

January 17, 2017

Rating
12- Month Target Price

Neutral
SAR 65.00

Expected Total Return

Price as on Jan-16, 2017	SAR 61.13
Upside to Target Price	6.3%
Expected Dividend Yield	7.8%
Expected Total Return	14.1%

Market Data

52 Week H/L	SAR 71.6/43.8
Market Capitalization	SAR 9,353 mln
Enterprise Value	SAR 9,826 mln
Shares Outstanding	153.0 mln
Free Float	77.4%
12-Month ADTV (000's)	157.2
Bloomberg Code	SACCO AB

1-Year Price Performance

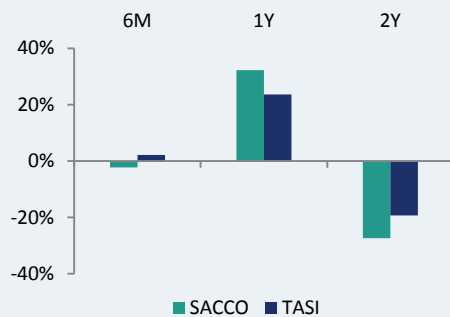


Fig in SAR mln	RC. Est	Actuals
Revenue	411	397
Gross Profit	242	221
EBIT	210	195
Net Income	204	187
EPS (SAR)	1.33	1.22

SAUDI CEMENT COMPANY (SAUDI)

4Q2016 First Look

Margin Contraction

Saudi Cement Company (SACCO) announced 4Q2016 results, missing our earnings estimates but revenues stood in-line. EPS of SAR 1.22 missed ours and street's SAR 1.33 estimate. At first look, SACCO's 4Q results suggest a neutral outlook as i) margin dropped by 600 bps across the board, ii) realization declined by -3% Q/Q to SAR 240/ton iii) recorded the lowest earnings in 2016 and iv) increasing operational risk, inventory stands at 78% of 2016 sales volumes. However, these negatives are an impact of sector slowdown and SACCO is no exception. We adjust our 2017-19 estimates as we expect earnings to fall in 2017, hence revise our target price to SAR 65.00 (earlier SAR 68.00). 2017E P/E of 11.6x is cheaper versus TASI's 13.9x, but a higher discount to TASI is warranted due to its gloomy outlook for 2017. A Buy rating for the stock is not justified but investors could consider SACCO on a yield perspective, offers 7.8% at SAR 4.75 DPS for 2017E. Maintain Neutral.

Revenue in-line; inventory risk at high levels

Revenue of SAR 397 million is reported in 4Q2016, which stood in-line with our estimates, deviating by 4%. Revenue in 4Q declined by -18% Y/Y due to a -15% Y/Y decline in sales volumes to 1.7 million tons. However, revenue improved by +6% Q/Q due to higher volumes sales of +9% Q/Q but at the cost of realization which fell by -3% Q/Q to SAR 240/ton. However, net realization (adjusting price discounts) could have faced higher decline, as EBIT/ton declined by -13% Q/Q suggesting higher price discounts. SACCO witnessed a loss in market share to 12.5% (13.6% in 3Q2016) due to a tough competitive scenario, resulting in excess inventory burden. As a result, clinker inventory backlog increased by +5% Q/Q to 4.1 million tons, remains the largest in the sector and continues to be a dampener. Our adjusted calculations suggest combined clinker and cement ratio stands at 78% of 2016 sales volumes.

Record drop in margins

Gross profit of SAR 221 million came-in lower by -9% to our estimate of SAR 242 million as COGS increased by +21% Q/Q for a marginal increase in sales. We attribute this to be an increase in energy and delivery costs. Gross margins declined to 56% in this quarter from 61% in 3Q2016, drop of 570 bps. Operating margins of 49% in 4Q was lower by 600 bps from 55% in 3Q2016 as cash cost increased by +16% Q/Q to SAR 98/ton. As a result, operating profit of SAR 195 million missed our SAR 210 million estimate, the same declined by -6% Q/Q but increased by -7% Y/Y. Unlike in 4Q2015 where margins dropped to 36% in 4Q2015 due to one-off adjustments, clean earnings in 4Q2016 takes net margins to 47%, but lower from 53% in 3Q2016 as pricing pressure increases. Earnings fell by -6% Q/Q but increased by +5% Y/Y to SAR 187 million, missing RC and consensus at a similar rate, both estimate stood at SAR 204 million.

Maintain Neutral

We maintain our DPS estimate at SAR 4.75 for 2017E, 7.8% dividend yield is enticing in current scenario, though revised target price of SAR 65.00 offers limited upside of +6%. We continue to recommend Neutral as 2017 outlook continues to be gloomy. The stock has rallied by +20% in 2016 (+28% in 4Q2016) offering limited room for investors.

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016A	2017E
Revenue	1,932	1,778	1,652
EBITDA*	1,183	1,114	991
Net Profit	941	902	809
EPS (SAR)	6.15	5.90	5.29
DPS (SAR)	6.00	5.50	4.75
BVPS (SAR)	21.41	21.58	21.90

*2016 is an estimate

Key Financial Ratios

FY Dec31	2015A	2016A	2017E
ROAA	4%	6%	5%
ROAE	29%	27%	24%
P/E	9.9x	10.4x	11.6x
P/B	2.9x	2.8x	2.8x
EV/EBITDA	8.3x	8.8x	9.9x
EV/Sales	5.1x	5.5x	5.9x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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