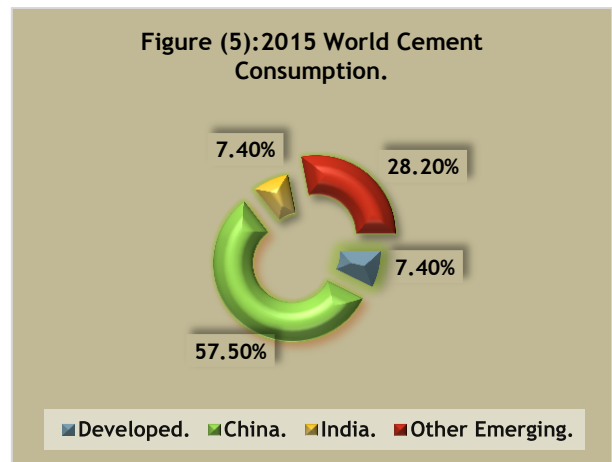
❖ Global Cement Demand

- The Total World Consumption was 4,193 million tons in 2015 with a growth of 26.6% compared to 3,313 million tons in 2010 . 3.6 billion tons was the total consumption in 2011 with an increase of 4.2% in 2012 to reach 3.7 billion tons. The Total Demand was expected to rise by 3.6% in 2013 , 4% in 2014 and to be stable near 4% for (2015 -2016) . China is the major consumer with a share exceeding 57% of total world consumption while India represents another 7% of total Demand. Together (China & India) account for (two thirds) globally . In the mean while Developed countries account for approximately 10%. Source “ PCA Market Intelligence “.

- Europe Demand will increase taking the advantage of recovery in various countries like Spain & Italy while the Demand will grow at a healthy rate in North America and the US Demand is already advantaged by the post-recession rebound. India is expected to have the highest growth rate increasing 8% per year through 2019 but China (Although it will stay as the giant consumer) Demand growth rate is expected to slow compared to recent years according to “ World cement . com”.The following 2 figures show the Cement Demand percentages among the world for years 2010 & 2015 :



Source : PCA Market Intelligence



Source : PCA Market Intelligence

❖ Cement Market – Gulf Area

- Saudi Arabia is the biggest consumer & supplier of cement in the area. Since 2004 Saudi Arabia is sharing approximately 64% from Gulf Cement Production followed by UAE with a 20% market share. The Total Gulf Production is around 8.1% of total world supply & around 33% of total arab countries supply. In 2004 the Gulf produced 40

million tons compared to 3.28 million tons in 1999. In 2013 the cement supply increased by 13% from 2011 & reached approximately 120.7 million tons. The total Gulf demand approximates 88 million tons in 2013 which is higher by 6.6% compared to that recorded in 2011. Also in 2013 Saudi Arabia reached the breakeven point between supply & demand for cement. The Total Gulf Production is expected to increase due to the lower energy prices achieved in (2015 – 2016) & due to the strategy of increasing cement exports outside the Gulf. But the Total Gulf Demand is expected to decrease due to the Financial Crisis suffered by Saudi Arabia (Adding Yemen War as a factor) & UAE.

- In 2014 Gulf companies accounted for 6,155 Million Dollars Revenue with a growth of 7% compared to 2013 in which Saudi Arabia share was 58% & UAE share was 18%. The Kuwaiti companies achieved the higher growth rate in that revenues with 28%. This is an indicator that Kuwait is coming as a strong competitor in the Gulf market. Also the Total Gulf companies 2014 Net Profits was 2.1 Billion Dollars with an increase of 5% related to 2013. Saudi Companies share was 77% from that profits . The biggest company in Saudi Arabia that made the highest percentage of Saudi cement net profits in 2014 was “ Arabic Cement “ due to the activity development of its subsidiary in **Jordan** which indicates that cement market in Jordan is growing. However, the major difficulties in Gulf Cement Market can be summarized in :

- 1- High input costs .
- 2- External competitors.
- 3- Low local cement prices due to the extra Supply over Demand in the Gulf .
- 4- The need to initiate all cement factories beside sea to lower transportation costs.

Resources for Cement Market – Gulf Area : “ www.argaam.com “ , “ www.mosgcc.com ” , “ www.addustour.com “ , “ www.alriyadh.com “ .

❖ **Jordan Cement Market**

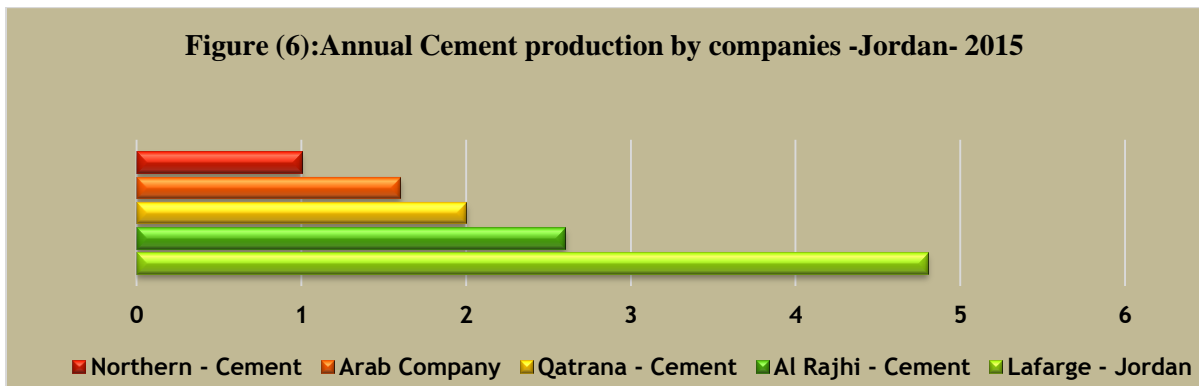
- On 25 May 1946 Jordan got its independence day from England. A complete membership of united nations was obtained in 1955. Jordan economic situation is one of the weakest economics in the middle east (Emerging Market) . It is very difficult for Jordan to obtain foreign currencies due to the shortage of Natural resources which made small countries like Bahrain & Qatar to have better economic situation than Jordan. King Abdullah 11 (by his judgement , wisdom & logic) adopted a wide variety of policies (opened to the world) that enhanced the Jordanian economy & doubled the Jordanian GDP figures during the 2000s. Jordan is known as its stability & considered a very safe country in the middle east, which encouraged a lot of people in the region to stay in Jordan after the political problems happened in their countries like Iraq , Syria & Yemen. A huge growth in Real Estate & construction sectors were clearly recorded in Jordan due to that which enforce high demand on cement during 2000s. The Cement sector had always been a main driver in the economic development of Jordan . There are 5 companies of cement in Jordan (The Total Cement Supply) with a total capital exceeding JOD 236 millions & an annual production totaling 12

million tons per year. Those companies also participated in the development of local communities through corporate social responsibility programs. A major point to mention is that the Jordanian Industrial sector constitutes around 90% of total National Exports reaches more than 120 countries & contributes to around 25% of the National Economy . “ Jordan Times “ “ Global Cement “.

