SHUAA

KSA Cement Sector Monthly

Domestic sales volumes decreased 20.2% YoY and 2.8% MoM; zero exports
Clinker inventories remain elevated; no respite for the sector in sight

13th Jun 2017

SAUDI DOMESTIC CEMENT SALES DECLINE BY 20.2% YOY AND 2.8% MOM IN MAY

Saudi domestic cement sales declined to 4.5mn tons in May 2017 (-20.2% YoY, -2.8% MoM). YTD, domestic sales stood at 22.8mn tons, a 19% decline compared to the same period last year. Amid levy of export duties, cement exports from the eastern province remained nil in May 2017 (May 2016: 77k mt). Within our stock coverage, all the companies reported YoY decline in sales volumes, with Northern region reporting the sharpest decline (-42% YoY), followed by Saudi Cement (-38% YoY). On MoM basis, within our coverage, only Yamama cement reported an increase in sales (+.7%). On market share front, Yamama (+1.0%) saw an increase in market share, while share of Southern Province declined by -0.5%.

Cement production also fell c.18% YoY in May but increased marginally by 0.7% MoM to 4.6 mn tons, while clinker production increased to 4.1 mn tons (+16% MoM). Clinker inventory increased marginally (0.3% MoM) to 28.5mn tons and our estimated total sector inventories remain elevated at 7.9 sales months compared to historical levels (5 years avg: 4.3). Within our coverage, on a MoM basis, Northern Region cement reported an increase in clinker inventories of 34%, followed by Arabian and Yanbu, reporting an increase of c.8% and c.4%; respectively.

We continue to expect sharp contraction in the margins for all the KSA cement companies in the medium-term; however, margin profile on a sequential basis in Q2 is likely to be supported by limited decline in inventories. We remain sellers of the sector, and consider Northern region cement as the worst-positioned within our coverage – May inventories stood at 10 months of ttm sales, 3M clinker operating rate stood at 57%.

KSA Cement –May 2017 Performance

Company	Cement Sales			Cement Production			Clinker Production		
	May-17	YoY(%)	MoM(%)	May-17	YoY(%)	MoM(%)	May-17	YoY(%)	MoM(%)
Yamama	512	-1.0%	6.9%	475	-9.4%	2.2%	398	-23.8%	168.9%
Saudi	473	-37.8%	-2.1%	510	-29.9%	14.3%	308	-26.8%	2.7%
Eastern	203	-19.1%	0.5%	210	-14.6%	10.5%	244	3.8%	62.7%
Qassim	349	-12.1%	-3.1%	356	-9.0%	0.3%	272	-10.2%	-16.8%
Yanbu	504	-14.9%	-2.3%	526	-10.7%	8.0%	492	-14.0%	40.2%
Arabian	340	-30.9%	-3.4%	332	-32.5%	-1.8%	325	-27.0%	5.5%
Southern Province	514	-37.3%	-6.9%	553	-28.3%	1.5%	430	-32.7%	-24.6%
Tabuk	89	-41.1%	-21.2%	97	-34.5%	-12.6%	109	38.0%	-7.6%
Riyadh	283	-28.0%	-3.4%	258	-29.9%	-11.9%	130	-56.4%	-44.2%
Najran	155	-47.3%	-13.9%	137	-53.6%	-26.3%	164	-55.4%	811.1%
City	321	-7.5%	-7.0%	340	-4.0%	-2.3%	238	-26.3%	-10.2%
Northern Region	110	-41.8%	-3.5%	110	-38.2%	-8.3%	240	48.1%	344.4%
Jouf	115	-44.7%	-8.0%	118	-37.6%	-4.1%	134	32.7%	5.5%
Safwa	196	12.6%	-0.5%	193	9.7%	-5.4%	200	43.9%	-4.8%
Hail	83	-46.5%	1.2%	84	-43.6%	7.7%	166	33.9%	-5.1%
Umm Al-Qura Cement	99	-	-9.2%	97	-	-14.2%	66	-	340.0%
United Cement Industrial Company	165	-	17.0%	173	-	30.1%	141	-	-0.7%
Industry	**4,511**	**-21.4%**	**-2.8%**	**4,569**	**-18.4%**	**0.7%**	**4,052**	**-14.2%**	**15.6%**

Source: Argaam, Yamama Cement and SHUAA Capital

Share Price Performance

	YTD*	May-17
Yamama	-24%	-23%
Saudi	-30%	-24%
Qassim	-26%	-25%
Yanbu	-22%	-21%
Arabian	-21%	-20%
Southern Province	-40%	-38%
City	-27%	-25%
Northern Region	-24%	-22%
TASI	-6%	-5%

**Prices as of Jun 11, 2017 close*

Recommendation

	Rec.	Fair Value (SAR)
Yamama	SELL	17.5
Saudi	SELL	57.1
Qassim	SELL	48.0
Yanbu	HOLD	35.4
Arabian	HOLD	37.0
Southern Province	SELL	52.9
City	BUY	13.9
Northern Region	SELL	8.2

Source: SHUAA Capital

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Sector/Company News

Najran Cement to take advantage of being located close to target market received export license earlier this year as the demand slowed down in the local market. However, due to higher export fees levied by the government on the export of cement, the company's financials did not see a positive impact from the same.

