Yanbu Cement Co.

Result Flash Note 4Q-2016 | January 2017

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Yanbu Cement: 4Q2016 was below estimates; with a negative surprise. Weak performance is mainly ascribed to high discount rate on selling price and early retirement settlement of SAR 22.4mn. We remain "Overweight" on the stock with lower TP.

Amount in SAR mn; unless specified	Forecasts 4Q-16	Actual 4Q-16	Deviation (%)
Sales revenues	398.7	303.0	**-24.0%**
Net profit	172.5	100.0	**-41.9%**
EPS (SAR)	1.09	0.63	**(0.46)**

Despite the increase in volumetric sales and decline in production cost, weak price and retirement settlement led to weak performance in 4Q2016: 4Q2016 net income came below our expectation recording a deviation of 41.9% from our estimate and 38.4% from the market consensus of SAR 162.4mn. Yanbu Cement Company posted net income of SAR 100.0; (EPS; SAR 0.63); indicating a decline of 52.15%YoY and a growth of 7.53%QoQ. According to the company the decrease in net profit was mainly attributed to i) lower realization price due to high competition. ii) Early retirement settlement of SAR 22.4mn.

Revenue stood at SAR 303.0mn; a decline of 28.9%YoY and strongly below our estimates of SAR 398.7mn. This is mainly attributed to decline in selling price despite the increase in volumetric sales. Cement sales showed a growth of 6.89%YoY to stand at 1.99MT in 4Q2016 compared to 1.87MT in 4Q2015. For 4Q2016, we expect the selling price to be around SAR 151.8/ton vs. SAR 228.2 in 4Q2015 and SAR 207.5 in 3Q2016. We believe that the 6.8%YoY growth in sales volume is ascribed to the high offered discount on selling prices.

Gross profit stood at SAR 137.0mn depicting a growth of 28.0%QoQ and decline of 38.8%YoY, which was mainly impacted by lower selling price despite the decrease in cost/ton. Gross margin declined to 45.2% in 4Q2016 from 52.5% in 4Q2015. Based on our calculation, the cost/ton is expected to be at SAR 83.2/ton vs. SAR 108.4/ton in 4Q2015 and 112.8/ton in 3Q2016. Operating profit stood at SAR 127.0mn showing a growth of 29.6%QoQ, but a decline of 40.1%YoY. OPEX stood at SAR 10.4mn, an increase of 13.1%QoQ and decrease of 10.9%YoY.

Pressured fundamentals over 2017 outlook due to weak liquidity in the market and the government's effort to prioritize its' project pipeline to improve efficiency: We expect cement dispatches for 2017 to be muted due to current economic environment. Furthermore, lower sales prices are consistent with continued pressure on cement demand and high levels of inventory, which is expected to remain high in the near term. We expect signs of recovery to show in 2018 onward along with NTP and better economic outlook. For FY2019, the government's plans to lift subsidy on the provided fuel, which will increase production cost and affecting profitability; therefore, we adjust our model to reflect the increase in fuel prices.

Yanbu Cement Co. dispatches in 2016 decreased by higher rate compared to the market: The company showed a decline of 12.4%YoY in dispatches during 2016 as compared to the sector decline of 9.4%YoY. The company sales volume stood at 7.44MT compared to 8.49MT in 2015, while total cement dispatches decline from 61.44MT in 2015 to 55.66MT in 2016.

Limited potential from lifted export ban on cement due to repayment of subsidy: The government announced the regulation on lifting export ban. The regulation stated that the companies will pay back the subsidy on fuel, and the cost will be between SAR 85-133/exported ton. Based on our calculation, we believe that the cost per exported ton will increase to SAR 280-340 (including shipping cost and operating expenses), which will limit potential export markets and profitability

We remain 'Overweight' on the stock with lower TP of SAR 37.30/share: Yanbu Cement Co. is expected to post net income of SAR 530.2mn (3.37 EPS) for FY2017, recording a decline of 1.0%YoY influenced by lower sales volume and weak selling prices and despite the impact of non-recurring retirement settlement in 4Q2016. Based on our estimate the company is trading at forward P/E and P/B of 9.83x and 1.35x respectively for FY2017. The company reduced its dividend to SAR 1.0/share for 1H2016, as compared to SAR 1.5/share in 1H2015 (33.3% YoY), we expect the company to pay dividend of SAR 2.0/share for 2H2016 with a dividend yield of 9.1% for FY2016 based on current price.

Recommendation	**'Overweight'**
Current Price* (SAR)	**33.10**
Target Price (SAR)	**37.30**
Upside / (Downside)	**12.7%**

*prices as of 18th of January 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenues	1,612	1,286	1,195
Growth %	3.4%	-20.2%	-7.1%
Net Income	860	536	530
Growth %	0.5%	-33.5%	-1.0%
EPS	5.12	3.40	3.37

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	54.0%	47.7%	49.0%
EBITDA Margin	64.1%	61.1%	64.1%
Net Margin	50.0%	41.6%	44.4%
P/E	8.52	11.91	9.83
P/B	1.84	1.68	1.35
ROE	21.6%	15.2%	13.8%
ROA	19.3%	13.0%	12.9%
Dividend Yield	8.0%	7.4%	9.1%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	5.35
YTD %	**16.05**
Shares Outstanding (mn)	157.5
52 Week (High)	52.25
52 Week (Low)	25.80

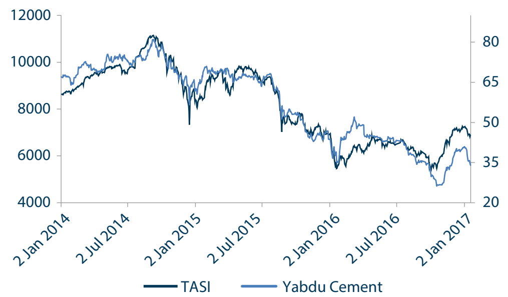
Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
General Organization for Social Insurance	12.37%
Public Investment Fund	10.00%
AWQAF Sulaiman AL Rajhi	7.93%
Abdullah Abdulaziz Al rajhi	5.98%
Al Rajhi Ekhwan Group Company	5.17%
Public	58.55%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

الجزيرة كابيتال
الجزيرة للأسواق المالية ALJAZIRA CAPITAL

RESEARCH DIVISION

Acting Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst
Sultan Al Kadi
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

Analyst
Muhanad Al-Odan
+966 11 2256115
M.alodan@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers & ADC Brokerage
Mansour Hamad Al-shuaibi
+966 12 6618443
m.alshuaibi@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer