

KSA Cement Sector Monthly

Sales volumes decreased 16% YoY while exports remain nil
Still not a buyer of the sector; risk-reward and dividend profile unattractive

Share Price Performance

	YTD*	Aug-17
Yamama	-27.9%	4.2%
Saudi	-37.4%	-9.9%
Qassim	-32.8%	-4.4%
Yanbu	-29.3%	-1.5%
Arabian	-28.8%	-5.2%
Southern Province	-39.2%	0.4%
City	-28.5%	-2.1%
Northern Region	-26.0%	-0.2%
TASI	2.3%	2.0%

*Prices as of Sep 14, 2017 close

19th Sep 2017

SAUDI CEMENT SALES DECREASED BY 15.5% YOY WHILE EXPORTS REMAINED NIL; RISK-REWARD UNFAVORABLE

Saudi cement sales came in at 3.7mn tons in Aug 2017 (c.-16% YoY, c.7% MoM). Exports remained nil for the fifth month in a row despite reduction in export fees by 50% previously, since export realisations are not high enough to absorb additional costs, in our view. Within our stock coverage, on a YoY basis, only Qassim Cement reported an increase in domestic sales (c.3% YoY) while Saudi Cement reported the steepest decline (-34% YoY). On MoM basis, within our coverage, all companies, except Yamama and Arabian Cement, reported an increase (in the range of 2-33%). On market share front (MoM), Yanbu Cement saw an increase in market share of 2.5%, while share of Yamama Cement declined by 1.8%.

Cement production decreased c.12% YoY but increased c.12% MoM in Aug to 3.8 mn tons, while clinker production marginally decreased on a YoY and MoM basis to 4.3 mn tons. Clinker inventory increased by c.3% MoM to 33.4mn tons and our estimated total sector inventories remain elevated at 9.5 sales months compared to 5-year historical avg of 4.7 months. Within our coverage, on a MoM basis, Northern Cement reported an increase in clinker inventories of 8%, followed by Arabian and Qassim, reporting an increase of 5% each.

Recommendation

	Rec.	Fair Value (SAR)
Yamama	SELL	17.5
Saudi	SELL	57.1
Qassim	SELL	48.0
Yanbu	HOLD	35.4
Arabian	HOLD	37.0
Southern Province	SELL	52.9
City	BUY	13.9
Northern Region	SELL	8.2

Source: SHUAA Capital

IS IT A TIME TO BE AGGRESSIVE BUYERS OF SAUDI CEMENT SECTOR - WE REMAIN ON THE SIDELINES – we are hearing some market noises that the Saudi cement sector looks ripe for building positions after significant share price decline YTD (our coverage: avg decline of 31% vs. SASEIDX return of +2.3%), with some market participants seeing sector as offering attractive dividend yields. In our view, yields look attractive with a rear view (2016 avg yield for our coverage: 9%), however, based on recent announced dividends we don't see much value – with H1 2017 annualised avg yield of 4% (ranging between 0% and 10%), and we don't expect dividend profile to improve in H2 vs. H1, in general. Additionally, we see limited reasons to be a buyer at this time as: a) structural sector issue lingers – with sector cement inventories estimated at c.9.5 sales months, b) limited uptick expected in construction demand in the short-term, and c) potential further increase in fuel oil price (we now expect increase in Nov, with reported likely increase in gasoline and jet fuel). We see Northern Region Cement as the worst-positioned stock within our coverage due to a) we now don't expect company to pay any dividends in 2017 (vs. previous estimate of SAR 0.35; 2016A: SAR 0.45); b) potential impairments in medium-term (Q2 2017 goodwill: SAR 506mn, 16% of the total assets); and c) high leverage (Q2: 0.5x), with short-term borrowings of over SAR 1bn.

KSA Cement –Aug 2017 Performance

Company	Cement Sales			Cement Production			Clinker Production		
	Aug-17	YoY (%)	MoM (%)	Aug-17	YoY (%)	MoM (%)	Aug-17	YoY (%)	MoM (%)
Yamama	326	-27.2%	-11.7%	330	-23.4%	-9.3%	429	-10.1%	3.4%
Saudi	386	-33.7%	7.8%	379	-34.1%	6.2%	449	-38.0%	48.7%
Eastern	141	-20.8%	-4.1%	146	-17.0%	-1.4%	202	7.4%	-22.0%
Qassim	324	2.5%	11.0%	330	8.6%	6.8%	337	123.2%	12.3%
Yanbu	462	-2.1%	33.1%	441	-4.3%	28.6%	432	-3.4%	-31.3%
Arabian	259	-19.8%	-2.3%	264	-17.0%	2.3%	263	-16.2%	-22.6%
Southern Province	471	-26.1%	15.2%	487	-24.4%	26.2%	438	-27.4%	-17.5%
Tabuk	78	-30.4%	27.9%	72	-35.1%	24.1%	91	-29.5%	-7.1%
Riyadh	214	-33.5%	-10.8%	234	-30.6%	0.0%	134	-56.4%	1.5%
Najran	111	-53.4%	3.7%	113	-51.3%	41.3%	179	-33.9%	11.9%
City	249	-0.4%	2.0%	262	5.6%	12.9%	335	82.1%	0.0%
Northern Region	85	-26.7%	4.9%	88	-34.3%	15.8%	173	-26.4%	21.0%
Jouf	113	-28.5%	-18.7%	118	0.0%	-7.8%	150	-11.8%	134.4%
Safwa	122	-11.6%	13.0%	128	9.4%	14.3%	221	34.8%	-13.3%
Hail	99	-16.8%	32.0%	106	-9.4%	43.2%	184	39.4%	6.4%
Umm Al-Qura Cement	113	-	17.7%	114	-	34.1%	188	-	6.2%
United Cement Industrial Company	171	-	10.3%	175	-	37.8%	149	-	31.9%

Industry	3,724	-15.5%	6.6%	3,787	-12.4%	12.3%	4,354	-3.2%	-1.6%
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Source: Argaam, Yamama Cement and SHUAA Capital

Sector Coverage

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Sector/Company News

Governor of Makkah Prince Khalid bin Faisal bin Abdulaziz, announced that Saudi Arabia will introduce a number of **projects for the development of the holy sites (Al Mashaaer Al Mugaddassah)**, and they are being finalized to be submitted to the ministry of Hajj and Umrah. Makkah Region Development Authority has implemented around SAR 300 million worth of projects this year, aimed at improving services.

Saudi Arabia is planning to seek bids for the **construction of a 1,000-mile (1,600-kilometer) railroad linking the Red Sea with the Arabian Gulf by the end of this year**. According to Saudi Railway Co. chief executive officer Bashar Al Malik, contract tenders will be issued at the end of this year or early 2018. The Land Bridge line will reduce nearly three days from the current five-day journey time from the Saudi coast for shipping cargo, while improving links to Riyadh and Jeddah.

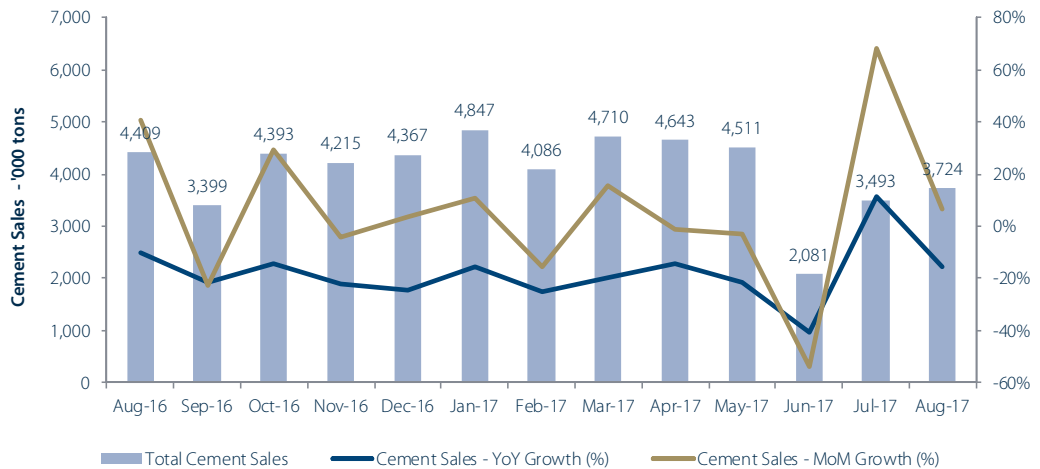
Prince Khalid bin Faisal bin Abdulaziz, signed a contract to **develop the southern front of Jeddah's King Abdulaziz International Airport (KAIA)** by moving Al-Nuzha industrial area. The contract will be implemented over 12 months. The "Basmat Jeddah Gardens" project will spread on a total area of 600,000 square meters and will aim to design a landscape for the crossroads between Al-Nuzha and Al-Madinah roads.

Makkah Municipality launched construction works on its metro line. The first phase of the project runs over a total of 33 kilometers with 15 stations, mostly underground— with the exception of a few areas that will run on railway bridges. Construction started with Line B, which runs 11 kilometers with seven stations, starting at Jamarat Station towards Hamein Station. The project will eventually have four lines, 88 stations, and will cover 182 km. The metro network is set to be built in three phases with a total budget of about SAR 62 billion. The cost of the first phase is likely to be SAR 25.5 billion to be spent over three years; the second phase is expected to cost SAR 19 billion over five years; and the third phase is expected to cost SAR 17.5 billion over two years.

The construction sector in Saudi Arabia, currently suffering from stagnation due to lower public spending on projects, is **expected to recover through 2018**. According to Osama Al-Afaliq, Chairman of the Saudi Contractors' Authority, the **government is expected to offer new projects in the second quarter of next year which will stimulate the market**.

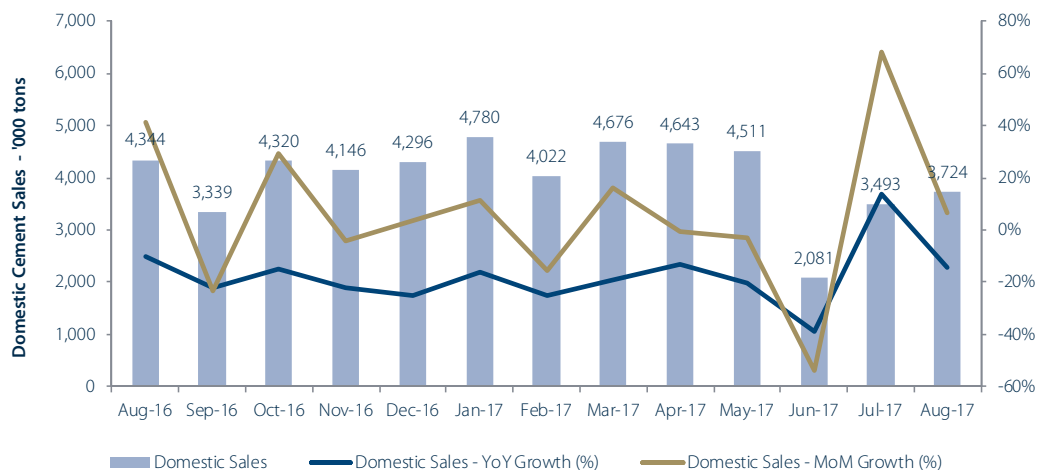
KSA Cement Sector Trends

On a YoY basis, cement sales decreased by c.16% in Aug as construction activity failed to see pick-up



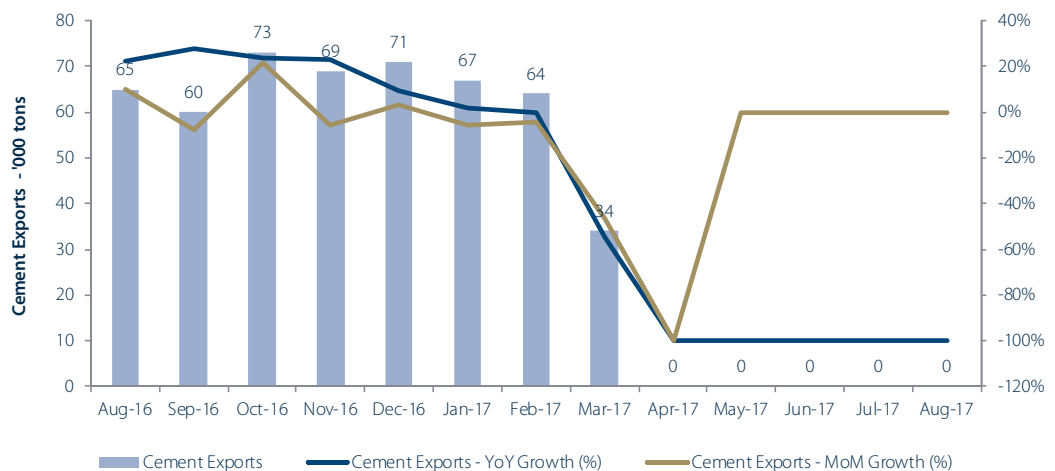
Source: Argaam, Yamama Cement and SHUAA Capital

Domestic sales also decreased by c.14% YoY



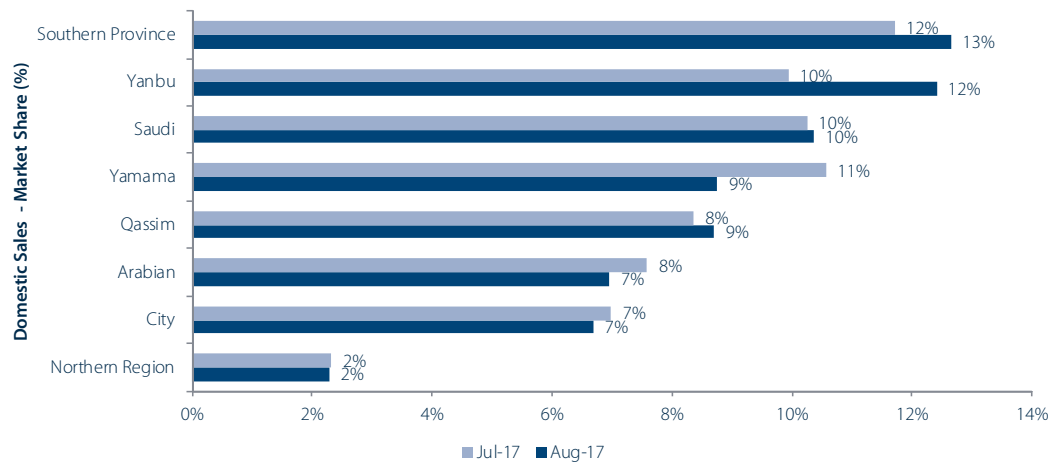
Source: Argaam, Yamama Cement and SHUAA Capital

Cement exports continue to remain nil in month of Aug despite slashing export fees by 50% previously as export realisations are not high enough to absorb the additional cost, making it margin dilutive for companies to export



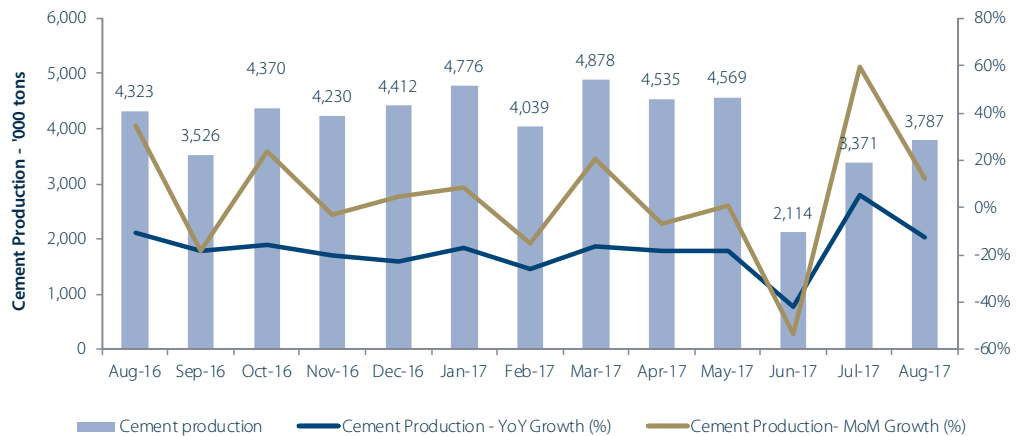
Source: Argaam, Yamama Cement and SHUAA Capital

Yanbu Cement (+2.5%) saw the biggest gain in market share, while Yamama Cement's market share declined by 1.8%



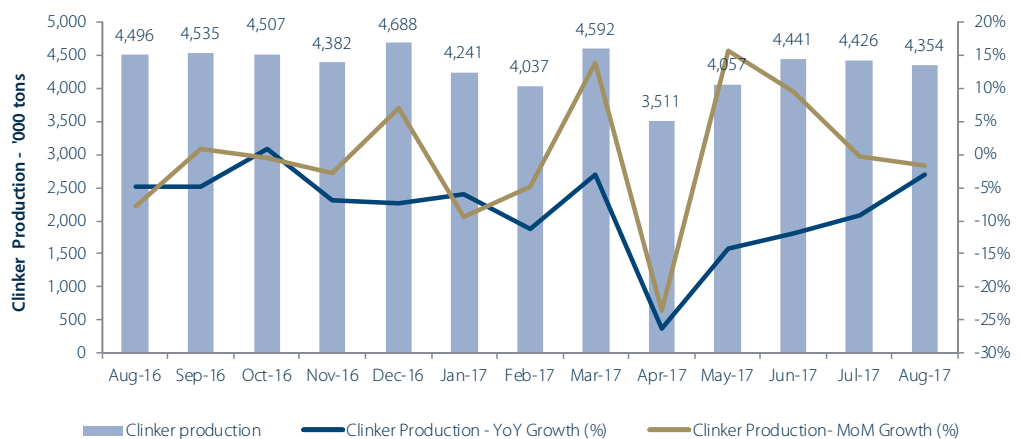
Source: Argaam, Yamama Cement and SHUAA Capital

Cement production decreased c.12% YoY and increased c.12% MoM



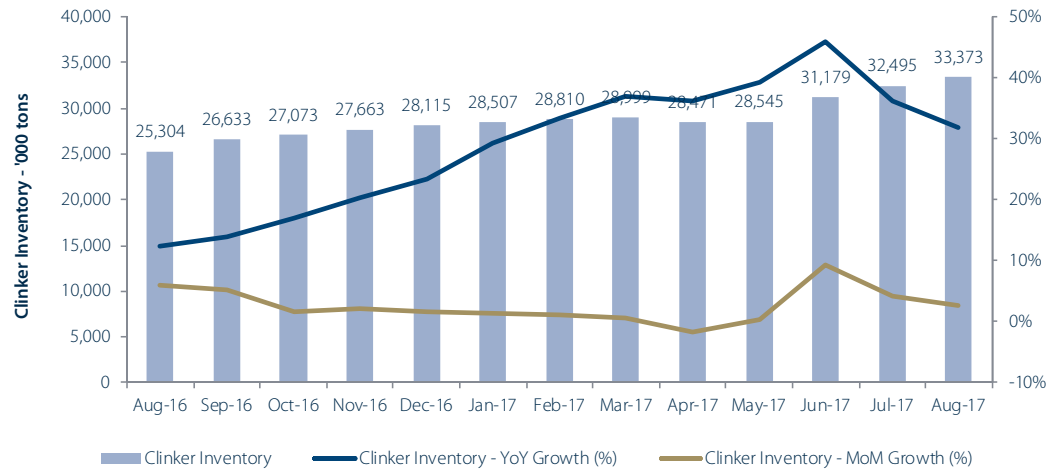
Source: Argaam, Yamama Cement and SHUAA Capital

Clinker production on the other hand fell c.3% YoY; and 2% on a MoM basis



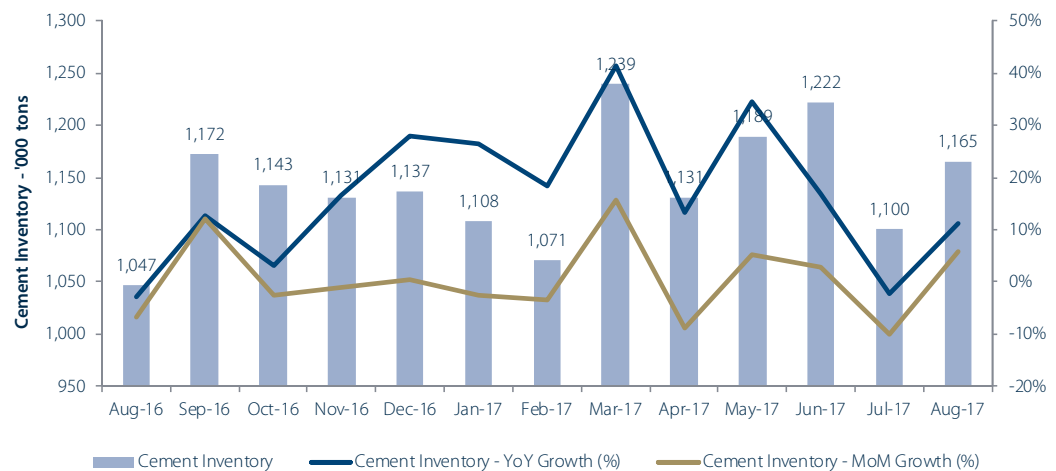
Source: Argaam, Yamama Cement and SHUAA Capital

