



Strong earnings beat could only be transitory

A solid beat vs. SFC and consensus estimate

Hail Cement reported 4Q15 net profit of SAR30m (-27% y/y, +72% q/q – not comparable due to seasonality) that came well ahead of SFC (SAR18m) and consensus (SAR20m) estimates. Operational performance was also stronger than expected with gross profit of SAR42m (-21% y/y, +12% q/q) and EBIT of SAR33m (-27% y/y, +9% q/q). While cement volume came in 11% ahead of our estimate, revenue was only 6% higher meaning realized price (SAR187/ton, -7% q/q, -16% y/y) was 4% below implying pricing pressure was significant. In this backdrop, the solid earnings beat has primarily originated from cost control measures. Having said that, while costs tend to fluctuate quarterly, we will watch out if the cost efficiencies derived in 4Q15 are of a temporary or permanent nature.

Cautious sector outlook; a double whammy of demand slowdown and new capacity

We expect sector wide growth slowdown in cement volume in 2016 (+2% yoy in 2016 vs. 2004-14 volume CAGR of 8%). In our view, while potential demand slowdown in 2016 is certainly an issue, capacity addition seems to be the bigger threat to the sector. While clinker capacity stood at 57.8m tons in 1H15, between 2H15 and 2017 end, 11.7mn tons (20% addition to 1H15 capacity) of new clinker capacity is set to come online. Consequently, we expect clinker production to ramp up as fight for market share intensifies among the players in a weak demand environment. In-all, as clinker production is set to exceed demand (excluding exports which we haven't modeled yet), we expect stock buildup of 4.7m tons in 2016E vs Dec 2015 clinker inventory of 23 mn tons. Historically, cement prices have shown a very tight inverse correlation with clinker stock and if history is any indicator, we expect cement price to fall around 7% in 2016.

Expect 36% y/y earnings decline in 2016; Maintain Hold with SAR10/share TP

Post publication of 4Q15 preliminary results, keeping in line with recent trends and our outlook for the sector in 2016 and 2017 (volume decline, pricing pressure and negative impact from electricity and fuel cost increase), we have cut Hail's 2016E-17E earnings by 47%. On our revised estimate, the stock trades at 2016E P/E of 14.5x and EV/EBITDA of 8.3x which does not seem very appealing. In our view, Hail also suffers from a locational disadvantage which means in the face of slowdown in the home market, the company may have to price more competitively in order to more effectively compete in the demand centres (Western and Central regions). To understand the impact of pricing pressure, we highlight while Hail's 2015 cement volume is up 9% y/y, 2015 net profit is down 22% y/y. In this backdrop, we expect 36% y/y earnings decline in 2016 (company guided to impact from increase in electricity, fuel and transportation costs on earnings at SAR24m implying 33% of 2016 net profit) due to softer pricing and utility repricing. Given the forecasted steep earnings decline, we do not expect strong stock price performance in the near to mid-term which leads to our cautious view. While we acknowledge 2016E dividend yield is an attractive 6.5% (DPS SAR0.70, -30% y/y), dividend yield alone is unlikely to supersede earnings decline and positively impact the stock in a muted environment. We maintain Hold rating on Hail Cement with a revised target price of SAR10/share (from SAR19/share).

SAR mn	4Q15A	4Q15E	% dev	Cons	% dev	3Q15	% q/q	4Q14	% y/y	2016E	2017E
Volume ('000tons)	486	439	11%	Na	Na	386	26%	414	17%	1,826	1,860
Revenues	91	86	6%	86	6%	78	17%	92	Na	319	307
Gross Profit	42	29	44%	Na	Na	38	12%	53	-21%	116	100
EBIT	33	19	71%	19	71%	30	9%	45	-27%	78	62
Net profit	30	18	67%	20	46%	18	72%	41	-27%	72	58

Source: Company, Saudi Fransi Capital, Bloomberg

Rating Summary

Recommendation	Hold
12-Month Target price (SAR)	10.0
Upside/(Downside)	-7%

Stock Details

Last Close Price	SAR	10.7
Market Capitalization	SAR mln	1,048
Shares Outstanding	mln	98
52-Week High	SAR	26.7
52-Week Low	SAR	10.7
Price Change (3M)	%	-34.8
6-Mth ADTV	mln	6.1
EPS 2016E	SAR	0.74
Reuters / Bloomberg	3001.SE	HCC AB

Source: Tadawul, *as of 20 Jan 2016

Key Shareholders (%)

