



Key themes

This is our monthly update on Cement production, volumes and inventory in Saudi Arabia.

Research Department

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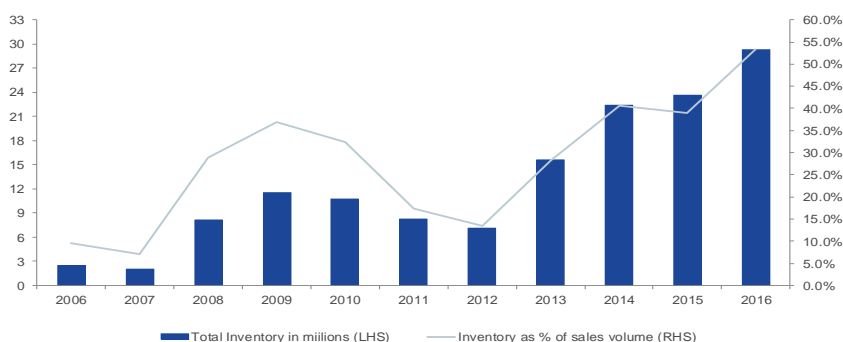
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Saudi Cement sector:

Weakness continues; Sequential monthly demand growth may indicate signs of stabilization

- According to the latest monthly data released by Yamama Cement, total cement dispatches in the Kingdom fell 16% y-o-y to 4.78mn tons in January highlighting weak demand on a y-o-y basis. However, the sequential growth of 11.3% m-o-m is positive, as it possibly shows an early sign of demand stabilizing at these levels although a recovery is not expected soon. This sales volume, if sustained may dispel concerns highlighted by some market forecasts showing demand steeply falling from these levels. However, we believe that a healthy sustainable recovery will take much longer as total inventory remained at record high levels of 29.6mn tons, representing 55% of last 12-month sales volume. This will continue to result in more discounts being offered to customers, already witnessed in Q4 especially in the Central and Western regions.
- Clinker production in the Kingdom came in at 4.24mn tons, down 6% y-o-y (+8% m-o-m). City and Jouf cement were the only cement producers that reported y-o-y growth in sales volume, by 22.4% and 2.5% y-o-y respectively. On the other hand, Northern and Hail cement witnessed the sharpest decline in sales of -56% and 46% y-o-y respectively.
- Weakness in cement demand may continue if there is no replacement demand when mega projects such as Riyadh metro and King Abdullah financial district in the Central region get completed. Notably, in 2016, Ministry of Finance approved 1,192 construction projects (-18% y-o-y), however, the total value of the awarded projects dropped by 69% y-o-y to SAR 24 billion. With demand unlikely to pick up steeply, cutting production would be one of the realistic options for balancing the market, especially for producers with highest inventories. Recently, Yamama Cement temporarily shut down five of its production lines. The lines have a joint clinker production capacity of 5,600t/day. We anticipate further announcements from other producers in the coming months.

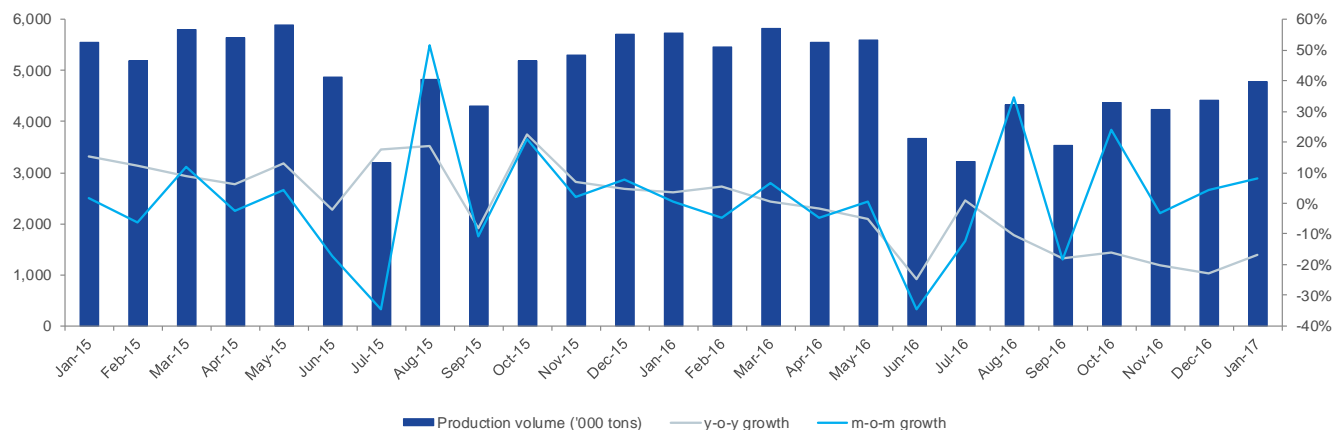
Figure 1 Total inventories as % of sales volume



Source: Company data, Al Rajhi Capital

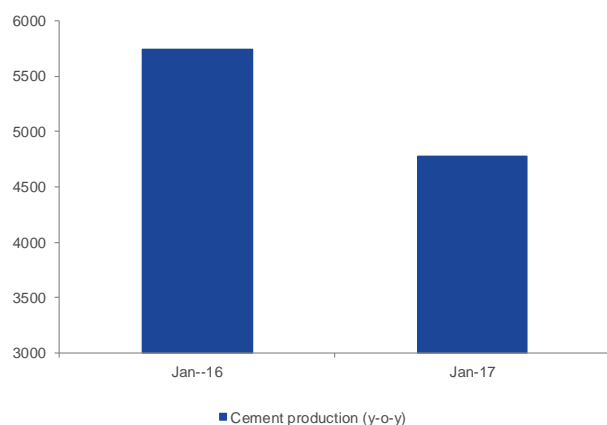


Figure 2 Cement production volume (absolute, y-o-y, m-o-m)



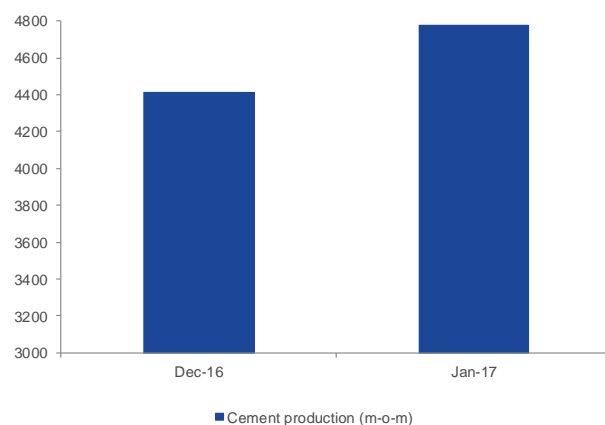
Source: Company data, Al Rajhi Capital

Figure 3 Cement production ('000 tons, y-o-y)



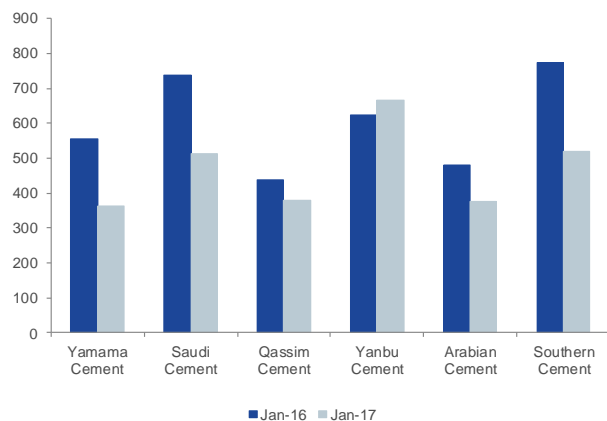
Source: Yamama data, Al Rajhi Capital

Figure 4 Cement production ('000 tons, m-o-m)



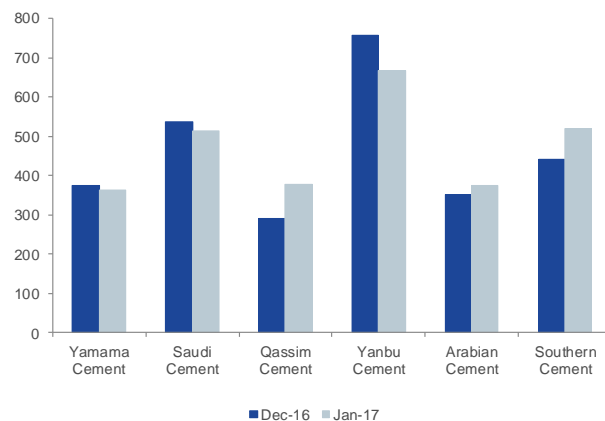
Source: Yamama data, Al Rajhi Capital

Figure 5 Cement production ('000 tons, y-o-y)



Source: Yamama data, Al Rajhi Capital

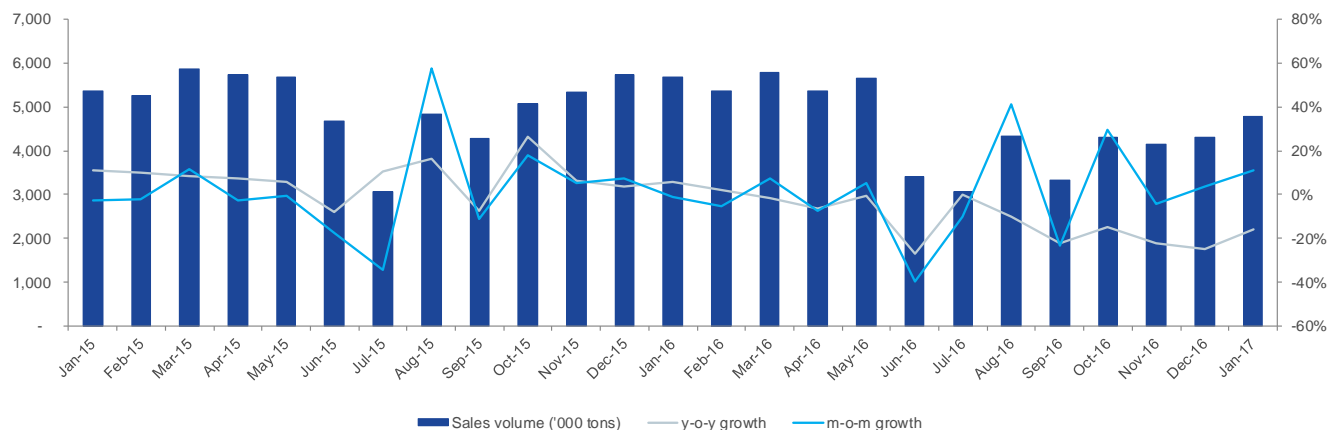
Figure 6 Cement production ('000 tons, m-o-m)



Source: Yamama data, Al Rajhi Capital

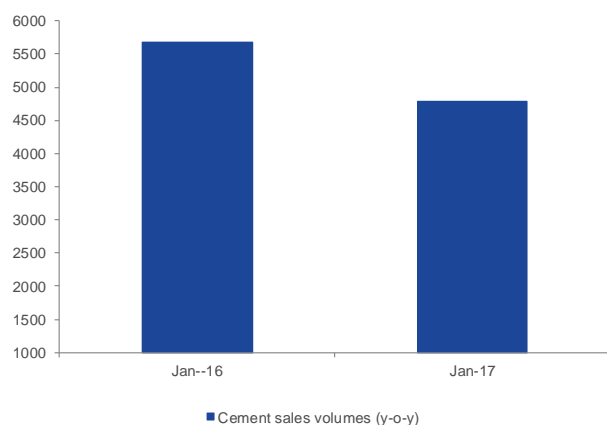


Figure 7 Cement sales volumes (absolute, y-o-y, m-o-m)



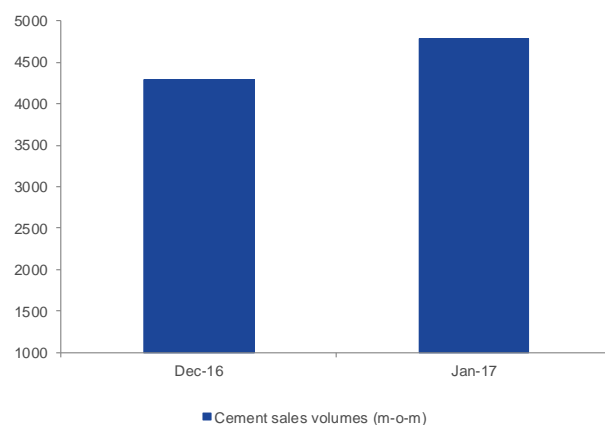
Source: Company data, Al Rajhi Capital

Figure 8 Cement sales volumes ('000 tons, y-o-y)



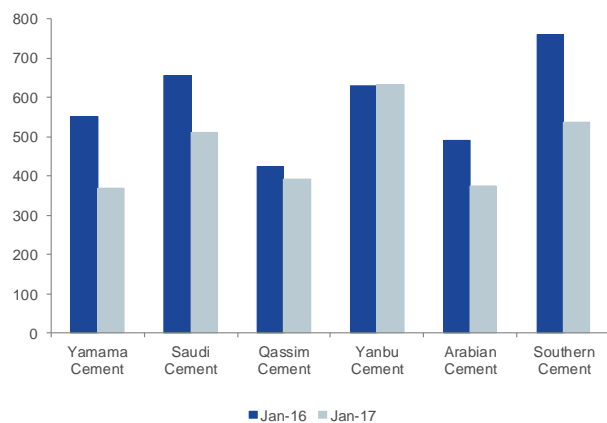
Source: Yamama data, Al Rajhi Capital

Figure 9 Cement sales volumes ('000 tons, y-o-y)



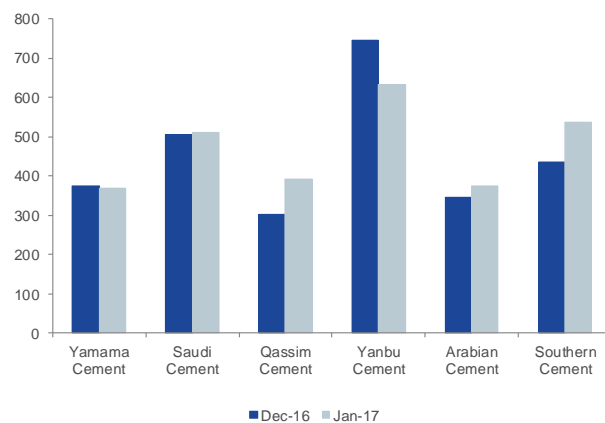
Source: Yamama data, Al Rajhi Capital

Figure 10 Cement sales volumes ('000 tons, y-o-y)



Source: Yamama data, Al Rajhi Capital

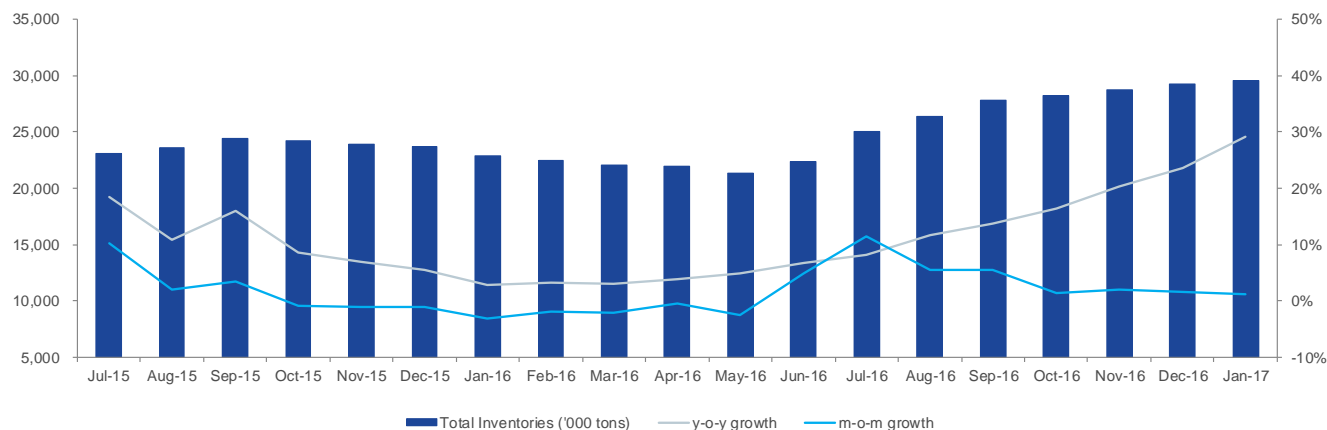
Figure 11 Cement sales volumes ('000 tons, y-o-y)



Source: Yamama data, Al Rajhi Capital

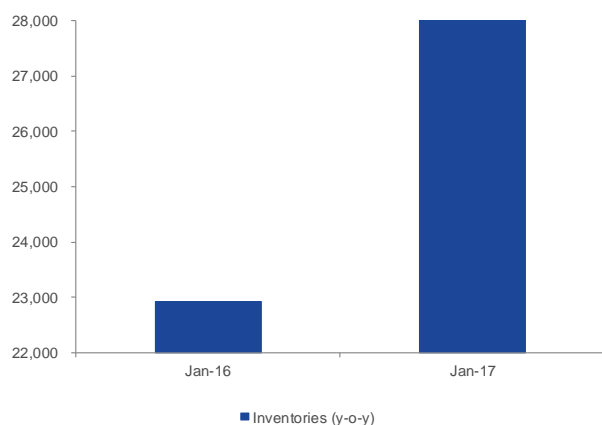


Figure 12 Inventories (absolute, y-o-y, m-o-m)



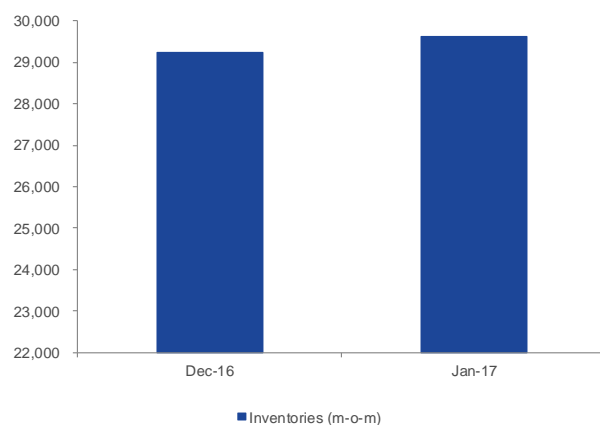
Source: Company data, Al Rajhi Capital

Figure 13 Inventories ('000 tons, y-o-y)



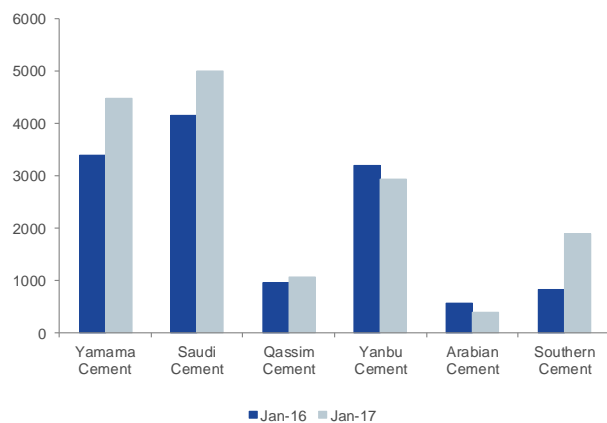
Source: Yamama data, Al Rajhi Capital

Figure 14 Inventories ('000 tons, y-o-y)



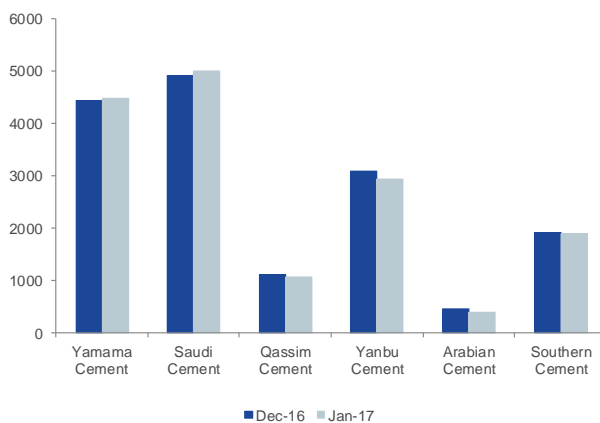
Source: Yamama data, Al Rajhi Capital

Figure 15 Inventories ('000 tons, y-o-y)



Source: Yamama data, Al Rajhi Capital

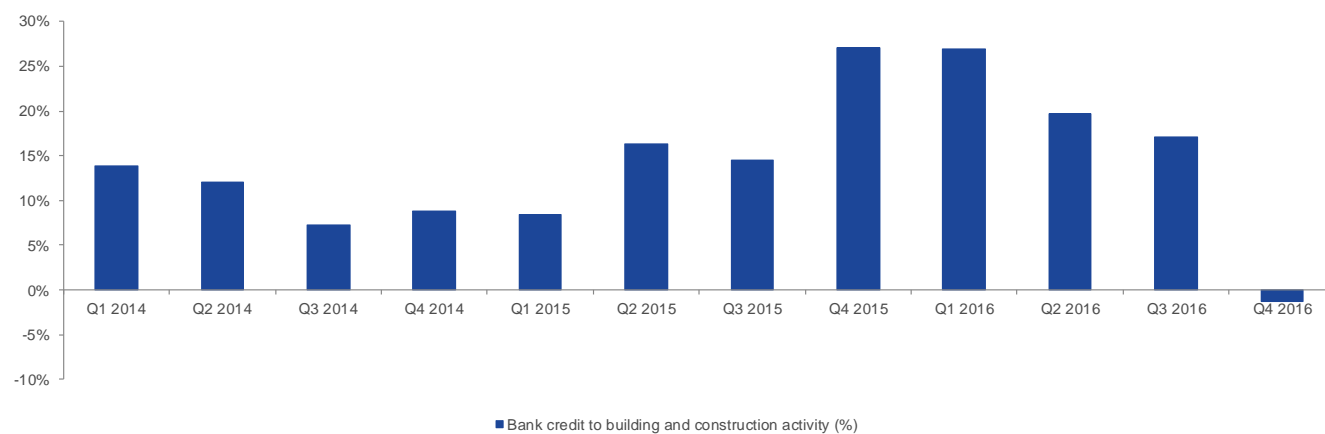
Figure 16 Inventories ('000 tons, y-o-y)



Source: Yamama data, Al Rajhi Capital



Figure 17 Y-o-Y change in Bank credit to building and construction activity (%)



Source: Company data, Al Rajhi Capital



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