



EVENT FLASH

Lowest net income on record due to discounts

Yanbu Cement reported a weak set of 2Q17 results, with net income declining -49.5% YoY to SR80mn. This is the lowest net income on record and compares to the NCBC and consensus estimates of SR96.7mn and SR84.6mn, respectively. We believe this weakness came from 1) lower sales quantities (-17.6% YoY), 2) lower selling prices due to the high competition (-25.5% YoY), and 3) lowest gross margins on record of 38.8%. Yanbu Cement trades at a 2018E P/E of 10.9x vs covered peers at 12.3x.

- **NCBC View on Results:** Yanbu Cement reported a weak set of 2Q17 results, with net income declining -49.5% YoY (-35.6% QoQ) to SR80mn. This is below the NCBC and consensus estimates of SR96.7mn and SR84.6mn, respectively. We believe the weakness came from 1) lower sales quantities due to the overall slowdown in the construction sector and high export tariffs and 2) weak margins due to discounts offered, despite the increase in other income (SR12mn in 2Q17 vs SR4.2mn in 2Q16).
- Total sales quantity of Yanbu Cement stood at 1.20mn tons in 2Q17, coming in-line with the NCBC estimates of 1.27mn tons. Sales quantities declined by -17.6% YoY (-23.9% QoQ), higher than the industry declines of -23.4% YoY (-17.7% QoQ) during 2Q17.
- Average selling prices stood at SR177/ton vs. the NCBC estimates of SR193/ton (-25.5% YoY, -8.5% QoQ). We believe these discounts came as a result of the slowdown in the construction sector and increased competition. Moreover, we believe the discounts by Yanbu Cement were also triggered by the limited export potential as a result of the high export tariff.
- Gross margins reached the lowest level on record, contracting from 48.5% in 2Q16 to 38.8% in 2Q17. This compares to our estimates of 43.0%, leading to a higher variance of -21.6% at the gross profit level. We believe the main reason behind lower margins and -50.9% YoY (-37.1% QoQ) decline in gross profits is the price discounts offered, in addition to the impact of the revised fuel support on companies. We expect an average gross margin of 42.4% for Yanbu Cement till 2021E.
- We are Neutral on Yanbu Cement with a PT of SR40.8. Lower prices due to competition and limited export potential due to the high tariff are key risks for the company. Yanbu Cement trades at a 2018E P/E of 10.9x vs. peer average of 12.3x.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var [^]	% QoQ
Revenues	214.0	348	(38.6)%	246	(13.1)%	(30.3)%
Gross income	83.0	169**	(50.9)%	106	(21.6)%	(37.1)%
Gross margin (%)	38.8%	48.5%	(974) bps	43.0%	(422) bps	(416) bps
EBIT	71.0	156.0**	(54.5)%	97.0	(26.8)%	(42.3)%
EBIT Margin (%)	33.2%	44.8%	(1,161) bps	39.4%	(623) bps	(689) bps
Net income	80.0	158.5	(49.5)%	96.7	(17.3)%	(35.6)%
Net Margin (%)	37.4%	45.5%	(813) bps	39.3%	(189) bps	(307) bps
EPS (SR)	0.51	1.01	(49.5)%	0.61	(17.3)%	(35.6)%

Source: Company, NCBC Research, [^] % Var indicates variance from NCBC forecasts; ** Restated

NEUTRAL

Target price (SR) 40.8

Current price (SR) 29.1

STOCK DETAILS

M52-week range H/L (SR)	41/26
Market cap (\$mn)	1,223
Shares outstanding (mn)	158
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.8)	(16.3)	(26.7)
Rel. to market	(4.3)	(17.4)	(39.2)

Avg. daily turnover (mn)	SR	US\$
3M	3.5	0.9
12M	7.2	1.9

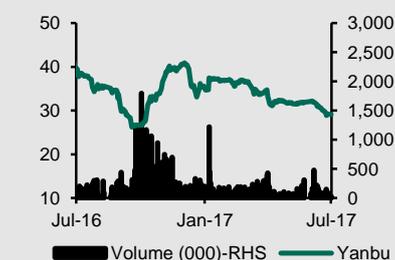
Reuters code	3060.SE
Bloomberg code	YNCCO AB
	www.yanbucement.com

VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	8.6	10.1	10.9
P/B (x)	1.3	1.3	1.3
EV/EBITDA (x)	5.9	6.2	6.4
Div Yield (%)	10.3	8.6	8.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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- 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

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