Public	50
Other strategic shareholders	32
Al Mal Investment - Kuwait	6
Saudi Real Estate	6
Yamama Cement	6

Source: Tadawul

Price Multiples

	2016E	2017E
P / E	14.5x	18.2x
EV / EBITDA	8.3x	9.4x
Dividend Yield	6.5%	5.6%

Source: SFC

1-Year Share Performance



Source: Bloomberg

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Summary Financials

SAR mn, ending Dec 31-st

Income Statement	2014	2015	2016E	2017E	2018E	CAGR	
						2013-15	2015-17
Revenues	356	356	319	307	306	48%	(6%)
Gross profit	184	167	116	100	99	42%	(23%)
EBITDA	214	194	141	125	124	42%	(20%)
EBIT	154	131	78	62	61	62%	(31%)
Net Income	147	114	72	58	58	50%	(29%)
Shares outstanding (mln)	98	98	98	98	98		
EPS (SAR)	1.50	1.16	0.74	0.59	0.59		
DPS (SAR)	1.10	1.00	0.70	0.60	0.60		

*SFC estimate

SAR mn, ending Dec 31-st

Balance Sheet	2014	2015E	2016E	2017E	2018E	CAGR	
						2013-15	2015-17
Cash and Equivalents	194	127	137	150	164		
Receivables	0	0	0	0	0		
Inventories	98	120	123	122	121		
Other current assets	48	50	50	50	50		
Current assets	340	297	310	322	336	25%	4%
PP&E	1,059	1,019	981	943	905		
Investments	0	0	0	0	0		
Other non-current assets	1	0	0	0	0		
Total assets	1,400	1,316	1,291	1,265	1,241	(1%)	(2%)
Accounts payable	54	0	0	0	0		
Accrued expenses	0	0	0	0	0		
Current portion of LT Debt	11	14	14	14	14		
Other current liabilities	9	48	43	42	41		
Current liabilities	74	62	57	55	55	(33%)	(5%)
Long-term Debt	263	234	210	187	164		
Other non-current liabilities	3	4	4	4	4		
Total non-current liabilities	266	237	214	191	167	0%	(10%)
Total equity	1,060	1,016	1,020	1,019	1,018	3%	0%
Total liabilities & equity	1,400	1,316	1,291	1,265	1,241	(1%)	(2%)

SAR mn, ending Dec 31-st

Cash Flow Statement	2014	2015E	2016E	2017E	2018E
CF from operation+WC change	108	150	127	120	121
Capex	(18)	(21)	(25)	(25)	(25)
Operating FCF	90	129	102	95	96
FCF after investing	90	79	102	95	96
Dividends	(49)	(157)	(69)	(59)	(59)
Debt Repayment/New debt	55	(28)	(23)	(23)	(23)
Others	0	0	0	0	0
Net Cash flow	96	(106)	11	13	14

Grow th (y/y)	2014	2015	2016E	2017E	2018E
Sales	124%	(2%)	(9%)	(4%)	(0%)
EBITDA	121%	(9%)	(28%)	(11%)	(0%)
EBIT	206%	(15%)	(41%)	(21%)	(1%)
Net Income	191%	(23%)	(36%)	(20%)	0%
DPS	Na	(9%)	(30%)	(14%)	0%
Margins	2014	2015E	2016E	2017E	2018E
Gross Margin	52%	47%	36%	32%	32%
EBIT Margin	43%	37%	24%	20%	20%
EBITDA Margin	60%	55%	44%	41%	41%
Net Margin	41%	32%	23%	19%	19%
Valuation Multiples	2014	2015E	2016E	2017E	2018E
P/E	16.8	17.5	14.5	18.2	18.2
EV/EBITDA	12.2	10.8	8.3	9.4	9.4
P/Sales	6.9	5.6	3.3	3.4	3.4
P/BV	2.3	2.0	1.0	1.0	1.0
Dividend Yield	4.4%	4.9%	6.5%	5.6%	5.6%
Ratios	2014	2015E	2016E	2017E	2018E
Net Debt/Equity	8%	12%	9%	5%	1%
Net Debt/EBITDA	0.4	0.6	0.6	0.4	0.1
RoE	14%	11%	7%	6%	6%
RoA	10%	8%	6%	5%	5%
Operating FCF/EBITDA	42%	66%	73%	76%	77%
Payout Ratio	73%	86%	95%	102%	102%
Working Capital/Sales	23%	34%	41%	43%	43%

Sources: Company, Saudi Fransi Capital



Research and Advisory Department

Rating Framework

BUY

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

HOLD

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

SELL

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

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