

YAMAMA CEMENT



EVENT FLASH

Further discounts reflect muted outlook

Yamama Cement reported a weak set of 2Q17 results, with net income declining -89.5% YoY to SR12mn. This is the lowest net income on record and compares to the NCBC estimates of SR51mn. We believe this weakness came from 1) lower sales quantities (-13% YoY), 2) lower selling prices (-20% YoY) and lowest gross margins on record of 16.9%. Yamama Cement trades at a 2018E P/E of 13.9x vs covered peers at 12.4x.

- **NCBC View on Results:** Yamama Cement reported a weak set of 2Q17 results, with net income declining -89.5% YoY (-76.1% QoQ) to SR12mn. This is below the NCBC and consensus estimates of SR51mn and SR58mn, respectively. We believe the weakness came from 1) lower sales quantities due to the slowdown in the construction sector, 2) weak margins due to the discounts offered and 3) lower than expected investment income.
- Total sales quantity of Yamama Cement stood at 1.20mn tons in 2Q17, coming in-line with our estimates of 1.26mn tons. Sales quantities declined by -12.8% YoY (-3.1% QoQ), however lower than the industry declines of -23.4% YoY (-17.7% QoQ) during 2Q17.
- Average selling prices stood at SR162/ton vs. the NCBC estimates of SR177/ton (-20% YoY, -9% QoQ). We believe these discounts came as a result of the overall slowdown in the construction sector and increased competition. Moreover, we believe the discounts by Yamama Cement were also triggered by its financial obligations due to relocating its current plant.
- Gross margins reached the lowest level on record, contracting from 40.3% in 2Q16 to 16.9% in 2Q17. This compares to our estimates of 28.2%, leading to a higher variance of -48.1% at the gross profit level. We believe the main reason behind lower margins and -70.8% YoY (-47.6% QoQ) decline in gross profits is revised support on fuel and utilities, together with steep discounts offered. We expect an average gross margin of 32.8% till 2021E.
- **Read across for the sector:** We believe cement companies in Saudi may have offered further discounts, similar to Yamama Cement in 2Q17 due to the reasons addressed above. We estimate an average discount of 3% in 2017E for covered companies (excl. Eastern Cement).
- We are Neutral on Yamama Cement with a PT of SR20.3. Lower prices due to competition and financial obligations due to the plant relocation are key risks. The stock trades at a 2018E P/E of 13.9x vs. peer average of 12.4x.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	YoY	2Q17E	Var^	QoQ
Revenues	195	280	(30.6)%	225	(13.3)%	(11.6)%
Gross income	33	113	(70.8)%	63	(47.7)%	(47.6)%
Gross margin (%)	16.9%	40.3%	(2,337)bps	28.0%	(1,113)bps	(1,165)bps
EBIT	15	97	(84.3)%	48	(68.2)%	(68.3)%
EBIT Margin (%)	7.8%	34.6%	(2,675)bps	21.4%	(1,354)bps	(1,400)bps
Net income	12	116	(89.5)%	51	(76.1)%	(76.1)%
Net Margin (%)	6.3%	41.4%	(3,511)bps	22.7%	(1,646)bps	(1,683)bps
EPS (SR)	0.06	0.57	(89.5)%	0.25	(76.1)%	(76.1)%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts;

NEUTRAL

Target price	20.3
Current price (SR)	17.2
Upside/Downside (%)	18.3

STOCK DETAILS

52-week range H/L (SR)	27/16
Market cap (\$ mn)	927
Shares outstanding (mn)	203
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.3)	(3.6)	(36.7)
Rel. to market	(6.7)	(8.8)	(46.2)

Avg daily turnover (mn)	SR	US\$
3M	2.7	0.7
12M	6.2	1.7

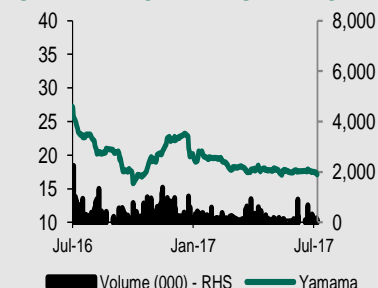
Reuters code	3020.SE
Bloomberg code	YACCO AB
www.yamamahcement.com	

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	9.5	10.8	14.1
P/B (x)	0.9	0.9	0.9
EV/EBITDA (x)	4.6	6.1	6.3
Div Yield (%)	5.8	5.8	5.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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