KSA Cement Sector

4Q15 Earnings Preview

December 22, 2015

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Saudi Fransi Capital

Expect a year-on-year flat fourth quarter

City and Jouf could stand out in a y/y flat 4Q15; sector outlook remains cautious

KSA cement companies should start reporting 4Q15 earnings in the coming days. For the 13 companies under our coverage, we expect a year-on-year flat 4Q15 earnings performance (SAR1.5bn, flat y/y) despite higher volumes (14.7mn tons, +8% y/y) primarily due to softer pricing (-5% y/y). However, at the company level, earnings are likely to be a mixed bag with City (+34% y/y) and Jouf (+29%) likely to stand out primarily due to strong volume growth. At 11.1x 2015E P/E, KSA cement sector is trading at a discount to GCC/MEA (12.1x) and EM peers (13.8x) coupled with sector average (ex. Jouf) 2015E dividend yield of 6.5%. While near term valuation multiple and dividend yield looks optically attractive, going into 2016, our key concerns for the sector include continued pricing pressure and stock buildup from capacity increases and volume growth slowdown which lead to our cautious view on the sector. In this preview note, while we maintain Sell rating on Tabuk (with a revised TP of SAR13.5/share), place Qassim/Yanbu "Under Review" and maintain Hold rating on the remaining stocks, in an unfavourable operating environment, we believe downside bias to 2016 earnings estimates (both ours and consensus – new estimates will be incorporated after 4Q15 results) exists for most names under our coverage.

Volume growth remains strong with 8% y/y in 4Q15 and in full year 2015

We expect 4Q15 to have been characterized by strong y/y deliveries as volume growth continues to remain strong. At the sector level, for the 13 listed companies, we expect a combined volume of 14.7mn tons implying 8% y/y growth. Even on a full year 2015 basis, we expect volume growth to have remained strong with 8% y/y increase as many projects that were started earlier are on the latter half of the project cycle. However, volume trend seems to be mixed across companies. In terms of 2015 y/y growth, while City (+41%), Northern (+33%) and Jouf (+26%) could stand out, peers such as Saudi (-8% y/y), Arabian (-5%) and Tabuk (-11%) could witness a y/y decline in volumes.

Expect a modest 4Q15 with no y/y earnings growth due to pricing pressure

Despite strong y/y cement volumes, we expect a modest quarter in terms of earnings performance primarily due to pricing pressure (on average 5% y/y decline in realized price) as we expect smaller players to have continued to undercut prices in 4Q15 to increase volumes. At the sector level, for the 13 companies, we expect a combined 4Q15 net profit of SAR1.5bn (+0% y/y, +36% q/q – not comparable due to seasonality). However, at the company level, earnings performance is likely to be a mixed bag with City (+34% y/y) and Jouf (+32%) likely to stand out primarily due to strong volumes that managed to offset pricing pressure.

Cement stocks underperformed Tadawul in 4Q15 (Cement -10% vs. Tadawul -6%)

After an underperformance in 9M15, cement stocks again underperformed the broader Tadawul index in 4Q15. While Tadawul Cement declined 10% in 4Q15, Tadawul index declined 6%. Ytd performance divergence was even starker with cement down 30% vs. Tasi -17%. In our coverage universe, while all stocks declined, albeit with varying magnitude, we highlight that fringe players with no locational advantage such as Tabuk (-26%), Najran (-16%), Hail (-15%) underperformed the sector index while high dividend payers such as Saudi (-4%), Arabian (-7%) and Qassim (-8%) outperformed.

Cement sector trading at 2015E P/E of 11.1x with dividend yield of 6.5%

KSA cement sector is trading at a discount to GCC/MEA and EM peers (KSA 2015E P/E 11.1x, GCC/MEA 12.1x and EM 13.8x). 2015E sector average dividend yield (ex-Jouf) stands at 6.5%. According to our estimates, while Arabian, Saudi, Eastern, Yamama could offer 7+% dividend yields; Jouf is unlikely to pay any dividend. While near term valuation multiple and dividend yield looks optically attractive, going into 2016, our key concerns for the sector include continued pricing pressure and stock buildup from capacity increases and volume growth slowdown which lead to our mid-term cautious view on the sector.

Rating Summary

Company	Rating	Price	Target Price	Upside
Arabian	Hold	52.4	63.0	20%
Najran	Hold	15.4	19.0	24%
Saudi	Hold	69.0	82.0	19%
Yanbu	UR	45.8	UR	Na
Yamama	Hold	34.0	41.0	21%
Qassim	UR	73.8	UR	Na
Hail	Hold	14.3	19.0	33%
Southern	Hold	75.3	86.0	14%
Eastern	Hold	34.1	40.0	17%
Northern	Hold	15.1	17.5	16%
City	Hold	15.1	21.0	39%
Tabuk	Sell	15.4	13.5	-12%
Jouf	Hold	10.8	15.0	40%

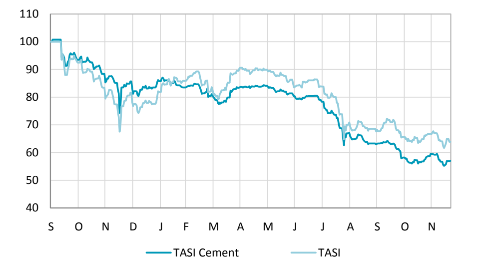
Prices as of Dec 21, 2015, UR = Under Review

Valuation Summary 2015E

Company	P/E (x)	EV/ EBITDA (x)	Dividend Yield (%)
Arabian	9.1	6.4	7.6%
Najran	9.9	7.5	5.8%
Saudi	10.4	8.8	7.2%
Eastern	8.7	5.4	7.3%
Yanbu	Nm	Nm	Nm
Southern	10.6	9.4	6.0%
Yamama	10.8	6.1	8.2%
Qassim	Nm	Nm	Nm
Hail	13.8	8.1	6.8%
Northern	12.0	9.3	6.2%
City	11.6	7.3	6.6%
Tabuk	15.6	11.2	4.9%
Jouf	14.2	11.7	0.0%

Sources: Saudi Fransi Capital

1-Year Share Performance



Source: Bloomberg

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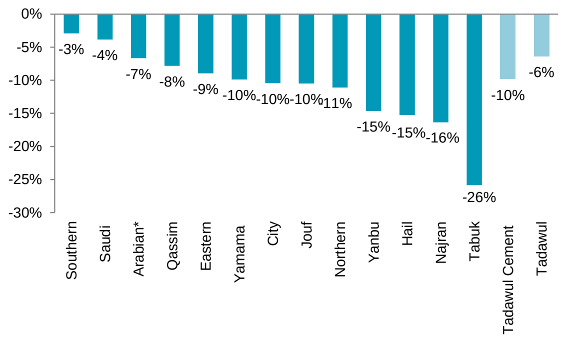
Expect a year-on-year flat 4Q15

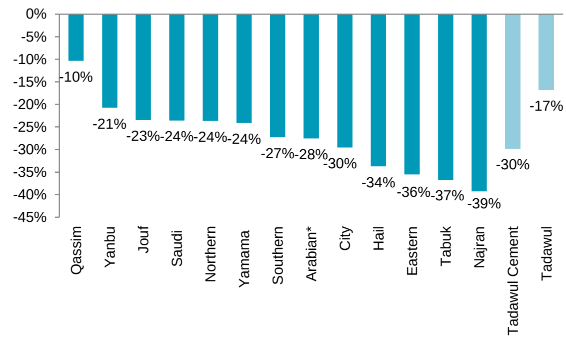
Cement sector underperformed Tadawul in 4Q15 and 2015