- Jordan Cement Factories (Lafarge) was the first company in Jordan Cement Market (1951). It was & still the leading company in the market . It started to become a subsidiary of Lafarge (France) in 1998. It has 2 factories & has a powerful production of 4.8 million tons per year which constitutes 37% of Total Jordan Cement Production.Currently the Jordanian Market has another 4 companies :

- 1- Al Rajhi Cement Holding – Amman with a production power of 2.6 million tons per year.
- 2- Qatrana Cement Company – Amman with a production power of 2 million tons per year.
- 3- Arab Company for white cement with a production power of 1.6 million tons per year.
- 4- Northern Cement Company with a production power of 1 million tons per year.

The following digram shows the 5 companies with their production quantities in 2015.



Source : Amman Stock exchange (ASE)

- For (2014 – 2016) the Annual Cement Supply approchs approximately 12 million tons in which 3.8 million tons are used for local Demand & the rest is exported to the reigon . In year 2000 total Jordan Consumption was 2.25 million tons . The Consumption increased to 2.4 million tons in 2001 , 2.5 million tons in 2002 , 2.7 million tons in 2003 & 3.5 million tons in 2004. The Consumption increased by 4.6% reaching 3.66 million tons in 2008 which is something strange that approximates the same amount of Consumption expected in 2016 (3.8 million tons). The major reason was the lower construction growth rate due to the lower number of projects caused by the political situation in the reigon . However the total amount of Consumption was 4.2 million tons in year 2015. “ Global Cement “

- The major Cement problems in Jordan are (which approximates those related to the Gulf Market) :

1. High Energy costs.
2. Very Strong Competition.

3. High Supply Volume & low local Demand.
4. Difficulties in Exporting because of high energy costs compared to other countries (Competitors) in the region.(KSA Cost of Cement ton is lower than Jordanian ton).
5. High Transportation Costs.
6. Tax imposed by the Government.
7. Cement imported from other countries with low prices like Saudi Arabia.
 “ www.rumonline.net “

❖ **Major Advantages & Disadvantages of Cement Market (Globally , Regionally & Locally).**

The World Cement Industry is a complex structure that is always changing . It is controlled by a range of variables including : Macro economic growth , Housing sector booms , Public spending levels , Trade protectionism , & Transportation costs. Since cement market is an Oligopoly , we can speak about Advantages & Disadvantages of Oligopoly.

Advantages :

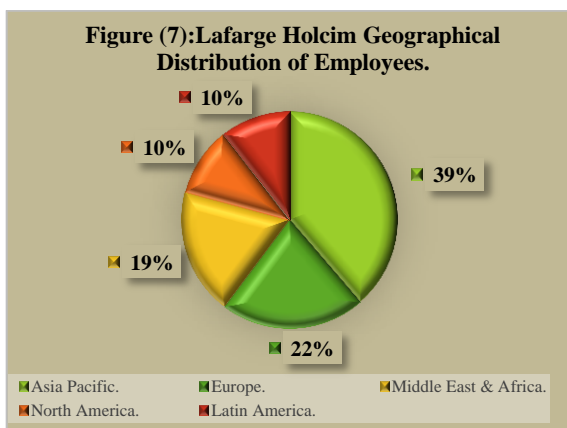
- 1- Few players that are able to make huge profits.
- 2- Due to the players control over market , they are able to decide price policies.
- 3- It is difficult for an old player to increase its share in the market.
- 4- It is difficult for a new player to enter the market because of extensive barriers of entry.
- 5- Huge profits can be used for research & development.
- 6- The average costs of production can be lower through Oligopoly.
- 7- Customers can easily compare between few products.
- 8- Competition between players can reduce price for customers .
- 9- Stable prices can help customers to plan & forecast their strategies.

Disadvantages :

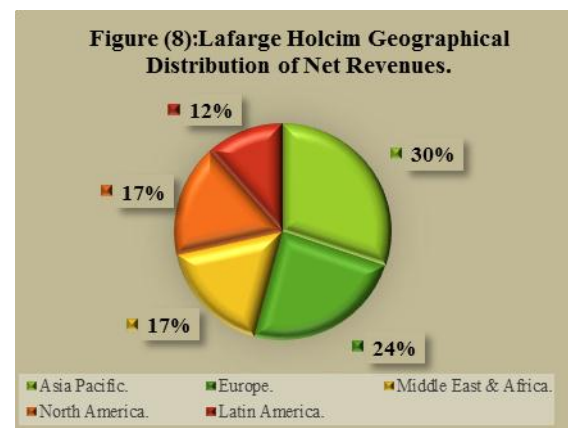
- 1- Price setting by players sometimes harmful to customers.
- 2- Small firms (new players) cant enter the market.
- 3- Few players may prevent development of existing product (less customer choices).
- 4- No independent decisions , players should share their ideas.
- 5- The fair wealth distribution is not achieved, small players are not satisfied with small profits.
 “ Buzzle “.

3- Company Overview

- **Business Name:** Lafarge Cement Jordan – JOCM.
 - **Main Objectives:** Manufacturing, distributing and trading of cement, inside and outside the Kingdom either direct or through intermediary in the convenient ways and conditions.
- Jordan Cement Factories (Lafarge) is the greatest & leader producer of Cement & Concrete in Jordan Cement Market. It was established in Jordan in 1951 as Shareholding Company with a capital of 1 Million JOD. In 1985 JOCM increased its capital to 60 Million JOD & purchased the Southern Cement Company. In 1998 Lafarge Group acquired 33% shares of JOCM from Jordanian Government & started its business in Jordan. In 2015 Lafarge & Holcim Companies merged together (Lafage Holcim). Today 50.2% of JOCM is owned by Lafarge Holcim. JOCM has 2 plants, one in Fuheis & the other in Rashadiyah. In 1992 an export Terminal was established in Aqaba. However Al-Fuheis factory was stopped from producing since 2013 because the government is not allowing using Coal there. That action complicated the competition status of JOCM & increased transportation costs due to the need to transporting Cement from Rashadiyah Factory.
- Lafarge Holcim Group was established in 1833. It is the leader company in the world for producing Building Materials. It has branches in 90 countries, has approximately 115,000 employees, 2500 production sites & 32.6 Billion Swiss Frank Net Revenues. Lafarge Holcim is committed to offering customers the best reliable & excellent materials in products & to be the world leader for all partners. The following figures represent the Geographical Area Distribution of Employees & Net Revenues for Lafarge Holcim Group globally:



Source : Amman Stock exchange (ASE)



Source : Amman Stock exchange (ASE)

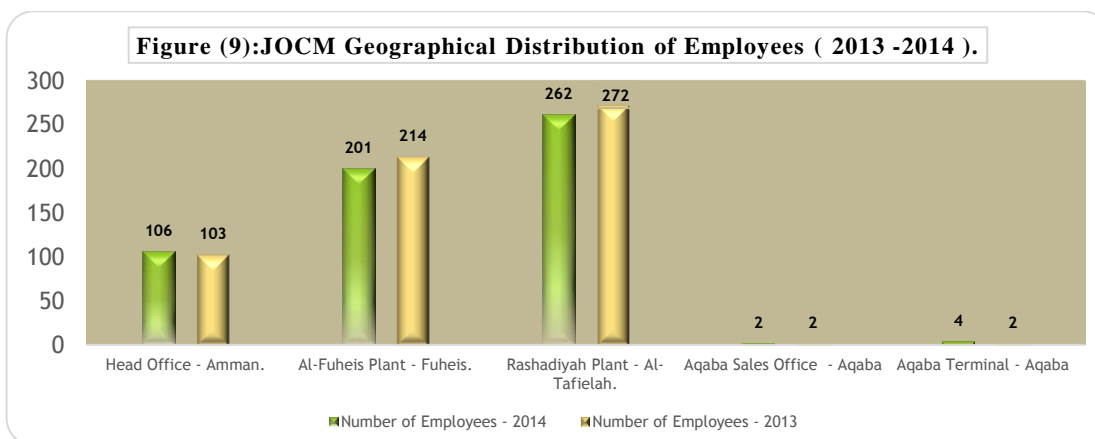
The Cement Total Producing Power of JOCM is 4.8 Million tons per year. JOCM has 2 major products: 1- Cement & 2- Ready Mix Concrete. The Cement Sales Revenues were 65,5 Million JOD in 2014 (with a growth of 24.57% compared to 2013) & 52,5 Million JOD in 2013. The Concrete Sales Revenues were 48,8 Million JOD in 2014 (with a growth of 25.45% compared to 2013) & 38,9 Million JOD in 2013.

- JOCM has 2 **Subsidiaries**:

- 1- Sudan CTS Company which is managed by CEMENTIA (Company of Lafarge Group). JOCM has no control on the Financial & Operational policies of this company.
- 2- Lafarge Concrete Jordan (Limited Liability). The main business is the Ready Mix Concrete with 1,915,000 JOD capital. JOCM has 51% ownership in this company.

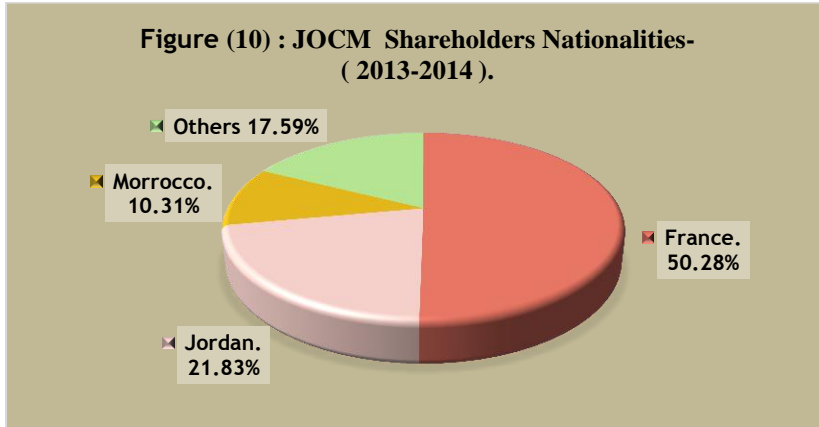
JOCM has no **Affiliates** companies on December 2014.

- JOCM completed working on a lot of goals during 2014 including Health & Security, Customers Satisfaction, Reducing Operational & General (Administrative) Costs, Improving Human Resources, & Corporate Social Responsibility. JOCM achieved high success in these areas. There was no work injury or stopping work during 2014 other than Al-Fuheis factory, the Total costs were reduced which achieved net profit (income) compared to the recorded losses in the previous 3 years & 500 trees were planted around Rashadiyah Factory to protect environment.
- JOCM has no patents & there is no special protection provided by the Government. JOCM has ISO 9001 Certificate (Quality Management) & ISO 14001 Certificate (Environment Management). JOCM is applying Global IFRS with concentration on IFRS (10, 12, & 27).
- JOCM reduced total number of employees in 2014 (575 Employees) by 3% comparable to 2013 (593 Employees). The following figure shows the Geographical distribution of employees in 2013 & 2014:



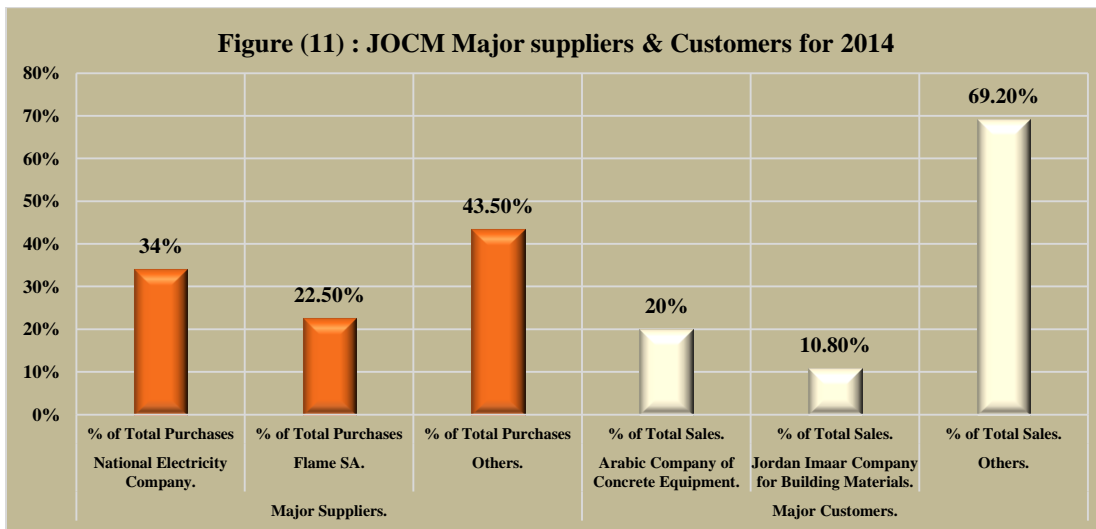
Source : Amman Stock exchange (ASE)

- JOCM large Shareholders Nationalities had not been changed for 2013 & 2014. The following figure shows Shareholders Nationalities :



Source : Amman Stock exchange (ASE)

- JOCM Major suppliers & Customers for 2014 are according to the following figure :



Source : Amman Stock exchange (ASE)

