

### Beat consensus by 4% on strong volume growth

#### 1Q16 above consensus on strong volume growth

Northern Cement reported a net profit of SAR42.9mn (-15% Y/Y, +8% Q/Q – not comparable due to seasonality) for 1Q16, +4% versus consensus. According to management commentary, decrease in profit was attributed to the lower selling price and higher fuel cost. In addition, 8%Q/Q increase in net profit was attributed to lower selling and distribution expenses in 1Q16 compared to 4Q15. Considering that Northern's 2016 YTD volume growth is +20% YoY, we believe lower selling prices and higher fuel cost contributed more significantly in 1Q16 to lower earnings. At the operating level, the company reported a profit of SAR53.8mn (-10% Y/Y and up 5% Q/Q). Northern Cement's total volume for January–March 2016 is +20% Y/Y vis-à-vis +3% for the sector.

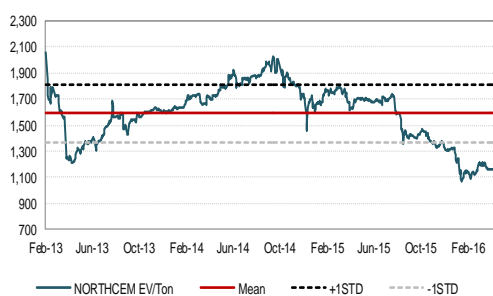
#### Cautious outlook on sector due to overall slowdown in economy

In light of the government removing subsidies on electricity and fuel as it weans the economy off oil price dependency, we expect margins to remain under pressure in the near term. Higher clinker inventory levels would put further pricing pressure on the sector. Volume growth is expected to be modest in the near term due to a decline in government spending. Capacity additions could pose a bigger threat to the sector. Clinker capacity stood at 57.8mn tons in 1H15, with a further 11.7mn tons (20% addition to the capacity in 1H15) of new capacity scheduled to be installed between 2H15 and end-2017. On the upside, as part of its initiatives to support non-oil GDP, the government is attempting to bolster construction activity in the housing sector, which may support volumes. We believe the government's decision to lift the ban on exports would offset the slowdown in the domestic market, however companies feel that the underlying conditions are relatively hard to meet.

#### Under Review rating

We will update our model and revise forecasts upon full disclosure by the company later this month. Given the relatively weak outlook for the sector and negative impact of higher electricity and fuel costs, we expect a limited upside in the stock in the near term.

EV / Ton of Northern Cement



Source: Bloomberg, SFC

	1Q16A	1Q16E	% diff	Cons.	% diff	4Q15	% Ch. QoQ	1Q15	% Ch. YoY
Volume ('000 tr)	Na	Na	Na	Na	Na	2,880	Na	2,880	Na
Revenues	Na	Na	Na	245	Na	277.4	Na	253.1	Na
Gross Profit	76.1	Na	Na	Na	Na	89.6	-15%	100.5	-24%
EBIT	53.8	Na	Na	47	0	51.4	5%	59.7	-10%
Net Income	42.9	Na	Na	41	4%	39.6	8%	50.6	-15%

Source: Company, SFC, Bloomberg

#### Rating Summary

Recommendation	UR
12-Month Target price (SAR)	UR
Upside/(Downside)	NA

#### Stock Details

Last Close Price*	SAR	12.65
Market Capitalization	SAR mln	2,227
Shares Outstanding	mln	180
52-Week High	SAR	22.9
52-Week Low	SAR	10.7
Price Change (3M)	%	-26.1
EPS 2016E#	SAR	0.9
Reuters / Bloomberg	3004.SE	NORTHCEN AB

Source: Tadawul, Bloomberg \*as of 19 Apr 2016, #consensus

#### Key Shareholders (%)

Pan Kingdom Investment Company	12%
Others	88%

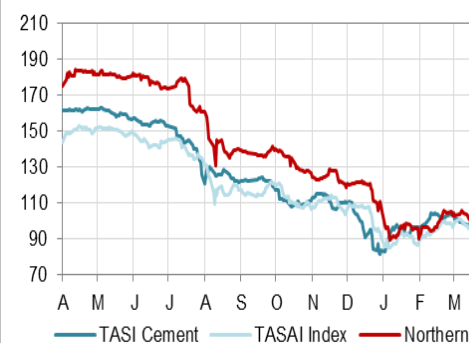
Source: Tadawul

#### Price Multiples\*

	2016E	2017E
P / E	13.4x	16.3x
EV / EBITDA	11.4X	12.9X
Dividend Yield (%)	5.8%	5.0%

Source: Bloomberg, \* based on consensus

#### 1-Year Share Performance



Source: Bloomberg

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## 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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