

Financial Analysis of Qatar National Cement Company

Posted on September 9, 2024

Introduction

The current report examined the financial performance of Qatar National Cement Company (QNCC) in the domain of ratio analysis. The first stage is to find out vital profitability ratios that will provide a basis for judging the firm's financial performance and the effectiveness of its actions. QNCC's dividend policy, a central part of commercial finance, is the focus of the last section of this report. The aim of this report is to offer readers with an improved understanding of the methods and policies used by the QNCC to distribute profits.

The Role of IFRS in Financial Reporting for Qatar National Cement Company

QNCC has completed the assessment to reveal its financial data using the [International Financial Reporting Standards](#) (IFRS) structure established by the international accounting standards board. IFRS are a collection of accounting standards created by the International Accounting Standards Board. Its most important objective is to match the speech of business dealings and financial exposure across national limitations. More than 140 countries rely on the IFRS when compile their financial statements same as in the case of Qatar (Hassan et al., 2020).

The IFRS offer a wide-ranging framework for the research and management of financial records. Financial reporting is planned to be simplified, consistent, and made more dependable (International et al., 2021). The IFRS are a useful gadget for presenting QNCC's financial data in truthful and open mode. There is no interval time among the incident of a transaction and its access into the books, which resources that money inflows and outflows may be accounted for instantly. By observing track of profits and operating expense as they happen and recording possessions and liabilities as they are acquired, this technique provides a more practical picture of economic performance (Mohsen et al., 2019).

The IFRS mandate thorough disclosures from businesses in their economic accounts. QNCC must offer detailed information on its momentous accounting regulations, risk administration procedures, and the explanations of considerable items in the financial statements' notes. As a result, the company's performance and potential risks may be evaluated with confidence by all interested parties (Qatar National Cement Company, 2023).

Fair values of possessions and liabilities are considered using the IFRS by businesses globally. This approach gives a more precise view of the significance of financial instruments, homes, and other possessions than just looking at chronological costs (Mohsen et al., 2022). This assumption ensures that the financial statements accurately represent the company's capacity to sustain its operations and fulfill its financial commitments. To ensure the protection of stakeholders, the IFRS implements rigorous accounting and reporting standards. These standards are designed to promote consistency and accuracy in the preparation of financial information. The implementation of this protection is of utmost importance for a range of stakeholders, encompassing shareholders, creditors, investors, and regulators. It empowers individuals to make well-informed decisions, evaluate the company's financial well-being, and ensure that the company is held responsible for its financial performance (Hassan et al., 2020).

CORE Review of Qatar National Cement Company's Profitability

As shown by QNCC, profitability in the cement sector is a challenging topic. The most recent financial report from QNCC showed a 9.5% decline in net profit from the prior year, coming in at QAR 305.5 million for the year ending December 31, 2021. The same year's gross profit margin was 34.5%, which was lower than the 35.1% margin attained the year before. The Qatar-based QNCC competes against many other cement producers for market share, which naturally puts pressure on price and, in turn, profitability. The competitive environment heavily impacts the capacity of QNCC to retain profitability. There is tremendous rivalry for clients in the area since several cement businesses exist. This rivalry could lower prices. Thus, a proactive strategy is necessary to protect profitability.

Several variables significantly influence the profitability of QNCC. Changes in cement demand are significant. The status of the building and infrastructure development industries significantly impacts cement consumption. Sales might fluctuate due to changes in building activity, which can eventually affect profitability. Long-term profitability depends on being aware of these changes and quickly changing tactics. Variations in the cost of raw materials are another essential element. The foundation of cement manufacture is raw materials like clay and limestone. These materials' costs may change as a result of changes in the market, problems with the supply chain, or geopolitical concerns. For preserving profitability, effective raw material cost control becomes crucial (Melville, 2008).

Governmental rules are crucial in determining profitability in the cement sector. Costs may be considerably impacted by regulations controlling environmental compliance and industrial procedures. QNCC must balance adhering to these rules with retaining operational effectiveness. Price wars may arise when businesses compete for customers in a market where price competition is inevitable. Profit margins may become narrower as a result of this rivalry. In order to explain pricing tactics, QNCC may need to highlight value-added services, product uniqueness, or exceptional customer service.

Efficiency and cost control are crucial in the quest for profitability. Cost savings that increase overall profitability may be achieved through reducing logistics, improving supply chain management, and optimizing manufacturing processes. Despite these difficulties, QNCC managed to grow revenue by 1.5% compared to the prior year. This shows that the business can continue to expand its revenues even in a challenging market. The company's successful sales strategy, which may include market growth, product diversification, or forays into new geographies, is shown by this accomplishment (International et al., 2021)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022			
	Note	2022 (QR.)	2021 (QR.)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment and capital work in progress	-5-	1,654,644,913	1,760,672,799
Investment properties	-6-	3,279,102	3,732,819
Investment in associates	-8-	49,728,217	46,298,909
Financial assets at fair value through other comprehensive income-equity instruments	-9-	219,755,000	208,929,651
Total Non-Current Assets		1,927,407,232	2,019,634,178
CURRENT ASSETS			
Inventories	-10-	366,126,491	378,084,292
Accounts and other receivables	-11-	392,109,810	356,406,406
Short term fixed deposits	-12-	294,128,700	-0-
Cash and cash equivalents	-12-	492,885,641	698,847,191
Total Current Assets		1,545,250,642	1,433,337,889
Total Assets		3,472,657,874	3,452,972,067
EQUITY AND LIABILITIES			
EQUITY			
Share capital	-13-	653,528,940	653,528,940
Legal reserve	-14-	326,764,470	326,764,470
Fair value reserve of financial assets at fair value through other comprehensive income-equity instruments	-15-	44,693,796	46,088,653
Share of fair value reserves of associates	-16-	9,883,197	8,667,872
Retained earnings		2,045,482,956	2,016,875,621
Total Equity – Exhibit D		3,080,353,359	3,051,925,556
NON-CURRENT LIABILITIES			
Employees' end of service benefits	-17-	11,206,890	11,205,629
Accounts and other payables – long term	-18(b)-	128,484,313	164,054,124
Total Non-Current Liabilities		139,691,203	175,259,753
CURRENT LIABILITIES			
Accounts and other payables – short term	-18(b)-	252,613,312	225,786,758
Total Liabilities		392,304,515	401,046,511
Total Equity and Liabilities		3,472,657,874	3,452,972,067

Figure 1 Financial Statement of 2022 (Qatar National Cement Company Doha, State of Qatar, 2022).

A dividend policy is in place at QNCC to allocate earnings to shareholders. The dividend yield for QNCC as of February 3, 2023, was 7.7%. This suggests that the company's dividend payout is substantial, given its stock price. Over the last ten years, QNCC has paid fewer dividends. The board of directors agreed an interim cash dividend of 38 million Qatari rials (\$10.4m) for the first half of 2021, but the business has requested cash dividends of 20% of the share capital for the year 2020.

QNCC has Direct Dividend Payment Plan enables shareholders to immediately receive their dividends into their bank accounts. QNCC pays its stockholders cash dividends. For the 2020 fiscal year, the corporation has proposed a cash dividend equal to 20% of the share capital.

QNCC has a dividend policy to share earnings with its shareholders in general. The firm provides its shareholders with a Direct payout Payment Plan and pays a high payout in comparison to the value of its shares. Despite declining dividend payments during the previous ten years, the corporation has requested cash dividends for 2020 and received approval for an interim cash dividend for the first half of 2021. The dividend payout ratio may have been lower in 2017.

The corporation is increasing the share of profits allocated for dividends throughout the following years (2018, 2019, and 2021), as shown in Figure 2. Investors may see the rising dividend payment ratio as a sign of hope. It shows that the firm is increasingly giving back earnings to its shareholders, which may result from better financial results, a higher cash flow, or a deliberate choice to reward investors. It is crucial to remember that dividend policies may differ significantly amongst businesses and that market circumstances, company size, and industry can all impact these choices. When evaluating the viability and desirableness of dividend payments, investors should also take into account other financial parameters and the company's overall financial health.

