

City cement: net income below our estimates of SAR 30.8mn, a deviation of 59.7%. Significant decline in revenue and gross margin due to lower volumetric sales and weak selling price. Continued pressure on selling prices along with higher production cost will lead to tighter margins in 3Q2017, potentially leading smaller producers to net losses. High probability of suspending dividend payment for FY2017. We maintain our "Neutral" recommendation on the stock with lower PT of SAR 10.30/share.

- City cement recorded net income of SAR 12.4mn a decline of 80.7%YoY and 67.4%QoQ, the decline in net income is attributed to aggressive discount on selling prices. Dispatches are expected to show recovery in 2018 as compared to 2017, however high competition due to oversupply will keep the price realization in check.
- Revenue stood at SAR 117.0mn; a decline of 30.6%YoY, well below our estimates of SAR 141.6mn due to higher than expected impact on volumetric sales and higher discount on prices. Cement sales showed a decline of 5.9%YoY to stand at 798KT in 2Q2017 from 848KT in 2Q2016. For 2Q2017, we expect the selling price to be around SAR 146.7/ton vs. SAR 197.4 in 2Q2016 and SAR 159.2 in 1Q2017. The company is expected to continue selling at discount prices averaging at SAR 151.5 per ton for FY2017. Thus we expect the company's sales revenue in FY2017 to stand at SAR 496.4mn, recording a decline of 17.5%YoY.
- Gross profit stood at SAR 20.7mn, depicting a decline of 72.2%YoY and 55.9%QoQ, impacted by a decline in revenue, and an increase in production cost. Gross margin declined to the lowest level since inception at 17.7% in 2Q2017 from 44.6% in 2Q2016 and 28.1% in 1Q2017. We expect gross margin to average at 22.7% for FY2017. Cost of sales stood at SAR 96.3mn (SAR 120.7 per ton) in 2Q2017 compared to SAR 91.9mn (SAR 108.4 per ton) in 2Q2016. Operating profit stood at SAR 13.5mn showing a decline of 80.0%YoY and 66.2%QoQ.

AJC view: We revise our estimates for FY2017 and FY2018, based on weak dispatches data and discounted selling prices. Continued pressure on selling prices is our main concern, which may lead the company to record losses in the next quarter due to more pressure on demand. For 2017, we expect City cement to post net income of SAR 79.2mn (EPS of SAR 0.42) a decline of 63.4%YoY. Based on our estimates, the company is trading at forward P/E and P/BV of 26.74x and 1.02x, respectively. Dividend payment for FY2017 is a concern, with best case scenario a dividend payment of SAR 0.35/share. We maintain our "Neutral" recommendation with lower PT of SAR 10.3/share.

Results Summary

SARmn (unless specified)	Q2-2016	Q1-2017	Q2-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	167.36	167.30	117.04	-30.07%	-30.04%	-17.33%
Gross Profit	74.73	47.09	20.75	-72.23%	-55.94%	-49.61%
Gross Margin	44.65%	28.15%	17.73%	-	-	-
EBIT	67.76	39.99	13.52	-80.05%	-66.19%	-60.32%
Net Profit	64.16	37.88	12.36	-80.74%	-67.37%	-59.90%
EPS	0.34	0.20	0.07	-	-	-

Source: Company reports, Aljazira Capital

Recommendation	'Neutral'
Current Price* (SAR)	11.2
Target Price (SAR)	10.3
Upside / (Downside)	-8.0%

Source: Tadawul *prices as of 24th of July 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenue	560.5	601.9	496.4
Gross Profit	278.3	254.7	112.7
Net Profit	241.9	214.9	79.2
EPS	1.28	1.14	0.42

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.1
YTD %	-26.7
Shares Outstanding (mn)	189.2
52 Week (High)	15.7
52 Week (Low)	10.9

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	49.6%	42.3%	22.7%
Net Margin	43.1%	35.7%	16.0%
P/E	11.77	10.22	26.74
P/BV	1.40	1.07	1.02
EV / EBITDA	7.65	5.71	11.8
Dividend Yield	8.3%	8.6%	3.1%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst
Waleed Al-jubayr
+966 11 2256146
W.aljubayr@aljaziracapital.com.sa

Analyst
Sultan Al Kadi, CAIA
+966 11 2256374
s.alkadi@aljaziracapital.com.sa

Analyst
Muhanad Al-Odan
+966 11 2256115
M.alodan@aljaziracapital.com.sa

Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers
Central Region
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers
Mansour Hamad Al-shuaibi
+966 12 6618443
m.alshuaibi@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

- 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.
- 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.
- 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.
- 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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Aljazira Capital from sources believed to be reliable, but Aljazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. 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. Aljazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Aljazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Aljazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Aljazira Capital. Funds managed by Aljazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Aljazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Aljazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Aljazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Aljazira Capital. 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.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068