الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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Tabuk Cement: Q4-2015 net profit was above expectation, as a finance cost of SAR4.5mn was accounted in AJC estimate; however, top line revenue missed expectation. "Neutral" is reiterated on the stock.

Amount in SAR mn; unless specified	Forecasts 4Q-15	Actual 4Q-15	Deviation (%)
Sales revenues	69.8	65.2	**-6.5%**
Net profit	20.8	22.6	**8.6%**
EPS (SAR)	0.23	0.25	

*Not Available,

Despite the signs of improvement in operational efficiency, the company shows YOY sales decline; along with more selling price discount in 4Q2015: TCC's 4Q-15 net profit came above our expectation and showed a deviation of 8.6% from AJC estimates and 10.3% from the market consensus of SAR 20.5mn. Tabuk Cement Company posted net income of SAR 62.63mn; indicating a decline of 21.8%YoY and an increase of 145.6%QoQ. The company attributed the YoY operational slowdown to sales volume decline, and lower sales price per ton. We believe the weak top line revenues was mainly associated to lower domestic sales of cement, where the volumetric sales in 4Q-2015 stood at 328 thousand ton, as compared to 358 thousand ton in the comparable period on the back of lower utilization rate. On the other hand, Tabuk's QoQ sales selling price shows a weakness, where the average price per ton stood at SAR 198.5 per ton, as compared to SAR 212.2 in 3Q2015 and an average price of SAR 224.5 in FY2014.

Gross profit stood at SAR 27.9mn depicting a fall of 17.7%YoY, and an increase of 96.5%QoQ. Gross margin revived to 42.8% from 30.1% in 3Q15 due to a fall of 23.3% in cost per ton. Operating Profit stood at SAR 23.4mn depicting a fall of 19.6%YoY and an increase of 165.9%QoQ; where the managerial expenses (SG & A) has noticeably declined to SAR 4.5mn, as compared to SAR 5.4mn in 3Q15.

Higher subsidized fuel cost to hurt the company's net income by 19.8% in 2016: The Saudi Arabian government recently announced an increase in the prices of all fuels, including natural gas. The price of heavy fuel oil (HFO380) would increase to USD 3.8 per barrel (4.90–8.96 hallah per liter). The price of electricity was also revised upwards. Based on our estimates, cement production cost is expected to increase by SAR 6–7 per ton, in addition to the increase in electricity costs. We have reworked our financial model assumptions to incorporate the impact of these changes. The increase in prices of electricity and subsidized fuel is also expected to increase the production costs by about SAR 21mn according to the company. Based on the new assumptions, the increase in cost would be about SAR 17.1mn. Consequently, net income of the company would stand revised from SAR 85.9mn to SAR 68.9mn. The company is trading at 17.2x 1-year forward PE, compared with an average PE of 13.6x for the cement sector during 2013-15.

New production line to increase cost efficiency and operating rate: We expect a steady increase in utilization at the new production line. TCC would eventually substitute the old production line with the new one. In our view, this would improve TCC's capacity utilization. In fact, we expect capacity utilization to increase by 3.1 percentage points to 77.8% in 2016 and by 7.1 percentage points to 84.9% in 2017 due to the start of commercial production. We also expect efficiency benefits, which would help the company to lower the impact of higher fuel cost and partially offset any low sales volume in the mid-term. We expect TCC's gross margin to rise from 39.0% in 2016 to 40.9% in 2018. However, We estimate net income to retreat 25.3% for FY2016 following on E2015's 33.0% decline in net income due to current operating and higher production cost.

Debt repayment to lower dividend in 2016: TCC has paid dividends consistently, with an average payout ratio of 90% (SAR1.5 DPS in 2014). We believe the company would repay the debt undertaken of SAR521mn for expansion by the end of 2020. This would restrict the dividend per share and, accordingly, the company reduce DPS to approximately SAR0.9 during 2015. We anticipate the company to pay a dividend of SAR 0.75 DPS (5.8% D/Y) in 2016 owing to its debt undertaken. However, we expect the payout ratio and dividend payment to increase gradually after 2020 once the company repays all long-term debt. Without any major expansion in the foreseeable future, the company's cash flow from operations is expected to be sufficient to repay the long-term debt. By 2020, the debt-to-equity ratio would decline to less than 0.1 from 0.4 currently.

Recommendation	**'Neutral'**
Current Price* (SAR)	**13.0**
Target Price (SAR)	**13.20**
Upside / (Downside)	**1.5%**

*prices as of 21th of January 2016

Key Financials

SARmn (unless specified)	FY14	FY15E	FY16E
Revenues	322.3	272.4	274.3
Growth %	-9.4%	-15.5%	0.7%
Net Income	137.6	92.2	68.9
Growth %	-20.7%	-33.0%	-25.3%
EPS	1.51	1.01	0.75

Source: Company reports, Aljazira Capital

Our estimates and valuation: Tabuk Cement Co. is expected to post SAR 68.9mn in net income (0.75 EPS) for 2016, recording a decline of 25.3%YoY for the year influenced by higher fuel cost and more selling price discount, Hence, we remain '**Neutral**' for the stock with target price at **SAR13.20**/share; indicating a potential upside of 1.5% over current market price of SAR13.0/share (as of 21st January 2015). The company is trading at a forward PE and P/B of 17.2x and 1.0x respectively based on our 2016 earnings forecast. We anticipate the company to lower its dividend payment to SAR 0.75 DPS (5.8% D/Y) in 2016 owing to its debt undertaken.

Key Ratios

SARmn (unless specified)	FY14	FY15E	FY16E
Gross Margin	57.3%	41.8%	39.0%
EBITDA Margin	62.4%	66.9%	64.0%
Net Margin	42.7%	33.8%	25.1%
P/E	16.4x	14.3x	17.2x
P/B	1.93x	1.11x	1.00x
EV/EBITDA (x)	12.6x	9.5x	8.7x
ROE	13.5%	8.1%	5.7%
ROA	8.6%	4.9%	3.6%
Dividend Yield	6.0%	6.2%	5.8%

Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Public Pension Agency	5.0%
Khalid Saleh Al-Shithry	12.69%
Public	82.31

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(SAR, bn)	1.17
YTD %	- 10.2%
52 Week (High)	27.40
52 Week (Low)	12.65
Shares Outstanding (mn)	90.0

Source: Bloomberg, Aljazira Capital

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AGM - Head of Research
Abdullah Alawi
+966 11 2256250
a.alawi@aljaziracapital.com.sa

Senior Analyst
Talha Nazar
+966 11 2256115
t.nazar@aljaziracapital.com.sa

Analyst
Sultan Al Kadi
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers & ADC Brokerage
Abdullah Q. Al-Misbani
+966 12 6618400
a.almisbahi@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer