Hail Cement: Lower than expected realization price and volumetric sales led to decrease in profitability in 4Q2016. Limited potential from lifted export ban and negative outlook for 2017. We remain "Overweight" on the stock with lower TP of SAR 13.40/share.

Amount in SAR mn; unless specified	Forecasts 4Q-16	Actual 4Q-16	Deviation (%)
Sales revenues	58.76	49.35	**-16.0%**
Net profit	27.84	23.59	**-15.3%**
EPS (SAR)	0.28	0.24	**(0.04)**

Despite the increase in other income and lower than expected production cost, lower volumetric sales and weak realization price led to poor performance in 4Q2016: 4Q2016 net income came below our expectation indicating a deviation of 15.3% from our estimate. Hail Cement Company posted net income of SAR 23.6mn; (EPS; SAR 0.24); indicating a fall of 20.99%YoY and a growth of 17.63%QoQ. According to the company the decline in net profit was mainly attributed to decrease in revenue despite the increase in other income, where other income is expected to stand at SAR 7.45mn which was due to unrealized gain from equity portfolio.

Revenue stood at SAR 49.35mn; a decline of 46.1%YoY and strongly below our estimates of SAR 58.76mn. This is mainly attributed to decline in volumetric sales and weak selling price. Cement sales showed a decline of 44.4%YoY to stand at 270KT ton in 4Q2016 from 486KT in 4Q2015. For 4Q2016, we expect the selling price to be around SAR 182.8/ton vs. SAR 188.3 in 4Q2015 and SAR 196.7 in 3Q2016 that driven by slower construction activities and high inventory level.

Gross profit stood at SAR 24.79mn depicting a decline of 23.40%QoQ and 39.77%YoY, which mainly impacted by lower price realization and lower volumetric sales. Gross margin increased to 50.2% in 4Q2016 from 45.8% in 4Q2015. Based on our calculation, the cost/ton is expected to be at SAR 91.0 vs. SAR 115.0/ton in 4Q2015 due to the impact of scheduled maintenance in 4Q2015. Operating profit stood at SAR 16.39mn showing a decrease of 33.98%QoQ and 49.67%YoY. Operating expenses stood at SAR 8.39mn, showed an increase of 11.54%QoQ and decrease of 10.10%YoY.

Pressured fundamentals over 2017 outlook due to weak liquidity in the market and the government's effort to prioritize its' project pipeline to improve efficiency: We expect cement dispatches for 2017 to be muted due to current economic environment. Furthermore, lower sales prices are consistent with continued pressure on cement demand and high levels of inventory, which is expected to remain high in the near term. We expect signs of recovery to show in 2018 onward along with NTP and better economic outlook. For FY2019, the government's plans is to cut more subsidy on the provided fuel, which will increase production cost and affecting profitability; therefore, we adjust our model to reflect the increase in fuel prices.

Hail Cement Co. dispatches in 2016 underperformed the market: The company showed a decline of 21.2%YoY in dispatches during 2016 as compared to the sector decline of 9.4%YoY. The company sales volume stood at 1.39MT comparing to 1.77MT in 2015, while total cement dispatches decline from 61.44MT in 2015 to 55.66MT in 2016.

We remain 'Overweight' on the stock with lower TP of SAR 13.4/share: Hail Cement Co. is expected to post net income of SAR 102.5mn (1.05 EPS) for FY2017, recording a decline of 1.9%YoY for the year influenced by expected lower volumetric sales and weak realization price. However, we maintain our '**Overweight**' recommendation for the stock with target price of **SAR 13.4/share**; indicates a potential increase of 21.4% over current market price of SAR 11.04/share (as of 16th January 2017). Based on our estimate the company is trading at forward P/E of 10.54x for FY2017. The company reduced its dividend to SAR 0.50/share for 1H2016, as compared to SAR 0.60/share for 1H2015 (16.6%YoY) and we expect the company to pay dividend of SAR 0.5/share for 2H2016 with a dividend yield of 9.06% for FY2016 based on current price.

Recommendation	**'Overweight'**
Current Price* (SAR)	**11.04**
Target Price (SAR)	**13.4**
Upside / (Downside)	**21.4%**

*prices as of 16th of January 2017

Key Financials

SARmn (unless specified)	FY15	FY16	FY17E
Revenues	356.4	272.1	265.3
Growth %	0.2%	-23.6%	-2.5%
Net Income	113.5	104.5	102.5
Growth %	-22.8%	-8.0%	-1.9%
EPS	1.16	1.07	1.05

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY15	FY16	FY17E
Gross Margin	47.0%	51.3%	49.8%
EBITDA Margin	54.8%	63.0%	62.2%
Net Margin	31.9%	38.4%	38.6%
P/E	12.38	11.21	10.54
P/B	1.33	1.10	1.01
ROE	10.8%	9.8%	9.6%
ROA	8.2%	7.6%	7.6%
Dividend Yield	7.7%	8.4%	9.1%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	1.08
YTD %	**-4.84%**
Shares Outstanding (mn)	97.9
52 Week (High)	14.0
52 Week (Low)	9.0

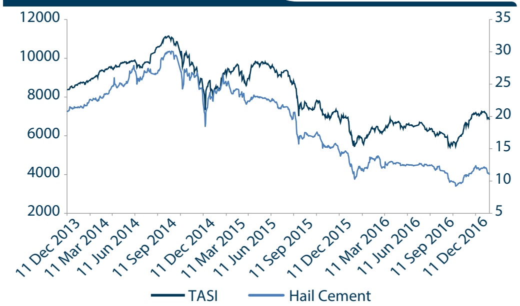
Source: Company reports, Aljazira Capital

Shareholders Pattern

Shareholders Pattern	Holding
Yamamh Cement Company	6.12%
Saudi Real Estate Co.	6.12%
Al-Mal Investment Co.	6.12%
Public	81.64%

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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RATING TERMINOLOGY

1. 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.
2. 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.
3. 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.
4. 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