



EVENT FLASH

Discounts and weak volumes weigh on earnings

Yamama Cement reported a disappointing set of 3Q16 results, with net income declining -41.1% YoY to SR56mn. This is significantly below the NCBC and consensus estimates of SR73mn and SR79mn, respectively. We believe the weakness came from lower than expected prices and higher losses on equity investments. We expected selling prices of SR215/ton and believe it may have been as low as SR211/ton. The company trades at a 2017E P/E of 8.4x vs. 8.3x for the sector, which we believe is fair.

- **NCBC view on the results:** Yamama Cement reported a disappointing set of 3Q16 results, with net income declining -41.1% YoY (-51.6% QoQ) to SR56mn. This is significantly below the NCBC and consensus estimates of SR73mn and SR79mn, respectively. We believe the disappointment came from higher than expected discounts offered and losses from equity investments (-SR34mn vs. our estimates of -SR22mn).
- Based on our calculations, we believe selling prices may have been as low as SR211/ton vs. our estimates of SR215/ton. This also compares to the 2Q16 selling prices of SR203/ton. The further discounts offered came as Yamama Cement increased its clinker production by 7.7% YoY during 3Q16 vs. the sector's cut of -5.0% YoY. Moreover, we believe Yamama Cement offered further discounts as a result of smaller companies in remote regions offering significant discounts to sell in high demand areas. Such discounts are expected to continue, provided the muted overall outlook for the sector.
- Total sales of Yamama Cement stood at 1.11mn tons, decreasing -11.6% YoY. This is in-line with the industry declines of -11.5% during the same period. This weakness during 3Q16 led to sales quantities declining -2.9% YTD for Yamama Cement vs. -5.4% YTD declines for the sector.
- **Read across for the sector:** We believe cement companies in Saudi may have offered further discounts, similar to Yamama Cement in 3Q16 due to the overall slowdown and muted outlook.
- We are currently Neutral on the stock, with a PT of SR30.5. The company announced not distributing dividends for 3Q16, due to the financial burden from constructing a replacement plant. We believe this is negative, provided the downside protection high yields provided for Cement stocks historically.

3Q16 Results Summary

SR mn	3Q16A	3Q15A	% YoY	3Q16E	% Var [^]
Sales	236	370	(36.4)	247	(4.7)
Gross Income	99	166	(40.5)	108	(8.3)
Gross margin (%)	42.0%	45.0%	(2.95)	43.7%	(1.67)
Operating income	86	150	(42.9)	92	(6.6)
Operating margin (%)	36.5%	40.6%	(4.16)	37.2%	(0.74)
Net income	56	96	(41.1)	73	(22.9)
Net margin (%)	23.9%	25.8%	(1.90)	29.5%	(5.63)
EPS	0.28	0.47	(41.1)	0.36	(22.9)

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

NEUTRAL

Target price	30.5
Current price (SR)	17.0

STOCK DETAILS

52-week range H/L (SR)	39.0/17.0
Market cap (\$ mn)	920
Shares outstanding (mn)	203
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(18.7)	(37.3)	(56.1)
Rel. to market	(9.9)	(21.6)	(29.3)

Avg daily turnover (mn)	SR	US\$
3M	9.0	2.4
12M	13.4	3.6

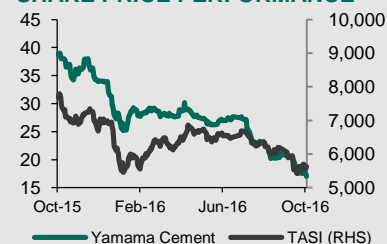
Reuters code	3020.SE
Bloomberg code	YACCO AB
www.yamamahcement.com	

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	5.4	6.4	8.4
P/B (x)	0.9	0.9	0.9
EV/EBITDA (x)	3.6	4.2	4.9
Div Yield (%)	17.6	11.7	5.9

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

Other Definitions

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CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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