Fig. 1: KSA cement sector's stock price performance in 4Q15 and 2015

Stock price performance in 4Q15



Stock price performance in 2015



Sources: Bloomberg, Saudi Fransi Capital

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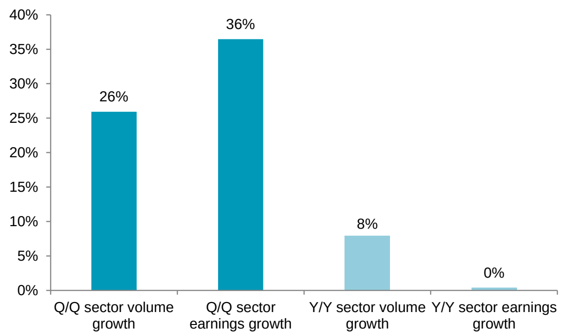
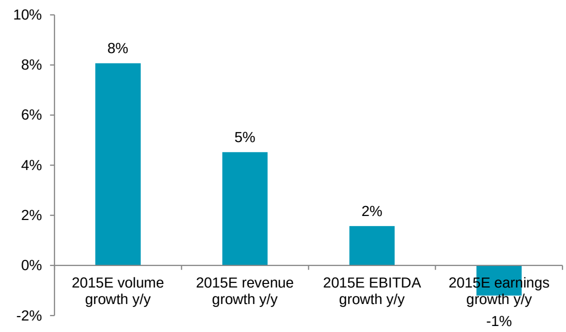
Ytd strong volume growth has not resulted in earnings growth due to pricing pressure while clinker inventory build-up continues

Fig. 2: KSA cement sector's y/y growth on key metrics

4Q15E - KSA cement sector's earnings growth and volume growth (% q/q, % y/y)



2015E - KSA cement sector's y/y growth in volumes, revenues, EBITDA and net profit

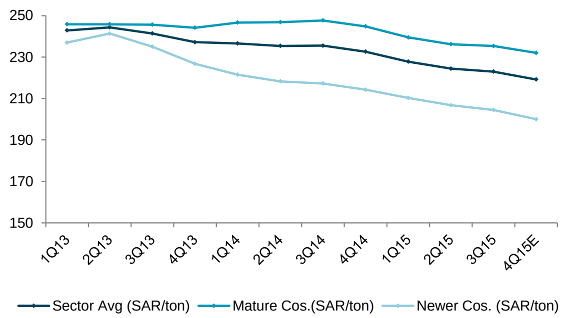


Sources: Saudi Fransi Capital, Yamama Cement

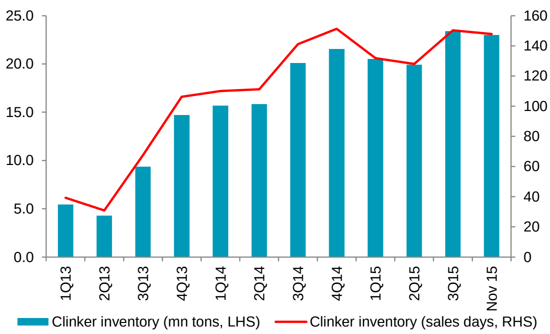
Sources: Saudi Fransi Capital, Companies' data

