

## EASTERN CEMENT



## EVENT FLASH

## In-line results; supported by associate income

Eastern Cement reported an in-line set of 1Q17 results, with net income declining -41.9% YoY to SR50mn. We believe the YoY decline in earnings is mainly due to lower sales quantities and margins. The sales quantities of the company declined by -26.7% YoY in 1Q17 vs. the industry's decline of -19.9%. Eastern Cement trades at 2017E P/E of 14.8x vs peers average of 13.5x. The dividend yield of the company is attractive at 5.6% for 2017E.

- **Gross profit:** 1Q17 came-in at SR60mn, down -36.8% YoY. This is lower than the NCBC estimate of SR66mn.
- **Operating profit:** 1Q17 came-in at SR40mn, declining -47.4% YoY. This is lower than the NCBC estimate of SR48.3mn.
- **Net income:** 1Q17 net income stood at SR50mn, a decline of -41.9% YoY. This is in-line with the NCBC estimates of SR50.2mn.
- **NCBC view on the results:** Eastern Cement reported an in-line set of 1Q17 results, with net income declining -41.9% YoY (-3.8% QoQ) to SR50mn. This compares to the NCBC estimates of SR50.2mn. We believe the YoY decline is attributed to lower quantities sold and margins, due to the overall weakness in demand in Saudi.
- Total sales quantity of Eastern Cement stood at 0.61mn tons in 1Q17, coming in-line with our estimates of 1.62mn tons. Quantities declined -26.7% YoY in 1Q17, higher than the industry of -19.9% during the same period.
- Gross margins reached the lowest level on record, contracting from 38.7% in 1Q16 to 29.7% in 1Q17. This compares to our estimates of 31.2%. We believe the main reason behind lower margins and decline in gross profits levels (-36.8% YoY, -11.8% QoQ) is the revision in fuel support. We expect an average gross margin of 27.2% till 2021E.
- We believe the deviation in revenues of profit lines was offset on the net income level due to a higher than expected income from the associate company Arabian Yemeni Cement. We believe associate income stood at SR12.0mn in 1Q17 vs. SR10.6mn in 1Q16 and our estimates of SR6.0mn.
- We are Neutral on Eastern Cement with a PT of SR27.8. Further contraction in margins and continued demand weakness are key risks for Eastern Cement. The stock trades at 2017E P/E of 14.8x vs. peer average of 13.5x.

## 1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	%Var^	% QoQ
Revenues	202.0	245.3	(17.6)	212.7	(5.0)	(12.8)
Gross income	60.0	95.0**	(36.8)	66.3	(9.6)	(11.8)**
Gross margin (%)	29.7%	38.7%	(9.03)	31.2%	(1.49)	0.34
EBIT	40.0	76.0**	(47.4)	48.3	(17.1)	(25.9)**
EBIT Margin (%)	19.8%	31.0%	(11.18)	22.7%	(2.89)	(3.52)
Net income	50.0	86.0**	(41.9)	50.2	(0.4)	(3.8)**
Net Margin (%)	24.8%	35.1%	(10.31)	23.6%	1.14	2.30
EPS (SR)	0.58	1.00	(41.9)	0.58	(0.4)	(3.8)

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts; \*\*Restated

## NEUTRAL

Target price (SR)	27.8
Current price (SR)	26.6
Upside/Downside (%)	4.5

## STOCK DETAILS

M52-week range H/L (SR)	35/22
Market cap (\$mn)	611
Shares outstanding (mn)	86
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(12.4)	(18.9)	(1.5)
Rel. to market	(2.0)	(0.7)	11.5

Avg. daily turnover (mn)	SR	US\$
3M	1.7	0.5
12M	2.2	0.6

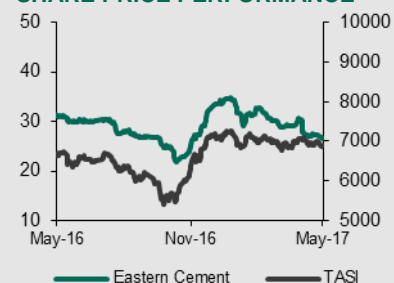
Reuters code	3080.SE
Bloomberg code	EACCO AB
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## VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	9.8	14.8	18.2
P/B (x)	1.0	1.0	1.0
EV/EBITDA (x)	5.6	6.6	7.1
Div Yield (%)	5.6	5.6	5.6

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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