ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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AlJouf Cement: 1Q-2016 earnings higher than market expectation with a positive surprise; Operational improvement and OPEX decline impacted positively. 'Overweight' recommendation is reiterated.

Amount in SAR mn; unless specified	Forecasts 1Q-16	Actual 1Q-16	Deviation (%)
Sales revenues	89.3	90.8	**1.6%**
Net profit	13.3	24.7	**85.7%**
EPS (SAR)	0.10	0.19	

Continued weak selling prices were offset by 13.1% sales growth, production efficiency and controlled OPEX in 1Q2016: AlJouf's 1Q-16 net profit came below AJC expectation and showed a deviation of 85.7% from our estimates and 71.5% from the market consensus of SAR 14.4mn. AlJouf Cement Company posted net income of SAR 24.7mn; indicating a fall of 4.0%YoY and an increase of 380.6%QoQ. Although sales revenue was in-line with our estimates, the better than expected net profit was mainly ascribed to i) lower than expected production cost/ton after the plant maintenance in 4Q2015 and despite expected higher cost due to the revised fuel prices. ii) Decline in OPEX. iii) Higher than expected volumetric sales and other incomes. However, the company continued to sell with a high discount/ton.

During Q1-2016, the company registered an increase of 13.1% in volumetric sales, as dispatches in Q1-2016 stood at 507 thousand ton vs. 448 thousand ton in 1Q-2015. The company's revenue stood at around SAR 90.8mn, as the average price realization/ton is expected to be at SAR 179.1/ton, as compared to SAR 165.7/ton in 4Q2015 and SAR 194.9/ton in 1Q2015. We expect the company's volume sales in 2016 to continue its growth trajectory with at least 10-12%, after the commissioning of production in 3Q2015 and the use of waste Heat Recovery System (WHR); however, the growth story is estimated to be muted in 2016 due to weak selling price.

Gross profit stood at SAR 35.5mn, significantly above AJC estimates of SAR 25.6mn due to lower than expected COGS, which could be due to the implementation of waste Heat Recovery System (WHR). Gross margin in 1Q-2016 stood at 39.2% from an average of 37.8% in FY2015, despite of the reduction in subsidy on fuel. Based on our calculation, we estimate the cost/ton to decline to SAR 109.0/ton in 1Q2016 vs. average cost/ton of SAR 116.2/ton in FY2015. Operating profit for Q1-2016 stood at SAR 27.52mn depicting a fall of 2.7%YoY, and an increase of 249.5%QoQ; where the company's OPEX (SG & A) has declined by 28.8%QoQ to SAR 8.0mn, as compared to SAR 10.3mn in the previous quarter.

Higher subsidized fuel cost to raise the production cost by SAR 35mn in 2016: The Saudi Arabian government announced an increase in the prices of all fuels, including natural gas and heavy fuel oil (HFO380). The price of electricity and water was also revised upwards. According to the company, the increase in prices of electricity and subsidized fuel is also expected to increase the production costs by about SAR 35mn.

Cash flows do not tell a dividend story: We expect the company to generate steady cash flows. The company started paying off debt in 2014 and plans to repay a significant portion of the loans secured from SIDF (SAR 223.5mn), SAAB (SAR 352mn), and Alinma Bank (SAR 350.0mn) in order to comply with its debt repayment schedule within seven years. The company repaid SAR 50mn of its SIDF debt in 2015, with the final repayment scheduled for 2017. It intends to pay outstanding dues to SAAB by 2021 and to Al inma Bank by 2023, starting 2017.

The company's debt level is expected to drop by more than 50% by 2019. The depreciation charge to increase from 2015 due to the commissioning of the new production line. The company did not pay dividends in 2015 due to expansion-related investments. Furthermore, we believe the company would be unable to pay dividends in 2016/2017 due to the debt repayment schedule and high depreciation charges.

Our estimates and valuation: AlJouf Cement Co. is expected to post SAR 88.7mn in net income (0.68 EPS) for 2016, recording an increase of 16.3%YoY for the year influenced by the commissioning of the new production line and the use of waste Heat Recovery System, despite higher fuel cost and continued discount in price/ton. Thus, we remain '**Overweight**' for the stock with higher target price at **SAR 11.40**/share; indicating a potential upside of 16.9% over current market price of SAR 9.75/share (as of 26th April 2016). The company is trading at a forward PE and P/B of 14.3x and 0.79x respectively based on our 2016 earnings forecast. We believe the company would be unable to pay dividends in 2016/2017 due to the debt repayment schedule.

Recommendation	**'Overweight'**
Current Price* (SAR)	**9.75**
Target Price (SAR)	**11.40**
Upside / (Downside)	**16.9%**

*prices as of 26th of April 2016

Key Financials

SARmn (unless specified)	FY14	FY15	FY16E
Revenues	269.2	336.3	359.0
Growth %	-8.3%	24.9%	6.7%
Net Income	60.5	76.3	88.7
Growth %	11.9%	26.1%	16.2%
EPS	0.47	0.59	0.68

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY14	FY15	FY16E
Gross Margin	38.1%	36.3%	38.9%
EBITDA Margin	43.4%	49.9%	59.0%
Net Margin	22.5%	22.7%	24.7%
P/E	30.0x	18.0x	14.3x
P/B	1.27x	0.91x	0.79x
ROE	4.3%	4.9%	5.5%
ROA	2.5%	3.1%	3.7%
Dividend Yield	-	-	-

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	1.26
YTD %	- 8.4%
52 Week (High)	18.35
52 Week (Low)	7.40
Shares Outstanding (mn)	130.0

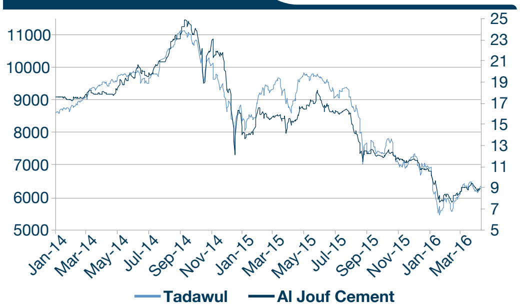
Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
KSB Capital Group	5.0%
Public	95.0%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer