

# Yanbu Cement Company

Q2 2017

## Recommendation

Neutral

## Fair Value (SAR)

31.00

Price as of August 6, 2017	29.25
Expected Return	6.0%

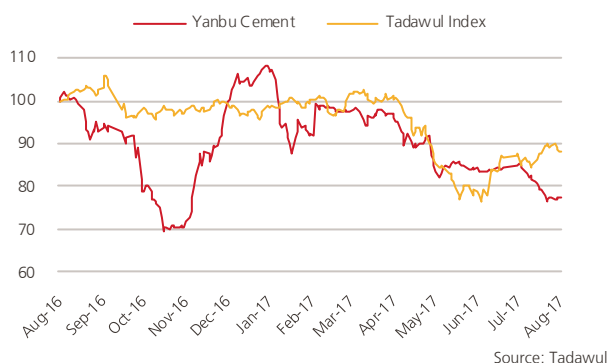
## Company Data

Tadawul Symbol	3060.SE
52 Week High (SAR)	41.10
52 Week Low (SAR)	25.80
YTD Change	-28.5%
3-Month Average Volume (Thousand Shares)	94
Market Cap. (SAR Million)	4,607
Market Cap. (USD Million)	1,229
Outstanding Shares (Million Shares)	157.5

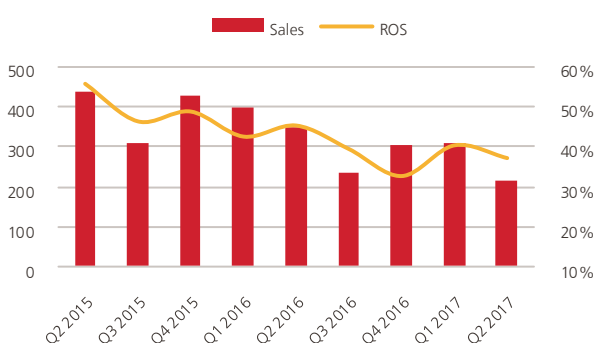
## Major Shareholders ( > 5% )

General Organization for Social Insurance	12.37%
Public Investment Fund	10.00%
Awqaf Sulaiman Bin Abdul-Aziz Al Rajhi	7.35%
Abdullah Abdulaziz Saleh Al Rajhi	5.98%
Al Rajhi Bros. Group Company	5.17%

52-week Stock Price Movement



Quarterly Net Income (SAR mn)



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Yanbu Cement Company disclosed its lowest quarterly bottom line in 10 years revealing net profit of SAR 80.6 million in Q2 2017 compared to SAR 159 million in Q2 2016 falling 50% YoY, and 35% QoQ from SAR 124 million in the previous quarter. This resulted in a net profit margin of 37.6% in Q2 2017 compared with 45.7% for Q2 2016 and 40.6% for Q1 2017. Therefore, the semiannual figure dwindled 38% to SAR 205 million versus SAR 330 million in H1 2016.

Total revenues amounted to SAR 214 million in Q2 2017 compared to SAR 348 million in Q2 2016 slumping 38%, while sliding 30% from SAR 307 million in Q1 2017. Thus, the semiannual revenues totaled SAR 521 million compared with SAR 748 million in H1 2016 shrinking 30%.

The company sold 1.21 million tons of cement in Q2 2017 compared to 1.47 million tons in Q2 2016, decreasing 18% YoY and 24% QoQ. Therefore, semiannual sales reached 2.80 million tons in H1 2017 versus 3.30 million tons in H1 2016, down 15%.

The YoY decline in bottom line during Q2 2017 and H1 2017 was triggered by the dip in selling prices and dispatches, despite an unrealized gain on the market value of derivatives compared to unrealized loss in Q2 2016. Compared with the previous quarter, Q2 2017 was also affected by coinciding with Ramadan and the holiday of Eid al-Fitr.

Operating profit concluded Q2 2017 at SAR 71 million compared with SAR 156 million in Q2 2016 slumping 55% YoY and dropped 42% QoQ, thus the operating margin shrank to 33.4% versus 44.8% in Q2 2016 and 40.1% in Q1 2017. The semiannual operating profit edged down 38% posting SAR 205 million compared to SAR 330 million in H1 2016.

Total market sales in Q2 2017 tumbled 23.4% YoY reaching 11.2 million tons compared to 14.7 million tons in Q2 2016, despite the addition of the sales of Umm Al-Qura Cement and United Cement for the first time, while sliding 17.7% QoQ from 13.6 million tons in Q1 2017. The semiannual sales dwindled 21.6% hitting SAR 24.9 million compared with SAR 31.7 million in H1 2016. Meanwhile, clinker inventory reached the highest level recording 31.2 million ton by the end of June 2017.

On the other hand, a ministerial committee has approved the reduction of cement export fees by 50% to stimulate the competitiveness of local cement in external markets, where the committee has endorsed the cement export fees ranging between SAR 85 to SAR 133 per every exported ton. However, we still believe that Saudi cement companies are unable to compete under current export fees, especially given the slowdown in main neighbouring economies and the hefty cost of exporting to remote markets.

The earnings figure for Q2 2017 was remarkably affected by the weak demand and the drop in the average selling prices compared to Q1 2017; bringing net profit for the second quarter below our estimate of SAR 95 million and analysts' consensus of SAR 93 million. Furthermore, we expect a tough competition as demand continued to weaken in the local market and high levels of clinker stocks. Meanwhile, we believe the pressure on cement prices will continue till local demand recovers.

In light of the above, we revised our future estimates and profit margins, therefore our valuation is downgraded from SAR 33 to SAR 31 per share.

FY - Ending December	2014A	2015A	2016A	2017E
EV/EBITDA	4.54	4.49	5.85	8.27
EV/Sales	2.98	2.88	3.61	5.17
P/E	5.74	5.72	8.60	13.64
Dividend Yield	13.7%	17.1%	10.3%	6.8%
P/BV	1.31	1.24	1.31	1.34
P/Revenue	2.95	2.86	3.58	5.13
Revenue Growth	-3.8%	3.4%	-20.3%	-30.2%
EPS (SAR)	5.09	5.12	3.40	2.14

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2013A	2014A	2015A	2016A	2017E
<b>Sales</b>	<b>1,620.3</b>	<b>1,559.4</b>	<b>1,613.0</b>	<b>1,286.3</b>	<b>897.6</b>
COGS	529.8	497.4	533.4	450.8	301.7
SG&A	37.3	39.6	44.8	41.2	34.5
<b>EBITDA</b>	<b>1,053</b>	<b>1,022</b>	<b>1,035</b>	<b>794</b>	<b>561</b>
EBITA Margin	65.0%	65.6%	64.1%	61.8%	62.5%
Depreciation and amortization	206.2	209.6	209.0	222.1	224.5
<b>EBIT</b>	<b>847.0</b>	<b>812.8</b>	<b>825.7</b>	<b>572.2</b>	<b>336.8</b>
Net interest income	(12.6)	(9.4)	(7.5)	(5.7)	(5.6)
Others	7.3	21.9	3.6	(15.8)	16.4
<b>Pre-Tax and Zakat Income</b>	<b>841.6</b>	<b>825.4</b>	<b>821.7</b>	<b>550.7</b>	<b>347.6</b>
Tax and Zakat	16.4	21.7	15.5	14.3	9.3
<b>Net Income before Minority</b>	<b>825.2</b>	<b>803.6</b>	<b>806.2</b>	<b>536.4</b>	<b>338.3</b>
Minority	3.9	1.7	0.1	0.9	0.6
<b>Net Income</b>	<b>821.3</b>	<b>801.9</b>	<b>806.1</b>	<b>535.5</b>	<b>337.7</b>
ROS	50.7%	51.4%	50.0%	41.6%	37.6%

Balance Sheet (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash and Marketable securities	311.2	289.7	286.8	111.0	189.3
Accounts Receivable	180.0	191.4	219.6	164.3	151.4
Inventory	481.3	551.3	528.9	558.5	577.8
Others	59.7	24.8	25.2	29.2	21.4
<b>Total ST Assets</b>	<b>1,032.2</b>	<b>1,057.1</b>	<b>1,060.4</b>	<b>863.0</b>	<b>939.8</b>
Net Fixed Assets	3,233.8	3,107.0	2,986.1	2,898.8	2,978.1
Others	46.9	80.2	120.2	266.6	34.9
<b>Total LT Assets</b>	<b>3,280.7</b>	<b>3,187.2</b>	<b>3,106.4</b>	<b>3,165.4</b>	<b>3,012.9</b>
<b>Total Assets</b>	<b>4,312.9</b>	<b>4,244.3</b>	<b>4,166.8</b>	<b>4,028.4</b>	<b>3,952.8</b>
Short Term Debt and CPLTD	280.5	239.1	57.1	67.1	102.4
Accounts Payable	45.3	21.8	13.2	8.4	13.6
Accrued Expenses	87.5	64.0	71.8	61.4	42.8
Others	114.8	122.7	114.1	133.3	114.1
<b>Total ST Liabilities</b>	<b>528.2</b>	<b>447.7</b>	<b>256.3</b>	<b>270.3</b>	<b>272.9</b>
Total Long Term Debt	407.4	168.2	101.1	144.8	123.8
Other Non-Current Liabilities	96.3	98.9	105.9	85.4	110.5
<b>Equity</b>	<b>3,281.0</b>	<b>3,529.5</b>	<b>3,703.4</b>	<b>3,528.0</b>	<b>3,445.6</b>
<b>Total Liabilities and Equity</b>	<b>4,312.9</b>	<b>4,244.3</b>	<b>4,166.8</b>	<b>4,028.4</b>	<b>3,952.8</b>

Cash Flow (SAR mn)	2013A	2014A	2015A	2016A	2017E
Cash flow from Operations	808.5	930.7	1,008.9	763.8	540.7
Cash flow from Financing	(1,193.7)	(836.3)	(883.7)	(658.5)	(403.3)
Cash flow from Investing	(90.1)	(115.9)	(128.1)	(281.1)	(72.1)
Change in Cash	(475.3)	(21.5)	(2.9)	(175.7)	65.3

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

\* All the historical financials statements were prepared in accordance with SOCPA standers until the releasing (IFRS) financial statements.

## Cement and Clinker Summary by the End of Q2 2017

Figure in thousand ton	Q2 2017	Q2 2016	YoY	Q1 2017	QoQ	H1 2017	H1 2016	YoY
<b>Sector Production</b>								
Cement	11,218	14,813	(24%)	13,693	(18%)	24,916	31,851	(22%)
Clinker	12,009	14,206	(15%)	12,876	(7%)	24,888	28,004	(11%)
<b>Sector Dispatches</b>								
Cement	11,233	14,673	(23%)	13,643	(18%)	24,878	31,713	(22%)
Clinker	4	448	-	2	100%	6	448	-
<b>Sector Inventory</b>								
Cement	1,224	1,045	17%	1,239	(1%)	1,224	1,045	17%
Clinker	31,179	21,904	42%	28,999	8%	31,179	21,904	42%
<b>Cement Production / Company</b>								
Yamama Cement	1,198	1,394	(14%)	1,242	(4%)	2,440	3,042	(20%)
Saudi Cement	1,195	2,072	(42%)	1,455	(18%)	2,650	4,176	(37%)
Eastern Cement	507	676	(25%)	618	(18%)	1,125	1,508	(25%)
Qassim Cement	861	1,045	(18%)	1,068	(19%)	1,929	2,309	(16%)
Yanbu Cement	1,210	1,461	(17%)	1,645	(26%)	2,856	3,297	(13%)
Arabian Cement	803	1,248	(36%)	1,122	(28%)	1,924	2,708	(29%)
Southern Cement	1,301	2,046	(36%)	1,518	(14%)	2,820	4,353	(35%)
Tabuk Cement	236	391	(40%)	337	(30%)	575	767	(25%)
Riyadh Cement	717	966	(26%)	868	(17%)	1,585	1,998	(21%)
Najran Cement	407	734	(45%)	568	(28%)	976	1,777	(45%)
City Cement	818	873	(6%)	1,031	(21%)	1,849	1,774	4%
Northern Cement	280	513	(45%)	305	(8%)	585	1,216	(52%)
Jouf Cement	327	539	(39%)	434	(25%)	761	1,033	(26%)
Safwa Cement	487	476	2%	478	2%	966	1,061	(9%)
Hail Cement	197	379	(48%)	266	(26%)	464	832	(44%)
Umm Al-Qura Cement	270	-	-	302	-	572	-	-
United Cement	404	-	-	436	-	839	-	-
<b>Cement Dispatches / Company</b>								
Yamama Cement	1,204	1,380	(13%)	1,242	(3%)	2,446	3,035	(19%)
Saudi Cement	1,203	2,059	(42%)	1,471	(18%)	2,674	4,144	(35%)
Eastern Cement	517	669	(23%)	614	(16%)	1,131	1,507	(25%)
Qassim Cement	881	1,010	(13%)	1,073	(18%)	1,954	2,272	(14%)
Yanbu Cement	1,212	1,470	(18%)	1,592	(24%)	2,805	3,304	(15%)
Arabian Cement	811	1,248	(35%)	1,113	(27%)	1,923	2,723	(29%)
Southern Cement	1,295	2,047	(37%)	1,527	(15%)	2,823	4,327	(35%)
Tabuk Cement	231	364	(37%)	343	(33%)	575	764	(25%)
Riyadh Cement	727	964	(25%)	862	(16%)	1,588	1,973	(20%)
Najran Cement	401	726	(45%)	566	(29%)	967	1,754	(45%)
City Cement	798	848	(6%)	1,051	(24%)	1,849	1,761	5%
Northern Cement	272	517	(47%)	323	(16%)	595	1,233	(52%)
Aljouf Cement	324	537	(40%)	409	(21%)	733	1,044	(30%)
Safwa Cement	488	457	7%	485	1%	974	1,046	(7%)
Hail Cement	203	377	(46%)	263	(23%)	467	826	(43%)
Umm Al-Qura Cement	263	-	-	303	-	566	-	-
United Cement	403	-	-	406	-	808	-	-

Source: Yamama Cement Statistics, Albilad Capital Research

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by  $< 10\%$ .

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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