

Below consensus by 18% due to lower volume

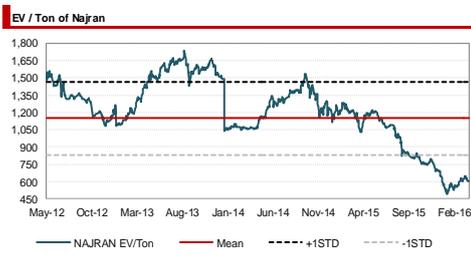
Najran Cement has reported a net profit of SAR34mn (-57% Y/Y, -45% Q/Q) for 2Q16, 18% below consensus. The miss appears to stem from weaker than expected volume, as the construction sector continues to struggle in the face of lower government spending and cash flow constraints as payment delays continue. The value of awarded projects in KSA has dipped sharply from US\$20 bn in 1H 2015 to US\$4.5 bn 1H 2016. Weak volume was also driven by seasonal reasons (holy month of Ramadan). Apart from weak volume growth, management has attributed decline in net income to higher cost of sales as a result increase in energy prices, despite the increase in average sales price and decline in selling and distribution expenses. At the operating level, the company reported a profit of SAR45mn (down 51% Y/Y and 38% Q/Q). Najran's volume growth underperformed the sector, it's total volume for 2Q16 decreased 40% Y/Y vis-à-vis -9% for the sector. Dispatches stood at 0.73mtn tons in 2Q versus 1.03mtn tons in the previous quarter. Najran's market share has declined sharply and in 2Q16, its market share averaged 4.9% versus 6.0% in 1Q16.

Some silver linings, but sector to struggle near term

There are some silver linings for the sector in the shape of declining clinker inventory and more importantly the National Transformation Program's (NTP) heavy focus on improving household ownerships by citizens. In the NTP, significant steps have already taken place with the implementation of the white land tax underway and the government inking agreements with foreign contractors / developers for housing development. Najran suffers in comparison to most peers due to a location disadvantage in that respect, with most announced government initiatives for housing development concentrate on dense urban areas, particularly in the central region. In the near to medium term, we continue to expect the sector to struggle with overcapacity, poor pricing power and weak volumes, and cannot rule out further upward adjustments in electricity and fuel costs.

Maintain HOLD rating with TP of SAR14.20

The stock has declined 14% YTD 2016 (versus -7.7% for the sector), mainly due to concerns related to the weaker volume growth and energy price hikes. At 8.4x 2016E PER the stock is trading broadly in line with the sector 2016 PER 8.7x. We maintain our HOLD rating on Najran Cement, with a target price of SAR 14.20. A positive resolution in Yemen, with regional and international support for rebuilding its infrastructure would be constructive for Najran's outlook.



	2Q16A	2Q16SFC	% diff	Cons.	% diff	1Q16	% Ch. QoQ	2Q15	% Ch. YoY
Revenues	179	258	-31%	Na	Na	251	-29%	294	-39%
Gross Profit	74	125	-40%	Na	Na	112	-34%	151	-51%
EBIT	45	70	-36%	Na	Na	72	-38%	91	-51%
Net Income	34	59	-43%	41	-18%	61	-45%	78	-57%

Source: Company, SFC, Bloomberg

Rating Summary	
Recommendation	HOLD
12-Month Target price (SAR)	14.20
Upside/(Downside)	13%

Stock Details		
Last Close Price*	SAR	12.60
Market Capitalization	SAR mln	2,135
Shares Outstanding	mln	170
52-Week High	SAR	26.40
52-Week Low	SAR	10.00
Price Change (YTD)	%	-14
EPS 2016E	SAR	1.5
Reuters / Bloomberg	3002.SE	NAJRAN AB

Source: Tadawul, Bloomberg *as of 26 July 2016,

SFC Estimates		
SAR	2016E	2017E
Revenues (mln)	1,067	1,028
Gross Margin	48.1%	45.9%
EBITDA (mln)	428	387
Net Income (mln)	253	217

Source: SFC

Price Multiples		
	2016E	2017E
P / E	8.4x	9.8x
EV / EBITDA	9.3x	10.8x
Dividend Yield	6.4%	6.4%

Source: SFC



Aqib Elahi Mehboob
amehboob@fransicapital.com.sa
+966 11 282 6840



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.

Saudi Fransi Capital

Call Center | 800 125 9999

www.sfc.sa

Commercial Registration | 1010231217

Research and Advisory

P.O. Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

research&advisory@fransicapital.com.sa



Research and Advisory Department

This report is prepared by Saudi Fransi Capital ("SFC"), a fully-fledged investment firm providing investment banking, asset management, securities brokerage, research, and custody services. SFC, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. SFC strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this report take into account both risk and expected return.

To the maximum extent permitted by applicable law and regulation, SFC shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute SFC's judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of SFC. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Saudi Fransi Capital LLC

C.R. 1010231217

P.O Box 23454

Riyadh 11426

Saudi Arabia

Head Office | Riyadh

PUBLIC