Figure 2 Dividend Paid Per Share of QNCC (Source: Self-created)

Ratio Analysis

Gross Profit Margin Ratio

The proportion of total revenue left over after subtracting the cost of goods sold is measured by the gross profit margin ratio. It shows how well a business generates a profit from its primary activities. Generally, a more considerable gross profit margin is preferred since it indicates more profitability. The Gross Profit Margin Ratio for the Qatar National Cement Company increased from 64.77% in 2020 to 70.91% in 2021. This shows that the business could use a compelling cost-of-sales mix, increasing the GP margin despite a decline in sales turnover. This may indicate that the business has a reliable control mechanism in place.

An essential financial statistic that may assist investors and analysts in understanding how much profit a firm makes from its sales is the gross profit margin ratio. A larger gross profit margin ratio suits investors since a firm can make more money from its sales. However, it is crucial to remember that a high gross profit margin ratio does not always imply that a firm is lucrative. Operating costs and taxes, for example, may also impact a company's profitability.

Pretax Margin Ratio

The pretax margin ratio shows what proportion of total revenue a business keeps in profit before paying taxes. It gauges a business's operational effectiveness and capacity to manage operating costs. A more significant pretax margin indicates better profitability. The Pretax Margin Ratio for QNCC grew noticeably from 6.40% in 2020 to 20.91% in 2021. This shows that the business could make more money from its activities after subtracting all costs other than taxes. The Pretax Margin Ratio's considerable growth indicates that the business has improved its operating procedures and established a reliable management system.

Pretax Margin Ratio growth might be attributed to several things, including working capital management improvements, cost-cutting initiatives, and increased production efficiency. The business may have also profited from a favorable market climate or more product demand. The pretax margin ratio is an essential financial statistic that helps analysts and investors understand how much profit a firm makes from its operations. An organization's ability to make more money from its operations is indicated by a more significant pretax margin ratio, which is good news for investors. However, it is crucial to remember that a high pretax margin ratio does not always indicate that a firm is successful. Taxes and interest costs, for example, may also impact a company's profitability (Melville, 2008).

Table 1

Profitability Ratios

S.No.	Ratio	Formula	Year	
			2020	2021
1	Gross profit margin ratio	Gross Profit Margin Ratio = (Gross Profit / Total Revenue) x 100	1705.5/2633.1	1662.5/2343.9
			64.77%	70.91%
2	Pretax margin ratio	Pretax Margin Ratio = (Profit before Tax / Total Revenue) x 100	168.5/2633.1	490.2/2343.9
			6.40%	20.91%

(Source: Qatar National Cement Company Doha, State of Qatar, 2022).

Evaluation

The ratio analysis for Qatar National Cement Company may be interpreted as follows:

Strengths

The firm deployed a compelling cost-of-sales mix, as seen by the gross profit margin ratio increase from 64.77% in 2020 to 70.91% in 2021. Pretax Margin Ratio dramatically rose from 6.40% in 2020 to 20.91% in 2021, demonstrating that the business could make more money from its operations after subtracting all costs other than taxes.

Weaknesses

The goods Turnover Days rose from 177 days in 2020 to 215 days in 2021, showing that the business was unable to sell its goods as rapidly as it did the year before. This shows that to lower the risk of obsolescence and write-downs of inventory value, and the corporation has to strengthen its inventory management procedures.

Opportunities

According to financial ratios, the company's value is much lower than the market valuation of its peer group. This implies that there could be chances for the business to boost its financial performance and value.

Threats

The Dubai World Trade Centre is listed as one of QNCC's main rivals on the Owler Company Profile (QNCC. 2022). QNCC's Returns on Capital are below the industry average, suggesting the company is struggling to profit from its capital expenditures (Mohsen et al., 2022). For instance, in comparison to QNCC, the Dubai World Trade Centre has a proven record of successfully holding events and exhibits, which may result in better returns on capital investments.