Najran Cement decided to establish mining and transportation firms with a capital of SAR 500,000 in Feb and May 2016; respectively. However, BoD recently approved the decision to put the plans on hold. The proposal to float mining firm was postponed as the Ministry of Mineral Resources has deferred the issuance of new mining licenses till the finalization of amended laws. The company cited current market condition as the reason for deferment of plans to establish the transportation company.

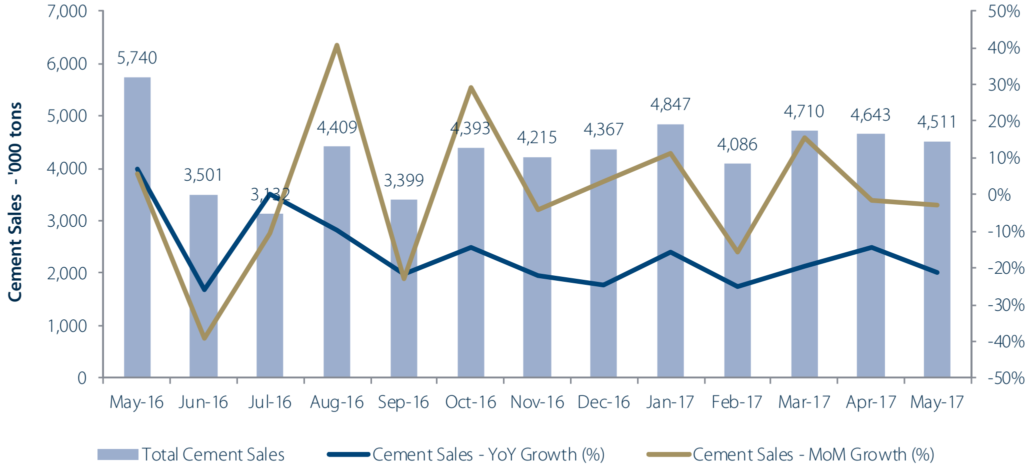
Hail Cement Company announced that it has received export license which would be valid for one year from the date of receiving the license. However, it further stated the company does not foresee any significant impact on the financials.

Minister of Housing, Mr. Majed Al Hogail, stated that the government is looking to deliver 1 million residential units over the next five years. He added that the ministry is planning to deploy latest construction techniques, which are expected to save up to 30% of construction cost and reduce the time taken for construction. The use of new technology would help in cutting cost, boosting quality and faster execution resulting in reduction of the construction period to 6 months as compared to 2-3 years now. The Ministry of Housing has inked several contracts with China and some European countries for implementing the new technology, currently it is working on a 108-unit project in Riyadh, which it expects to be finished in 35 days using the new construction techniques.

The Kingdom started levying the **white land tax** on undeveloped plots at the end of March and the first phase covered undeveloped lands larger than 10,000 square meters. **Mr. Mohammed Almudaiheem**, a supervisor for the white land tax scheme at the housing ministry stated that KSA would implement the second phase by 2020 and the ministry of housing might also consider imposing tax on commercial areas in the near future.

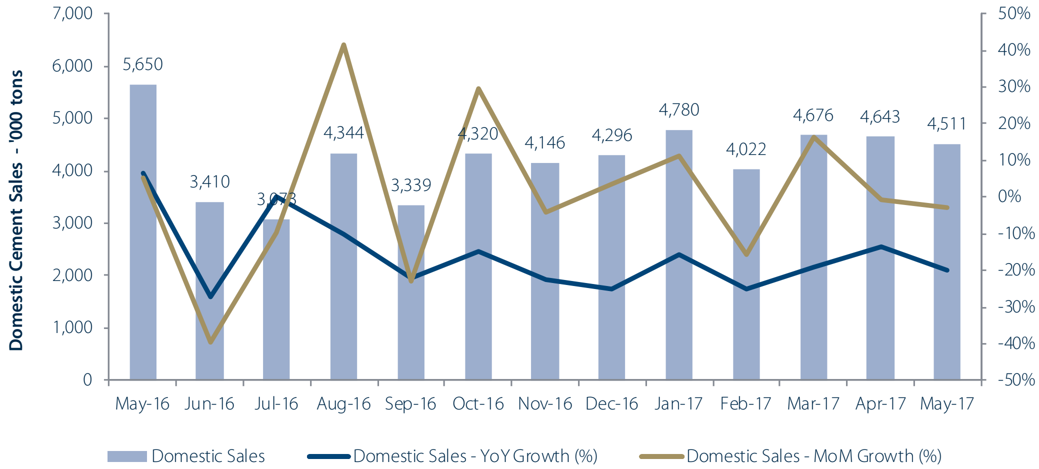
KSA Cement Sector Trends

On a YoY basis, cement sales declined c.21% in May amid a weakened demand environment



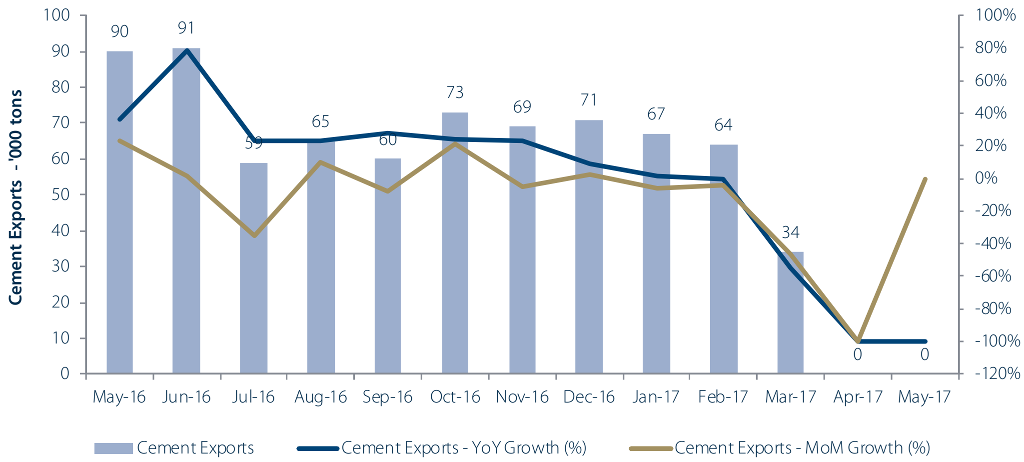
Source: Argaam, Yamama Cement and SHUAA Capital

Domestic sales continued their downward trend, falling c.20% YoY…



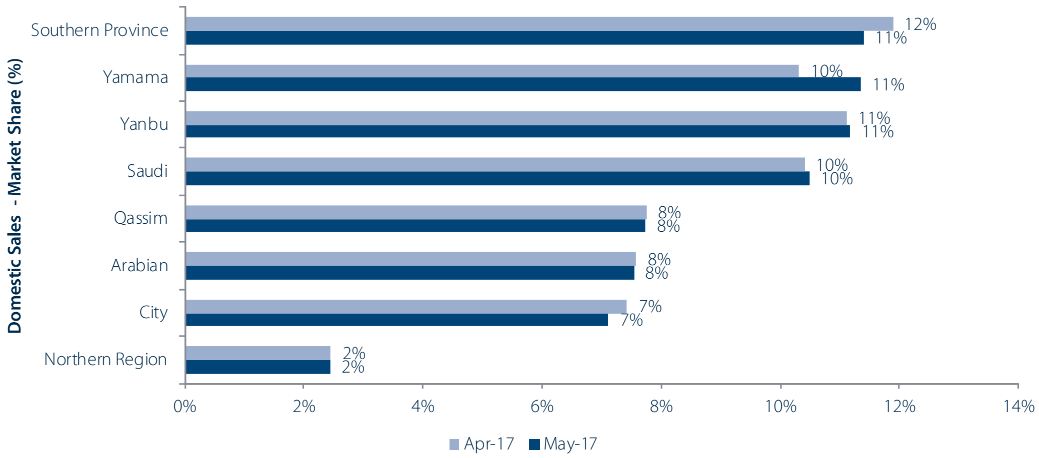
Source: Argaam, Yamama Cement and SHUAA Capital

Cement exports was nil in month of May, amid high export fee levied by the government



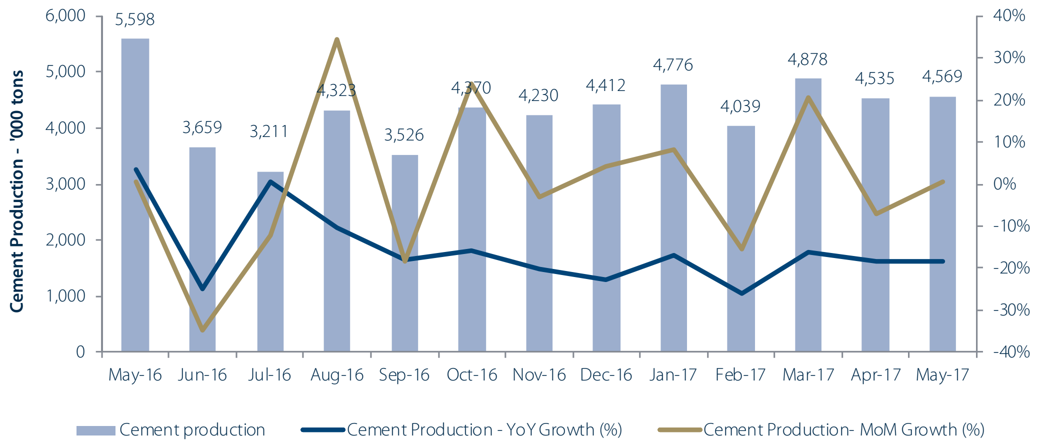
Source: Argaam, Yamama Cement and SHUAA Capital

Yamama (+1.0%) saw an increase in market share, while share of Southern Province declined by (-0.5%)



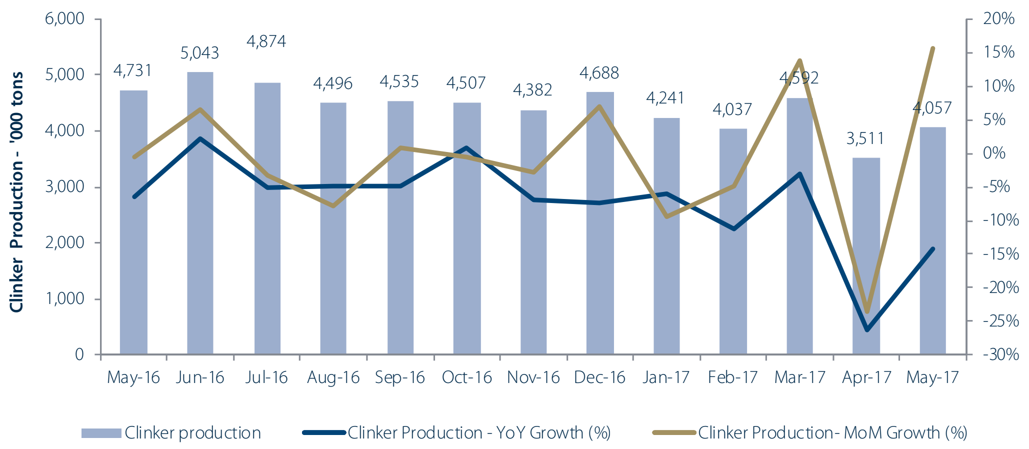
Source: Argaam, Yamama Cement and SHUAA Capital

Cement production declined c.18% YoY due to the lower sales offtake, however, increased marginally by 0.7% MoM



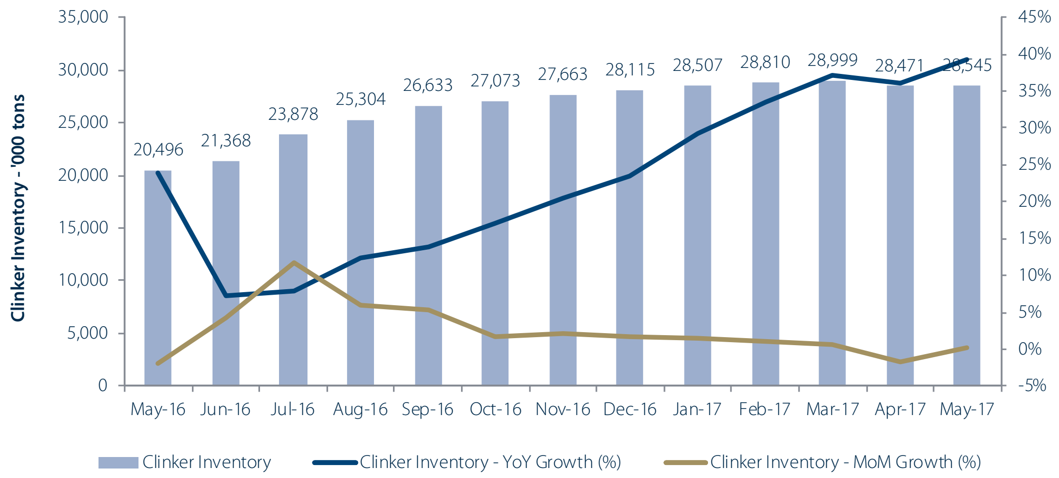
Source: Argaam, Yamama Cement and SHUAA Capital

While clinker production fell c.14% YoY; however, increased by c.16% MoM after the industry reported an decline of c.24% MoM in April



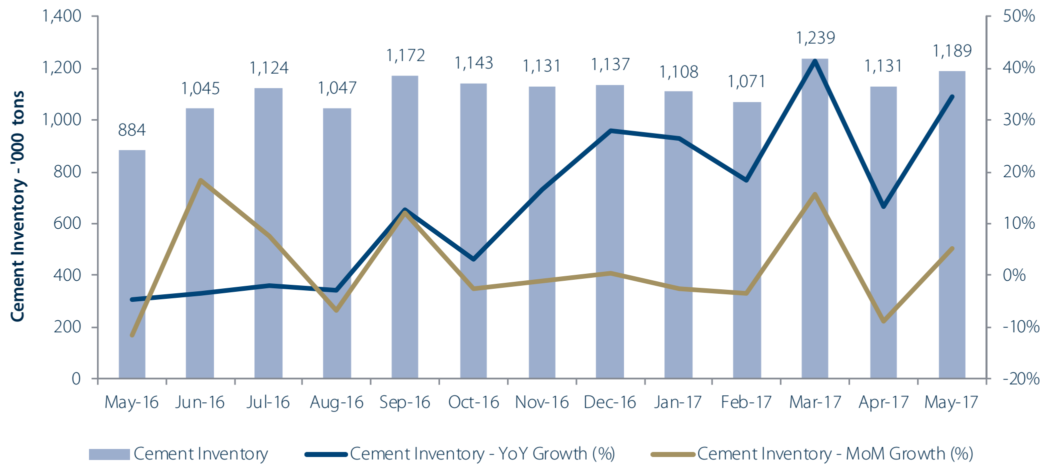
Source: Argaam, Yamama Cement and SHUAA Capital

Clinker Inventory increased marginally by 0.3% MoM



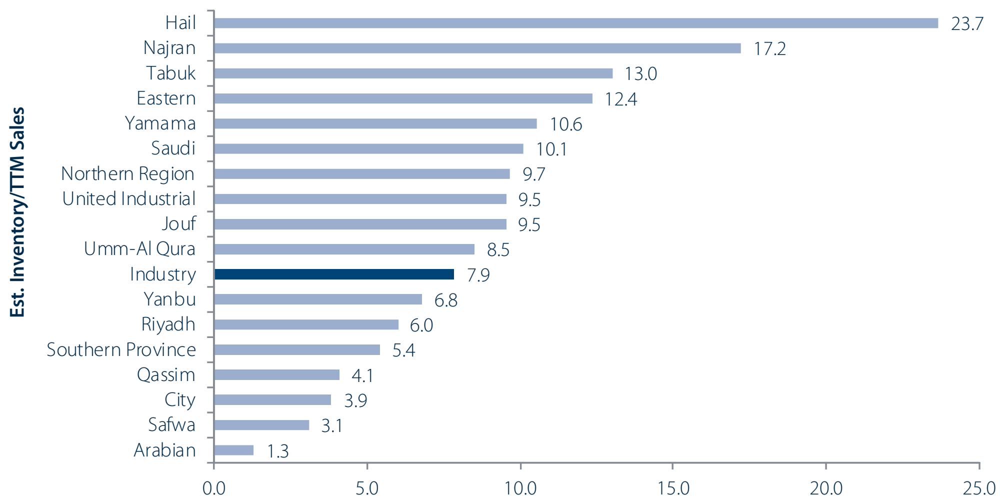
Source: Argaam, Yamama Cement and SHUAA Capital