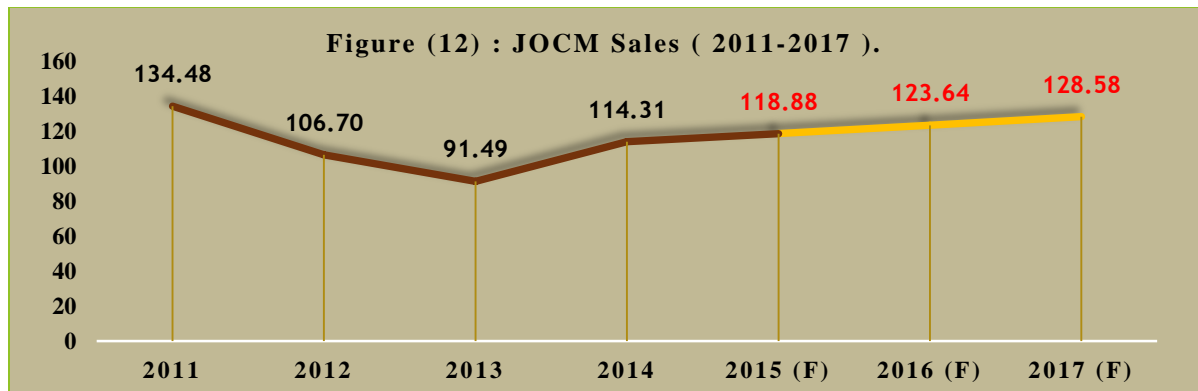
During 2014 JOCM accounts for Net Income after tax of 3.4 Million JOD compared to Net Loss recorded in 2013 of 26.2 Million JOD. This achievement was due to the use of Coal in Rashadiyah Factory at end of 2013 plus the continuous efforts in reducing costs.

1- JOCM Sales:

Total JOCM Sales “Operating Revenues “had declined from 2011 through 2014 (by 15%), from 134,4 Million JOD in 2011 to 106,7 Million JOD in 2012, to 91,4 Million JOD in 2013

& finally to 114,3 Million JOD in 2014. By assuming growth rate of 4% as mentioned earlier in Industry Analysis, the forecasted sales will be 118,8 Million JOD in 2015. The forecasted sales in 2017 will be 128,6 Million JOD with an increase of 12.5% compared to 2014 & decrease of 4.4% compared to 2011. The trend of sales (declining) from 2011 till 2014 was due to the increased competition in Jordan (Opened another 4 companies), importing from another countries like KSA .

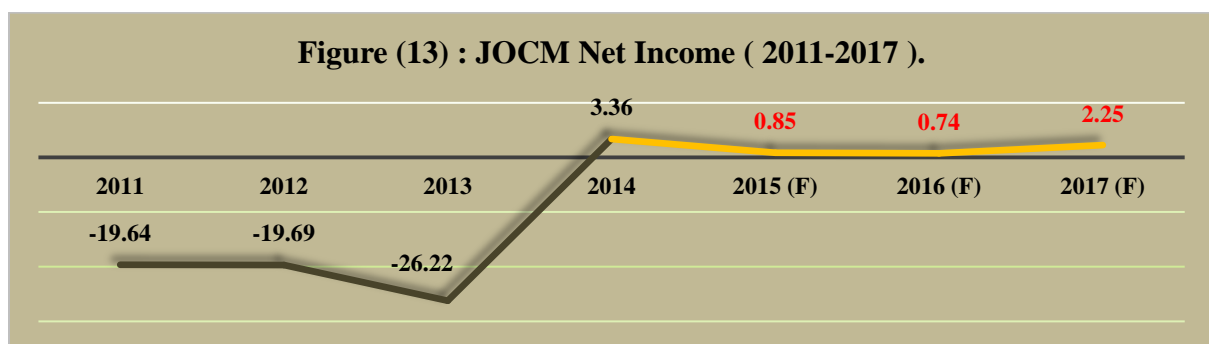
Another reason is the declining degree of Exporting because of high completion in the region & due to the high input costs (Energy) in Jordan. And finally because of stop using Al-Fuheis factory since 2013. The following figure shows JOCM Sales (2011-2017 (F)):



Source : Amman Stock exchange (ASE)

2- JOCM Net Income:

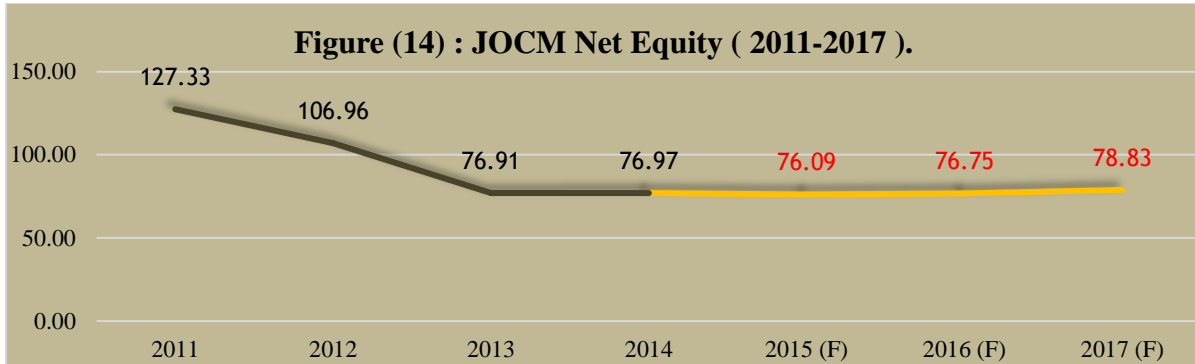
JOCM Net Income had increased by 100.17% from 2011 to 2014. Total Net Income (loss) was (19,6) Million JOD in 2011, (19,6) Million JOD in 2012, (26,2) Million JOD in 2013 & 3,3 Million JOD in 2014. The forecasted Net Income (loss) will be (.85) Million JOD in 2015 with a decrease of (100.25%) compared to 2014. The forecasted income will be 2,25 Million JOD in 2017 with a decline of 33% compared to 2014 & an increase of 100.11% compared to 2011. The forecasted increase in Net Income (2017) compared to 2015 will be according to the forecasted Sales Growth , Gross Profit Growth & the policy of reducing costs. The following figure shows the JOCM Net Income (2011-2017(F)):



Source : Amman Stock exchange (ASE)

3- JOCM Net Equity:

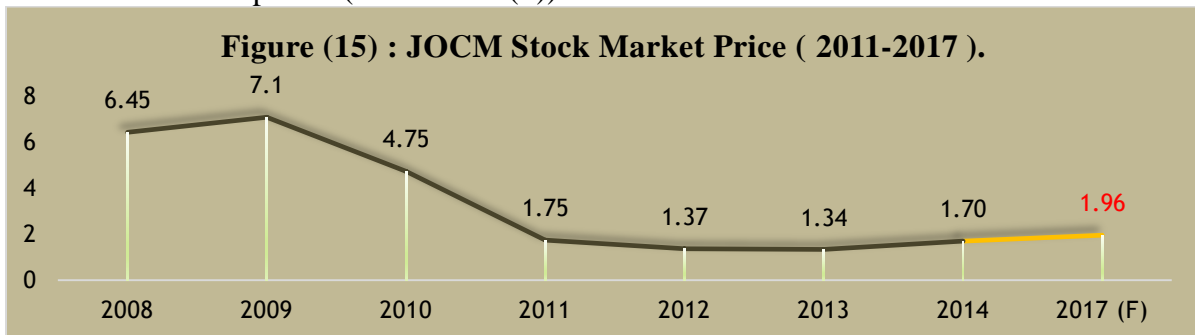
Total JOCM Net Equity had been declined by 39.5% from 2011 to 2014 due to the decline of total Net Income for the same period. Total Net Equity was 127,3 Million JOD in 2011 & took declining trend till reached 76,9 Million JOD in 2014. In 2015 it is expected to decrease by 1.14% to reach 76,1 Million JOD due to the expected reported loss but it is expected to start to increase in 2016 & 2017 to reach 78,8 Million JOD in 2017 with an increase of 2.4% compared to 2014. The following figure shows JOCM Net Equity for (2011-2017(F)) :



Source : Amman Stock exchange (ASE)

4- JOCM Stock Market Price:

The Stock Market Price had declined from 6.45 JOD in 2008 to 1.7 JOD in 2014 due to the losses accounted for during this period (New Internal Competitors , Exporting Difficulties & Al-Fuheis Plant Stop-Producing). Declining Sales & Declining Net Equity had contributed very well to reduce the stock Market Price. However & according to the expected growth , Future Plan , JOCM Activities & according to the evaluation of the company , The Market Stock Price is expected to be 1.96 JOD in 2017. The following figure shows JOCM Market Stock Price for the period (2008- 2017(F)):



Source : Amman Stock exchange (ASE)

4- SWOT Analysis of JOCM:

SWOT Analysis is a helpful tool that is used to understand the strengths & weaknesses of JOCM (Related to the JOCM itself) & to specify the opportunities open to JOCM & the threats that it faces (Related to the environment surrounding JOCM). SWOT is a useful way to manage & eliminate the threats & weaknesses of JOCM & to build a strategy that helps to distinguish itself from other competitors in the Market. Simply it develops JOCM capacity to improve its operations & business.



5- Financial Overview:

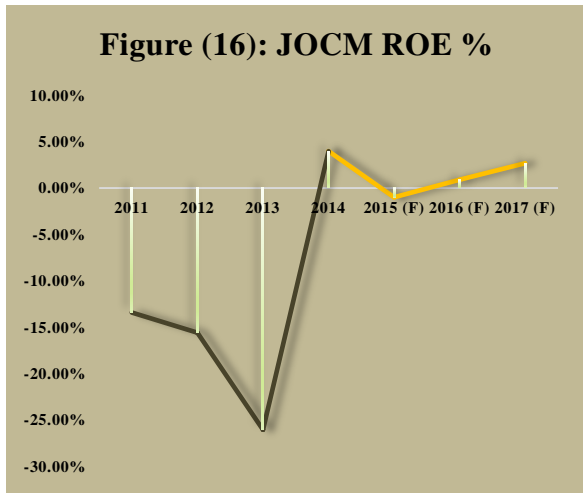
- The Financial Activities of the firm are presented using a written formal reports called “Financial Statements “. Business Transactions, Firm events, Liquidity, Strengths, & Performance evaluation are highlighted by using these Financial Statements. Balance Sheet “also known as Statement of Financial Position “is a basic Statement of Financial Statements that shows an Entity Position at a given date. The major components of Balance Sheet are “Assets, Liabilities & Equity”. Assets represent items that the firm control or own (Cash, Inventory, Property Plant & Equipment.). Liabilities represent things that the firm owe to others (Bank Loans). Equity which is the difference between Assets & Liabilities “Capital remains after using the Assets to settle Liabilities”. Profit & Loss Statement “ also known as Income Statement “ is also a basic item of Financial Statements . It measures the performance of the firm in a financial view over a specific period. The final result will be in Net Income or Net Loss to be recorded. The major 2 elements of Income Statement are Revenues & Expenses. Revenues are the Earnings of the firm over a specific period (Sales Revenue). Expenses are the costs incurred for the same period (CGS, Salaries, and Rent).
- Financial Analysis is a tool to valuate firm operations, business, projects, forecasts, budgets & other firms related business in order to decide & judge firm performance & its status as an investment option. Financial Analysis is a process to measure the firm profitability, solvency, liquidity & stability. Also Financial Analysis is a helpful tool to judge long term plans, economic trends & financial policy using Financial Statements numbers & data. Beside owners & investors, Creditors can use the Financial Analysis to determine the company suitability to grant loans. By using the Financial Analysis the firm will be able to take advantages of its strengths & to avoid disadvantages of its weaknesses. A basic feature of Financial Analysis is the Ratio Analysis. It is a relative comparison of 2 numeric values from the Financial Statement or a comparison from 2 Financial Statements (Balance Sheet & Income Statement). These Ratios can be compared to best company in the market (Benchmarking) or to compare with Industry Average. Financial Ratios are divided into four categories : Liquidity Ratios (Firm availability of cash to cover short term debts) , Profitability Ratios (The Firm ability to use its Assets to generate an acceptable Rate of Return) , Asset Management Ratios (How quickly the firm can transfer Non Cash Assets into Cash Assets) , & Leverage Ratios (The Ability of the firm to repay Long Term Debt). Ratios can be presented as a decimal value such as .30 or a percent value like 30%.
- The period from 2011-2014 constitutes a wealth environment to analyze because it was the period in which JOCM succeeded to override 3 years of losses & started to generate Net Income in 2014. Plus that the market was suffering from the Global Economic Crisis & the competition was very extensive from local & outside competitors. Besides that JOCM was prevented from using Coal in Al-Fuheis Plant which resulted in a zero Cement Production (Al Fuheis Plant) due to the infeasibility (Economically & Profitably) to produce Cement

without using Coal.JOCM Annual Report provides a lot of Data & Financial Statement Numbers that can be used to analyze JOCM by using Ratio Analysis.

