Hail Cement

2Q16 Earnings Review

July 28, 2016

Saudi Fransi Capital السعودي الفرنسي كابيتال

Y/Y margins up, but earnings still miss consensus

Hail Cement has reported a net profit of SAR28mn (-4% y/y, -16% q/q) for 2Q16, below consensus (-7%). The miss appears to stem primarily from weaker than expected volume, as the construction sector continues to struggle in the face of lower government spending and cash flow constraints as payment delays continue, as gross margin has expanded Y/Y. Value of awarded projects in KSA has dipped sharply from US$20 bn in 1H 2015 to US$4.5 bn 1H 2016. Weak volume was also driven by seasonal reasons (holy month of Ramadan). Gross margin improved for Hail, at 47% in 2Q 2016 versus 38% in 2Q 2015. Net margins have also improved on Y/Y basis, increased from 29% in 2Q15 to 37% in 2Q16. At the operating level, the company reported a profit of SAR26mn (down 12% y/y and 33% q/q). Hail's volume growth underperformed the sector, it's total volume for 2Q16 decreased 23% Y/Y vis-à-vis -9% for the sector. Dispatches stood at 0.38 mln tons in 2Q versus 0.45 mln tons in the previous quarter. Hail was able to keep its market share steady in 2Q 2016 at 2.6% (1Q16: 2.6%).

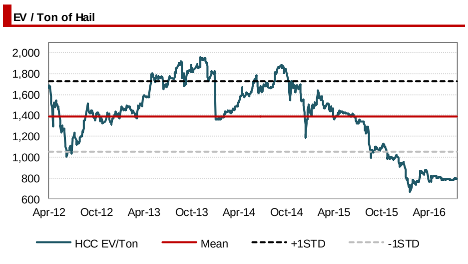
Some silver linings, but sector to struggle near term

There are some silver linings for the sector in the shape of declining clinker inventory and more importantly the National Transformation Program's (NTP) heavy focus on improving household ownerships by citizens. In the NTP, significant steps have already taken place with the implementation of the white land tax underway and the government inking agreements with foreign contractors / developers for housing development. In this respect, Hail suffers due to a relative location disadvantage, with most announced government initiatives for housing development concentrate on dense urban areas, particularly in the central region. In the near to medium term, we continue to expect the sector to struggle with overcapacity, poor pricing power and weak volumes, and cannot rule out further upward adjustments in electricity and fuel costs.

Maintain HOLD rating with TP of SAR14.60

The stock has declined 12% YTD 2016 underperforming the sector's -8.8%, mainly due to the concerns related to the weaker volume growth and energy price hikes. At 8.3x 2016E PER the stock is trading broadly in line with the sector 2016 PER 8.7x. We maintain our HOLD rating on Hail Cement, with a target price of SAR 14.60.

EV / Ton of Hail



Source: Bloomberg, SFC

	2Q16A	2Q16SFC	% diff	Cons.	% diff	1Q16	% Ch. QoQ	2Q15	% Ch. YoY
Revenues	75	91	-17%	Na	Na	89	-16%	100	-25%
Gross Profit	35	49	-28%	Na	Na	47	-25%	38	-7%
EBIT	26	40	-34%	Na	Na	39	-33%	30	-12%
Net Income	28	39	-29%	30	-7%	33	-16%	29	-4%

Source: Company, SFC, Bloomberg

Rating Summary

Recommendation	**HOLD**
12-Month Target price (SAR)	**14.60**
Upside/(Downside)	**16%**

Stock Details

Last Close Price*	SAR	12.6
Market Capitalization	SAR mln	1,235
Shares Outstanding	mln	97.9
52-Week High	SAR	21.4
52-Week Low	SAR	10.2
Price Change (YTD)	%	-12.0
EPS 2016E	SAR	1.52
Reuters / Bloomberg	3001.SE	HCC AB

*Source: Tadawul, Bloomberg *as of 27 July 2016,*

SFC Estimates

SAR	2016E	2017E
Revenues (mln)	365	352
Gross Margin	54.0%	51.7%
EBITDA (mln)	222	307
Net Income (mln)	149	135

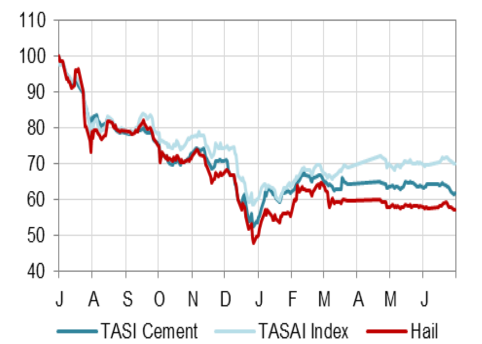
Source: SFC

Price Multiples

	2016E	2017E
P / E	8.3x	9.2x
EV / EBITDA	5.9x	6.3x
Dividend Yield	4.8%	4.8%

Source: SFC

1-Year Share Performance



Source: Bloomberg

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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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