Cement inventories increased (c.5% MoM)



Source: Argaam, Yamama Cement and SHUAA Capital; Note – Cement Inventory figure for Jan 2017 based on our estimate

At an estimated 7.9 sales months, total inventory remains considerably higher than the historical average of 4.3

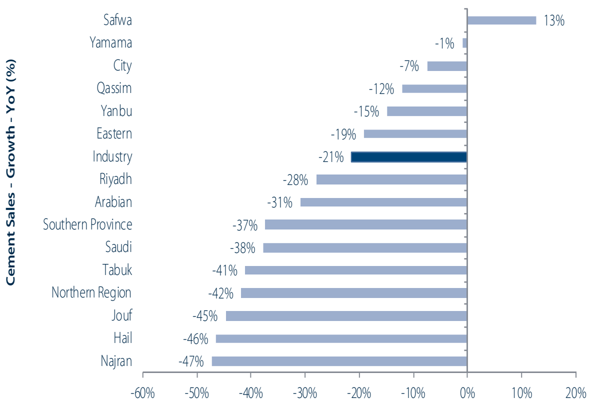


Source: Argaam, Yamama Cement and SHUAA Capital

KSA Cement Sector – Company-wise performance

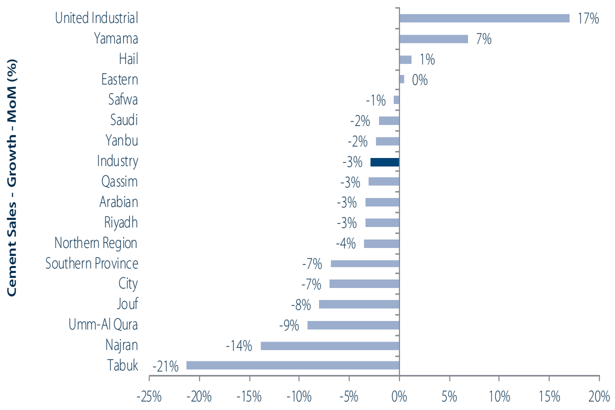
Cement Sales: Demand conditions remain muted

On a YoY basis, sales dropped with majority of the companies witnessing a fall led by Najran while Safwa witnessed an increase



Sources: Argaam, Yamama Cement and SHUAA Capital

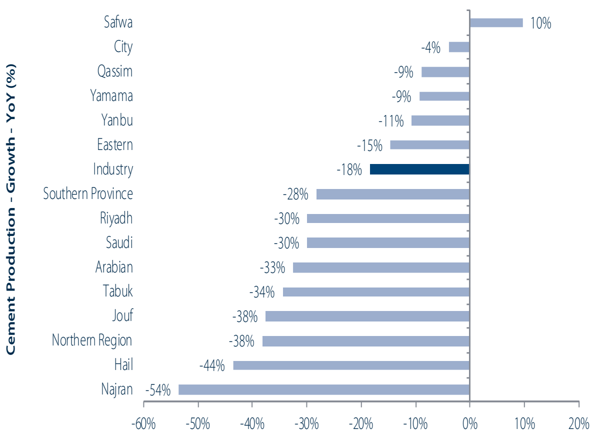
On a MoM basis, Tabuk registered the sharpest fall while United Industrial and Yamama reporting an increase of 17% and 7%; respectively



Sources: Argaam, Yamama Cement and SHUAA Capital

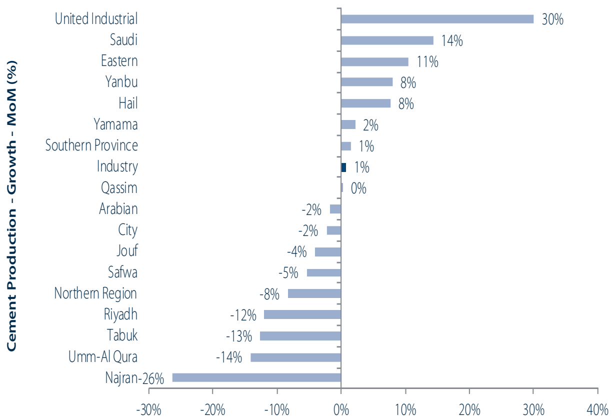
Cement Production: On MoM production increased marginally as against drop in sales

Production declined c.18% YoY amid lower demand…



Sources: Argaam, Yamama Cement and SHUAA Capital

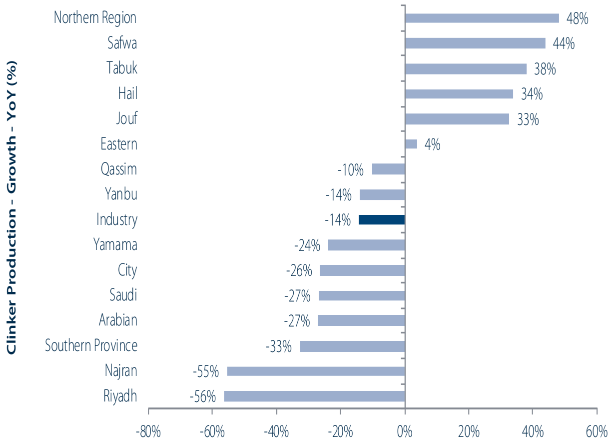
And increased marginally on a MoM basis by 0.7%



Sources: Argaam, Yamama Cement and SHUAA Capital

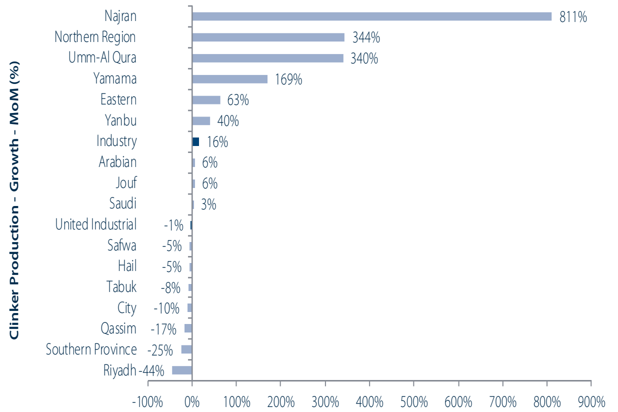
Clinker Production: Declined YoY amid muted demand; however, increased on MoM basis despite inventory buildup

On a YoY basis, clinker production fell c.14%, with Najran and Riyadh reporting maximum decline; and Northern region and Safwa an increase of 48% and 44% respectively



Sources: Argaam, Yamama Cement and SHUAA Capital

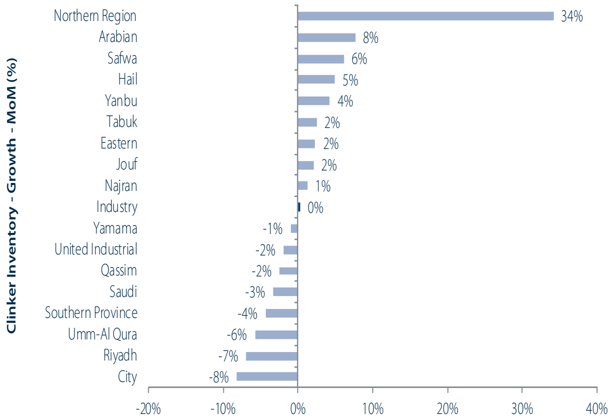
On a MoM basis, production increased by c.16% as against a decline of c.24% in previous month



Sources: Argaam, Yamama Cement and SHUAA Capital

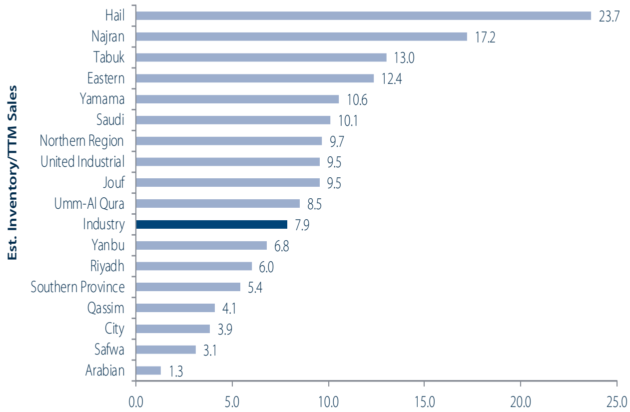
Inventory: Marginal increase and remains elevated at 7.9 sales months

Clinker inventory increased marginally by 0.3% MoM, with City reporting a decline of c.8% and Northern Region an increase of c.34%



Sources: Argaam, Yamama Cement and SHUAA Capital

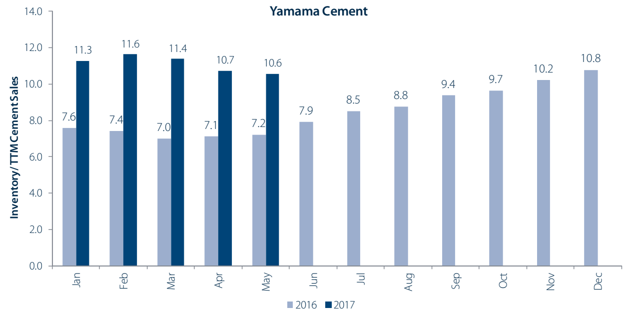
And est. inventories remain high at 7.9 sales months



Sources: Argaam, Yamama Cement and SHUAA Capital

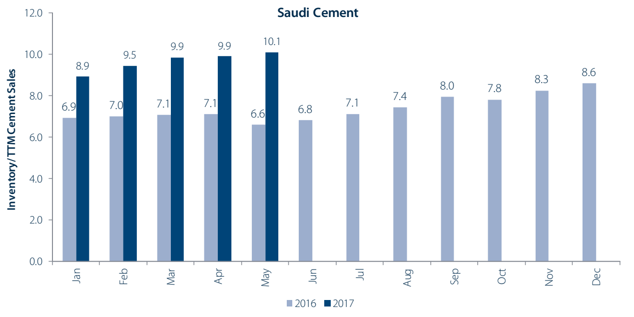
Estimated Inventory/TTM Cement Sales

Yamama Cement



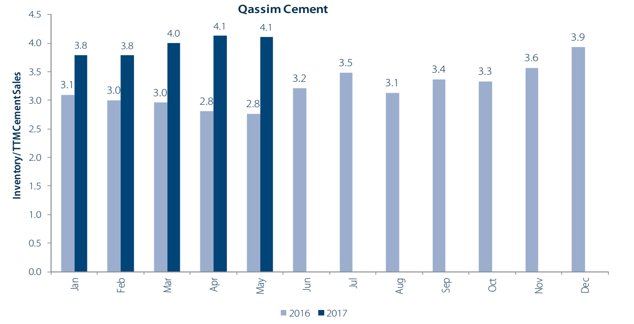
Source: Argaam, Yamama Cement and SHUAA Capital

Saudi Cement



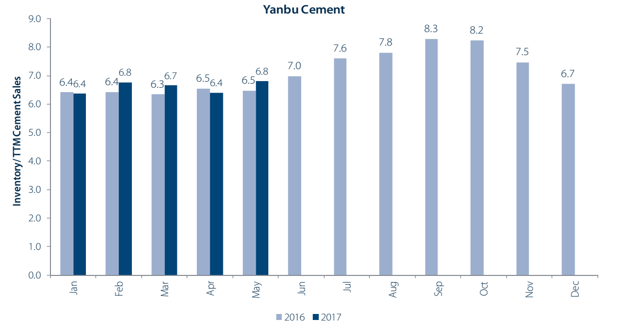
Source: Argaam, Yamama Cement and SHUAA Capital

Qassim Cement



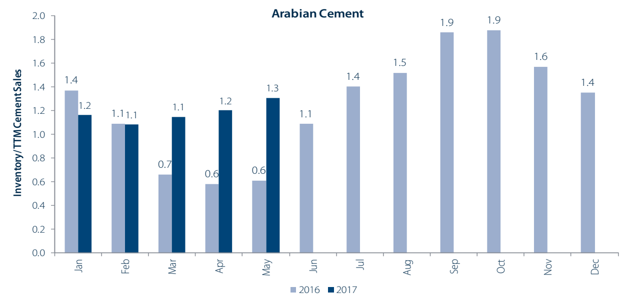
Source: Argaam, Yamama Cement and SHUAA Capital

Yanbu Cement



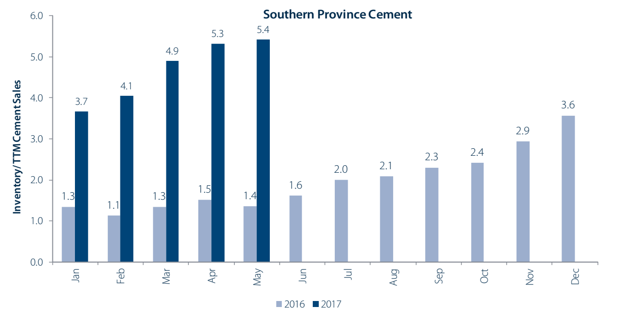
Source: Argaam, Yamama Cement and SHUAA Capital

Arabian Cement



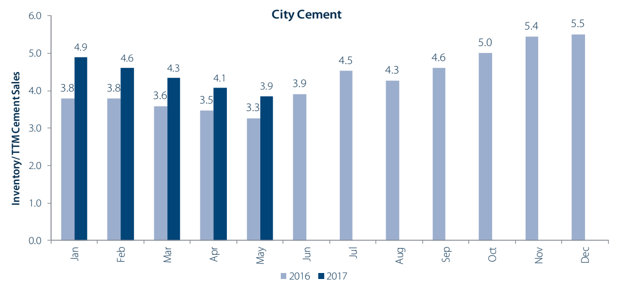
Source: Argaam, Yamama Cement and SHUAA Capital

Southern Province Cement



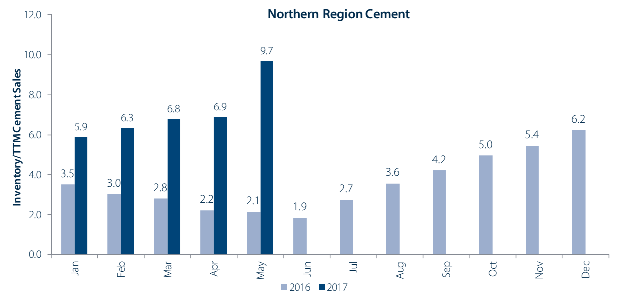
Source: Argaam, Yamama Cement and SHUAA Capital

