

Yamama Cement Co.

Q2 2017

Recommendation Neutral

Fair Value (SAR) 16.00

Price as of July 30, 2017 15.90

Expected Return 0.63%

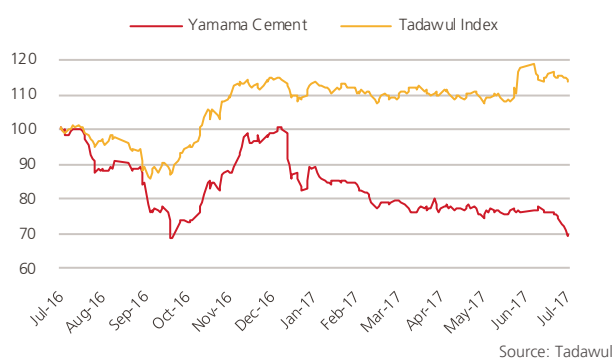
Company Data

Tadawul Symbol	3020.SE
52 Week High (SAR)	23.40
52 Week Low (SAR)	15.55
YTD Change	-30.9%
3-Month Average Volume (Thousand Shares)	144
Market Cap. (SAR Million)	3,220
Market Cap. (USD Million)	859
Outstanding Shares (Million Shares)	202.5

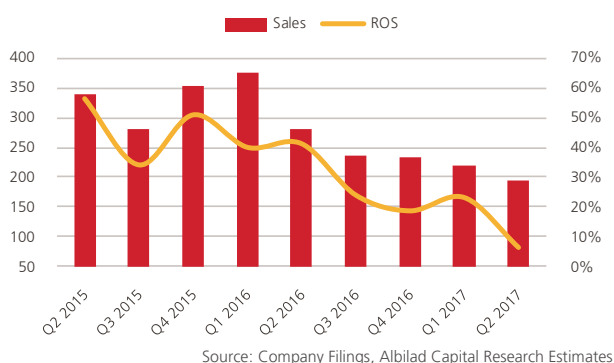
Major Shareholders (> 5%)

Prince Sultan Mohammed Saud Al Kabeer	9.12%
Public Pension Agency	5.53%

52-week Stock Price Movement



Quarterly Sales (SAR million) and ROS



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Yamama Cement Co. posted the lowest quarterly bottom line in 10 years reporting net income of SAR 12.2 million in Q2 2017 compared to SAR 116.3 million in Q2 2016 and SAR 50.8 million in Q1 2017, thus the net earnings slid 89.5% YoY and 76%. This resulted in a net profit margin of 6.3% in Q2 2017 compared to 41.5% for Q2 2016 and 23.1% for Q1 2017. Therefore, the semiannual figure tumbled 76.4% to SAR 63 million compared to SAR 266.8 million in H1 2016.

Total revenues also hit a ten-year low in Q2 2017 slumping 30.6% YoY to reach SAR 194.7 million compared to SAR 180.4 million in Q2 2016, while dropping 11.6% QoQ from SAR 220.2 million in the previous quarter. Thus, the semiannual revenues amounted to SAR 414.9 million versus SAR 656.4 million in H1 2016 sliding 36.8%.

The company sold 1.20 million tons of cement in Q2 2017 compared to 1.38 million tons in Q2 2016, shrinking 12.8% YoY and 3.1% QoQ. Furthermore, sales totalled 2.45 million tons in H1 2017 versus 3.04 million tons in H1 2016, down 19.4%.

The cement producer attributed the slump in the net profit of H1 2017 and Q2 2017 to the dip in selling prices and dispatches especially as the second quarter coincided with Ramadan and the holiday of Eid al-Fitr.

Operating profit in Q2 2017 dwindled 84.3% YoY achieving SAR 15.2 million compared to SAR 97 million in Q2 2016 and dropping 68.3% QoQ, thus the operating margin shrank to 7.8% versus 34.6% in Q2 2016 and 21.8% in Q1 2017. The semiannual operating profit edged down 76.4% posting SAR 63.3 million compared to SAR 268 million in H1 2016.

Total market sales in Q2 2017 tumbled 23.4% YoY reaching 11.2 million tons compared to 14.7 million tons in Q2 2016, despite the addition of the sales of Umm Al-Qura Cement and United Cement for the first time, while sliding 17.7% from 13.6 million tons in Q1 2017. Meanwhile, clinker inventory reached the highest level recording 31.2 million ton by the end of June 2017.

On the other hand, a ministerial committee has approved the reduction of cement export fees by 50% to stimulate the competitiveness of local cement in external markets, where the committee has endorsed the cement export fees ranging between SAR 85 to SAR 133 per every exported ton. However, we still believe that Saudi cement companies are unable to compete under current export fees, especially given the slowdown in main neighbouring economies and the hefty cost of exporting to remote markets.

The earnings figure for Q2 2017 missed our estimate and analysts' consensus of SAR 53 million; as the COGS/sales ratio hit 83.1% compared to 59.7% in Q2 2016 and 71.4% in Q1 2017. Furthermore, the average selling price during the second quarter fell to SAR 162 per ton compared to SAR 203 in Q2 2016 and SAR 177 in Q1 2017 due to increased competition among companies in the central region as demand continued to weaken in the local market and clinker stocks rose. Therefore, we believe that the pressure on cement prices will continue till domestic demand recovers, or reviewing again the cement exports duties. Moreover, we expect that the gradual removal of subsidies on energy products to significantly impact profitability margins going forward. Accordingly, we revised our future estimates and profit margins, therefore our valuation is downgraded from SAR 17 to SAR 16 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	1.73	2.20	3.18	6.01
EV/Sales	1.10	1.45	1.95	3.05
P/E	4.80	5.23	8.79	29.35
Dividend Yield	18.9%	18.9%	6.3%	3.1%
P/BV	0.86	0.87	0.86	0.89
P/Revenue	2.42	2.46	2.86	4.11
Revenue Growth	-13.8%	-1.3%	-14.2%	-30.4%
EPS (SAR)	3.31	3.04	1.81	0.54

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
Sales	1,541.9	1,328.9	1,311.1	1,125.0	783.0
COGS	480.4	435.3	384.7	380.8	342.3
SG&A	49.4	51.1	60.8	56.0	43.3
EBITDA	1,012.0	842.5	865.5	688.2	397.4
EBITDA Margin	65.6%	63.4%	66.0%	61.2%	50.8%
Depreciation and Amortization	180.4	181.4	189.9	271.4	258.6
Provisions	2.9	2.8	2.5	2.4	2.3
EBIT	828.7	658.3	673.2	414.3	136.6
EBIT Margin	53.7%	49.5%	51.3%	36.8%	17.4%
Net interest income	(3.6)	(2.6)	(1.2)	0.0	(1.2)
Investment income (Unrealized)	0.0	(6.4)	(39.2)	(16.5)	(8.2)
Others	71.2	61.5	19.0	(6.0)	8.1
Pre-Tax and Zakat Income	896.2	710.8	651.7	391.9	135.2
Tax and Zakat	26.0	40.0	36.5	25.5	25.5
Net Income	870.2	670.8	615.2	366.4	109.7
ROS	56.4%	50.5%	46.9%	32.6%	14.0%
Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	1,253.6	1,248.0	681.0	506.4	306.6
Accounts Receivables	298.3	237.9	261.1	247.3	172.1
Inventory	160.5	233.2	385.7	523.6	482.4
Others	126.4	80.8	76.5	122.8	124.4
Total ST Assets	1,838.8	1,799.8	1,404.3	1,400.2	1,085.6
Net Fixed Assets	1,678.6	1,579.7	1,428.5	1,175.2	924.5
Projects Under Implementation	79.7	70.9	464.4	816.0	2,076.0
Others	665.5	547.6	683.8	582.5	586.9
Total LT Assets	2,423.8	2,198.3	2,576.7	2,573.7	3,587.4
Total Assets	4,262.6	3,998.1	3,980.9	3,973.9	4,673.0
Short Term Debt and CPLTD	20.8	10.4	0.0	0.0	0.0
Accounts Payable	159.2	66.4	103.5	53.9	74.2
Accrued Expenses	23.8	20.5	20.8	15.6	18.7
Others	90.0	102.0	109.6	109.6	115.6
Total ST Liabilities	293.8	199.3	233.9	179.1	208.4
Total Long Term Debt	10.4	0.0	0.0	0.0	760.0
Other Non-Current Liabilities	65.1	66.9	66.3	68.7	71.3
Equity	3,893.4	3,731.9	3,680.8	3,726.0	3,633.2
Total Liabilities and Equity	4,262.6	3,998.1	3,980.9	3,973.9	4,673.0

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

A: Actual. E: Albilad Capital Research Estimates. F: Albilad Capital Research Forecasts.

