

1Q2017 net income of SAR 124mn came above our expectation of SAR 70.2mn indicating a deviation of 76.6% from our estimate, due to higher than expected selling price. Net income showed a decline of 27.5%YoY and 18.1%QoQ growth. Despite the decline in production cost, the YoY decline in net income is attributed to the decline in volumetric sales and selling price. We remain **"Overweight"** on the stock due to current market price. However, we maintain a cautious outlook on the sector for 2017.

- Revenue stood at SAR 296mn; a decline of 25.9%YoY and above our estimates of SAR 243.4mn. This shows the continuation of pressured fundamentals resulting in lower sales and realization price. Cement sales showed a decline of 13.1%YoY to stand at 1.59MT in 1Q2017 from 1.83MT in 1Q2016. For 1Q2017, we expect the selling price to be around SAR 185.8/ton vs. SAR 217.9 in 1Q2016 and SAR 151.7 in 4Q2016.
- Gross profit stood at SAR 132mn depicting a decline of 34.0%YoY and 2.9%QoQ, impacted by decline in revenue despite the decline in production cost. Gross margin declined to 44.6% in 1Q2017 from 50.1% in 1Q2016 and 45.4% in 4Q2016. We expect further decline in gross margins in upcoming quarters. Based on our calculation, the cost/ton is expected to be at SAR 103.0/ton vs. SAR 108.0/ton in 1Q2016 and 82.9/ton in 4Q2016. Operating profit stood at SAR 123.0mn showing a decline of 34.9%YoY and 2.4%QoQ. OPEX at SAR 9.0mn, showed a decline of 14.3%QoQ and 20.3%YoY.

AJC view: In addition to high inventory level (2.85MT at end of March), we believe the company will continue to sell at a discount in upcoming quarters, as lower dispatches will continue to exert pressure on price realization. This is due to high competition in the market as demand remains weak. Therefore, we maintain our cautious outlook on the sector for the coming quarters due to weak construction activity and upcoming hike in electricity rates. For 2017, we expect Yanbu cement to post net income of SAR 457.5mn (EPS of SAR 2.90) a decline of 14.6%YoY. Based on our estimates, the company is trading at forward P/E and P/BV of 11.74x and 1.52x, respectively. The company reduced its dividend payment in 2016 to SAR 3.0/share, we further expect the company to reduce its dividend to 2.50/share for FY2017. We maintain our **"Overweight"** recommendation and PT of SAR 40.2 on the stock.

Recommendation	'Overweight'
Current Price* (SAR)	34.1
Target Price (SAR)	40.2
Upside / (Downside)	17.9%

*prices as of 25th of April 2017

Key Financials

SARmn (unless specified)	FY15*	FY16*	FY17E
Revenue	1613.0	1286.3	1135.7
Gross Profit	871.5	614.5	503.5
Net Profit	806.1	535.5	457.5
EPS	5.12	3.40	2.90

Source: Company reports, Aljazira Capital *Based on SOCPA standards.

Key Market Data

Market Cap (bn)	5.36
YTD %	-16.1
Shares Outstanding (mn)	157.5
52 Week (High)	45.1
52 Week (Low)	25.8

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	54.0%	47.8%	44.3%
Net Margin	50.0%	41.6%	40.3%
P/E	8.52	11.91	11.74
P/BV	1.84	1.79	1.52
EV / EBITDA	6.5	8.1	7.7
Dividend Yield	8.0%	7.4%	7.3%

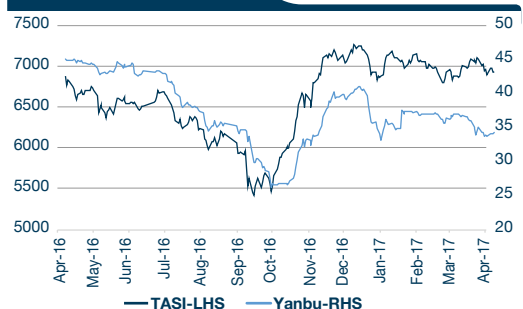
Source: Company reports, Aljazira Capital

Results Summary

SARmn (unless specified)	Q1-2016	Q4-2016	Q1-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	399.6	302.9	296.0	-25.9%	-2.28%	21.61%
Gross Profit	200.0	136.0	132.0	-34.0%	-2.94%	59.11%
Gross Margin	50.1%	44.9%	44.6%	-	-	-
EBIT	189.0	126.0	123.0	-34.9%	-2.38%	69.89%
Net Profit	171.0	102.0	124.0	-27.5%	21.57%	76.64%
EPS	1.09	0.65	0.79			

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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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.

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