

Aljouf Cement: 2Q-2016 Earnings below our expectation due to lower realization price. We reiterate our recommendation with lower TP.

Amount in SAR mn; unless specified	Forecasts 2Q-16	Actual 2Q-16	Deviation (%)
Sales revenues	100.9	90.8	-10.0%
Net profit	25.9	22.7	-12.2%
EPS (SAR)	0.20	0.17	

Recommendation	Overweight
Current Price* (SAR)	8.55
Target Price (SAR)	9.70
Upside / (Downside)	13.10%

*prices as of 31st of July 2016

Lower realization price and higher production cost led to decrease in net profit: 2Q-2016 net income came below our expectation indicating a deviation of 12.2% from our estimate and 19.4% from market consensus. Net profit showed a YoY decline by 15.2%. According to the company the decline in net profit was due to decrease in sales price and higher production cost. For Q2-2016 we expect the selling price to be around SAR 169.2 per ton vs. SAR 195.4 in 2Q-2015 a decrease of 13.4%YoY. Sales revenue decline from SAR 93.2mn in 2Q-2015 to SAR 90.8mn in 2Q-2016, depicting a decrease of 2.5%YoY. Decline in revenue in our view was due the 13.4%YoY decline in price realization, despite the increase in cement dispatches.

Gross profit stood at SAR 31.14mn depicting a decrease of 12.4%QoQ and 18.9%YoY. Gross margin has been impacted by the higher sales cost. Production cost stood at SAR 59.7mn in 2Q-2016 as compared to SAR 54.8mn in 2Q-2015. Gross margin is expected to stand at 34.3% as compared to 41.2% in 2Q-2015 a decline of 167 basis points.

Operating profit showed a decline of 15.7%QoQ and 23.5%YoY to stand at SAR 23.2mn, below our estimate of SAR 29.6mn. OPEX showed a decline of 2.5%YoY to stand at SAR 7.9mn as compared to SAR 8.1mn in 2Q-2015.

Aljouf Cement dispatches showed a decline of 18.3%: Aljouf Cement dispatches decrease by 18.3%YoY comparing to average decline of 9.98% for the market in 2Q-2016. Aljouf Cement dispatches stood at 537KT comparing to 454KT, we expect the capacity utilization rate for the company to stand at around 62.4% consequently resulting in dispatches of 2.1MT as compared to 1.8MT in 2015.

We reiterate 'Overweight' recommendation on the stock and target price of SAR 9.7: Aljouf Cement Co. is expected to post net income of SAR 86.2 (0.66 EPS) for 2016, recording a growth of 12.9%YoY for the year supported by higher expected volumetric sales. We remain 'Overweight' on the stock with target price of **SAR 9.7/share**; indicating a potential upside of 13.1% over current market price of SAR 8.55/share (as of 1st August 2016).

Period	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016
Revenue	87.41	93.20	70.35	82.86	90.80	90.8
Gross Profit	36.83	38.41	30.78	20.04	35.54	31.14
Operating profit	28.30	30.34	22.29	9.66	27.53	23.20
Net income	25.76	26.81	18.63	7.11	24.72	22.74
EPS	0.20	0.21	0.14	0.05	0.19	0.17

Source: Company reports, Aljazira Capital

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E
Revenues	269.2	336.3	362.7
Growth %	-8.3%	24.9%	7.9%
Net Income	60.5	76.3	86.2
Growth %	-14.7%	26.1%	12.9%
EPS	0.47	0.59	0.66

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E
Gross Margin	38.1%	36.3%	36.0%
EBITDA Margin	43.4%	49.9%	45.4%
Net Margin	22.5%	22.7%	23.8%
P/E	30.0	18.0	12.9
P/B	1.27	0.91	0.69
ROE	4.3%	4.9%	5.3%
ROA	2.4%	3.2%	3.5%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	1,111.50
YTD %	-18.79%
Shares Outstanding (mn)	130.00
52 Week (High)	15.15
52 Week (Low)	7.40

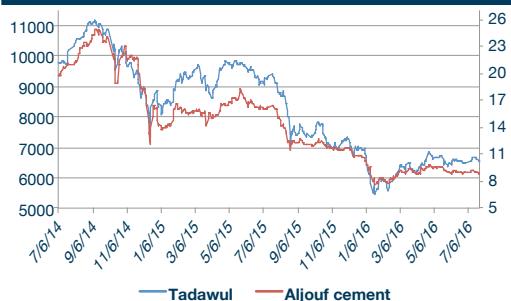
Source: Bloomberg, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Public	100%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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