Clinker Inventory increased by c.3% MoM



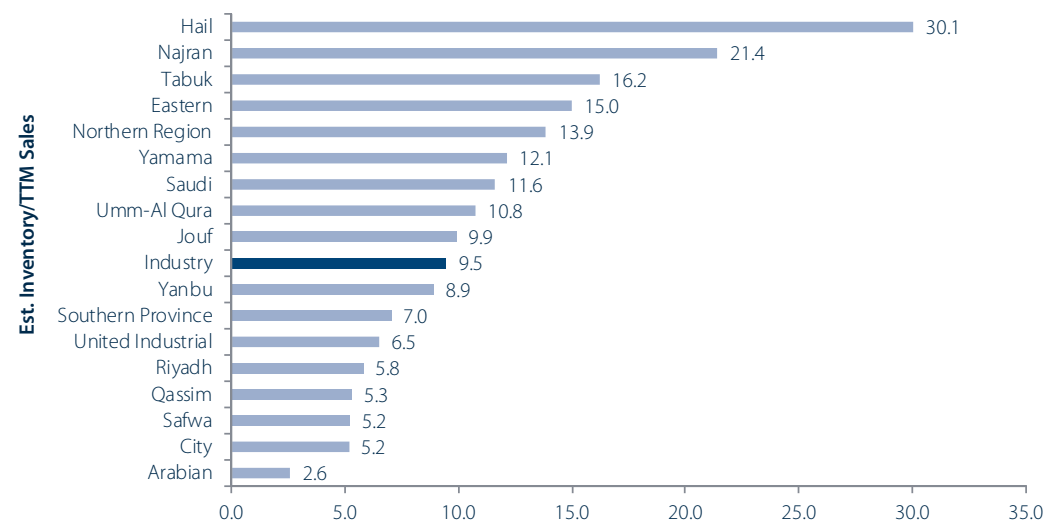
Source: Argaam, Yamama Cement and SHUAA Capital

After a decline in July, cement inventories increased once again by c.6% MoM



Source: Argaam, Yamama Cement and SHUAA Capital; Note – Cement Inventory figure for Jan 2017 based on our estimate

At an estimated 9.5 sales months, total inventory levels remain elevated at double the historical average of 4.7

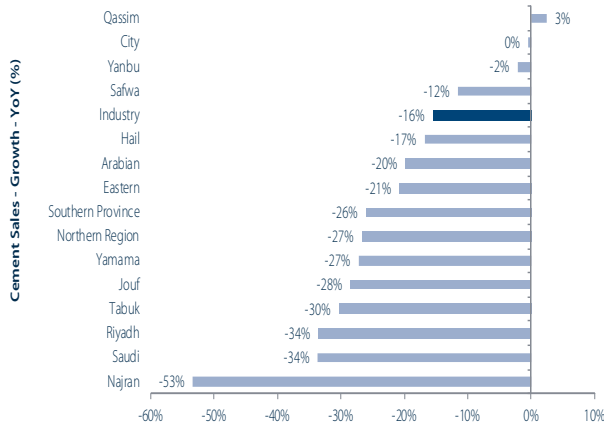


Source: Argaam, Yamama Cement and SHUAA Capital

KSA Cement Sector – Company-wise performance

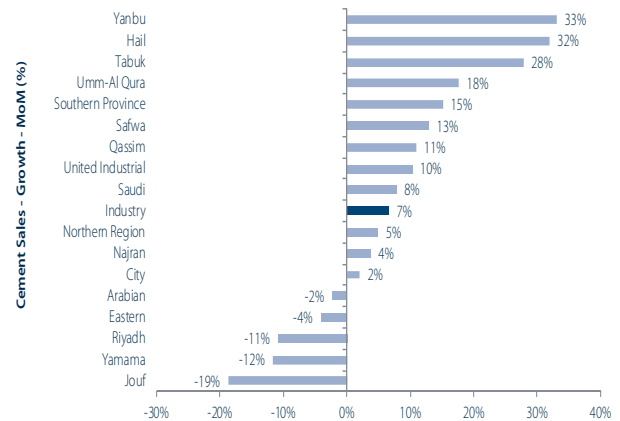
Cement Sales: Volumes continue to decline amid subdued demand environment

On a YoY basis, except for Qassim cement (c.3% growth YoY), all players witnessed a de-growth in volumes, with Najran cement witnessing the highest decline (c.-53% YoY)



Sources: Argaam, Yamama Cement and SHUAA Capital

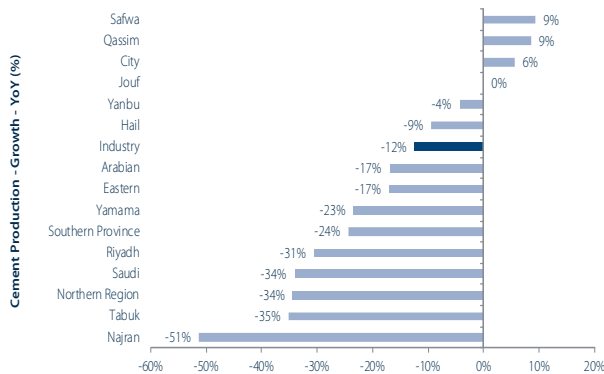
On a MoM basis, almost all companies reported an increase, with Yanbu Cement recording the highest growth at c.33% MoM



Sources: Argaam, Yamama Cement and SHUAA Capital

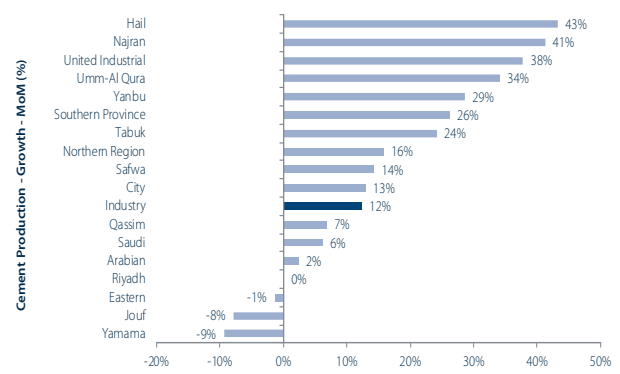
Cement Production: Production growth declines in line with poor volume offtake

Production decreased by c.12% YoY...



