

Najran Cement: 2Q-2016 Earnings was below our expectation; due to less than expected volumetric sales ; we update our recommendation to "Neutral" with lower PT.

Amount in SAR mn; unless specified	Forecasts 2Q-16	Actual 2Q-16	Deviation (%)
Sales revenues	193.1	NA	-
Net profit	40.8	33.6	-17.6
EPS (SAR)*	0.24	0.20	

*Not Available

Recommendation	'Neutral'
Current Price* (SAR)	13.09
Target Price (SAR)	13.90
Upside / (Downside)	6.12%

*prices as of 21st of July 2016

Lower volumetric sales led to decrease in net income: Najran Cement posted net profit of SAR 33.61mn in 2Q-2016 indicating a decrease of 44.98%QoQ and decrease of 56.82%YoY. Net profit showed a deviation of 17.66% from AJC estimate and 28.12% from the market consensus. According to the company, the YoY decline is attributed to i) lower volumetric sales ii) increase in fuel cost despite the increase in selling price. Based on our estimates, the sales revenue is expected to be around SAR 177.18mn in 2Q2016, as compared to SAR 294.19mn in 2Q-2015 depicting a decrease of 39.77%YoY. We believe that the reasons behind lower revenue are ascribed to the 39.9%YoY sales decline, despite the improved realization per ton. The selling price/ton is expected to stand at SAR 244.1/ton vs. SAR 243.5/ton in 2Q-2015.

Gross profit stood at SAR 74.38mn indicating a decrease of 33.49% QoQ and 50.76%YoY. Based on our estimates, gross margin is expected to fall to 41.98% from 51.35% in 2Q2015. The fall in margin was impacted by lower volumetric sales and increase in cost per ton. Cost per ton is expected to be around SAR 141 per ton vs SAR 118.5 in 2Q-2015. Higher fuel cost and planned maintenance, in our view, pushed the cost higher.

Operating profit stood at SAR 44.94mn, well below our estimates of SAR 51.78mn, which is due to significantly lower than expected volumetric sales. OPEX showed a decrease of 50.7%YoY to stand at SAR 29.44mn in 2Q-2016 from SAR 59.69mn in 2Q-2015.

Najran Cement Dispatches underperform the sector: Najran cement dispatches decrease from 1.21MT in 2Q-2015 to 0.73MT in 2Q-2016 depicting a decrease of 39.90%, well below the average market sales which showed a decline of 9.98%. We expect the utilization rate for the company to be around 68.07% for 2016 as compared to 85% in 2015. We expect the company to show sales of 3.57MT in 2016 vs. 4.46MT in 2015. The decline is attributed to lower cement consumption in the region.

We update our recommendation to 'Neutral for the stock and target price: Najran Cement Co. is expected to post SAR 187.67 in net income (1.10 EPS) for 2016, recording a decline of 26.6%YoY for the year influenced by higher fuel cost and expected lower sales volume. For 2016 we expect the company to pay DPS of SAR 1.00 depicting a dividend yield of 7.64% based on the current price.

Period	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016
Revenue	304.23	294.19	211.89	276.35	251.28	NA*
Gross Profit	159.97	151.06	91.15	119.42	111.83	74.38
Operating profit	104.98	91.37	45.29	67.85	72.29	44.94
Net income	92.00	77.83	32.07	53.73	61.08	33.61
EPS	0.54	0.46	0.19	0.32	0.36	0.20

Source: Company reports, Aljazira Capital, *Not Available

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E
Revenues	828	1086.6	861.91
Growth %	31.1%	31.3%	-20.7%
Net Income	243	255.6	187.67
Growth %	22.7%	24%	-26.6%
EPS	1.43	1.50	1.10

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E
Gross Margin	48.2%	48.0%	43.9%
EBITDA Margin	47.8%	39.2%	40.9%
Net Margin	29.4%	23.5%	21.8%
P/E	20.31x	9.71x	11.84x
P/B	2.40x	1.17x	1.04x
ROE	11.8%	12.0%	8.8%
ROA	7.9%	8.3%	6.3%
Dividend Yield	2.1%	7.2%	7.6%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	2225.30
YTD %	6.42%
Shares Outstanding (mn)	170.00
52 Week (High)	26.40
52 Week (Low)	10.05

Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Khalid Mohammed Al barrak	13.04%
Abdullah Alrajhi	12.43%
Public	74.53%

Source: Company reports, Aljazira Capital

Price Performance



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- 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.
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