* All the financials statements were prepared in accordance with SOCPA standers until the releasing (IFRS) financial statements.

Cement and Clinker Summary by the End of Q2 2017

Figure in thousand ton	Q2 2017	Q2 2016	YoY	Q1 2017	QoQ	H1 2017	H1 2016	YoY
Sector Production								
Cement	11,218	14,813	(24%)	13,693	(18%)	24,916	31,851	(22%)
Clinker	12,009	14,206	(15%)	12,876	(7%)	24,888	28,004	(11%)
Sector Dispatches								
Cement	11,233	14,673	(23%)	13,643	(18%)	24,878	31,713	(22%)
Clinker	4	448	-	2	100%	6	448	-
Sector Inventory								
Cement	1,224	1,045	17%	1,239	(1%)	1,224	1,045	17%
Clinker	31,179	21,904	42%	28,999	8%	31,179	21,904	42%
Cement Production / Company								
Yamama Cement	1,198	1,394	(14%)	1,242	(4%)	2,440	3,042	(20%)
Saudi Cement	1,195	2,072	(42%)	1,455	(18%)	2,650	4,176	(37%)
Eastern Cement	507	676	(25%)	618	(18%)	1,125	1,508	(25%)
Qassim Cement	861	1,045	(18%)	1,068	(19%)	1,929	2,309	(16%)
Yanbu Cement	1,210	1,461	(17%)	1,645	(26%)	2,856	3,297	(13%)
Arabian Cement	803	1,248	(36%)	1,122	(28%)	1,924	2,708	(29%)
Southern Cement	1,301	2,046	(36%)	1,518	(14%)	2,820	4,353	(35%)
Tabuk Cement	236	391	(40%)	337	(30%)	575	767	(25%)
Riyadh Cement	717	966	(26%)	868	(17%)	1,585	1,998	(21%)
Najran Cement	407	734	(45%)	568	(28%)	976	1,777	(45%)
City Cement	818	873	(6%)	1,031	(21%)	1,849	1,774	4%
Northern Cement	280	513	(45%)	305	(8%)	585	1,216	(52%)
Jouf Cement	327	539	(39%)	434	(25%)	761	1,033	(26%)
Safwa Cement	487	476	2%	478	2%	966	1,061	(9%)
Hail Cement	197	379	(48%)	266	(26%)	464	832	(44%)
Umm Al-Qura Cement	270	-	-	302	-	572	-	-
United Cement	404	-	-	436	-	839	-	-
Cement Dispatches / Company								
Yamama Cement	1,204	1,380	(13%)	1,242	(3%)	2,446	3,035	(19%)
Saudi Cement	1,203	2,059	(42%)	1,471	(18%)	2,674	4,144	(35%)
Eastern Cement	517	669	(23%)	614	(16%)	1,131	1,507	(25%)
Qassim Cement	881	1,010	(13%)	1,073	(18%)	1,954	2,272	(14%)
Yanbu Cement	1,212	1,470	(18%)	1,592	(24%)	2,805	3,304	(15%)
Arabian Cement	811	1,248	(35%)	1,113	(27%)	1,923	2,723	(29%)
Southern Cement	1,295	2,047	(37%)	1,527	(15%)	2,823	4,327	(35%)
Tabuk Cement	231	364	(37%)	343	(33%)	575	764	(25%)
Riyadh Cement	727	964	(25%)	862	(16%)	1,588	1,973	(20%)
Najran Cement	401	726	(45%)	566	(29%)	967	1,754	(45%)
City Cement	798	848	(6%)	1,051	(24%)	1,849	1,761	5%
Northern Cement	272	517	(47%)	323	(16%)	595	1,233	(52%)
Aljouf Cement	324	537	(40%)	409	(21%)	733	1,044	(30%)
Safwa Cement	488	457	7%	485	1%	974	1,046	(7%)
Hail Cement	203	377	(46%)	263	(23%)	467	826	(43%)
Umm Al-Qura Cement	263	-	-	303	-	566	-	-
United Cement	403	-	-	406	-	808	-	-

Source: Yamama Cement Statistics, Albilad Capital Research

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by $< 10\%$

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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