

July 24, 2017

Rating
12- Month Target Price

Neutral
SAR 16.00

YAMAMA CEMENT COMPANY (YAMAMA)

2Q2017 First Look

Expected Total Return

Price as on Jul-23, 2017	SAR 16.77
Upside to Target Price	(4.6%)
Expected Dividend Yield	3.6%
Expected Total Return	(1.0%)

Market Data

52 Week H/L	SAR 25.60/15.55
Market Capitalization	SAR 3,396 mln
Enterprise Value	SAR 2,408 mln
Shares Outstanding	202.5 mln
Free Float	85.4%
12-Month ADTV ('000's)	300.4
Bloomberg Code	YACCO AB

1-Year Price Performance

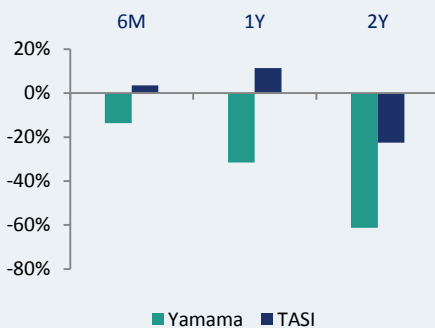


Fig in SAR mln	RC. Est	Actuals
Revenue	225	195
Gross Profit	64	33
EBIT	49	15
Net Income	52	12
EPS (SAR)	0.26	0.06

Earnings Plummet on Competition

Yamama Cement Company (Yamama) announced bleak set of results in 2Q2017, missing RC and street estimates, negatively surprising. EPS of SAR 0.06 declined by -90% Y/Y and -76% Q/Q; missed RC's and street's SAR 0.26 estimate while missing the lowest of SAR 0.22 estimate in the consensus group. A focus on its strategy to increase its market share in the central region during tough times has partially paid-off but took a backlash as such a move has resulted in lackluster earnings for Yamama. Factors for depressed earnings are higher costs and lower selling prices which resulted in i) net margins contracting to 6% in 2Q2017 from 23% in 1Q2017 ii) sharp drop in realization to SAR 162/ton in 2Q2017 vs SAR 177/ton in the last quarter iii) opex reaching highs of SAR 149/ ton signals low probability of a comeback and iv) EBIT/ton of SAR 13 in 2Q versus SAR 39 in 1Q2017, though realization fell by only SAR 15/ton. We revise our estimate for 2017-19 and our target price to SAR 16.00 (earlier SAR 18.00) as scenario looks tough. 2017E P/E of 20.6x versus TASI's 14.7x is expensive, we maintain Neutral.

Sales volume market share hits 4 year high

Revenue of SAR 195 million missed our SAR 225 million estimate, declined by -30% Y/Y and -11% Q/Q as realization tanked significantly to SAR 162/ton. Although it looks higher than SAR 152/ton sold by Qassim, but trails Qassim by net realization due to Yamama's dealer discounts, though less clarity is available. The sharp drop of -9% Q/Q and -20% Y/Y is a desperate move to recapture its market share in the central region and contain competition from producers such as Riyadh, City and Qassim. It succeeded well with Yamama ranked third with its sales volumes of 1.2 MT, declined feebly Q/Q by -3% vs industry's -17% and central regions -14%. The same strategy took its market share to 4-year highs of 10.7% in the industry and LTM highs of 33.4% in Central region.

Less scope for a comeback in 2017

Despite the fall of -6% Q/Q and -41% Y/Y in clinker production, Yamama managed higher sales from its SAR 4.07 MT inventory pile-up. Yamama managed to reduce its inventories by -3% Q/Q after consecutive quarters of increase, much needed at constrained times. We presume Yamama sold nearly 157K tons from inventories. Despite this, gross margins declined to 17% in 2Q2017 from 29% in 1Q2017 as cash cost increased by +10% Q/Q and +37% Y/Y to SAR 104/ton. The increase in costs led to gross profit of SAR 33 million missing our SAR 64 million estimate, declined by -48% Q/Q and -71% Y/Y. We note the increase in production costs to SAR 180 million is at a sharp contrast when revenues have declined. This is in addition to lower utilization, but fall in D&A rates since 1Q2017 has been the key; as impairment of SAR 313 million (7-8% of assets) has led to fall in D&A to SAR 54 million as of 1Q2017 from SAR 78 million in 4Q2016, we assume the same in 2Q2017. Operating profit of SAR 15 million declined by -84% Y/Y and -68% Q/Q, taking Opex/ton to SAR 149, increased by +8% Q/Q and +13% Y/Y. This led to fall in operating margins to 8% in 2Q from 22% in 1Q2017.

Revising target price to SAR 16.00; but maintain Neutral

We revise estimates for 2017-19 estimates after earnings drop of -90% Y/Y and +18% Q/Q to SAR 12 million, which missed our SAR 52 million estimate. We therefore cut our target price to SAR 16.00 from earlier SAR 18.00 but maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	1,125	812	878
EBITDA	714	317	347
Net Profit	366	165	172
EPS (SAR)	1.81	0.81	0.85
DPS (SAR)	1.00	0.60	0.60
BVPS (SAR)	18.40	18.61	18.86

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	2%	3%
ROAE	10%	4%	5%
P/E	9.3x	20.6x	19.7x
P/B	0.9x	0.9x	0.9x
EV/EBITDA	3.4x	7.6x	6.9x
EV/Sales	2.1x	3.0x	2.7x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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