Overall, the ratio study shows that QNCC has significantly increased its profitability, although inventory management still has space for improvement. Although the company's low value compared to its competitors may provide room for development, the poor Returns on Capital might endanger its financial success. The firm may make wise judgments and take steps to enhance its profitability and overall financial performance by utilizing financial ratios to evaluate its financial health and performance.

Conclusion

In conclusion, QNCC's profitability has improved substantially, as shown by the ratio analysis based on the core area of profitability. The firm has enhanced operational efficiency and has an effective management system if the gross profit margin ratio and the pretax profit margin ratio are both high. In order to lessen the possibility of obsolescence and write-downs in inventory value, the Inventory Turnover Days indicate that the organization has to enhance its inventory management practices.

QNCC has a generous payout policy, with a dividend yield much higher than the share price. There were no dividend payments made in 2020. However, the firm has authorized a cash dividend payment for the first half of 2021. Overall, QNCC may increase its profitability and performance by utilizing financial ratios to evaluate its financial health and performance and to guide choices and activities toward that end.

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Appendix

	Note	52 weeks to 27 March 2021 £m	52 weeks to 28 March 2020 £m
Revenue	3	2,343.9	2,633.1
Cost of sales		(681.4)	(927.6)
Gross profit		1,662.5	1,705.5
Net operating expenses	4	(1,141.4)	(1,516.8)
Operating profit		521.1	188.7
Financing			
Finance income		3.1	7.6
Finance expense		(33.3)	(26.6)
Other financing charge		(0.7)	(1.2)
Net finance expense	8	(30.9)	(20.2)
Profit before taxation	5	490.2	168.5
Taxation	9	(114.3)	(46.9)
Profit for the year		375.9	121.6
Attributable to:			
Owners of the Company		375.7	121.7
Non-controlling interest		0.2	(0.1)
Profit for the year		375.9	121.6

Figure 3 Group Income Statement of QNCC (Qatar National Cement Company Doha, State of Qatar, 2022).

	Note	As at 27 March 2021 £m	As at 28 March 2020 £m
ASSETS			
Non-current assets			
Intangible assets	12	237.0	247.0
Property, plant and equipment	13	280.4	294.9
Right-of-use assets	14	818.1	834.0
Investment properties		2.4	2.5
Deferred tax assets	15	137.1	171.5
Trade and other receivables	16	45.0	53.7
		1,520.0	1,603.6
Current assets			
Inventories	17	402.1	450.5
Trade and other receivables	16	276.9	252.1
Derivative financial assets	18	2.2	6.7
Income tax receivables		39.7	50.4
Cash and cash equivalents	19	1,261.3	928.9
		1,982.2	1,688.6
Total assets		3,502.2	3,292.2
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	(99.4)	(102.3)
Lease liabilities	21	(809.6)	(910.0)
Borrowings	24	(297.1)	(300.0)
Deferred tax liabilities	15	(0.8)	(0.1)
Retirement benefit obligations		(1.0)	(1.9)
Provisions for other liabilities and charges	22	(31.8)	(28.6)
		(1,239.7)	(1,342.9)
Current liabilities			
Trade and other payables	20	(392.9)	(447.5)
Bank overdrafts	23	(45.4)	(41.6)
Lease liabilities	21	(210.0)	(215.5)
Derivative financial liabilities	18	(2.6)	(4.8)
Income tax liabilities		(27.9)	(7.9)
Provisions for other liabilities and charges	22	(24.0)	(13.2)
		(702.8)	(730.5)
Total liabilities		(1,942.5)	(2,073.4)
Net assets		1,559.7	1,218.8
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary share capital	25	0.2	0.2
Share premium account		223.0	220.8
Capital reserve	25	41.1	41.1
Hedain reserve	25	4.7	4.7

Figure 4 Group Balance Sheet of QNCC (Qatar National Cement Company Doha, State of Qatar, 2022)