



## Cycle turning? More evidence needed

Potential green shoots of a recovery as clinker inventory trends lower, however inventories remain very high compared to historic levels. Lower inventories appear to have been driven by sharply lower selling prices, particularly by newer players. The sector has seen selling prices decline by 9% from previous peak (4Q 2014), whilst new players have seen prices decline by 13% on average. We remain neutral on the sector, until we see sharper declines in inventory. Historically, the sector has relied largely on government spending to bolster demand; however on this occasion execution of the government's real estate / housing development strategy defined in the NTP will drive growth.

### Medium term demand growth will be NTP driven

In the context of Vision 2030 and lower-for-longer oil prices, the sector can no longer rely on government spending to drive demand growth. Instead the sector will be pinning its hopes on the successful implementation of initiatives to bolster real estate development under the NTP. Initial policy steps are now beginning to take shape in the form of 1) implementation of 2.5% tax on white land, 2) releasing government (and quasi) land to developers for residential communities and 3) easing access to real estate finance for citizens. Other measures include reducing licensing time for new residential projects from the current 730 days to 60 days, the government creating its own development company for public-private partnerships and starting a mortgage guarantee fund. By 2020, the government is targeting real estate development contribution to GDP to grow from 5% to 10%, projecting 7% annual growth for the sector. The target is to deliver 1-1.5 mln homes in 7-8 years. Recently, the government has signed a preliminary agreement with a Saudi-Korean developer to deliver 100,000 homes in Riyadh (a US\$ 20 bn project). It is also talking with other foreign developers as Saudi developers are unlikely to have sufficient capacity to meet a fraction of the target.

### Excess inventories dissipating with lower selling prices

Sector inventories, which had peaked in 3Q 2015 at 23.4 mln tons, are on a downward trend. This trend appears driven by lower prices, as average selling prices have fallen by 4.3% since that quarter, and 8.9% from 4Q 2014 (previous selling price peak). In sales days, inventory stands at 121 days in May 2016, against 153 days in 3Q 2015. Lower inventory trend augurs well for price stability should government initiatives to bolster housing lead to stronger demand going forward. However, new capacities pose a risk despite some announced delays in commissioning.

### 1Q 2016 results beat consensus by 11.5%

1Q 2016 earnings beat consensus estimates by a considerable margin, 11.5%. Revenue was weaker than consensus (excl. Najran) by 2.6%. Notable revenue beats came from Yamama, Qassim and City, suggesting stronger than expected demand in the Central Region. Overall, revenue was down 4.3% Y/Y, with Yamama and City posting healthy growth of 11% and 24% Y/Y respectively. Jouf (+126% vs. consensus) and Arabian (+63% vs. consensus) posted the strongest beats. Overall, EBITDA margin was marginally higher by 2 bps Y/Y, while net margin declined 89 bps.

### Favour players close to major urban sectors, particularly Central.

The sector is down 6% relative to TASI Y/Y on account of energy price hikes, excess inventory and poor pricing power, trading at 8.9x 2016E PER vs. MENA and EM averages of 11.5x 2016E and 14.1x 2016E respectively. Going forward, we expect it to trade in line with TASI, and within the sector prefer Arabian, Yamama and Eastern.

PUBLIC

Company	Rating	Target Price SAR	CMP SAR	Expected Return
Southern	HOLD	82.00	75.50	14%
Saudi	HOLD	68.00	62.00	17%
Arabian	BUY	72.00	48.98	54%
Yanbu	HOLD	48.00	42.70	19%
Yamama	BUY	36.80	27.10	43%
Qassim	HOLD	64.00	64.50	8%
Najran	HOLD	14.20	13.19	14%
Eastern	BUY	38.00	30.00	35%
Northern	SELL	11.70	12.55	0%
City	HOLD	17.80	15.05	25%
Hail	HOLD	14.60	12.39	23%
Jouf	HOLD	10.30	8.89	16%
Tabuk	SELL	11.90	14.00	-11%

