



Member of Uganda Securities Exchange
Regulated by the Capital Markets Authority

UGANDA CLAYS LIMITED (UCL) RESEARCH NOTE

No1.04

THE COMPANY

- UCL was incorporated in 1950 as a Private Limited company by a Greek Cypriot family. By 1996, after two bonus issues (1991/1995), the shareholders were Westomat Engineering and Construction Company based in Lausanne, Switzerland, National Housing Construction Corporation and Charles Schaffer. In 1996, Westomat transferred its ordinary shares to White Tower Corporation. By an extraordinary general meeting held in 1999, UCL was constituted into a public limited company and by the time of the Initial Public Offer (IPO) in October 1999, shareholding was NHCC (374,995 shares), NHCC nominees (5 shares), White Tower Corporation (124,999 shares). and Charles Schaffer (1 share).
- Following the IPO and the subsequent listing of the company on the Uganda Securities Exchange (USE) in January 2000, the National Social Security Fund (25.64%), White Tower Corporation (25%) and National Insurance Corporation (15%) became the largest shareholders.
- In August 2002, Kenya Clay Products Limited of Kenya took over White Tower Corporations 125,000 stake through a trade on the floor of the Exchange.

TOP 5 BOBU SHAREHOLDERS (as at 30 June 2004)

Name of Shareholder	No. of Shares	%
Kenya Clays Products Limited	140,979	28.20
National Social Security Fund	132,701	26.54
National Insurance Corporation	94,321	18.86
Arthur Mujuni	14,980	3.00
Richard Mugabyomu	7001	1.40
Others	110,018	22.00

DIVESTITURE PROGRAM

- Governed by the Public Enterprise Reform and Divestiture (PERD) Statute of 1993, UCL was listed in Class 4 of the Statute (whereby the Government of Uganda (GoU) is required to fully divest its interest in a company). A decision was made in November 1998 by the Divestiture and Reform Implementation Committee (DRIC) (as established by the above PERD Statute) that 325,000 shares of the total 375,000 Government held shares were to be sold to the public, the balance of 50,000 was to be sold to the management and staff of UCL. GoU eventually allotted an additional 50,000 shares to the staff. The offer price to the public was US\$ 4000 while the discounted price to staff was US\$ 3850.

END YEAR FORECAST				
December	2001	2002	2003	2004F
EPS	252	1260	936	1020
DPS	600	1000	500	800
PER	18.27	3.99	8.02	8.33
DY%	13.03	19.88	6.66	9.40
NAV	6438	10870	11006	11500
Share Price	4605	5030	7505	8500

Source: : mbea Research Department

Note: Past performance is not necessarily an indicator of future performance

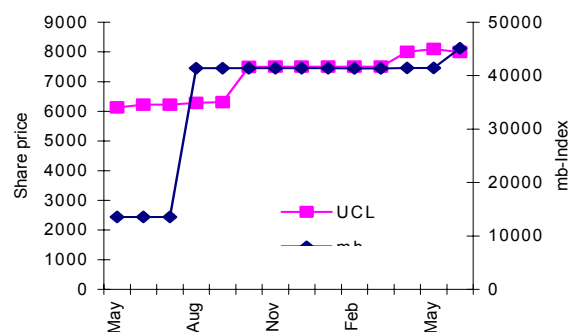
NATURE OF BUSINESS

- UCL is located at Kajjansi, 14 Kilometres south of Kampala City on Entebbe Road. Clay deposits in the area are of high quality and consistency. This is the rich clay ridge north of Entebbe on Lake Victoria. An independent evaluation conducted in 1999, estimated a life expectancy of over 30 years from that year.
- The main business is the production and sale of building clay products in the housing and construction business, e.g. roofing tiles, burnt clay bricks, interlocking and corner blocks, ventilators, floor tiles, pipes and decorative clay products such as grilles, flowerpots, vases and other pottery.

LISTING ON THE UGANDA SECURITIES EXCHANGE

UCL was listed on the USE on 20 January 2000. The shares were over subscribed by 5%. UCL has also matched or outperformed the mb-Index in recent months.

UCL Share Price vs mb-Index
May 03 - June 04



Source: : mbea Research Department

Note: Past performance is not necessarily an indicator of future performance

Contact - Davis L. Gathaara d-gathaara@mbea.net or
Anita Matovu a-matovu@mbea.net

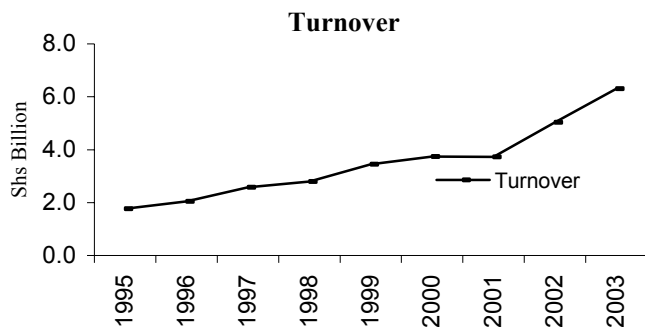
Any recommendation in this Research Note may not be suitable for all investors, and the opinions expressed herein are subject to change without notice. We may from time to time have a long or short position in and buy or sell some of the securities referred to herein. The information and statistics in this Research Note are based upon sources we believe to be reliable, but have not been independently verified by this. 1
The information, comments, and opinions, if any, are not intended to be, and should not be relied upon as complete

Plot 44, Lumumba Avenue, P.O. Box 24613, Kampala, Uganda

Tel: +256 (0) 41 341448/231960 Fax: +256 (0) 41 342045 E-mail: info@mbea.net Web Site: www.mbea.net

PRODUCTION

- Production of clay products involves processing of raw clay, pressing and moulding into various shapes drying and firing.
- The factory has a capacity of 3,200 tonnes per month (Hoffman kilns – 2600, Botti kilns – 600) although currently (as at June 2004) production is at 2,100 tonnes per month. This supply is against an approximate monthly demand of over 4000 tonnes. Production capacity is expected to increase to 3,600 tonnes per month by December 2004.
- UCL has constructed 2 new kilns which are expected to boost production. Output of roofing tiles which are the main revenue driver, for example will increase to 596,600 per month from the current 359,000.
- About 12,000 roofing tiles are produced daily against a demand of over 20,000 tiles per day.



Source: UCL Annual reports

Note: Past performance is not necessarily an indicator of future performance

CAPITAL EXPENDITURE

- Incurred mainly to finance the construction of 2 new kilns at a total cost of US\$ 3.20 billion.
- Amount is being financed by a bank loan from Standard Chartered Bank to be fully repaid by December 2006. The first instalment of US\$ 600 million is expected to be paid in November 2005.
- Effect on earnings may be felt in 2006 when 80% of the loan is expected to be repaid between April and December that year.

COMPETITION

- Competitive products include both local and foreign roofing tiles and resin coated iron sheets from South Africa.
- UCL commands about 71% of local market Management estimates that this will rise to about 75% by December 2004.
- Major competitors include, Clay and Allied Limited, Crown Tiles Limited, Kiwa Industries, Pan Kajjansi Tiles Limited, Lweza Clays Limited, Roofings Limited. Varied imports and small-scale roadside brick makers meet the balance of demand.

CLAY DEPOSITS

- An independent geological report by Volcano (U) Limited in August 1999, confirmed that clay deposits on the leased land, covering an unexcavated area of 40 hectares up to an average depth of 3 metres, are expected to last 30 years (from 1999) at the present excavation rate of 100 tonnes per day.

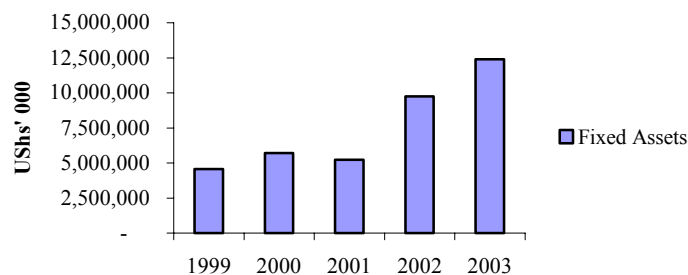
EMPLOYEES

- UCL currently employs approximately 450 employees (December 2003 – 461).
- For the second consecutive year, the Company received the annual award from the federation of Uganda Employers for having the best Employee Benefits and Compensation programmes in 2003.

SOCIAL RESPONSIBILITY

- The Company has placed emphasis on product quality, particularly considering the customer, shareholder, employee, supplier, NEMA and the General Public needs. For this, the company has spent up to about US\$ 172 million in construction of chimneys, a clinic, Administration block, perimeter wall and fencing off of company land and excavated sites.
- It is for this cause that in 2003, the company attained the ISO 9001:2000 quality management system certification. This has enabled the company to harmonise the efforts of all employees so as to focus on the quality of what they produce and prevent factors that might result in consumer dissatisfaction.

Fixed Assets



Source: UCL Annual reports

Note: Past performance is not necessarily an indicator of future performance

CONSUMER DEMAND

- Growth of the urban population in the last few decades has boosted the demand for suitable housing. The decline in economic growth in the 1970's and 80's resulted in a corresponding decline in the construction industry leading to a national housing deficit.
- The GoU has developed a national shelter strategy to encourage and facilitate private sector participation in the provision of affordable housing.
- Availability of mortgage loans (long-term capital) provided by financial institutions like Housing Finance Company of Uganda (HFCU) and more recently the Development Finance Company of Uganda (DFCU) has boosted the construction of private residential properties.
- Commercial developers e.g. National Housing Corporation Limited, Excel Construction, Mukwano Industries, Imperial Group of companies and HL Investments now form an important and significant current and future market for UCL's main products.

2003 Performance and Outlook

- In 2003, Gross Turnover increased by 25% over 2002 to post a record US\$ 6.31 billion on the back of increased turnover boosted by improved production methods.

Any recommendation in this Research Note may not be suitable for all investors, and the opinions expressed herein are subject to change without notice.

We may from time to time have a long or short position in and buy or sell some of the securities referred to herein. The information and statistics in this Research Note are based upon sources we believe to be reliable, but have not been independently verified by this.

The information, comments, and opinions, if any, are not intended to be, and should not be relied upon as complete

Plot 44, Lumumba Avenue, P.O. Box 24613, Kampala, Uganda

- Net Earnings were down 26% as a result of the increase in both production expenditure influenced by a price rise in fuels (coffee husks 54%, furnace oil 25% and diesel oil 9%) and some tax disallowable expenses.
- More benefits from the increased plant capacity are expected to accrue after the second Hoffmann kiln becomes operational in mid 2004.
- Much more customer demand is now expected to be satisfied after all the kilns become fully operational in 2004 thus leading to higher earnings as projected above.
- Dividend for 2003 was a reduced UShs 500 per share as UCL ploughed back some profits into CAPEX. Supported by improved earnings, we expected the Dividend to increase by at least 50% for 2004
- With demand outstripping supply and UCL increasing capacity, the company is assured of a steady and reliable market for its products, which should ensure the revenue stream is boosted in coming years.
- The Company has also divulged plans to diversify production to new sites in Eastern and Western Uganda that have been surveyed and found to have suitable clay deposits in order to create a larger market base, satisfy customers and increase shareholder value in an integrated market.
- UCL remains well positioned as the industry leader to take advantage of growth opportunities offered by the expanding Ugandan economy and possibly those offered by the export market in neighbouring countries thus ensuring a steady profit growth pattern over the years.
- Presently, UCL Shares continue to be significantly undervalued at UShs. 8,000 levels (Net Asset Value is UShs.11,006 per share) and are therefore an excellent bargain given the strong company fundamentals highlighted in this report.

RECOMMENDATION: STRONG BUY

“ Remember Share Prices may go up or down”

Past performance is not necessarily an indicator of future performance

Any recommendation in this Research Note may not be suitable for all investors, and the opinions expressed herein are subject to change without notice.

We may from time to time have a long or short position in and buy or sell some of the securities referred to herein. The information and statistics in this Research Note are based upon sources we believe to be reliable, but have not been independently verified by this. 3

The information, comments, and opinions, if any, are not intended to be, and should not be relied upon as complete

Plot 44, Lumumba Avenue, P.O. Box 24613, Kampala, Uganda

Uganda Clays Limited

Financial Review

Balance Sheet	2003	2002	%Change
	UGX- '000	UGX- '000	
ASSETS			
Fixed Assets	10,620,081	8,410,311	26.27
Current Assets	<u>1,787,793</u>	<u>1,337,536</u>	33.66
Total Assets	12,407,874	9,747,847	27.29
EQUITY AND LIABILITIES			
Share Capital	500,000	500,000	-
Revaluation Reserves	4,228,057	4,228,057	-
Retained Earnings	675,145	456,957	47.75
Proposed Dividend	<u>100,000</u>	<u>250,000</u>	60.00
Shareholders Funds	5,503,202	5,435,014	1.25
Non Current Liabilities			
Deferred income taxes	2,574,363	2,368,477	8.69
Retirement benefit obligations	171,198	60,693	182.07
Borrowings	<u>1,517,574</u>	<u>469,286</u>	223.38
	4,263,135	2,898,456	47.08
Current Liabilities			
Trade and other receivables	1,530,390	1,052,173	45.45
Borrowings	1,111,147	355,714	212.37
Taxation payable	<u>-</u>	<u>6,490</u>	100.00
	2,641,537	1,414,377	86.76
Total Equity and Liabilities	12,407,874	9,747,847	27.29
Income Statement			
Turnover (Gross)	6,310,625	5,039,075	25.23
Profit before Taxation	881,359	1,092,491	19.33
Taxation	(413,171)	(462,593)	10.68
Profit after Taxation	468,188	629,898	25.67

" Remember Share Prices may go up or down"

Any recommendation in this Research Note may not be suitable for all investors, and the opinions expressed herein are subject to change without notice. We may from time to time have a long or short position in and buy or sell some of the securities referred to herein. The information and statistics in this Research Note are based upon sources we believe to be reliable, but have not been independently verified by this. The information, comments, and opinions, if any, are not intended to be, and should not be relied upon as complete