

YANBU CEMENT

الأهلي كابيتال
NCB Capital

EVENT FLASH

In-line results; discounts support market share gains

Yanbu Cement reported an in-line set of 1Q17 results, with net income declining -27.5% YoY to SR124mn. We believe the YoY decline in earnings is mainly due to lower sales quantities and discounts offered. The sales quantities of Yanbu Cement declined by -13.2% YoY in 1Q17 vs. the industry's decline of -19.9%. Yanbu Cement trades at 2017E P/E of 11.8x. The dividend yield of the company is attractive at 7.3% for 2017E.

- **Gross profit:** 1Q17 came-in at SR132mn, down -34.0% YoY. This is in-line with the NCBC estimate of SR139mn.
- **Operating profit:** 1Q17 came-in at SR123mn, declining -34.8% YoY. This is in-line with the NCBC estimate of SR127mn.
- **Net income:** 1Q17 net income stood at SR124mn, a decline of -27.5% YoY. This is in-line with the NCBC estimates of SR122mn.
- **NCBC view on the results:** Yanbu Cement reported an in-line set of 1Q17 results, with net income declining -27.5% YoY (+18.1% QoQ) to SR124mn. This compares to the NCBC estimates of SR122mn. We believe the YoY decline is due to lower quantities sold and selling prices, as Yanbu Cement offered discounts to gain market share.
- Total sales quantity of Yanbu Cement stood at 1.59mn tons in 1Q17, coming in-line with our estimates of 1.65mn tons. Sales quantities declined -13.2% YoY in 1Q17, lower than the industry of -19.9% during the same period.
- Gross margins reached the lowest 1Q level on record, contracting from 50.1% in 1Q16 to 44.6% in 1Q17. This compares to our estimates of 45.4%. We believe the main reason behind lower margins and decline in gross profits (-34.0% YoY, -2.9% QoQ) is 1) revised fuel support and 2) steep discounts offered. We expect an average gross margin of 42.4% till 2021E.
- Selling prices stood at SR186/ton in 1Q17, in-line with our estimates and declining -14.6% YoY. We believe discounts offered by smaller players in remote regions to sell in high demand areas may lead to further discounts for Yanbu Cement going forward.
- We are Neutral on Yanbu Cement with a PT of SR40.8. Further contraction in margins and continued demand weakness are key risks for Yanbu Cement. The stock trades at 2017E P/E of 11.8x vs. peer average of 12.9x.

1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	% Var [^]
Sales	296	400	(25.9)	305	(3.0)
Gross income	132	200	(34.0)	139	(4.8)
Gross margin (%)	44.6%	50.1%	(5.47)	45.4%	(0.81)
Operating income	123	189	(34.8)	127	(3.1)
Operating margin (%)	41.6%	47.2%	(5.67)	41.6%	(0.05)
Net income	124	171**	(27.5)	122	1.3
Net margin (%)	41.9%	42.8%	(0.90)	40.1%	1.77
EPS	0.79	1.09	(27.5)	0.78	1.3

Source: Company, NCBC Research [^] % Var indicates variance from NCBC estimates

NEUTRAL

Target price (SR)	40.8
Current price (SR)	34.1
Upside/Downside (%)	19.6

STOCK DETAILS

M52-week range H/L (SR)	45/26
Market cap (\$mn)	1,431
Shares outstanding (mn)	158
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(7.9)	(4.8)	(24.2)
Rel. to market	(8.5)	(1.8)	(24.9)

Avg daily turnover (mn)	SR	US\$
3M	5.7	1.5
12M	8.2	2.2

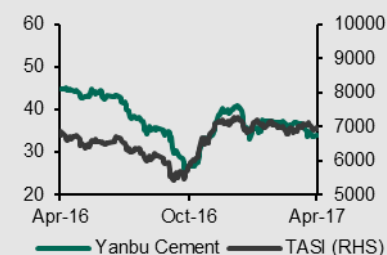
Reuters code	3060.SE
Bloomberg code	YNCCO AB
www.yanbucement.com	

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	10.0	11.8	12.8
P/B (x)	1.5	1.5	1.5
EV/EBITDA (x)	6.8	7.3	7.6
Div Yield (%)	8.8	7.3	7.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

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

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under license number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.