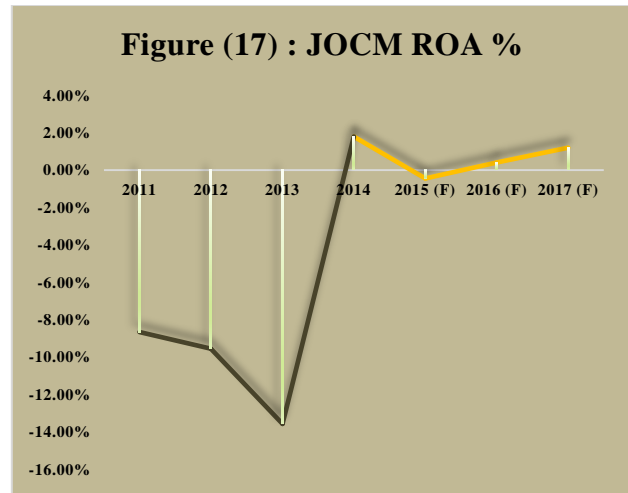
6- Ratio Analysis:

- JOCM Average Current Ratio for the period 2011-2014 was .85 times. The trend for Current Ratios for the same period was declining from 1 times in 2012 to .74 times in 2014. Reasons for that were the low cash balance results from declining trend in sales, the high energy costs during that period & the high transportation costs to transfer cement from Al- Rashadiyah plant which made the Accounts Payable trend to increase during the same period. In comparing the Average Current Ratio (.85) with idealistic Current Ratio of 2 times the company may have a liquidity problem to cover all Current Liabilities from Current Assets. However if we compare JOCM Average Current Ratio (.85) with the mean of Current Ratios of Indian Cement companies of 1.1 times, we can say that JOCM has 77% of the Industry Average & the company may still face some liquidity problems. Current Ratios for the period 2015-2017 will be better than 2014 & that's related to the expected growth in sales which will be reflected on cash & other current assets. JOCM Acid Test (Quick Ratio) average was .4 times for the period 2011-2014 which indicates that JOCM doesn't have the ability to cover its current liabilities without liquidating its inventory balance & after that may still have a liquidity problem (Higher Financial Risk).
- JOCM Inventory Turnover Ratios had a good trend for the period 2011-2014 & expected to have good one during 2015-2017. Although the Inventory turnover ratios had a declining trend (was 4 times in 2011 & 3.02 times in 2014) but it is still under an acceptable level which means that JOCM doesn't have overstocking, obsolescence or deficiencies in the production line or market strategy. JOCM is effective in its Inventory Management policy.
- JOCM Number of days of Receivables (Average Collection Period) was 39.15 days for 2011-2014 which is higher by approximately 31% from the Industry Average of 30 days. This means that JOCM should review its Credit Term Policy or put customers under pressure to pay on time. The reason for increasing trend during the period for (Average Collection period) was the increase in Average Accounts Receivable, Depend mostly on credit sales, besides that Total sales already had a declining trend during the period.
- The higher the Assets Turnover Ratio, the better the company is performing. JOCM Assets Turnover Ratios during 2011-2014 were less than one times which means that JOCM is not efficiently using its Assets. JOCM should improve its Asset Management Strategy by adopting new techniques in Sales (Increase Sales) or reducing Assets that are not effective.

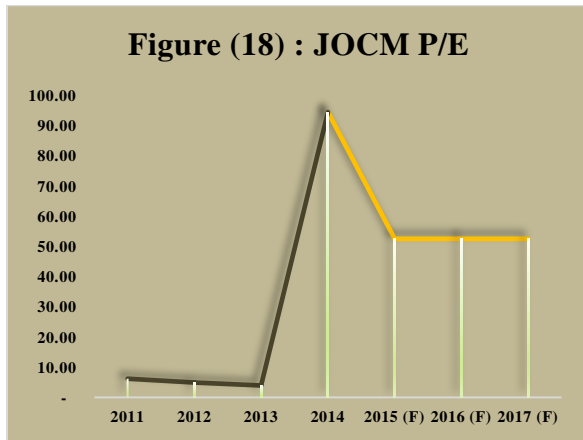
- Accounts Receivable Turnover Ratios assured that the Average Collection Period is higher than the Industry Average. Average Ratio for the period was 9.89 times which is lower than Industry Average of 20 times. JOCM should search solutions for making sales based on cash basis.
- Profit Margin on Sales, Return on Equity & Return on Assets Ratios were with negative results for the first 3 years in the period. That is a natural result from the net losses recorded in those first 3 years. This means that JOCM was not able to generate Profitability from its Shareholders Equity, Capital Invested & total Sales. And this means also that JOCM was not effectively & efficiently manage its assets .However all these ratios were positive in 2014 but all of them were lower than the acceptable level of Industry Average except Return on Equity which was 3.97% in 2014 (compared to 3.5% Industry Average) . This means that JOCM started gradually to improve the efficiency & effectiveness of its operations. All these ratios will be improved in 2015-2017 due to the expected positive results in that period.
- The Average Price Earnings Ratio for the period was perfect with 27.37 times which was greater than the industry average of 11.2 times. This means that investors believe in JOCM & its ability to survive, grow & advance. This ratio will continue its positive trend in 2015-2017 due to the expected profitability & JOCM intention to continue minimizing Capital Expenditures.
- JOCM Debt Ratio during the period was around an average of 46.99% which is a good ratio means that JOCM is approximately using Equity & Debt with equality to finance its investments & operations. This will mediate the financial risk from using leverage & this trend is expected to last in the future. The Average of Long Term Debt to Equity Ratio was very low compared to Industry Average (14.9%) which means that JOCM has low Interest Obligations & low Financial Risk. The trend is also expected to continue in the future.
- Finally the Conclusion is that JOCM Return on Equity, Return on Assets, & Price Earnings Ratios will improve in 2016-2017 based on the expected profitability .JOCM should do its best to develop its Liquidity to improve the capacity to meet short term obligations & effectively & efficiently manage its Working Capital. Average Collection Period should not exceed 30 days by reducing the number of days to collect money, depending on cash sales & decrease credit sales to the maximum. Inventory Turnover Ratio has a good trend but Assets Turnover Ratio need to be enhanced by developing JOCM Asset Management policy & generate more Operating Revenues. Debt Ratio & Long Term Debt to Equity Ratio are great & no amendments are required. The following figures highlight specific Ratios for JOCM for the period 2011-2017:



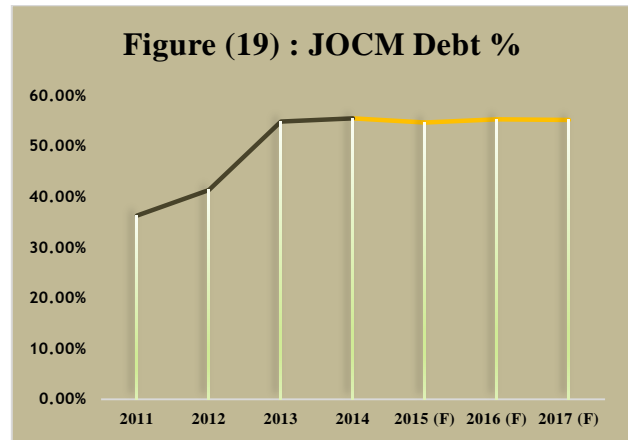
Source : Amman Stock exchange (ASE)