Sources: Argaam, Yamama Cement and SHUAA Capital

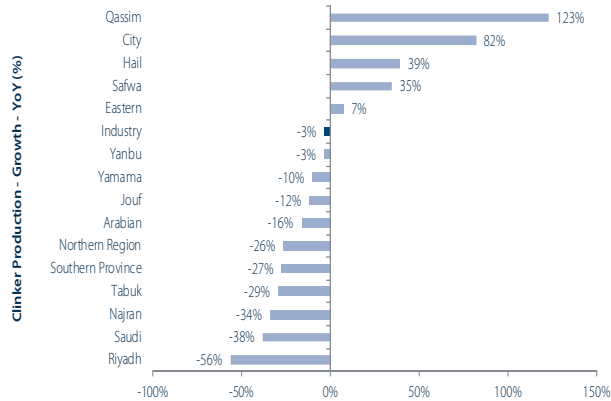
And rose on a MoM basis by c.12%



Sources: Argaam, Yamama Cement and SHUAA Capital

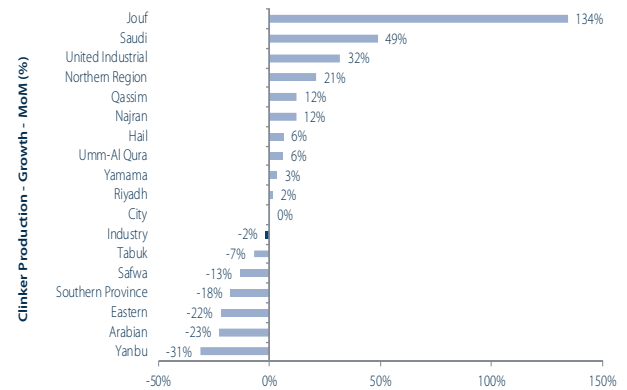
Clinker Production: Marginal Decline on both YoY and MoM basis

On a YoY basis, clinker production fell c.3%, with Riyadh followed by Saudi reporting maximum decline while Qassim reported an increase of around 123%



Sources: Argaam, Yamama Cement and SHUAA Capital

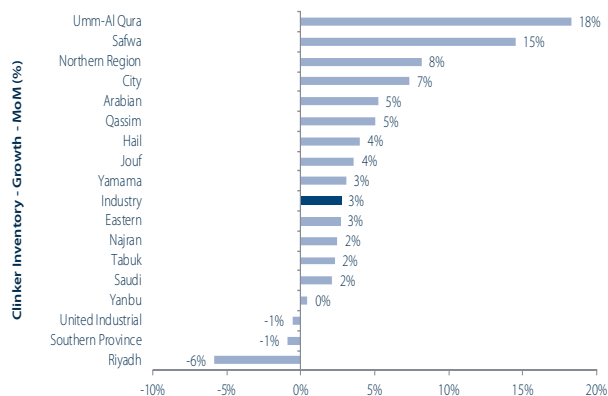
On a MoM basis, production decreased by 2%



Sources: Argaam, Yamama Cement and SHUAA Capital

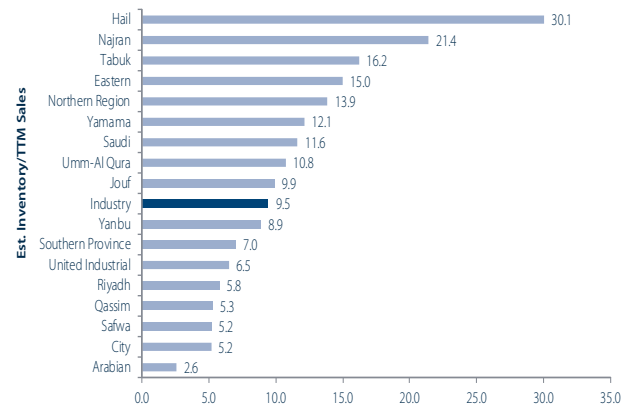
Inventory: Remains elevated at 9.5 sales months

Clinker inventory increased by c.3% MoM



Sources: Argaam, Yamama Cement and SHUAA Capital

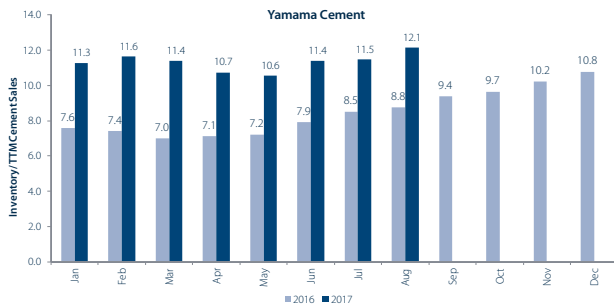
And est. inventories remain high at 9.5 sales months



Sources: Argaam, Yamama Cement and SHUAA Capital

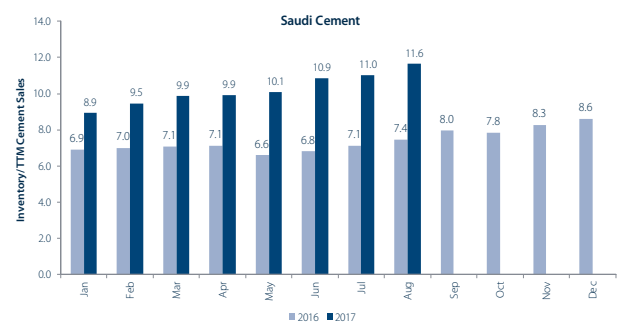
Estimated Inventory/TTM Cement Sales

Yamama Cement



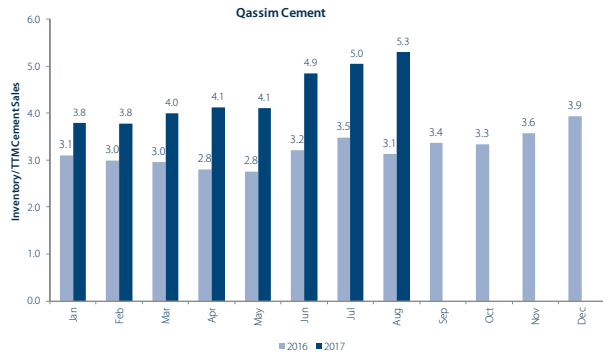
Source: Argaam, Yamama Cement and SHUAA Capital

Saudi Cement



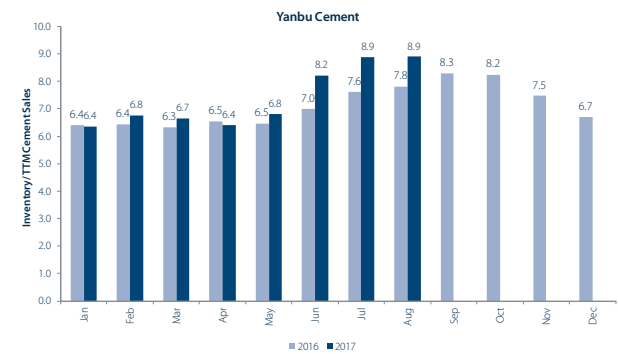
Source: Argaam, Yamama Cement and SHUAA Capital

Qassim Cement



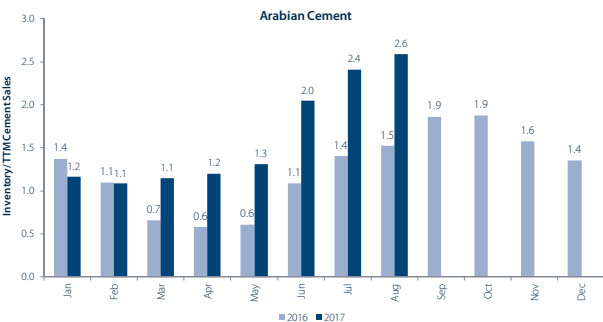
Source: Argaam, Yamama Cement and SHUAA Capital

Yanbu Cement



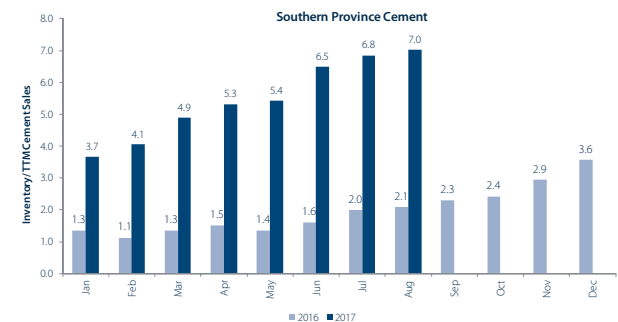
Source: Argaam, Yamama Cement and SHUAA Capital

Arabian Cement



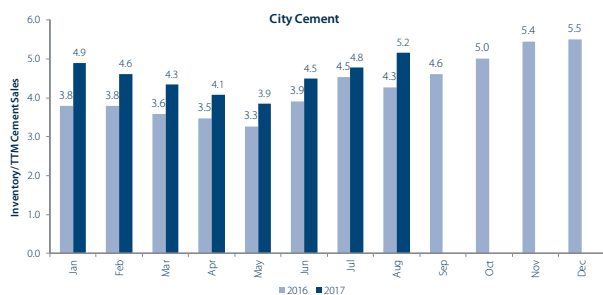
Source: Argaam, Yamama Cement and SHUAA Capital

Southern Province Cement



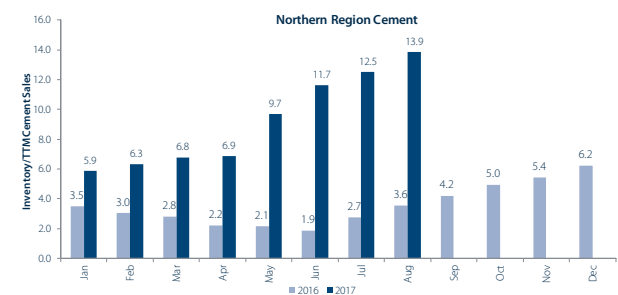
Source: Argaam, Yamama Cement and SHUAA Capital

City Cement



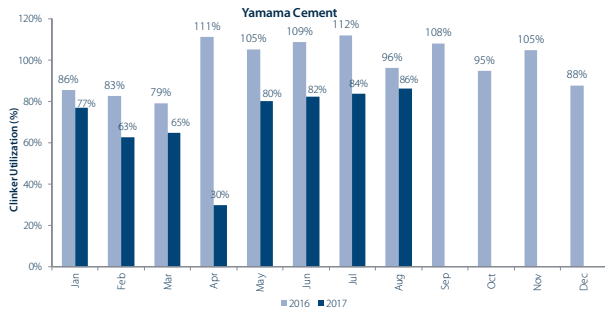
Source: Argaam, Yamama Cement and SHUAA Capital

Northern Region Cement

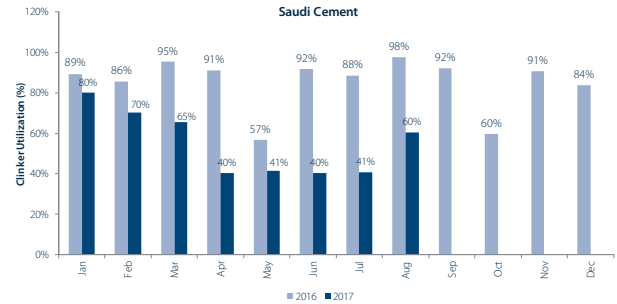


Source: Argaam, Yamama Cement and SHUAA Capital

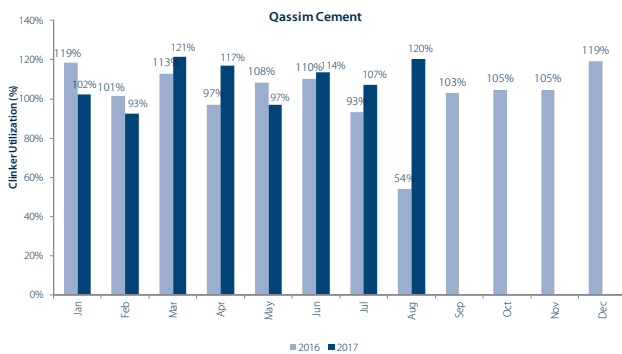
Clinker Utilization (%)

Yamama Cement


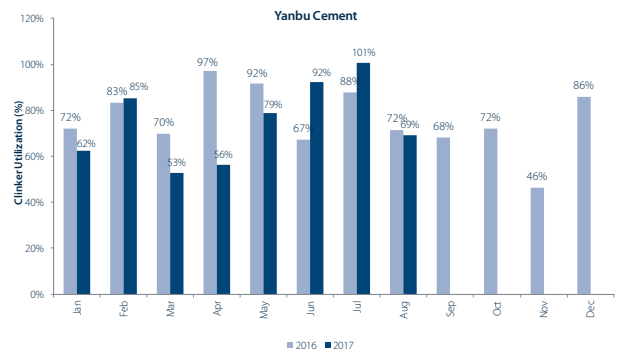
Source: Argaam, Yamama Cement and SHUAA Capital

Saudi Cement


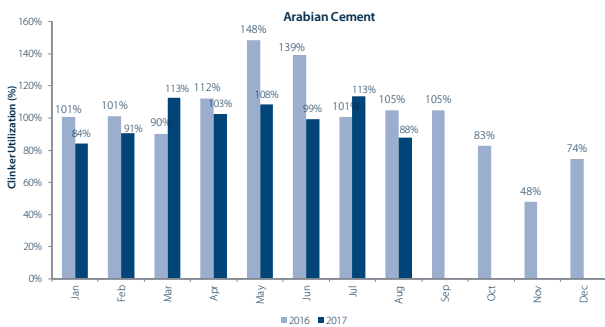
Source: Argaam, Yamama Cement and SHUAA Capital

Qassim Cement


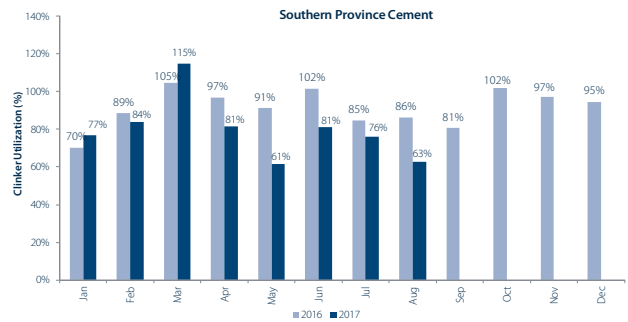
Source: Argaam, Yamama Cement and SHUAA Capital

Yanbu Cement


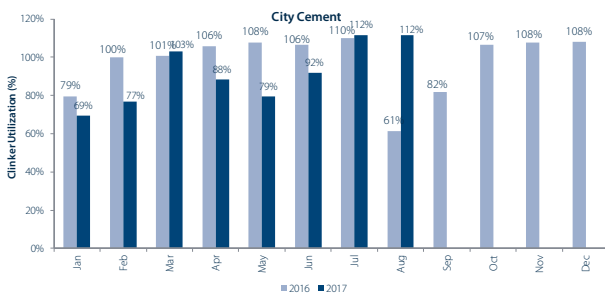
Source: Argaam, Yamama Cement and SHUAA Capital

Arabian Cement


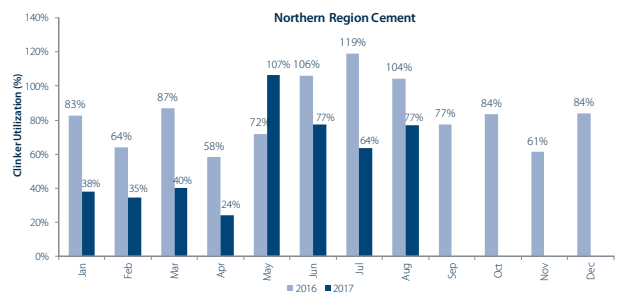
Source: Argaam, Yamama Cement and SHUAA Capital

Southern Province Cement


Source: Argaam, Yamama Cement and SHUAA Capital

City Cement


Source: Argaam, Yamama Cement and SHUAA Capital

Northern Region Cement


Source: Argaam, Yamama Cement and SHUAA Capital

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