

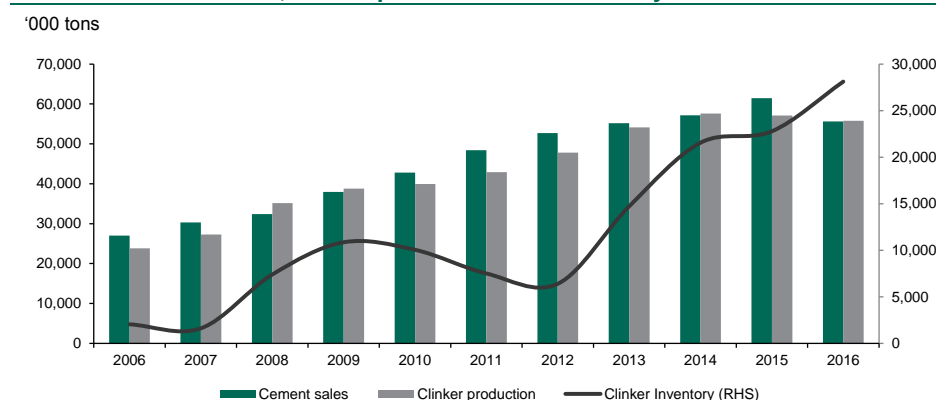


## FIRST DECLINE IN SALES QUANTITIES ON RECORD IN 2016

Cement sales declined by -24.7% YoY in December 2016. This reflects a -9.5% decline in sales volume in 2016, the first decline on record. We believe this weakness is due to the on-going slowdown in construction. Movements in market shares were irregular. Yanbu Cement's market share increased by +72 bps MoM in December to 17.4%. We believe this reflects aggressive discounts by companies in the Western region, to protect their market share. Despite being the third ranked player in terms of capacity, Yanbu cement reported the highest market share gains in 2016 (+586 bps to 17.4%) to become the largest player in terms of market share in Saudi. Clinker inventory reached a new all-time high of 28.1mn tons vs. 27.7mn tons in November 2016. Authorities in Saudi announced a fee of SR85-133/ton on exporting cement. We believe exports will be limited, due to the fee levels and limited potential export markets.

- **Sales:** Total sales reached 4.37mn tons in December 2016, declining 24.7% YoY. Sales declined 9.5% in 2016. This compares to our expectation of a sales decline of 5% YoY during the year.
- **Production:** Clinker production declined 7.5% YoY but up 7.0% MoM in December 2016 to 4.69mn tons. In 2016, declines stood at 2.3%.
- **Inventory:** Clinker inventory increased 23.4% YoY and 1.6% MoM to 28.1mn tons. This compares to our expectation of 26mn tons by year-end.

### Exhibit 1: Cement sales, clinker production and inventory overview



Source: Yamama Cement, NCBC Research

### Exhibit 2: Saudi Cement companies – Valuation matrix

	Rating	MCap \$mn	Stock perf (%)		P/E (x)	EV/ EBITDA (x)	P/BV (x)	EV/ton (\$)	DY (%)	ROE (%)
			Dec	YTD						
Southern Cement	N	2,849	8.9	(7.4)	12.9	11.1	3.5	314	6.6	26.3
Yamama Cement	N	1,116	13.1	(9.7)	7.8	4.5	1.1	148	9.7	14.2
Saudi Cement	OW	2,673	10.8	(8.1)	12.3	10.0	3.0	314	7.6	24.5
Qassim Cement	N	1,453	5.5	(10.1)	11.4	7.9	3.0	301	8.8	25.9
Yanbu Cement	OW	1,556	15.0	(8.6)	9.1	6.5	1.6	241	9.5	17.7
Eastern Cement	OW	754	12.7	(4.8)	10.5	7.0	1.2	208	7.6	11.3

Source: Bloomberg, NCBC Research. YTD and all prices as of 10 Jan2017, \* On a TTM basis; N: Neutral

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## Industry snapshot

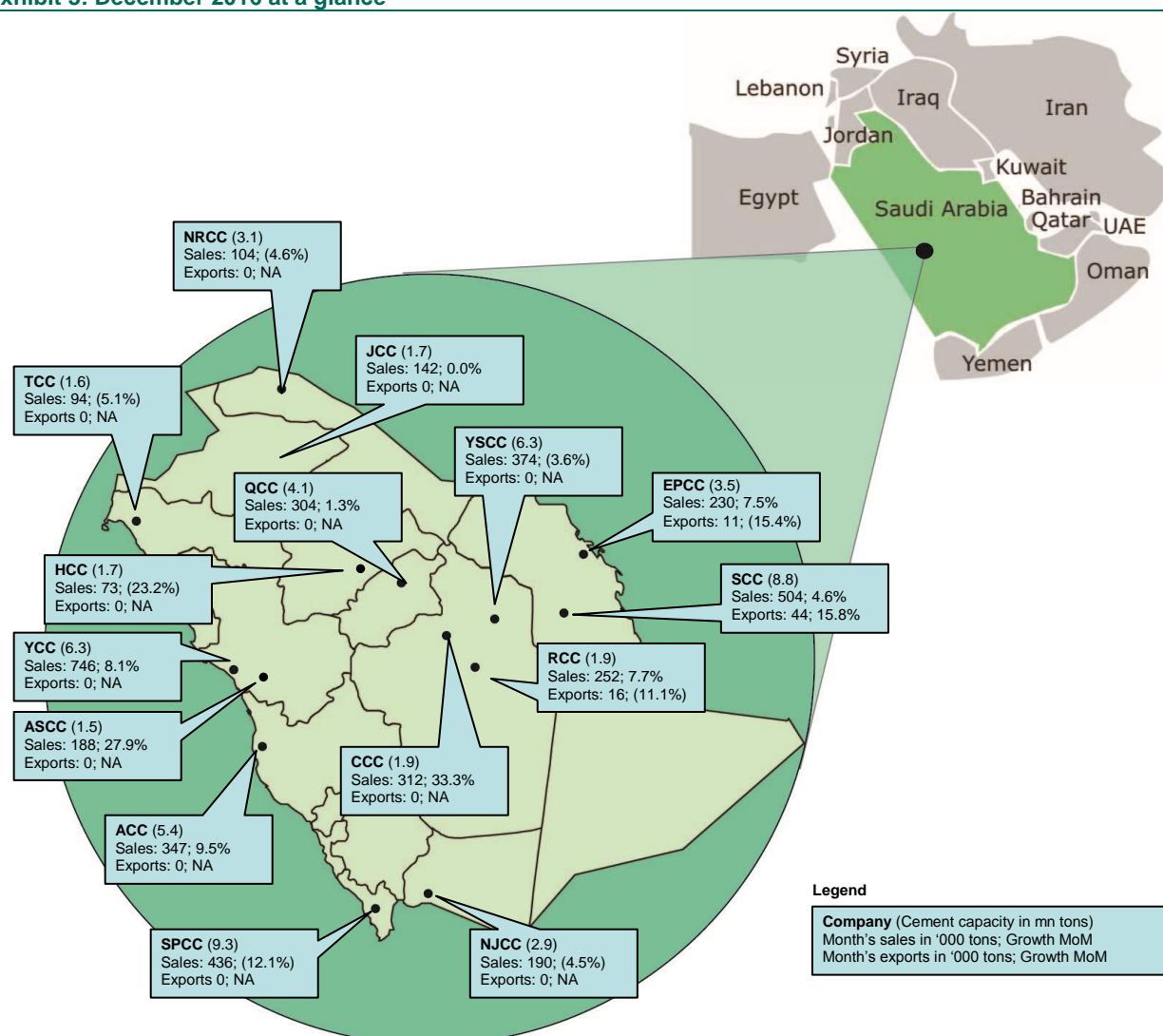
Saudi Arabia has 16 cement companies with an annual fuel allocated cement production capacity of 65.8mn tons.

In December 2016, cement sales in Saudi amounted to 4.3mn tons, declining 25.1% YoY but up 3.6% MoM. No domestic clinker sales were reported for the month.

