Arabian Cement Co.

Result Flash Note 4Q-2016 January 2017

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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Arabian Cement: 4Q2016 earnings came significantly below estimates with a negative surprise, mainly due to high discount rate on price realization and higher than expected cost/ton. We remain "Overweight" on the stock with lower TP.

Amount in SAR mn; unless specified	Forecasts 4Q-16	Actual 4Q-16	Deviation (%)
Sales revenues	279.8	240.1	**-14.2%**
Net profit	119.8	24.0	**-80.0%**
EPS (SAR)	1.20	0.24	**(0.96)**

Weak performance due to decline in volumetric sales, lower price realization and higher than expected cost/ton in 4Q2016: 4Q2016 net income came below our expectation recording a deviation of 80.0% from our estimate and 79.2% from the market consensus of SAR 115.5mn. Arabian Cement Company posted net income of SAR 24mn; (EPS; SAR 0.24); indicating a decline of 84.4%YoY and 75.3%QoQ. According to the company the decline in net profit was mainly attributed to i) lower realization price/ton ii) lower volumetric sales. ii) Increase in SG&A of SAR 3mn.

Revenue stood at SAR 240.1mn; a decline of 42.1%YoY below our estimates of SAR 279.8mn. This is mainly attributed to decline in selling prices, volumetric sales and higher than expected cost/ton. Cement sales showed a decline of 32.0%YoY to stand at 962KT in 4Q2016 compared to 1.4MT in 4Q2015. For 4Q2016, we expect the selling price to be around SAR 159.9/ton vs. SAR 225.5 in 4Q2015 and SAR 209.4 in 3Q2016. The sales revenue of its associate Qatrana Co. stood at SAR 86.3mn, a decline of 10.3%YoY and 2.2%QoQ.

Gross profit stood at SAR 65.7mn depicting a decline of 65.6%YoY and 34.8%QoQ, which was mainly impacted by lower selling price and decline in volumetric sales. Gross margin declined to 42.27% in 4Q2016 from 60.2% in 4Q2015 and 62.8% in 3Q2016. Based on our calculation, the cost/ton is expected to be at SAR 143.9/ton vs. SAR 136.5/ton in 4Q2015 (including Qatrana Cement). Operating profit stood at SAR 44.7mn showing a decline of 74.2%YoY and 49.2%QoQ. OPEX stood at SAR 20.9mn, an increase of 16.1%YoY and decrease of 61.4%QoQ.

Pressured fundamentals over 2017 outlook due to weak liquidity in the market and the government's effort to prioritize its' project pipeline to improve efficiency: We expect growth in cement dispatches, for 2017, to be muted due to current economic environment. Furthermore, lower sales prices are consistent with continued pressure on cement demand and high levels of inventory, which is expected to remain high in the near term. We expect signs of recovery to show in 2018 onward along with NTP and better economic outlook. For FY2019, the government's plans to lift subsidy on the provided fuel, which will increase production cost and affect profitability; therefore, we have adjusted our model to reflect the increase in fuel prices.

Arabian Cement Co. dispatches in 2016 declined by 17.2%YoY compared to 9.4%YoY decline for the market: The company showed a decline of 17.2%YoY in dispatches during 2016 as compared to the sector decline of 9.4%YoY. The company sales volume stood at 4.45MT compared to 5.38MT in 2015, while total cement dispatches decline from 61.44MT in 2015 to 55.66MT in 2016.

Limited potential from lifted export ban on cement due to repayment of subsidy: The government announced the regulation on lifting export ban. The regulation stated that the companies will pay back the subsidy on fuel, and the cost will be between SAR 85-133/exported ton. Based on our calculation, we believe that the cost per exported ton will increase to SAR 280-340 (including shipping cost and operating expenses), which will limit potential export markets and profitability

We remain 'Overweight' on the stock with lower TP of SAR 50.80/share: Arabian Cement Co. is expected to post net income of SAR 468.0mn (4.68 EPS) for FY2017, recording a decline of 4.4%YoY influenced by lower sales volume and weak selling prices. Based on our estimate, the company is trading at forward P/E and P/B of 8.04x and 1.11x respectively for FY2017. The company maintained its dividend of SAR 2.0/share for 1H2016, further we expect the company to reduce its dividend for 2H2016 to SAR 1.5/share for 2H2016 from SAR 3.5/share in 2H2015 with a dividend yield of 9.3% for FY2016 based on current price.

Recommendation	'Overweight'
Current Price* (SAR)	37.6
Target Price (SAR)	47.8
Upside / (Downside)	27.1%

*prices as of 19th of January 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenues	1642.6	1256.9	1213.7
Growth %	-4.5%	-23.5%	-3.4%
Net Income	600.1	489.6	468.0
Growth %	-7.0%	-18.4%	-4.4%
EPS	6.00	4.90	4.68

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	44.1%	43.9%	43.4%
EBITDA Margin	50.6%	52.0%	52.3%
Net Margin	36.5%	39.0%	38.6%
P/E	7.93	9.13	8.04
P/B	1.47	1.34	1.11
ROE	18.5%	14.7%	13.8%
ROA	15.4%	12.8%	11.9%
Dividend Yield	9.5%	10.1%	12.0%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.77
YTD %	16.8
Shares Outstanding (mn)	100.0
52 Week (High)	57.00
52 Week (Low)	34.00

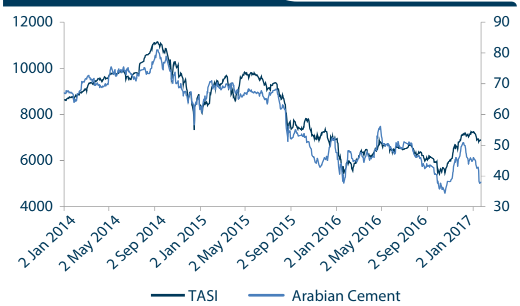
Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Abdulaziz Abdullah Suliman Al Suliman	7.54%
Abdullah A. S. Al Rajhi	6.46%
Public Pension Agency	5.27%
Public	80.73%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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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.
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