

## YAMAMA CEMENT



## EVENT FLASH

## Discounts and one-offs lead to disappointment

Yamama Cement reported a weak set of 4Q16 results, with net income declining -71.9% YoY to SR43mn. This compares to the NCBC estimates of SR150mn. We believe this weakness came from 1) decline in sales quantities due to the construction slowdown, 2) lowest gross margins since 3Q07 due to the revised fuel subsidies, 3) higher depreciation expense and 4) lower than expected gains on investments.

- **NCBC view on the results:** Yamama Cement reported a weak set of 4Q16 results, with net income declining -71.9% YoY to SR43mn. This is below the NCBC estimates of SR150mn. We believe the weakness came from 1) lower sales quantities due to the construction slowdown, 2) weak margins due to the revised fuel support levels, 3) higher depreciation expense due an asset revaluation related to the new plant and revising the depreciation expense upwards and 4) lower than expected investment income.
- Total sales quantity of Yamama Cement stood at 1.20mn tons in 4Q16, coming in-line with our estimates of 1.26mn tons. Sales quantities declined by -22.4% YoY in 4Q16, lower than the industry declines of -20.5% during the same period. Quantities sold by Yamama Cement declined -8.1% in 2016 vs. -9.5% for the sector.
- Average selling prices stood at SR193/ton vs. our estimates of SR210/ton (-15% YoY, -8% QoQ). As a result sales came -12.6% below our estimates at SR233mn, declining -33.9% YoY. We believe these discounts came as a result of the overall construction slowdown and increased competition in the sector. We believe discounts offered by smaller players in remote regions to sell in high demand areas may lead to further discounts for Yamama Cement.
- Gross margins reached its lowest level since 3Q07, contracting from 56.8% in 4Q15 to 31.8% in 4Q16. This compares to our estimates of 42.0%, leading to a higher variance of -33.9% on the gross profit level. We believe the main reason behind lower margins and -63.0% YoY decline in gross profits to SR74mn is 1) revised support on fuel and utilities and 2) steep discounts offered and 3) upward revision of the depreciation expenses. We expect an average gross margin of 32.4% till 2020E.
- We are Neutral on Yamama Cement with a PT of SR30.5. Lower prices due to competition and higher costs from reduced subsidies are key risks. The stock trades at 2017E P/E of 11.8x vs. peer average of 12.1x.

## 4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var <sup>^</sup>
Sales	233	352	(33.9)	266	(12.6)
Gross Income	74	200	(63.0)	112	(33.9)
Gross margin (%)	31.8%	56.8%	(24.9)	42.0%	(10.2)
Operating income	60	185	(67.6)	98	(38.8)
Operating margin (%)	25.8%	52.5%	(26.7)	36.8%	(11.0)
Net income	43	153	(71.9)	150	(71.3)
Net margin (%)	18.5%	43.4%	(24.9)	56.3%	(37.8)
EPS	0.21	0.76	(71.9)	0.74	(71.3)

Source: Company, NCBC Research <sup>^</sup>% Var indicates variance from NCBC estimates

Please refer to the last page for important disclaimer

## NEUTRAL

Target price **30.5**

Current price (SR) **19.0**

## STOCK DETAILS

52-week range H/L (SR)	30/16
Market cap (\$ mn)	1,027
Shares outstanding (mn)	203
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(16.3)	19.7	(28.4)
Rel. to market	(13.4)	(4.8)	(48.1)

Avg daily turnover (mn)	SR	US\$
3M	8.9	2.4
12M	13.3	3.5

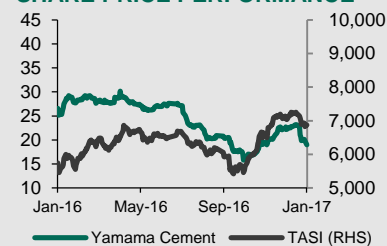
Reuters code	3020.SE
Bloomberg code	YACCO AB
<a href="http://www.yamamahcement.com">www.yamamahcement.com</a>	

## VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	6.0	8.1	11.8
P/B (x)	1.0	1.0	1.0
EV/EBITDA (x)	4.1	5.6	6.2
Div Yield (%)	15.8	10.5	5.3

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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**NCBC Investment Ratings**

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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