City Cement Co.

Result Flash Note 3Q-2016 | October 2016

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية
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City Cement: Weak performance due to lower price realization, increase in production cost and Zakat provision. We update our recommendation to "Overweight" with same TP.

Amount in SAR mn; unless specified	Forecasts 3Q-16	Actual 3Q-16	Deviation (%)
Revenue	123.1	116.3	-5.5%
Net Profit	46.6	31.9	-31.5%
EPS	0.25	0.17	

Despite the YoY increase in volumetric sales, increase in production cost and Zakat provision led to decline in net profit: 3Q-2016 net income came below our expectation indicating a deviation of 31.5% from our estimate and 33.8% from market consensus of SAR 48.2mn. City Cement Company posted net income of SAR 31.9mn; (EPS; SAR 0.17); indicating a fall of 32.6%YoY and 50.8%QoQ. According to the company the decline in net profit was mainly attributed to 1) increase in production cost, 2) increase in Zakat provision, where the Zakat provision is expected to increase by 58.4% YoY and stand at SAR 3.9mn comparing to SAR 2.5mn in 3Q-2015. For 3Q-2016, we expect the selling price to be around SAR 195.8 per ton vs. SAR 210.9 in 3Q-2015, slower construction activity and high inventory level put downward pressure on price per ton. Revenue stood at SAR 116.3mn showing growth of 2.1% YoY and deviation of 5.5% from our estimate of SAR 123.1mn.

Gross profit stood at SAR 41.6mn depicting a decrease of 27.2%YoY and 45.3%QoQ. Gross margin has been impacted by the lower price realization and an increase in production cost. Gross margin decline to 35.5% from 49.8% in 3Q-2015 and 45.1% in 2Q-2016. We estimate the cost per ton to be around SAR 126.3 vs. SAR 106.0/ton in 3Q-2015 and SAR 108.4/ton in 2Q2016. We believe the increase in cost/ton is exceptional for this quarter due to seasonality factor. However, the cost/ton is expected to decline in the upcoming quarters. Operating profit stood at SAR 35.8mn showing a decrease of 28.1%YoY and 47.6%YoY.

We believe the weak result is attributed to the seasonality of demand. However, For 4Q-2016 we expect demand to improve given the onset of the winter season. However, the overall slowdown in the economy is still a concern which will continue to put downward pressure on the construction activity. Consequently resulting in lower YoY cement demand.

Cement dispatches outperformed the average market performance: The company showed growth of 10.0%YoY in dispatches in 3Q2016 as compared to average market decline of 11.9%YoY. The company sales volume stood at 594KT comparing to 540KT in 3Q-2015. The increase in cement dispatches is attributed to the new production line which commenced operation in 2Q-2015.

We update our recommendation to 'Overweight' recommendation on the stock with same TP of SAR 15.8: City Cement Co. is expected to post net income of SAR 241.9mn (1.28 EPS) for 2016. we update our recommendation to '**Overweight**' on the stock with TP of **SAR 15.8/share** supported by the recent decline in market price; indicating a potential upside of 41.1% over current market price of SAR 11.2/share (as of 18th October 2016). Based on our estimate the company is trading at forward P/E of 9.4x for FY2017, as compared to the average sector PE of 13x in the last three years. The company is expected to maintain its dividend of SAR 1.25/ share for FY2016, showing a dividend yield of 11.2% based on current price.

Period	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016
Revenue	113.9	155.6	180.4	167.4	116.3
Gross Profit	56.7	69.4	83.8	75.4	41.3
Operating profit	49.9	62.5	77.1	68.5	35.8
Net income	**47.4**	**59.9**	**73.2**	**64.8**	**31.9**
EPS	**0.25**	**0.32**	**0.39**	**0.37**	**0.17**

Source: Company reports, Aljazira Capital

Recommendation	Overweight
Current Price* (SAR)	11.2
Target Price (SAR)	15.8
Upside / (Downside)	41.1%

*prices as of 18th of October 2016

Key Financials

SARmn (unless specified)	FY15	FY16E	FY17E
Revenues	560.5	643.5	630.6
Growth %	23.2%	14.8%	-2.0%
Net Income	241.9	241.9	232.8
Growth %	9.1%	0.0%	-3.7%
EPS	1.28	1.28	1.23

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16E	FY17E
Gross Margin	49.6%	44.0%	43.1%
EBITDA Margin	62.2%	54.7%	54.3%
Net Margin	43.1%	37.6%	36.9%
P/E	11.8	9.1	9.4
P/B	1.40	1.08	1.1
ROE	12.0%	11.8%	11.4%
ROA	11.2%	10.7%	10.4%
Dividend Yield	8.3%	11.2%	10.8%

Source: Company reports, Aljazira Capital

Key Data

Market Cap (mn)	2,196.6
YTD %	-22.5%
Shares Outstanding (mn)	189.2
52 Week (High)	18.1
52 Week (Low)	10.9

Source: Bloomberg, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Al Abdullatif Group Holding Co.	25.20%
Prince Mishal Bin Abdul-Aziz	6.36%
Public	68.44%

Source: Company reports, Aljazira Capital

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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