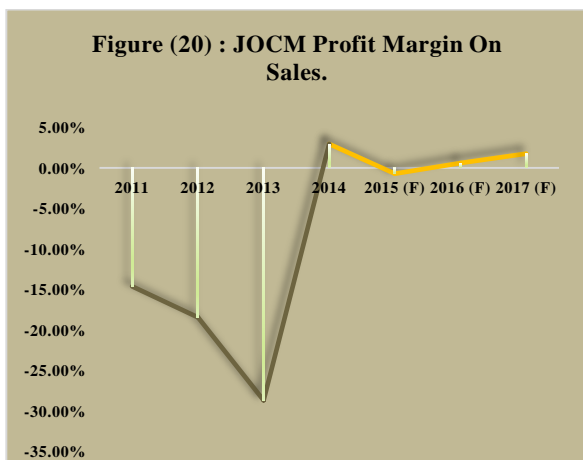
Source : Amman Stock exchange (ASE)



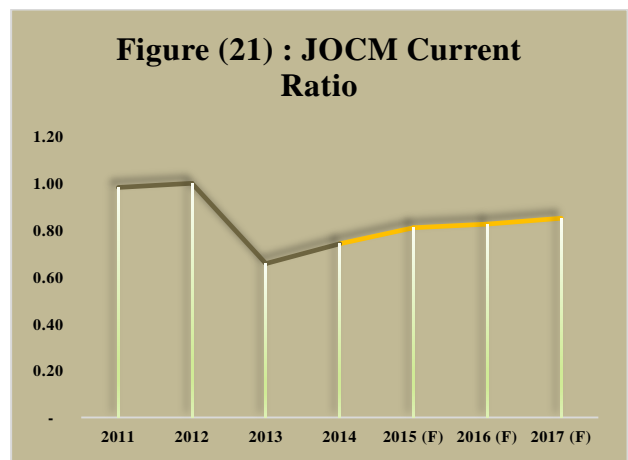
Source : Amman Stock exchange (ASE)



Source : Amman Stock exchange (ASE)



Source : Amman Stock exchange (ASE)



Source : Amman Stock exchange (ASE)

7- Outlook & Valuation:

- In order to compute the cost of equity for JOCM, we have used the Capital Asset Pricing Model (CAPM).
- The following assumptions have been made in order to arrive at the intrinsic value of Lafarge Jordan:
 - ❖ A risk-free rate of 3.5%.
 - ❖ A return on the market index of .05%.
 - ❖ Beta -3.38% has been calculated.
 - ❖ The cost of equity derived from the above assumptions using the Capital Asset Pricing Model (CAPM) is 3.62%.
 - ❖ The cost of debt 10%.
 - ❖ Based on the above assumptions, the Weighted Average Cost of Capital (WACC) works out to be 3.72%.
 - ❖ Tax rate of 14.0%
 - ❖ Cash Flow constant growth rate of 1.0% has been assumed.

FCF Valuation (JOD)	2011	2012	2013	2014	2015(F)	2016(F)	2017(F)
EBIT	(19,688,869)	(20,769,348)	(24,647,222)	4,438,610	(315,000)	1,276,198	2,790,375
Tax Rate	1.2%	12.1%	4.8%	-143.6%	14.0%	14.0%	14.0%
NOPAT	(19,445,288)	(18,265,133)	(23,465,306)	10,813,269	(270,900)	1,097,531	2,399,722
Accrued Expense	827,692	1,032,483	1,357,723	523,893	514,863	505,989	497,268
Net Operating Working Capital	24,892,935	24,688,144	24,362,904	25,196,734	25,205,764	25,214,638	25,223,359
Net Fixed Assets	138,677,394	128,466,380	118,728,463	109,296,050	100,957,564	100,957,564	100,957,564
Total Operating Capital	163,570,329	153,154,524	143,091,367	134,492,784	126,163,328	126,172,202	126,180,923
NOPAT		(18,265,133)	(23,465,306)	10,813,269	(270,900)	1,097,531	2,399,722
Net Operating Capital		(5,200,173)	34,278,575	(11,084,170)	1,368,431	1,302,192	(2,399,722)
Free Cash Flow (FCF)		(13,064,960)	(57,743,880)	21,897,439	(1,639,331)	(204,661)	4,799,445

Valuation of JOCM :

- Based on our future earnings projections and the above assumptions, the value of Lafarge Jordan Company comes out to be JD 1.96 per share.

	(JOD)
Value of Operation at the end of 2014	176,649,031
Add: value of non-operating Assets	0
Total Corporate Value	176,649,031
Less: Value of Intrest-bearing debt	58,266,892
Intrinsic Value of the firm's equity	118,382,139
Number of shares outstanding	60,444,460
Intrinsic Value Per Share	1.96

- The stock closed at JD 1.7 on December 31, 2014 in Amman Stock Exchange. We recommend our 'BUY' on JOCM's stock at its current price levels.

8. References

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- BALANCE SHEET

Jordan (Lafarge) - JOCM							
Assets (JOD)	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Cash on Hand & at Banks	13,588,302	5,928,742	3,561,363	5,419,798	5,636,590	5,862,054	6,096,536
Cash & Equivalents	13,588,302	5,928,742	3,561,363	5,419,798	5,636,590	5,862,054	6,096,536
Account Receivables, Net	10,453,849	12,095,717	12,762,870	14,008,760	14,569,110	15,151,875	15,757,950
Inventory	28,693,642	29,435,526	28,450,112	33,750,996	34,228,556	35,597,699	37,021,607
Other Current Assets	7,081,471	6,505,655	7,648,392	9,482,507	9,861,807	10,256,280	10,666,531
Total Current Assets	59,817,264	53,965,640	52,422,737	62,662,061	64,296,064	66,867,907	69,542,623
Long Term Investments	585,557	529,304	498,199	206,280	214,531	223,112	232,037
Fixed Assets, Net	138,677,394	128,466,380	118,728,463	109,296,050	100,957,564	100,957,564	100,957,564
Total Fixed Assets	138,677,394	128,466,380	118,728,463	109,296,050	100,957,564	100,957,564	100,957,564
Total Non Current Assets	139,262,951	128,995,684	119,226,662	109,502,330	101,172,095	101,180,677	101,189,601
Other Assets	14,882,507	15,531,894	16,261,692	18,135,620	18,861,045	19,615,487	20,400,106
Total Assets	213,962,722	198,493,218	187,911,091	190,300,011	184,329,204	187,664,070	191,132,330
<u>Liabilities & Owners Equity</u>							
Liabilities (JOD)							
Accounts and Notes Payable	27,015,166	29,206,407	42,690,071	56,266,892	56,563,042	60,083,550	63,151,938
Credit Banks	0	20,271,407	17,622,010	12,565,963	9,442,109	7,866,133	6,223,634
Accrued Part of Long Term Loans	668,000	662,000	5,040,000	2,000,000	793,651	793,651	793,651
Other Current Liabilities	33,214,262	3,853,017	14,385,929	13,619,840	12,543,279	12,207,878	11,557,776
Total Current Liabilities	60,897,428	53,992,831	79,738,010	84,452,695	79,342,081	80,951,212	81,726,999
Long Term Loans & Notes Payable	662,000	0	2,760,000	0	0	0	0
Other Liabilities	16,117,000	28,099,816	20,546,682	21,104,238	21,448,408	22,826,344	23,739,398
Total Noncurrent Liabilities	16,779,000	28,099,816	23,306,682	21,104,238	21,448,408	22,826,344	23,739,398
Total Liabilities	77,676,428	82,092,647	103,044,692	105,556,933	100,790,488	103,777,556	105,466,396
Shareholders' Equity (JOD)							
Authorized Capital	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460
Subscribed Capital	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460
Paid-in Capital	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460	60,444,460
Compulsory Reserves	27,000,000	27,000,000	27,000,000	27,000,000	27,000,000	27,000,000	27,000,000
Voluntary Reserve	12,399,640	12,399,640	12,399,640	12,399,640	12,399,640	12,399,640	12,399,640
Treasury Stocks	0	4,461	4,461	4,461	4,461	4,461	4,461
Accumulated Change in Fair Value	(9,813)	(30,115)	(9,923)	(31,280)	(68,302)	(149,140)	(325,656)
Retained Earnings	27,495,034	7,153,526	(22,921,864)	(22,841,976)	(23,691,847)	(22,950,519)	(20,695,014)
Total Shareholders' Equity	127,329,321	106,963,050	76,907,852	76,966,383	76,088,413	76,748,902	78,827,891
Minority Interest	8,956,973	9,437,521	7,958,547	7,776,695	7,450,304	7,137,611	6,838,043
Total Liabilities & Shareholders' Equity	213,962,722	198,493,218	187,911,091	190,300,011	184,329,205	187,664,069	191,132,329

- INCOME STATEMENT

Jordan (Lafarge) - JOCM							
(JOD)	2011	2012	2013	2014	2015 (F)	2016 (F)	2017 (F)
Operating Revenues	134,483,593	106,700,873	91,489,156	114,309,417	118,881,794	123,637,065	128,582,548
Operating Expenses	123,326,703	110,265,209	102,065,547	93,778,514	95,105,435	98,909,652	102,866,038
Gross Profit	11,156,890	(3,564,336)	(10,576,391)	20,530,903	23,776,359	24,727,413	25,716,510
General and Administrative Expenses	13,617,585	10,461,074	8,583,016	9,211,306	8,173,120	7,251,946	6,434,595
Selling and Distribution Expenses	1,230,923	1,863,351	1,747,849	1,828,978	1,902,137	1,978,223	2,057,352
Depreciation (period)	13,525,843	11,360,862	10,690,120	9,626,962	8,892,496	8,892,496	8,892,496
Other Operating Expenses	176,260	3,625,247	298,532	582,702	475,527	494,548	514,330
Net Operating Income	(3,867,878)	(19,514,008)	(21,205,788)	8,907,917	13,225,574	15,002,696	16,710,233
Other Revenues	(11,434,487)	3,949,550	202,012	1,244,735	1,294,524	1,346,305	1,400,158
Other Expenses	4,386,504	5,204,890	3,643,446	5,714,042	5,942,604	6,180,308	6,427,520
Income Before Interest & Tax	(19,688,869)	(20,769,348)	(24,647,222)	4,438,610	(315,000)	1,276,198	2,790,375
Interest Expenses	198,579	1,620,915	2,899,394	3,056,926	138,000	138,000	138,000
Net Income before Tax	(19,887,448)	(22,390,263)	(27,546,616)	1,381,684	(453,000)	1,138,198	2,652,375
Income Tax (Period)	(246,038)	(2,699,653)	(1,320,952)	(1,984,352)	(396,870)	(396,870)	(396,870)
Net Income	(19,641,410)	(19,690,610)	(26,225,664)	3,366,036	(849,871)	741,328	2,255,504

- Ratio Analysis Results for (2011-2017)

Jordan (Lafarge) - JOCM								
Financial Ratios (JOD)	2011	2012	2013	2014	Average (2011-2014)	2015 (F)	2016 (F)	2017 (F)
Liquidity Ratios.								
Current Ratio (Times)	0.98	1.00	0.66	0.74	0.85	0.81	0.83	0.85
Acid Test - Quick Ratio.	0.51	0.45	0.30	0.34	0.40	0.38	0.39	0.40
Working Capital	(1,080,164)	(27,191)	(27,315,273)	(21,790,634)	(12,553,316)	(15,046,017)	(14,083,306)	(12,184,376)
Profitability Ratios								
Profit margin on sales.	-14.61%	-18.45%	-28.67%	2.94%	-14.69%	-0.71%	0.60%	1.75%
Return on Assets %	-8.67%	-9.55%	-13.57%	1.78%	-7.50%	-0.45%	0.40%	1.19%
Return on Equity %	-13.43%	-15.58%	-26.06%	3.97%	-12.78%	-1.01%	0.89%	2.66%
Price Earnings Ratio	6.16	4.93	3.93	94.44	27.37	52.49	52.49	52.49
Asset Management Ratios								
Accounts Receivable Turnover	14.20	9.46	7.36	8.54	9.89	8.32	8.32	8.32
Number of Days of Receivables.	25.70	38.57	49.59	42.74	39.15	43.87	43.87	43.87
Inventory Turnover	4.00	3.79	3.53	3.02	3.58	2.80	2.83	2.83
Number of Days of Inventory.	91.36	96.21	103.50	121.05	103.03	130.45	128.84	128.84
Assets Turnover	59.33%	51.74%	47.35%	60.45%	54.72%	63.47%	66.47%	67.89%
Leverage Ratios								
Debit Ratio	36.30%	41.36%	54.84%	55.47%	46.99%	54.68%	55.30%	55.18%
LTM Debit Ratio.	0.49%	0.00%	3.25%	0.00%	0.93%	0.00%	0.00%	0.00%
Times Interest Earned Ratio.	-99.15	-12.81	-8.50	1.45	-29.75	-2.28	9.25	20.22

- Global Equity Ratings Definitions

Global Rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

- JOCM Profile

Code:	141042		
Reuter Code:	JOCM		
Address:	Amman - Abdel Rahim Al-Wakid St.		
Telephone:	(5600600)(4729901)		
P.O. Box:	(930019) Amman 11193		
Email:	cement.info@jordan.lafarge.com		
Fax:	5600639		
Established Date :	29-12-1951		
Listing Date:	1/1/1978		
No. of Branches:	Local 0 - Abroad 0		
Main Objectives:	Manufacturing, distributing and trading of cement, inside and outside the Kingdom either direct or through intermediary in the convenient ways and conditions.		
General Manager:	Salem Soso		
No. of Employees	Male	Female	Total
Jordanian	1115	54	1169
Non Jordanian	22	0	22
Total	1137	54	1191

Source : Amman Stock exchange (ASE)