



هيئة تشجيع الاستثمار الفلسطينية
Palestinian Investment Promotion Agency



مؤتمر فلسطين للاستثمار
Palestine Investment Conference



INSPIRING BUSINESS



Construction, Real Estate and Infrastructure Sector

Autoclaved Aerated Concrete (AAC)

7

Project Number:	PIC-2010-IO-100
Project Name:	Autoclaved Aerated Concrete (AAC)
Sponsor Company:	Watan for Investment and Development
Contact Details:	Al-Irsal Street Ramallah, Palestine Tel: +970-2-2965215 Email: jeri@palnet.com
Total Cost of the Project:	US\$ 14,686,000
Investment by Current Owners:	US\$ 9,686,000
Required Investment:	US\$ 5,000,000

Project Description:

Watan for Investment and Development is seeking a financing partner to assist in establishing a company that will manufacture Autoclaved Aerated Concrete (AAC) which although not a new building system, it is relatively new in the Palestinian Territories.

A wide variety of AAC products will be manufactured under this new initiative, including walls, floors, roof plans, wall boards, standard blocks, and specialty blocks, including lintel, U-block and cored block. Panels reinforced with steel wire cages can be used to build structures as high as six stories. The proportions, forms and/or sizes of AAC can be adjusted during the production processes to meet the customers' requirements.

It is estimated that the consumption of Ytong Brick by the West Bank during the years before the uprising was about 224,000m per year. Currently, the expected demand on AAC bricks for roofs was calculated relative to the rate of consumption in the West Bank of construction materials over the past 10 years. The total demand on complex AAC products used in ceilings, walls, partitions (internal and external) is anticipated to amount to 188,000m in 2011 and will probably reach 500,000m over the next 10 years.

The product was invented in Sweden in the mid-1920s and is currently produced all over the world. AAC is manufactured from lime, sand, cement, gypsum, foam and water to produce pre-cast blocks and panels. Residential and commercial buildings are commonly built with AAC, of which Ytong and Siporex are well known brands.

Project Development Time Table:

	Expected number of months from finance availability
Operations Start Date	12 months

Current Owners' Profile:

Watan for Development and Investment, an offshore holding company was founded in 2009, is involved in various commercial activities in Palestine and other Arab countries, including agriculture and industries such as construction and real estate development. Watan aims to contribute to the economic and social development of Palestine by building the economy and enhancing its competitiveness through the establishment of companies with potential for strong economic returns and positive community development impact.

Watan was registered in Palestine as a public shareholding company with a capital of US\$ 100 million. The founders and strategic partners own 75%, while the remaining 25% equity stake is shared among public shareholders.

Industry Highlights:

It is roughly estimated that the total number of industrial firms working in the construction sector equals 350 working facilities, regardless the size and the field of specialty. The construction industry is still in its infancy, with an estimated age of 15 years.

Sector diversification

This industry is mostly composed of five major fields and hence product types. These are ready mix concrete, bricks, stone crushers, asphalt products, cement precast manholes, cement pipes, carpe stone and cement tiles.

Quality as an advantage

Quality is key differentiator in this sector. Quality in most cases is a requirement by the designer and it is one of the procurement qualification criteria. Not all firms have obtained compliance with the Palestinian Standards (PS) for their products, and even those who obtained it are hardly able to maintain it. Apart from ISO 9001:2000, which is requested by some industry operators, most of the international certifications are not mandatory. Environmental management systems are needed in this industry since some parts of it are considered as pollutant industries; ISO 14000 could be suitable for large firms only. It is worthy to mention that the country is moving towards reconstruction and rehabilitation processes in Gaza Strip which will need a huge amount of building materials. Moreover, the plans to build new cities and boroughs will also double the potential demand for construction materials. The cluster is so important for growth since it carries significant forward and backward linkages.

Technical position and capacity

The percentage of demand supplied by this sector is estimated at 45%, while, the average employed labor force is estimated at 22 workers per firm. This means that any increase in production capacity will increase substantially the number of workers in the sector. It is quite

noticeable that there are certain deviations in the technology and capacity of production in some fields, for example bricks production, whereas the deviation in other fields such as ready mix concrete is negligible. Construction is a cluster with strong growth potential and readiness for collective action and with above-average performance on key factors related to West Bank and Gaza circumstances. Its strong growth potential ratings are based not only on global forecasts but also on the local context, which includes a diversified product and service base. Likewise, the past collaboration of its firms and support institutions translate into relationships that should propel fruitful and immediate coordinated activities. With history of labor absorption reaching more than one-fifth of workforce, construction is positioned to resume its vital role in job creation, although the cluster's fortunes do fluctuate with the political context.

Marketing position

The industry's main market is the West Bank. It comprises 73% of the total market share. Whereas, Israeli construction products constitute 23% of the market, and the remaining is sold in Gaza markets. It is obvious that the industry does not export any of its products; due to the extensive heavy transport costs required. Jordan could represent a potential country for export because of proximity, but the whole costs and requirements need to be checked.

Financial position

The majority of operating firms request financial resources for buying new machinery, whereas almost half of the industry need investment in developing their products, developing their market and get involved in some strategic partnerships with other related or inter-related industries.

SWOT Analysis

Internal Analysis	
Strengths	Weaknesses
<ul style="list-style-type: none"> • AAC is patented product • Relatively low in cost compared to similar building materials 	<ul style="list-style-type: none"> • Limited available financial resources • New product in the local Palestinian market (low consumer awareness)

External Analysis	
Opportunities	Threats
<ul style="list-style-type: none"> • Growing demand for construction materials • Rising prices for raw materials used in construction 	<ul style="list-style-type: none"> • Political instability • Difficulty to insure industrial investments in light of political risk

Financial Projections in US\$

Indicators	2011	2012	2013	2014	2015
Income statement Accounts					
Revenues	5,980,000	18,299,000	24,886,000	26,130,300	27,436,815
Gross Profit	411,500	3,469,000	5,450,000	5,722,500	6,008,625
Net Income	(718,450)	2,118,050	3,869,050	4,095,200	4,323,658
Cash Flow Accounts					
Operating Cash Flow	(64,500)	2,772,000	4,523,000	4,749,150	4,986,608
Investing Cash Flow	(13,184,000)	0	0	0	0
Financing Cash Flow	14,686,000	0	(3,000,000)	(3,500,000)	(4,000,000)
Balance Sheet Accounts					
Total Assets	13,967,550	16,085,600	16,954,650	17,549,850	17,882,508
Total Liabilities	0	0	0	0	0
Total Equity	13,967,550	16,085,600	16,954,650	17,549,850	17,882,508
Profitability Indicators					
Return on Assets	(5.14)	13.17%	22.82%	23.33%	24.23%
Return on Equity	(5.14)	13.17%	22.82%	23.33%	24.23%

P.O.Box 1984, Ramallah, Palestine
Phone: +970 2 2988791/2, Fax: +970 2 2988793

E-mail: info@pipa.gov.ps
Website: www.pipa.gov.ps