Source: Bloomberg, SFC; priced on 06/28/2016; \*including 2016 dividend

### Valuation Summary 2016E

Company	P/E(x)	EV/EBITDA(x)	Dividend Yield
Southern	9.7	8.1	5.3%
Saudi	8.8	7.2	7.3%
Arabian	5.7	4.0	6.9%
Yanbu	8.8	6.6	7.0%
Yamama	6.5	5.6	7.4%
Qassim	10.6	7.7	8.4%
Najran	8.9	6.5	6.1%
Eastern	7.8	4.5	8.3%
Northern	12.1	9.3	6.4%
City	9.7	7.7	6.6%
Hail	8.2	5.3	5.6%
Jouf	6.1	6.4	0.0%
Tabuk	13.2	8.9	3.6%

Source: SFC; priced on 06/27/2016

### Cement sector vs. TASI

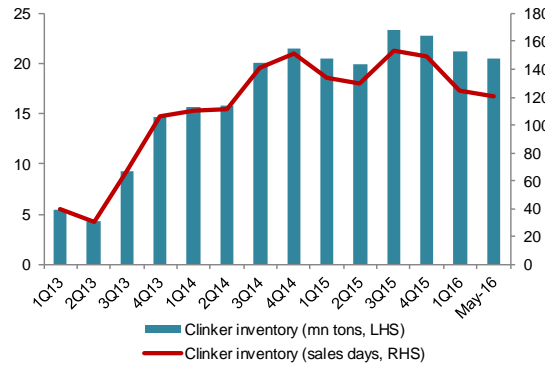


Source: Bloomberg

**Aqib E Mehboob**  
amehboob@fransicapital.com.sa  
+966 11 282 6840

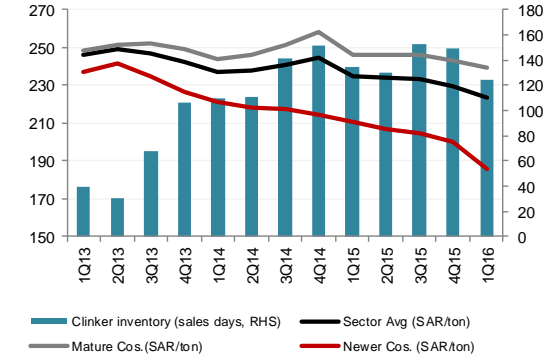
Excess inventory appears to be easing, driven by lower selling prices

Signs of excess inventory easing, but a long way to go .....



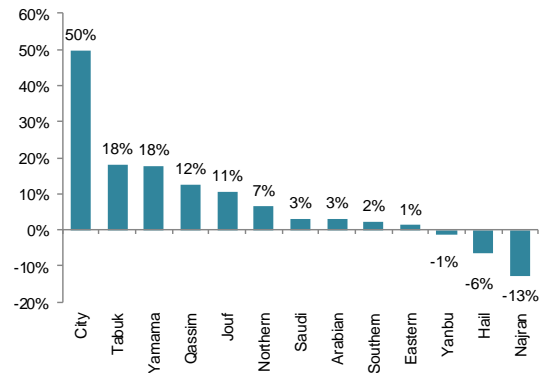
Source: Company Accounts, Yamama

Lower selling prices supporting sales volumes, newer players more aggressive with pricing



Source: Company Accounts

City cement leads the pack in Y/Y sales volume growth, while Najran lags the sector



Source: Company Accounts, Yamama

Tabuk, Saudi, Hail and Eastern have seen inventory (sales days) increase sharply, while Northern has seen shapest decline



Source: Company Accounts, Yamama

1Q 2016 Summary – Beat consensus by 11.5%

Table 1: Results summary 1Q 2016

SAR mln unless o.t	TASI Code	1Q 2016			1Q 2016 (% Y/Y Chg)			1Q 2016 Consensus			1Q 2016 Margins (%)		1Q 2015 Margins (%)		Margin Change	
		Revenue	EBITDA	Net profit	Revenue	EBITDA	Net profit	Revenue	EBITDA	Net profit	EBITDA	Net profit	EBITDA	Net profit	EBITDA	Net profit
Southern	3050	549	328	283	(1.8)	4.8	6.4	569	326	250	59.7	51.5	56.0	47.6	375 bps	396 bps
Saudi	3030	507	328	265	(8.0)	(9.9)	(12.5)	522	317	255	64.7	52.3	66.1	55.0	-137 bps	-272 bps
Arabian	3010	405	248	226	(10.6)	(5.0)	15.9	425	212	139	61.2	55.8	57.6	43.0	362 bps	1,276 bps
Yanbu	3060	400	244	184	(8.5)	(8.3)	(11.1)	430	245	187	61.0	46.0	60.9	47.4	13 bps	-137 bps
Yamama	3020	376	242	150	10.9	11.5	(14.3)	368	258	164	64.4	39.9	64.0	51.6	35 bps	-1,173 bps
Qassim	3040	275	158	135	(2.8)	(16.0)	(17.2)	267	174	132	57.5	49.1	66.4	57.6	-898 bps	-851 bps
Najran	3002	251	101	61	(17.4)	(25.7)	(33.7)	NA	NA	64	40.2	24.3	44.7	30.3	-450 bps	-596 bps
Eastern	3080	245	110	88	(3.9)	(10.6)	3.5	249	NA	71	44.9	35.9	48.2	33.3	-334 bps	259 bps
Northern	3004	231	74	43	(8.7)	(7.5)	(15.7)	245	NA	36	32.0	18.6	31.6	20.2	41 bps	-154 bps
City	3003	180	106	73	24.1	24.7	7.4	177	NA	64	58.9	40.6	58.6	46.9	27 bps	-634 bps
Hail	3001	89	54	33	2.3	-	(13.2)	88	NA	32	60.7	37.1	62.1	43.7	-139 bps	-660 bps
Jouf	3091	89	55	33	2	20	27	92	NA	15	61.8	37.1	52.9	29.9	892 bps	719 bps
Tabuk	3090	75	41	22	(10.7)	(16.3)	(33.3)	81	NA	24	54.7	29.3	58.3	39.3	-367 bps	-995 bps
<b>Sector</b>		<b>3,672</b>	<b>2,089</b>	<b>1,596</b>	<b>(4.3)</b>	<b>(4.3)</b>	<b>(6.2)</b>	<b>3,511</b>	<b>1,532</b>	<b>1,432</b>	<b>56.9</b>	<b>43.5</b>	<b>56.9</b>	<b>44.4</b>	<b>2 bps</b>	<b>-89 bps</b>

Source: Company Accounts, SFC

2Q 2016 expectations – sector earnings expected to decline 1.5% Y/Y

Table 2: 2Q 2016 Expectations

SAR mln unless otherwise specified	Revenue			EBITDA			Net Income		
	2Q15	2Q16E	YoY (%)	2Q15	2Q16E	YoY (%)	2Q15	2Q16E	YoY (%)
	Southern	532	558	4.9	314	330	5.1	270	268
Saudi	500	521	4.2	314	329	4.7	254	265	4.2
Arabian	447	417	6.6	215	258	19.8	162	210	29.9
Yanbu	439	408	7.1	304	248	18.3	246	191	22.4
Yamama	339	407	20.1	220	261	18.5	191	224	17.5
Qassim	264	286	8.2	180	163	9.4	168	135	19.4
Najran	294	258	12.3	126	103	18.2	78	59	24.2
Eastern	254	243	4.3	122	124	1.4	95	90	5.0
Northern	324	249	23.0	113	82	27.6	64	45	30.1
City	146	180	23.3	94	105	11.9	68	74	8.6
Hail	100	91	9.1	47	54	15.8	28	33	18.0
Jouf	93	93	0.2	49	57	16.4	27	36	33.5
Tabuk	76	80	5.1	38	43	13.0	27	22	18.0
Sector	3,808	3,791	0.4	2,136	2,157	1.0	1,678	1,653	1.5

Source: Company Accounts, SFC, \* red denotes negative growth

Rating and Target Price Summary

Table 3: Rating Summary

Company	TASI Code	CMP		2016E				Target Price		At Target Price				Rating	Expected Return
		SAR	PER (x)	PBV (x)	Dividend Yield (%)	EV/Ton (SAR)	SAR	PER (x)	PBV (x)	Dividend Yield (%)	EV/Ton (SAR)				
Southern	3050	75.50	9.7	2.8	5.3%	1123	82.00	10.5	3.1	4.9%	1218	1218	HOLD	14%	
Saudi	3030	62.00	8.8	2.6	7.3%	1238	68.00	9.7	2.9	6.6%	1357	1357	HOLD	17%	
Arabian	3010	48.98	5.7	1.3	6.9%	798	72.00	8.4	1.9	4.7%	1249	1249	BUY	54%	
Yanbu	3060	42.70	8.8	1.7	7.0%	931	48.00	9.9	1.9	6.3%	1049	1049	HOLD	19%	
Yamama	3020	27.10	6.5	1.3	7.4%	981	36.80	8.8	1.8	5.4%	1311	1311	BUY	43%	
Qassim	3040	64.50	10.6	3.0	8.4%	1425	64.00	10.5	3.0	8.4%	1413	1413	HOLD	8%	
Najran	3002	13.19	8.9	1.0	6.1%	576	14.20	9.5	1.1	5.6%	612	612	HOLD	14%	
Eastern	3080	30.00	7.8	1.0	8.3%	642	38.00	9.9	1.3	6.6%	851	851	BUY	35%	
Northern	3004	12.55	12.1	1.1	6.4%	1068	11.70	11.3	1.0	6.8%	1015	1015	SELL	0%	
City	3003	15.05	9.7	1.3	6.6%	924	17.80	11.5	1.6	5.6%	1074	1074	HOLD	25%	
Hail	3001	12.39	8.2	1.1	5.6%	730	14.60	9.6	1.3	4.8%	863	863	HOLD	23%	
Jouf	3091	8.89	6.1	0.5	0.0%	451	10.30	7.1	0.6	0.0%	494	494	HOLD	16%	
Tabuk	3090	14.00	13.2	1.0	3.6%	515	11.90	11.2	0.9	4.2%	454	454	SELL	-11%	
Sector Avg			8.9	1.5	6.1%	877		9.8	1.7	5%	997				

Source: Company Accounts, Tadawul, SFC

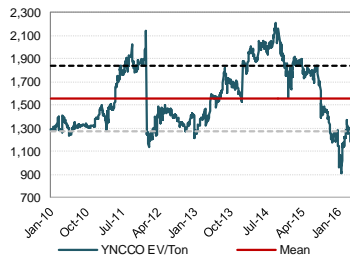
Table 4: Regional and EM Cement Sector Valuations

	P/E			EV/EBITDA			P/B			Dividend Yield			RoE			RoA		
	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E	2015	2016E	2017E
KSA	10.0	8.9	11.2	7.4	6.7	7.7	1.7	1.5	1.5	7.4%	6.1%	5.9%	17.2%	17.4%	13.4%	13.8%	14.3%	11.1%
Oman	11.3	12.3	12.3	7.1	8.3	8.2	1.2	1.3	1.2	5.8%	6.3%	6.3%	11.2%	11.3%	10.6%	8.4%	0.0%	0.0%
Qatar	11.9	11.0	9.8	8.7	8.4	7.4	1.9	1.6	1.5	3.9%	6.0%	7.1%	17.0%	13.9%	14.6%	14.7%	12.2%	13.2%
Kuwait	14.6			12.5			1.5			5.1%			8.7%			5.5%		
UAE	14.1			7.3			0.6			6.7%			5.6%			4.4%		
Egypt	22.6	9.9	22.8	17.3	13.4	6.0	1.0	1.5	1.3	0.0%	5.9%	4.8%	0.3%	5.1%	6.2%	0.4%	2.8%	2.4%
Turkey	23.2	8.9	8.8	14.9	6.5	5.8	4.1	1.8	1.8	0.0%	9.6%	9.7%	19.4%	21.0%	21.8%	13.8%	2.1%	9.0%
Other MEA	14.6	15.6	13.5	10.0	9.3	8.2	3.5	2.2	2.0	4.1%	4.7%	5.7%	24.5%	21.1%	19.5%	11.9%	11.5%	11.6%
India	40.0	26.5	19.8	15.2	14.1	11.4	2.8	2.9	2.6	0.7%	1.2%	1.5%	6.7%	10.7%	12.9%	4.2%	8.2%	9.2%
China	25.7	12.1	8.8	15.6	15.4	9.0	1.4	0.8	0.9	1.2%	1.8%	2.7%	-7.1%	4.4%	5.7%	-1.1%	2.1%	2.7%
Asia ex. China	15.9	16.4	14.3	11.0	9.7	9.0	2.0	1.6	1.5	3.5%	3.7%	4.0%	12.5%	12.4%	12.8%	7.5%	8.3%	8.6%
GCC/MEA average	16.0	11.5	13.4	11.1	9.2	7.1	2.0	1.7	1.6	3.6%	6.5%	6.7%	12.4%	14.5%	14.5%	8.4%	5.7%	7.2%
Premium/discount to KSA	-38%	-23%	-16%	-33%	-27%	8%	-16%	-10%	-6%									
Emer Mkt Avg.	19.4	14.1	13.8	12.0	10.6	8.1	2.0	1.7	1.6	3.1%	4.9%	5.2%	9.9%	12.5%	13.0%	7.0%	5.9%	7.1%
Premium/discount to KSA	-49%	-37%	-18%	-38%	-37%	-6%	-17%	-11%	-8%									

Source: Bloomberg, SFC, Company Accounts

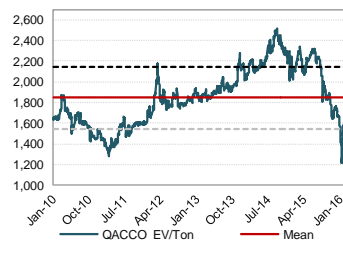
EV/Ton versus historic mean

EV / Ton of Yanbu



Source: Bloomberg, SFC

EV / Ton of Qassim



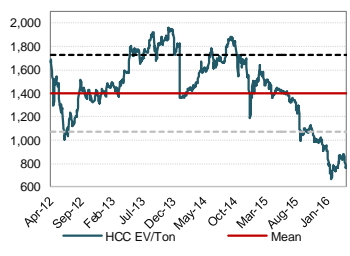
Source: Bloomberg, SFC

EV / Ton of Arabian



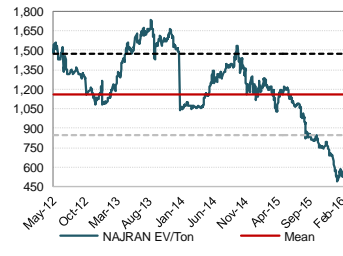
Source: Bloomberg, SFC

EV / Ton of Hail



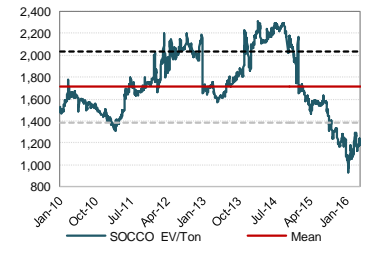
Source: Bloomberg, SFC

EV / Ton of Najran



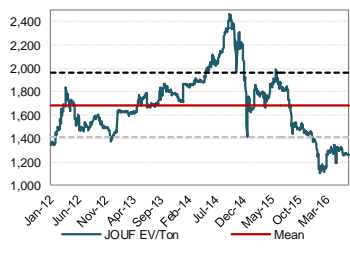
Source: Bloomberg, SFC

EV / Ton of Southern Cement



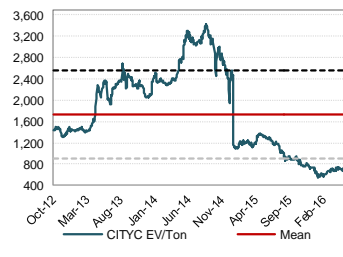
Source: Bloomberg, SFC

EV / Ton of Jouf Cement



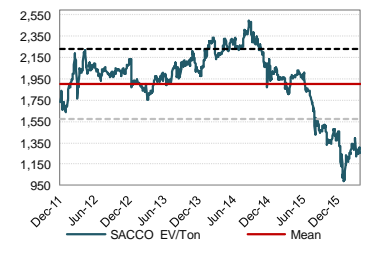
Source: Bloomberg, SFC

EV / Ton of City Cement



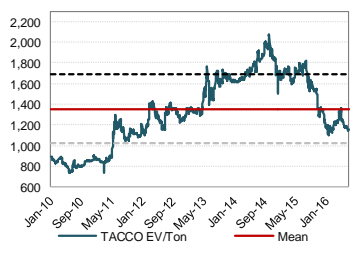
Source: Bloomberg, SFC

EV / Ton of Saudi Cement



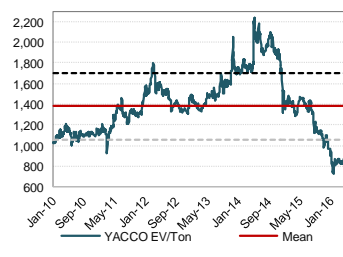
Source: Bloomberg, SFC

EV / Ton of Tabuk Cement



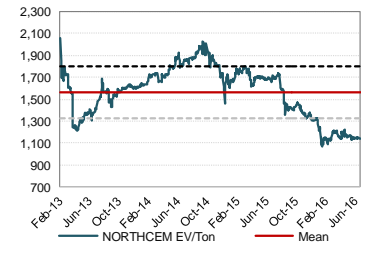
Source: Bloomberg, SFC

EV / Ton of Yamama Cement



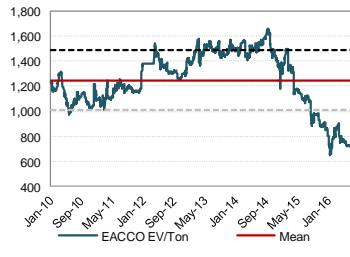
Source: Bloomberg, SFC

EV / Ton of Northern Cement



Source: Bloomberg, SFC

EV / Ton of Eastern Cement



Source: Bloomberg, SFC





## Ratings

---

### Rating Framework

#### **BUY**

Shares of company under coverage in this report are expected to outperform relative to the sector or the broader market.

#### **HOLD**

Shares of company under coverage in this report are expected to perform inline with the sector or the broader market.

#### **SELL**

Shares of company under coverage in this report are expected to underperform relative to the sector or the broader market.

## Saudi Fransi Capital

Call Center | 800 125 9999

[www.sfc.sa](http://www.sfc.sa)

Commercial Registration | 1010231217

### Research and Advisory

P.O. Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

[research&advisory@fransicapital.com.sa](mailto:research&advisory@fransicapital.com.sa)



## Disclaimer

---

This report is prepared by Saudi Fransi Capital ("SFC"), a fully-fledged investment firm providing investment banking, asset management, securities brokerage, research, and custody services. SFC, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. SFC strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this report take into account both risk and expected return.

To the maximum extent permitted by applicable law and regulation, SFC shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute SFC's judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of SFC. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

### **Saudi Fransi Capital LLC**

C.R. 1010231217

P.O Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh