

# Yamama Cement Co.

## Q1 2017

### Recommendation Neutral

Fair Value (SAR) 17.00

Price as of April 19, 2017 17.75

Expected Return -4.2%

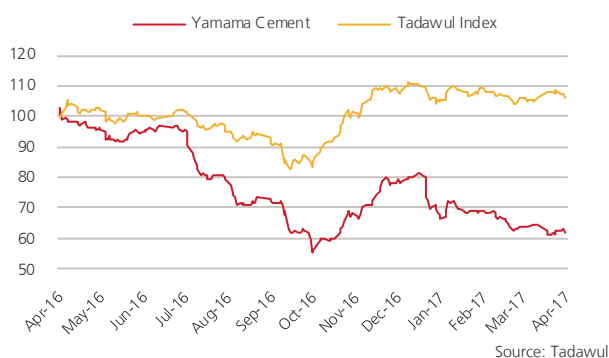
#### Company Data

Tadawul Symbol	3020.SE
52 Week High (SAR)	30.40
52 Week Low (SAR)	15.55
YTD Change	-22.8%
3-Month Average Volume (Thousand Shares)	232
Market Cap. (SAR Million)	3,594
Market Cap. (USD Million)	959
Outstanding Shares (Million Shares)	202.5

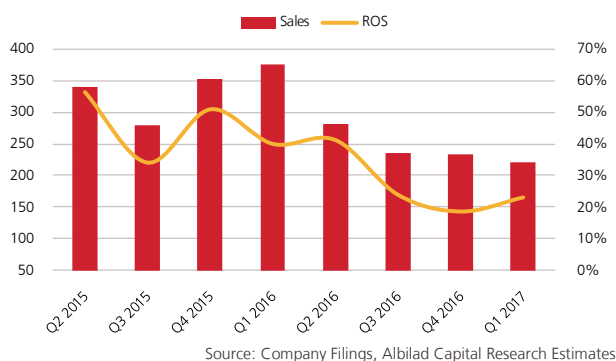
#### Major Shareholders ( > 5% )

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. disclosed its Q1 2017 interim results revealing a bottom line of SAR 50.8 million compared to SAR 150.5 million in Q1 2016 falling 66.2%, while soaring 17.4% from SAR 43.3 million in the pervious quarter. Furthermore, sales totaled SAR 220 million in Q1 2017 compared to SAR 376 million in Q1 2016 slumping 41.4%, and also plunged 3.6% from SAR 197 million in Q4 2016.

Gross profit in Q1 2017 reached SAR 62.9 million falling 66.3% from SAR 186.5 million in Q1 2016, and also slid 15.3% compared to the pervious quarter. Operating profit concluded the first quarter at SAR 48.1 million compared to SAR 171.0 million in Q1 2016, sliding 71.9% YoY and 20.4% QoQ.

Moreover, the decline in bottom line during Q1 2017 was fueled by the drop in volume sales as well as selling prices as a result of the decline in cement demand in the local market, while the QoQ growth was driven by several reasons, including:

- Higher volume sales compared to the pervious quarter.
- Lower cost of sales as a result of recalculation of depreciation of net assets after impairment due to the transition to the International Financial Reporting Standards (IFRS).
- Reporting positive non-operating income in Q1 2017.
- Recording a provision during Q4 2016 regarding Yemen Company investment.

On the other hand, total market sales in Q1 2017 declined 19.9% YoY reaching 13.64 million tons compared to 17.04 million tons in Q1 2016, while growing 5.1% from 13.98 million tons in Q4 2016. Meanwhile, clinker inventory reached the highest level recording 29.0 million ton by the end of March 2017. Similarly, Yamama's sales recorded 1.24 million tons in Q1 2017 compared to 1.66 million tons in Q1 2016, edging down 25%. However, volume sales edged up 3.2% from 1.20 million tons in Q4 2016.

Net profit for Q1 2017 came in line with our estimate of SAR 49 million and the analysts' consensus of SAR 50 million. Meanwhile, the drop in selling prices has significantly affected the company's profit on the back of intense competition among cement companies in the central region of the Kingdom amid lower demand as well as high clinker inventory level. We expect that the gradual removal of subsidies on energy products to significantly impact profitability margins going forward. In addition, we expect the pressure on cement prices will continue till domestic demand recovers, or reviewing the cement exports duties.

Accordingly, we revised our future estimates and profit margins, therefore our valuation is downgraded from SAR 22 to SAR 17 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	2.57	3.02	4.21	6.54
EV/Sales	1.63	1.99	2.58	4.00
P/E	5.86	6.39	10.72	23.51
Dividend Yield	15.5%	15.5%	5.2%	2.6%
P/BV	1.05	1.07	1.05	1.06
P/Revenue	2.96	3.00	3.49	5.30
Revenue Growth	-13.8%	-1.3%	-14.2%	-34.1%
EPS (SAR)	3.31	3.04	1.81	0.83

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	741.8
COGS	480.4	435.3	384.7	380.8	249.5
SG&A	49.4	51.1	60.8	56.0	38.4
<b>EBITDA</b>	<b>1,012.0</b>	<b>842.5</b>	<b>865.5</b>	<b>688.2</b>	<b>453.9</b>
EBITDA Margin	65.6%	63.4%	66.0%	61.2%	61.2%
Depreciation and Amortization	180.4	181.4	189.9	271.4	258.6
Provisions	2.9	2.8	2.5	2.4	2.3
<b>EBIT</b>	<b>828.7</b>	<b>658.3</b>	<b>673.2</b>	<b>414.3</b>	<b>193.1</b>
EBIT Margin	53.7%	49.5%	51.3%	36.8%	26.0%
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)	9.0
<b>Pre-Tax and Zakat Income</b>	<b>896.2</b>	<b>710.8</b>	<b>651.7</b>	<b>391.9</b>	<b>192.6</b>
Tax and Zakat	26.0	40.0	36.5	25.5	25.5
<b>Net Income</b>	<b>870.2</b>	<b>670.8</b>	<b>615.2</b>	<b>366.4</b>	<b>167.1</b>
ROS	56.4%	50.5%	46.9%	32.6%	22.5%
<b>Balance Sheet (SAR mn)</b>					
Cash and Marketable securities	1,253.6	1,248.0	681.0	506.4	433.7
Accounts Receivables	298.3	237.9	261.1	247.3	163.1
Inventory	160.5	233.2	385.7	523.6	407.9
Others	126.4	80.8	76.5	122.8	124.4
<b>Total ST Assets</b>	<b>1,838.8</b>	<b>1,799.8</b>	<b>1,404.3</b>	<b>1,400.2</b>	<b>1,129.1</b>
Net Fixed Assets	1,678.6	1,579.7	1,428.5	1,175.2	924.1
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
<b>Total LT Assets</b>	<b>2,423.8</b>	<b>2,198.3</b>	<b>2,576.7</b>	<b>2,573.7</b>	<b>3,587.0</b>
<b>Total Assets</b>	<b>4,262.6</b>	<b>3,998.1</b>	<b>3,980.9</b>	<b>3,973.9</b>	<b>4,716.0</b>
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	62.7
Accrued Expenses	23.8	20.5	20.8	15.6	15.8
Others	90.0	102.0	109.6	109.6	115.6
<b>Total ST Liabilities</b>	<b>293.8</b>	<b>199.3</b>	<b>233.9</b>	<b>179.1</b>	<b>194.1</b>
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
<b>Equity</b>	<b>3,893.4</b>	<b>3,731.9</b>	<b>3,680.8</b>	<b>3,726.0</b>	<b>3,690.7</b>
<b>Total Liabilities and Equity</b>	<b>4,262.6</b>	<b>3,998.1</b>	<b>3,980.9</b>	<b>3,973.9</b>	<b>4,716.0</b>

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 Q1 2017

Figure in thousand ton	Q1 2017	Q1 2016	YoY	Q4 2016	QoQ
<b>Sector Production</b>					
Cement	13,699	17,038	(20%)	13,012	5%
Clinker	12,876	13,798	(7%)	13,577	(5%)
<b>Sector Dispatches</b>					
Cement	13,646	17,040	(20%)	12,975	5%
Clinker	2	0	-	0	-
<b>Sector Inventory</b>					
Cement	1,239	877	41%	1,137	9%
Clinker	28,999	21,154	37%	28,115	3%
<b>Cement Production / Company</b>					
Yamama Cement	1,242	1,648	(25%)	1,184	5%
Saudi Cement	1,455	2,104	(31%)	1,635	(11%)
Eastern Cement	618	832	(26%)	682	(9%)
Qassim Cement	1,068	1,264	(16%)	952	12%
Yanbu Cement	1,646	1,836	(10%)	1,978	(17%)
Arabian Cement	1,122	1,460	(23%)	964	16%
Southern Cement	1,519	2,307	(34%)	1,549	(2%)
Tabuk Cement	338	376	(10%)	286	18%
Riyadh Cement	868	1,032	(16%)	800	9%
Najran Cement	569	1,043	(45%)	579	(2%)
City Cement	1,031	901	14%	778	33%
Northern Cement	305	703	(57%)	323	(6%)
Jouf Cement	434	494	(12%)	545	(20%)
Safwa Cement	479	585	(18%)	489	(2%)
Hail Cement	267	453	(41%)	268	(0%)
Umm Al-Qura Cement	302	-	-	-	-
United Cement	436	-	-	-	-
<b>Cement Dispatches / Company</b>					
Yamama Cement	1,242	1,655	(25%)	1,204	3%
Saudi Cement	1,472	2,085	(29%)	1,653	(11%)
Eastern Cement	614	838	(27%)	675	(9%)
Qassim Cement	1,073	1,262	(15%)	959	12%
Yanbu Cement	1,593	1,834	(13%)	1,996	(20%)
Arabian Cement	1,112	1,475	(25%)	962	16%
Southern Cement	1,528	2,280	(33%)	1,540	(1%)
Tabuk Cement	344	400	(14%)	302	14%
Riyadh Cement	861	1,009	(15%)	815	6%
Najran Cement	566	1,028	(45%)	586	(3%)
City Cement	1,051	913	15%	781	35%
Northern Cement	323	716	(55%)	323	0%
Aljouf Cement	409	507	(19%)	420	(3%)
Safwa Cement	485	589	(18%)	489	(1%)
Hail Cement	264	449	(41%)	270	(2%)
Umm Al-Qura Cement	303	-	-	-	-
United Cement	406	-	-	-	-

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.

<b>Overweight:</b>	The Target share price exceeds the current share price by $\geq 10\%$ .
<b>Neutral:</b>	The Target share price is either more or less than the current share price by $< 10\%$
<b>Underweight:</b>	The Target share price is less than the current share price by $\geq 10\%$ .
<b>To be Revised:</b>	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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