Fig. 3: KSA cement sector's realized price and clinker inventory buildup

KSA cement sector's realized price evolution



KSA cement sector's inventory build-up



Sources: Saudi Fransi Capital, Companies data

Sources: Saudi Fransi Capital, Yamama Cement

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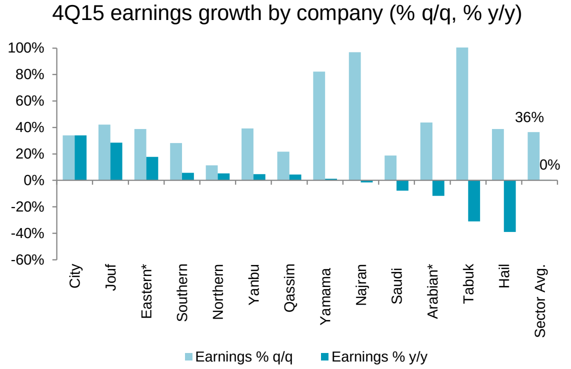
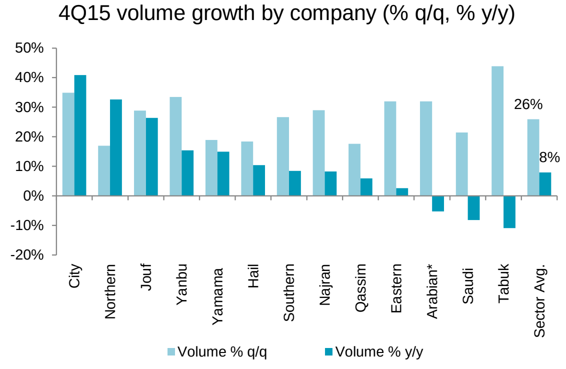
Fig. 4: 4Q15E KSA cement sector earnings growth and volume growth (% q/q, % y/y) by company

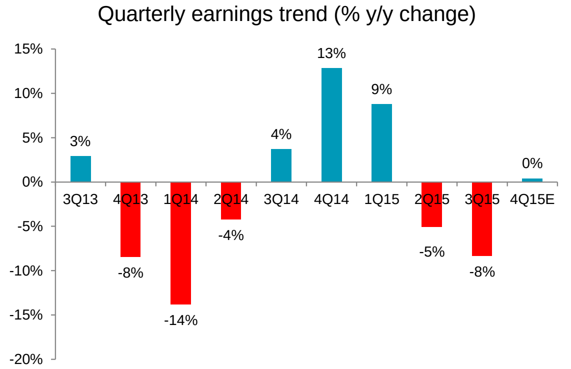


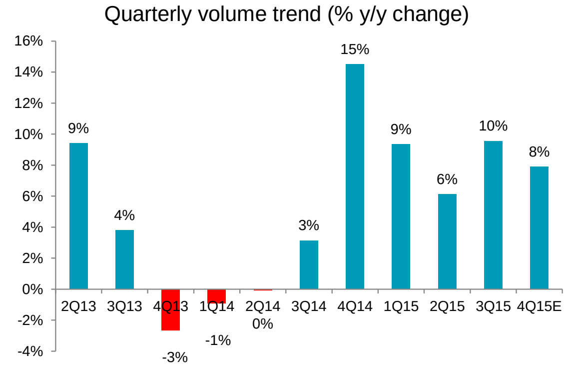


Sources: Company data, Saudi Fransi Capital

Sources: Saudi Fransi Capital, Yamama Cement

Fig. 5: Quarterly earnings and volumes (% y/y change)





Sources: Company data, Saudi Fransi Capital

Sources: Saudi Fransi Capital, Yamama Cement

Coverage Universe	**4Q15E**	**3Q15**	**% QoQ**	**4Q14**	**% YoY**
KSA Volume ('000 tons)	14,693	11,684	26%	13,634	8%
Revenues (SAR mn)	3,606	2,934	23%	3,576	1%
EBITDA (SAR mn)	1,998	1,663	20%	1,987	1%
EBITDA margin	55%	57%		56%	
EBIT (SAR mn)	1,549	1,220	27%	1,570	-1%
Net Income (SAR mn)	**1,501**	**1,100**	**36%**	**1,495**	**0%**

Yamama	**4Q15E**	**3Q15**	**% QoQ**	**4Q14**	**% YoY**
KSA Volume ('000 tons)	1,502	1,263	19%	1,307	15%
Revenues (SAR mn)	330	280	18%	318	4%
EBITDA (SAR mn)	216	201	7%	216	0%
EBITDA margin	65%	72%		68%	
EBIT (SAR mn)	168	150	12%	171	-2%
Net Income (SAR mn)	175	96	84%	152	16%
Restated Net Income	**175**	**96**	**84%**	**173**	**1%**

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Yanbu	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	1,807	1,355	33%	1,566	15%
Revenues (SAR mn)	405	311	30%	378	7%
EBITDA (SAR mn)	264	203	30%	253	4%
EBITDA margin	65%	65%		67%	
EBIT (SAR mn)	210	151	39%	199	6%
Net Income (SAR mn)	**202**	**145**	**40%**	**193**	**5%**

Qassim	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	1,075	914	18%	1,015	6%
Revenues (SAR mn)	245	210	16%	253	-3%
EBITDA (SAR mn)	162	140	16%	160	2%
EBITDA margin	66%	66%		63%	
EBIT (SAR mn)	142	120	18%	141	1%
Net Income (SAR mn)	**140**	**115**	**22%**	**134**	**5%**

Saudi	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	1,908	1,571	21%	2,078	-8%
Revenues (SAR mn)	479	398	20%	526	-9%
EBITDA (SAR mn)	311	265	18%	340	-9%
EBITDA margin	65%	66%		65%	
EBIT (SAR mn)	256	210	22%	287	-11%
Net Income (SAR mn)	**247**	**208**	**19%**	**268**	**-8%**

Southern	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	2,193	1,732	27%	2,023	8%
Revenues (SAR mn)	526	419	26%	489	8%
EBITDA (SAR mn)	309	247	25%	293	5%
EBITDA margin	59%	59%		60%	
EBIT (SAR mn)	262	205	28%	252	4%
Net Income (SAR mn)	**259**	**202**	**28%**	**245**	**6%**

Arabian	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	1,352	1,025	32%	1,428	-5%
Revenues (SAR mn)	397	328	21%	430	-8%
EBITDA (SAR mn)	178	139	28%	196	-9%
EBITDA margin	45%	42%		46%	
EBIT (SAR mn)	136	97	41%	153	-11%
Net Income (SAR mn)	**128**	**89**	**43%**	**145**	**-12%**

City	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	728	540	35%	517	41%
Revenues (SAR mn)	149	114	31%	115	30%
EBITDA (SAR mn)	95	76	24%	66	43%
EBITDA margin	63%	67%		58%	
EBIT (SAR mn)	67	50	33%	49	37%
Net Income (SAR mn)	**63**	**47**	**33%**	**47**	**34%**

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Eastern	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	808	612	32%	787	3%
Revenues (SAR mn)	252	192	31%	220	15%
EBITDA (SAR mn)	126	99	27%	115	10%
EBITDA margin	50%	52%		52%	
EBIT (SAR mn)	94	67	40%	78	20%
Net Income (SAR mn)	**93**	**67**	**39%**	**79**	**17%**

Hail	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	439	386	14%	414	6%
Revenues (SAR mn)	86	78	10%	92	-7%
EBITDA (SAR mn)	35	46	-24%	57	-38%
EBITDA margin	41%	59%		62%	
EBIT (SAR mn)	19	30	-36%	45	-57%
Net Income (SAR mn)	**18**	**18**	**1%**	**41**	**-56%**

Jouf	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	466	362	29%	369	26%
Revenues (SAR mn)	89	70	26%	73	21%
EBITDA (SAR mn)	49	41	20%	37	34%
EBITDA margin	56%	58%		51%	
EBIT (SAR mn)	30	22	37%	23	35%
Net Income (SAR mn)	**27**	**19**	**48%**	**21**	**32%**

Najran	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	1,125	872	29%	1,039	8%
Revenues (SAR mn)	274	212	30%	291	-6%
EBITDA (SAR mn)	107	77	39%	107	0%
EBITDA margin	10%	9%		10%	
EBIT (SAR mn)	74	46	62%	74	-1%
Net Income (SAR mn)	**63**	**32**	**96%**	**64**	**-2%**

