

May 1, 2017

Rating **Neutral**
12- Month Target Price **SAR 33.00**

YANBU CEMENT COMPANY
1Q2017 First Look

Expected Total Return

Price as on Apr-30, 2017	SAR 34.78
Upside to Target Price	(5.1%)
Expected Dividend Yield	7.2%
Expected Total Return	2.1%

Market Data

52 Week H/L	SAR 45.1/25.8
Market Capitalization	SAR 5,478 million
Enterprise Value	SAR 5,361 million
Shares Outstanding	157.5 million
Free Float	69.1%
12-Month ADTV(000's)	227.5
Bloomberg Code	YNCCO AB

1-Year Price Performance



Source: Bloomberg

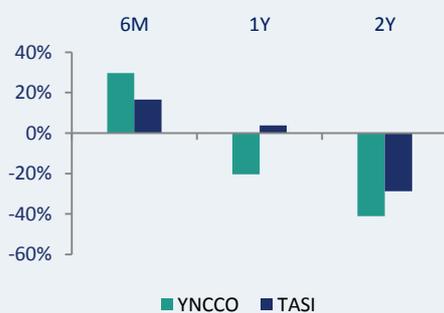


Fig in SAR Mln	RC.Est	Actuals
Revenue	270	296
Gross Profit	127	132
Operating Income	116	123
Net Income	102	124
EPS (SAR)	0.65	0.79

Pricing Strategy Paid-Off

Yanbu Cement Company (Yanbu) reported 1Q2017 results last week with earnings beating our estimates and consensus, but operating numbers stood in-line. EPS of SAR 0.79 was higher to our SAR 0.65 estimate and consensus of SAR 0.61. Key focus points for this quarter are i) realization has picked up by +23% Q/Q to SAR 186/ton from its 4Q2016 deep-discount sale price of SAR 152/ton ii) operating margins have improved to 42% in 1Q2017 from 33% in 4Q2016 and iii) effect of IFRS adjustments had a short term check on growth rate comparison. The improvement in this quarter is noteworthy; wait to see consistency in the coming quarters. 2017E P/E of 11.9x is cheaper to TASI P/E of 14.5x, while remaining expensive to peers. 2017E dividend yield of 7.2% is partially exciting but valuations are not compelling. Maintain Neutral with a target price of SAR 33.00 until we see some sustainable trends.

Realization surges by +23% Q/Q

Revenue of SAR 296 million was +9% above our estimate of SAR 270 million, declining by -26% Y/Y and -2% Q/Q. Despite a falling topline trend, realization surged by +23% Q/Q to SAR 186/ton after it had a one-off volume push in 4Q2016, where in Yanbu sold 2.0 MT of cement at SAR 152/ton. Despite this sharp jump in realization, sales volumes of 1.59 MT declined by -20% Q/Q and -13% Y/Y due to its strategy to protect prices and gain some control on pricing in Yanbu region. Its volume-price mix has led to a decline in volume market share to 11.8% in 1Q from 15.4% last quarter but managed its pricing well, in-line with peers. Inventory of 2.85 MT is also below industry, a positive.

In-line gross numbers

Gross profit of SAR 132 million declined by -34% Y/Y and -3% Q/Q, came close to our estimate of SAR 127 million, though margins assumptions did not align well. We expected higher gross margins in this quarter, but they stayed flat at 45% versus last quarter. Gross margins dipped 500 bps on a Y/Y basis on dual impact of lower prices and hike in utility costs. On the cost front, we believe its timely strategy to cut production rates and maintain prices, have paid-off as costs remain under control. Yanbu's clinker production stood at 1.25 MT in 1Q2017 declined by -2% Q/Q and -11% Y/Y led its cash costs to stay firm at SAR 73/ton and over the last three quarters.

Some IFRS impact seen

Yanbu reported operating profit of SAR 123 million declined by -35% Y/Y and -3% Q/Q. It restated operating profit from SAR 104 million to SAR 126 million in 4Q2016 due to IFRS adjustment. Net income of SAR 124 million beat expectations of SAR 102 million, declined by -41% Y/Y but improved by +18% Q/Q. Net margins declined by 100 bps to 42% in 1Q2017 but jumped from 33% in 4Q2016.

Maintain Neutral

We maintain Neutral as potential upside seems limited and further gloominess is surrounding the sector. Valuation does not seem to offer any entry points when earnings growth rates are expected to be in negative territory for Yanbu. We might revisit estimates and give a revised outlook for 2017-18, till then maintain Neutral.

Key Financial Figures

FY Dec31 (SAR Mln)	2016A	2017E	2018E
Revenue	1,286	1,107	1,134
EBITDA*	774	674	681
Net Profit	536	461	467
EPS (SAR)	3.40	2.93	2.97
DPS (SAR)	3.00	2.50	2.50
BVPS (SAR)	22.60	23.03	23.49

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	11%	11%
ROAE	15%	13%	13%
P/E	10.2x	11.9x	11.7x
P/B	1.5x	1.4x	1.4x
EV/EBITDA	6.9x	8.0x	7.9x
EV/Sales	4.2x	4.8x	4.7x

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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

For any feedback on our reports, please contact research@riyadcapital.com

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