City Cement



Source: Argaam, Yamama Cement and SHUAA Capital

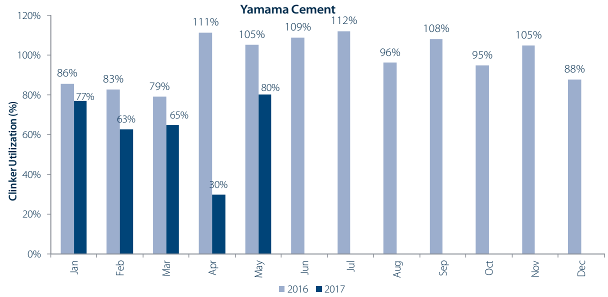
Northern Region Cement



Source: Argaam, Yamama Cement and SHUAA Capital

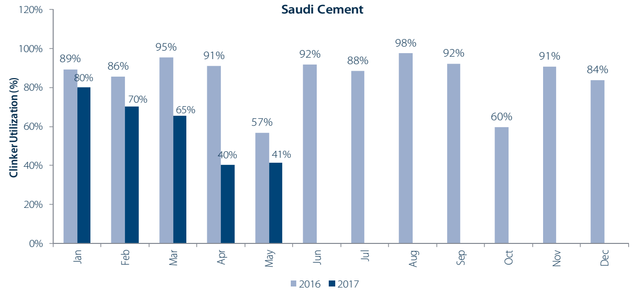
Clinker Utilization (%)

Yamama Cement



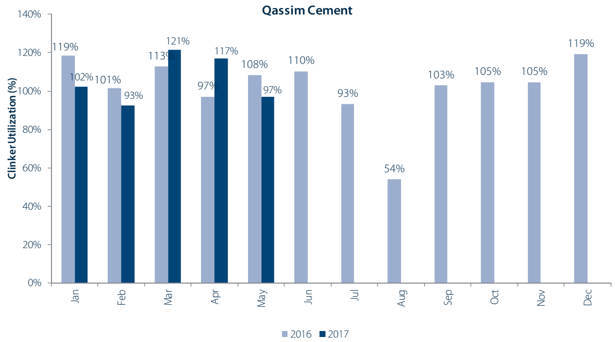
Source: Argaam, Yamama Cement and SHUAA Capital

Saudi Cement



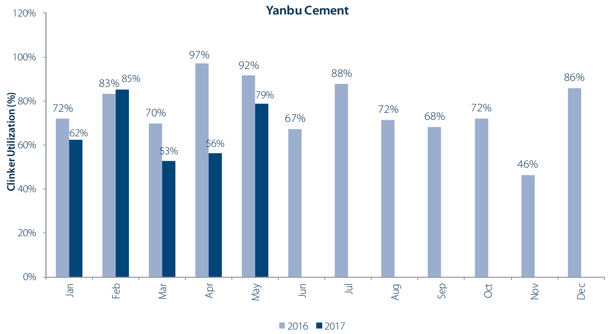
Source: Argaam, Yamama Cement and SHUAA Capital

Qassim Cement



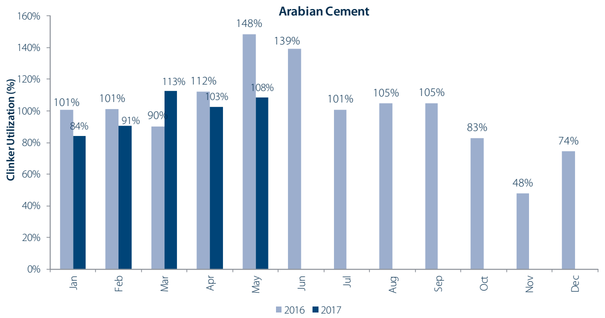
Source: Argaam, Yamama Cement and SHUAA Capital

Yanbu Cement



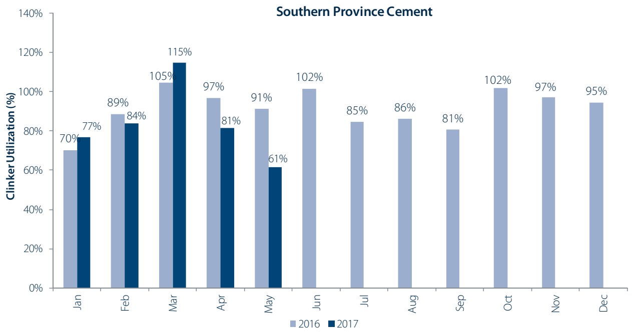
Source: Argaam, Yamama Cement and SHUAA Capital

Arabian Cement



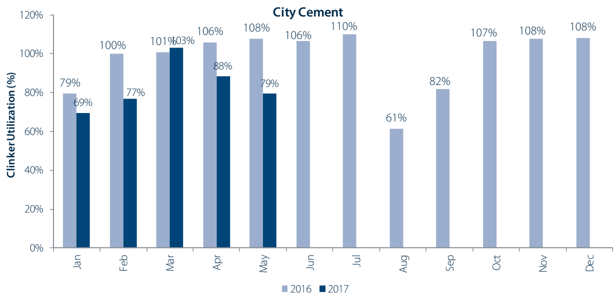
Source: Argaam, Yamama Cement and SHUAA Capital

Southern Province Cement



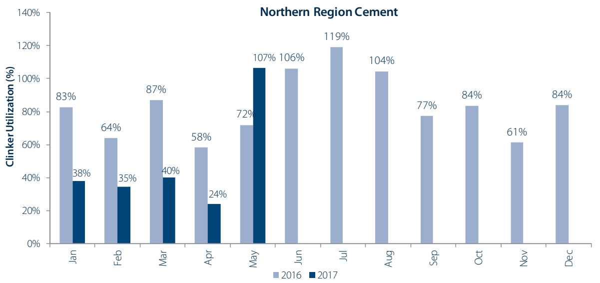
Source: Argaam, Yamama Cement and SHUAA Capital

City Cement



Source: Argaam, Yamama Cement and SHUAA Capital

Northern Region Cement



Source: Argaam, Yamama Cement and SHUAA Capital

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