Northern	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	969	829	17%	731	33%
Revenues (SAR mn)	307	275	12%	313	-2%
EBITDA (SAR mn)	105	99	7%	101	4%
EBITDA margin	34%	36%		32%	
EBIT (SAR mn)	70	63	10%	69	2%
Net Income (SAR mn)	59	53	11%	25	134%
Restated Net Income	**59**	**53**	**11%**	**56**	**6%**

Tabuk	4Q15E	3Q15	% QoQ	4Q14	% YoY
KSA Volume ('000 tons)	321	223	44%	360	-11%
Revenues (SAR mn)	67	47	42%	78	-13%
EBITDA (SAR mn)	41	30	36%	46	-11%
EBITDA margin	60%	63%		59%	
EBIT (SAR mn)	21	9	137%	29	-29%
Net Income (SAR mn)	**20**	**9**	**114%**	**29**	**-32%**

Source: Company, Saudi Fransi Capital, Bloomberg

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Valuation

Peer comparison

Fig. 6: KSA cement sector vs. GCC/MEA and EM peer comparison

	P/E		EV/EBITDA		Dividend Yield		EBITDA Margin		RoE	
	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
KSA	**11.1**	**11.6**	**8.3**	**9.7**	**6.5%**	**6.3%**	**54%**	**50%**	**16%**	**14%**
Oman	12.8	11.4	8.3	7.8	5.5%	5.5%	32%	32%	10%	11%
Qatar	11.9	11.8	8.6	8.6	6.0%	6.0%	51%	49%	17%	14%
Turkey	9.4	9.4	6.5	6.3	9.1%	9.1%	29%	28%	21%	21%
Other MEA	15.3	14.6	9.9	9.5	5.0%	5.3%	35%	35%	19%	19%
India	19.3	15.0	11.1	9.5	1.9%	2.3%	16%	18%	10%	13%
China	12.6	10.3	10.2	9.3	1.9%	2.2%	17%	20%	4%	6%
Asia ex. China	16.8	15.5	11.7	10.6	4.7%	4.9%	21%	21%	11%	12%
GCC/MEA Avg.	**12.1**	**11.1**	**8.2**	**7.8**	**6.0%**	**6.9%**	**32%**	**32%**	**16%**	**19%**
Emer Mkt Avg.	**13.8**	**12.7**	**9.4**	**8.4**	**4.5%**	**5.1%**	**25%**	**26%**	**13%**	**14%**

	P/E		EV/EBITDA		Dividend Yield		EBITDA Margin		RoE	
Company	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Arabian	9.1	10.3	6.4	7.1	7.6%	7.6%	49%	46%	19%	16%
Najran	9.9	10.1	7.5	16.6	5.8%	5.8%	41%	39%	13%	11%
Saudi	10.4	11.7	8.8	10.1	7.2%	7.2%	64%	62%	33%	29%
Eastern	8.7	10.3	5.4	5.7	7.3%	7.3%	49%	47%	14%	12%
Yanbu	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm
Southern	10.6	11.1	9.4	9.7	6.0%	6.0%	58%	55%	34%	32%
Yamama	10.8	10.9	6.1	6.2	8.2%	8.2%	66%	62%	17%	15%
Qassim	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm
Hail	13.8	14.0	8.1	9.2	6.8%	6.8%	52%	49%	10%	10%
Northern	12.0	12.4	9.3	10.0	6.2%	6.2%	34%	31%	12%	10%
City	11.6	10.3	7.3	7.3	6.6%	7.3%	63%	59%	12%	13%
Tabuk	15.6	19.0	11.2	14.2	4.9%	3.9%	58%	54%	8%	6%
Jouf	14.2	14.8	11.7	10.7	0.0%	0.0%	55%	50%	6%	6%
Saudi Arabia	**11.1**	**11.6**	**8.3**	**9.7**	**6.5%**	**6.3%**	**54%**	**50%**	**16%**	**14%**

Sources: Saudi Fransi Capital, Bloomberg

Research and Advisory Department

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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