

## Earnings ahead of SFC/consensus by 13%

### Earnings beat SFC/consensus by 13%

Tabuk Cement reported 4Q15 net profit of SAR23m (-22% y/y, +145% q/q – not comparable due to seasonality) which has beaten SFC and consensus estimate by around 13%. Operational performance was also stronger than expected with gross profit of SAR28m (-18% y/y, +96% q/q) and EBIT of SAR23m (-20% y/y, +166% q/q) that has beaten our estimate by 4% and 8%, respectively. While cement volume of 328k tons was only 2% higher than our estimate, management commentary suggests q/q decrease in SG&A expenses may have resulted in the earnings beat. This also potentially means cement pricing continues to remain under pressure, a trend that is visible across the board. In our view, located in the Northern part of KSA, Tabuk also suffers from a locational disadvantage which means in the face of slowdown in the home market, the company may have to price more competitively in order to more effectively compete in the demand centres (Western and Central regions). To understand the impact of sector wide pricing pressure, we highlight while Tabuk's 2015 cement volume is down 9% y/y, 2015 net profit is down 34% y/y.

### Cautious sector outlook; a double whammy of demand slowdown and new capacity

We expect sector wide growth slowdown in cement volume in 2016 (+2% yoy in 2016 vs. 2004-14 volume CAGR of 8%). In our view, while potential demand slowdown in 2016 is certainly an issue, capacity addition seems to be the bigger threat to the sector. While clinker capacity stood at 57.8m tons in 1H15, between 2H15 and 2017 end, 11.7mn tons (20% addition to 1H15 capacity) of new clinker capacity is set to come online. Consequently, we expect clinker production to ramp up as fight for market share intensifies among the players in a weak demand environment. In-all, as clinker production is set to exceed demand (excluding exports which we haven't modeled yet), we expect stock buildup of 4.7m tons in 2016E vs Dec 2015 clinker inventory of 23 mn tons. Historically, cement prices have shown a very tight inverse correlation with clinker stock and if history is any indicator, we expect cement price to fall around 7% in 2016.

### Expect 47% y/y earnings decline in 2016; Maintain Sell with SAR9.5/share TP

Post publication of 4Q15 preliminary results, keeping in line with recent trends and our outlook for the sector in 2016 and 2017 (volume decline, pricing pressure and negative impact from electricity and fuel cost increase), we have cut Tabuk's 2016E-17E earnings by 44%. On our revised estimate, the stock trades at 2016E P/E of 24.2x and 12.5x 2016E EV/EBITDA. Furthermore, we expect 47% y/y earnings decline in 2016 (company guided to impact from increase in electricity, fuel and transportation costs on earnings at SAR21m implying 43% of 2016 net profit) due to continued pricing pressure. In that backdrop, we do not expect favourable stock price performance in the near to mid-term and maintain Sell rating on the stock with a revised target price of SAR9.5/share (from SAR13.5/share).

SAR mn	4Q15A	4Q15E	% dev	Cons	% dev	3Q15	% q/q	4Q14	% y/y	2016E	2017E
Volume ('000tons)	328	321	2%	Na	Na	223	47%	360	-9%	1,411	1,975
Revenues	Na	67	Na	67	Na	47	Na	78	Na	275	356
Gross Profit	28	27	4%	Na	Na	14	96%	34	-18%	78	84
EBIT	23	21	8%	21	8%	9	166%	29	-20%	51	54
<b>Net profit</b>	<b>23</b>	<b>20</b>	<b>13%</b>	<b>20</b>	<b>13%</b>	<b>9</b>	<b>145%</b>	<b>29</b>	<b>-22%</b>	<b>49</b>	<b>43</b>

Source: Company, Saudi Fransi Capital, Bloomberg

### Rating Summary

Recommendation	Sell
12-Month Target price (SAR)	9.5
Upside/(Downside)	-27%

### Stock Details

Last Close Price	SAR	13.1
Market Capitalization	SAR mln	1,177
Shares Outstanding	mln	90
52-Week High	SAR	27.4
52-Week Low	SAR	13.1
Price Change (3M)	%	-34.6
6-Mth ADTV	mln	2.2
EPS 2016E	SAR	0.54
Reuters / Bloomberg	3090.SE	TACCO AB

Source: Tadawul, \*as of 17 Jan 2016

### Key Shareholders (%)

Public	84
Khaled Bin Saleh Abdulrahman Al Shithry	11
Public Pension Agency	5

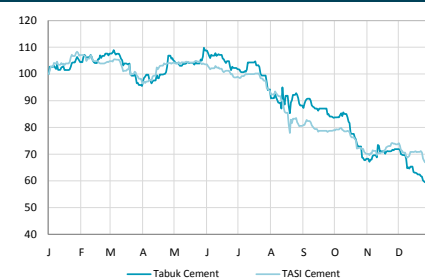
Source: Tadawul

### Price Multiples

	2016E	2017E
P / E	24.2x	27.1x
EV / EBITDA	12.5x	10.6x
Dividend Yield	3.8%	3.4%

Source: SFC

### 1-Year Share Performance



Source: Bloomberg

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## Summary Financials

SAR mn, ending Dec 31-st

Income Statement	2014	2015	2016E	2017E	2018E
Revenues	322	275*	275	356	385
Gross profit	160	114	78	84	75
EBITDA	200	161*	131	154	145
EBIT	141	93	51	54	45
Net Income	138	91	49	43	36
Shares outstanding (mln)	90	90	90	90	90
EPS (SAR)	1.53	1.02	0.54	0.48	0.40
DPS (SAR)	1.50	0.90	0.50	0.45	0.40

\*SFC estimate

CAGR	
2013-15	2015-17
(12%)	14%
(23%)	(14%)
(16%)	(2%)
(27%)	(24%)
(27%)	(31%)

SAR mn, ending Dec 31-st

Balance Sheet	2014	2015E	2016E	2017E	2018E
Cash and Equivalents	77	40	7	23	49
Receivables	16	111	106	136	148
Inventories	191	236	260	317	343
Other current assets	17	0	0	0	0
Current assets	301	387	373	476	540
PP&E	1,432	1,498	1,438	1,358	1,278
Investments	68	68	68	68	68
Other non-current assets	19	17	17	17	17
Total assets	1,820	1,970	1,896	1,919	1,903

CAGR	
2013-15	2015-17
6%	11%
19%	(1%)

Accounts payable	19	148	141	182	197
Accrued expenses	110	0	0	0	0
Current portion of LT Debt	0	50	50	100	140
Other current liabilities	131	131	131	131	131
Current liabilities	260	328	322	413	468
Long-term Debt	380	497	426	355	284
Other non-current liabilities	21	23	23	23	23
Total non-current liabilities	401	520	449	378	307
Total equity	1,159	1,121	1,125	1,128	1,128
Total liabilities & equity	1,820	1,970	1,896	1,919	1,903

32%	12%
Nm	(15%)
(3%)	0%
19%	(1%)

SAR mn, ending Dec 31-st

Cash Flow Statement	2014	2015E	2016E	2017E	2018E
CFO+WC change	239	52	103	97	113
Capex	(510)	(100)	(20)	(20)	(20)
Operating FCF	(271)	(48)	83	77	93
FCF after investing	(271)	(48)	83	77	93
Dividends	(158)	(81)	(45)	(41)	(36)
Debt Repayment/New debt	380	0	(71)	(21)	(31)
Others	0	0	0	0	0
Net Cash flow	(49)	(129)	(33)	16	26

Grow th (y/y)	2014	2015	2016E	2017E	2018E
Sales	(9%)	(15%)	0%	29%	8%
EBITDA	(12%)	(20%)	(19%)	17%	(6%)
EBIT	(19%)	(34%)	(45%)	6%	(16%)
Net Income	(21%)	(34%)	(47%)	(11%)	(18%)
DPS	(17%)	(40%)	(44%)	(10%)	(11%)

Margins	2014	2015E	2016E	2017E	2018E
Gross Margin	50%	41%	28%	24%	20%
EBIT Margin	44%	34%	19%	15%	12%
EBITDA Margin	62%	59%	48%	43%	38%
Net Margin	43%	33%	18%	12%	9%

Valuation Multiples	2014	2015E	2016E	2017E	2018E
P/E	19.2	23.1	24.2	27.1	32.9
EV/EBITDA	12.9	15.4	12.5	10.7	11.3
P/Sales	8.2	7.4	4.3	3.3	3.1
P/BV	2.3	1.8	1.0	1.0	1.0
Dividend Yield	5.1%	4.0%	3.8%	3.4%	3.1%

Ratios	2014	2015E	2016E	2017E	2018E
Net Debt/Equity	26%	45%	42%	38%	33%
Net Debt/EBITDA	1.5	3.2	3.6	2.8	2.6
RoE	12%	8%	4%	4%	3%
RoA	7%	4%	3%	3%	2%
Operating FCF/EBITDA	(135%)	(30%)	64%	50%	64%
Payout Ratio	98%	92%	92%	93%	101%
Working Capital/Sales	(11%)	25%	34%	39%	42%

Sources: Company, Saudi Fransi Capital



## Research and Advisory Department

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### Rating Framework

#### **BUY**

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

#### **HOLD**

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

#### **SELL**

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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