Cement exports for the month came at 71,000 tons, an increase of 9.2% YoY and 2.9% MoM. Three companies exported cement during the month – Saudi, Riyadh and Eastern Cement. No clinker was exported in December 2016.

In April 2016, Ministry of Trade approved the removal of export ban on cement companies. In December 2016, authorities announced placing a fee of SR85-133/ton on exported cement. We believe these fees were placed in order to compensate for the subsidized fuel provided to local cement companies. Upon this announcement of fees, companies may begin exporting cement. Although this is a positive step provided the muted outlook locally, we believe exports will be limited due to the fee levels and few current potential export markets (e.g. Egypt and Qatar).

### Exhibit 3: December 2016 at a glance



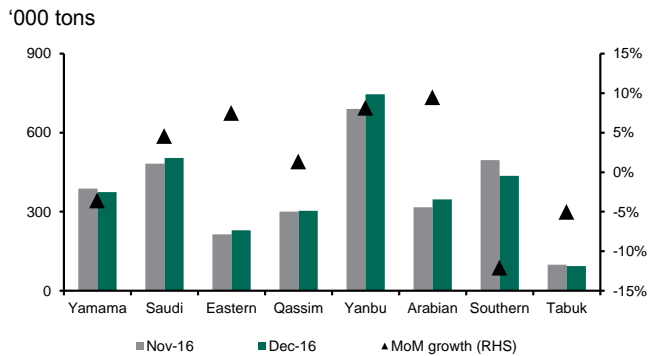
Source: Yamama Cement, NCBC Research. NB: Data refers to domestic cement sales and cement exports only  
 YSCC – Yamama Cement, SCC – Saudi Cement, EPCC – Eastern Cement, QCC – Qassim Cement, YCC – Yanbu Cement, ACC – Arabian Cement, SPCC – Southern Cement, TCC – Tabuk Cement, RCC – Riyadh Cement, NJCC – Najran Cement, CCC – City Cement, NRCC – Northern Cement, JCC – Aljouf Cement, ASCC – Al Safwa Cement, HCC – Hail Cement

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## Domestic sales

In December 2016, domestic sales of cement declined 25.1% YoY but increased 3.6% MoM to 4.3mn tons. On a YoY basis, Yanbu Cement reported the highest increase in cement sales by 13.0%. On a MoM basis, eight companies reported increase in cement sales.

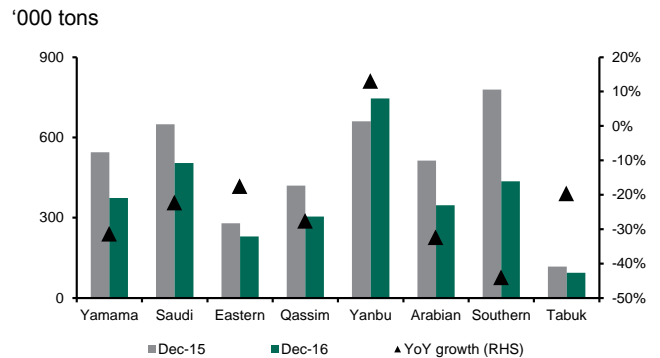
**Exhibit 4: Domestic cement sales – MoM**



Source: Yamama Cement, NCBC Research

(Please refer to the Appendix on Page 9 for company-specific charts.)

**Exhibit 5: Domestic cement sales – YoY**

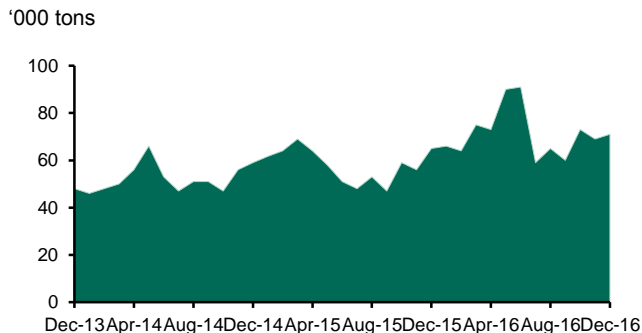


Source: Yamama Cement, NCBC Research

## Exports

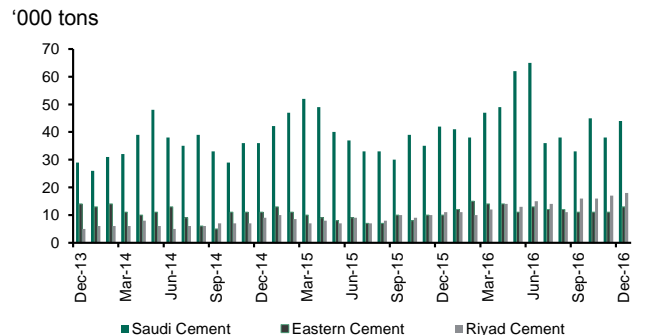
The Kingdom's cement exports grew 9.2% YoY and 2.9% MoM to 71,000 tons. Only three companies exported cement in December 2016 (Saudi Cement, Riyadh Cement and Eastern Cement).

**Exhibit 6: Saudi Arabia's total cement exports**



Source: Yamama Cement, NCBC Research

**Exhibit 7: Exports by SCC, EPCC and RCC**



Source: Yamama Cement, NCBC Research

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## Production

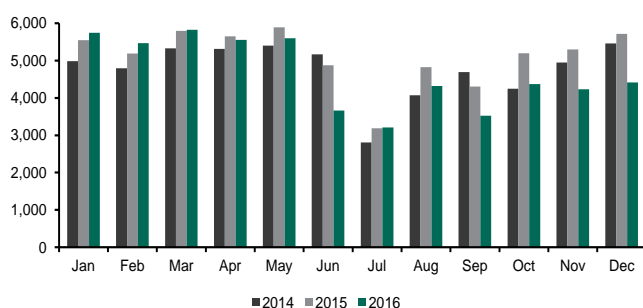
Saudi Arabia's cement production declined 22.8% YoY but up 4.3% MoM to 4.4mn tons in December 2016.

City Cement reported the highest YoY increase in cement production at 13.5% followed by Yanbu Cement 12.5%. Production declined for Hail Cement the most (61.7%), followed by Northern Cement (57.1%).

Clinker production was down 7.5% YoY but up 7.0% MoM in December 2016 to reach 4.7mn tons. On a MoM basis, Aljouf Cement reported the highest increase in production at 93.3%, while Riyadh Cement recorded the largest decline at 23.8%. On a YoY basis, Hail Cement reported the highest YoY increase in clinker production which grew by 94.4%. The largest decliner on a YoY basis was Arabian Cement at 46.5%.

### Exhibit 8: Cement production

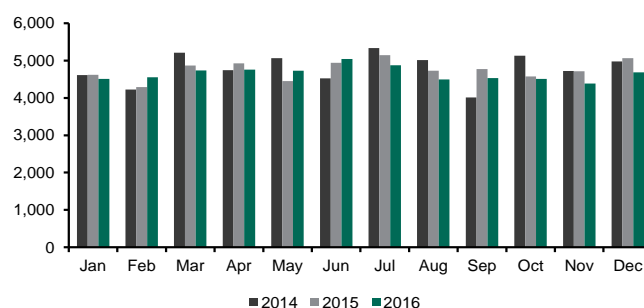
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 9: Clinker production

'000 tons



Source: Yamama Cement, NCBC Research

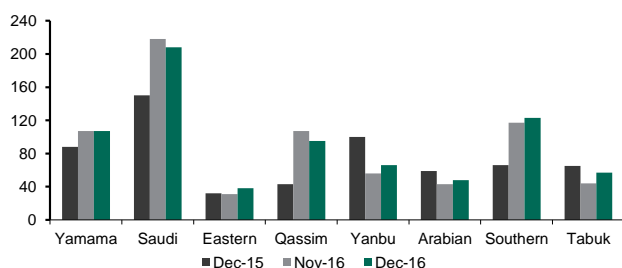
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## Inventory level

In December 2016, clinker inventory increased by 23.4% YoY and 1.6% MoM to 28.1mn tons. Cement inventory increased as well by 28.0% YoY and 0.5% on MoM to 1.14mn tons during the month.

**Exhibit 10: Cement inventory**

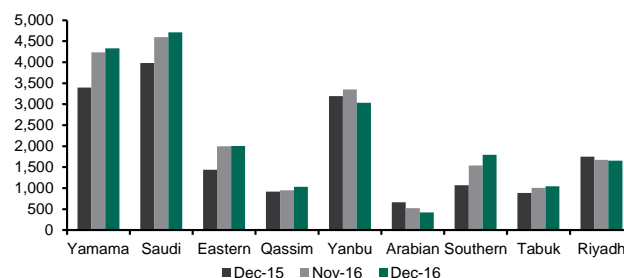
'000 tons



Source: Yamama Cement, NCBC Research

**Exhibit 11: Clinker inventory**

'000 tons

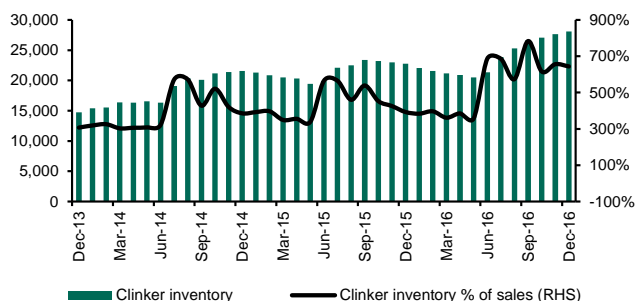


Source: Yamama Cement, NCBC Research

The sector's clinker inventory as a percentage of total monthly sales stood at 644% in December 2016 compared to 656% in November 2016 and 393% in December 2015. Among the listed companies, Hail, Najran and Yamama Cement had the highest inventory percentages at 2,052%, 1,596% and 1,158% of sales, respectively. On the other hand, Arabian, Safwa and Qassim Cement held the lowest clinker inventory percentages at 122%, 175% and 339% of sales, respectively.

**Exhibit 12: Clinker inventory**

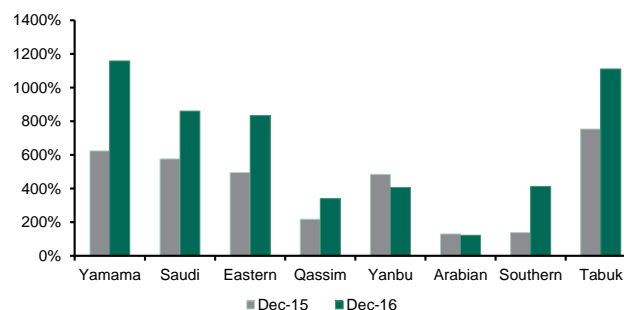
'000 tons



Source: Yamama Cement, NCBC Research, \* smoothed to adjust for Ramadan seasonality

**Exhibit 13: Clinker inventory**

as % of sales



Source: Yamama Cement, NCBC Research

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## Market share

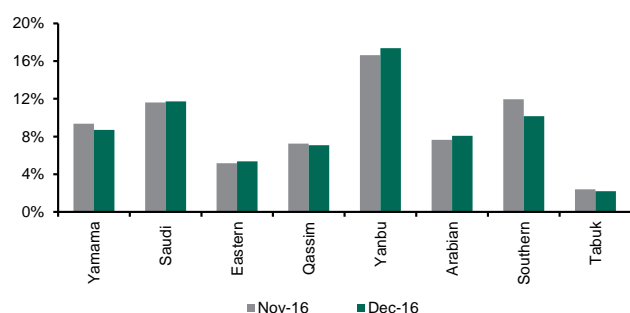
In December 2016, seven companies increased their domestic cement market shares on a MoM basis. Top gainers were City Cement, Safwa Cement and Yanbu Cement reporting 1.62%, 0.83%, and 0.72% MoM increase in market share, respectively.

**Gainers (MoM):** City Cement 1.62%, Safwa Cement 0.83%, Yanbu Cement 0.72%, Arabian Cement 0.43%, Riyadh Cement 0.22%, Eastern Cement 0.19% and Saudi Cement 0.11%.

**Decliners (MoM):** Southern Cement (1.81%), Yamama Cement (0.65%), Hail Cement (0.59%), Najran Cement (0.38%), Northern Cement (0.21%), Tabuk Cement (0.20%). Qassim Cement (0.16%) and Aljouf Cement (0.12%).

**Exhibit 14: Domestic market share – cement sales**

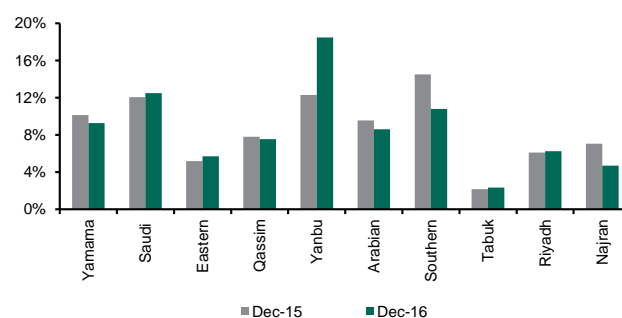
MoM



Source: Yamama Cement, NCBC Research

**Exhibit 15: Domestic market share – cement sales**

YoY



Source: Yamama Cement, NCBC Research

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## Valuation

In FY 2016, the cement sector index was down 4.9% YoY in comparison to the TASI which is up 4.3% YoY. Exhibit 16 shows the valuation multiples of some listed cement companies in Saudi.

**Exhibit 16: Saudi cement companies – Valuation matrix**

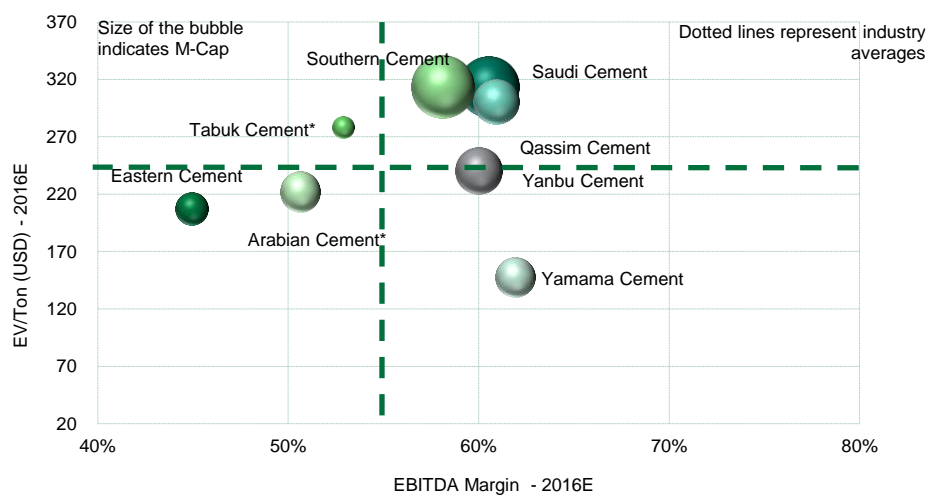
	Reuters	Rating	M-Cap \$mn	Stock perf		P/E (x)	EV/ EBITDA	P/BV (x)	EV/ton (\$)	DY (%)	ROE (%)	ROA (%)
				Dec	YTD	'16	'16	'16	'16	'16	'16	'16
Southern Cement	3050.SE	Neutral	2,849	8.9	(7.4)	12.9	11.1	3.5	314	6.6	26.3	19.2
Yamama Cement	3020.SE	Neutral	1,116	13.1	(9.7)	7.8	4.5	1.1	148	9.7	14.2	11.9
Saudi Cement	3030.SE	OW	2,673	10.8	(8.1)	12.3	10.0	3.0	314	7.6	24.5	18.1
Qassim Cement)	3040.SE	Neutral	1,453	5.5	(10.1)	11.4	7.9	3.0	301	8.8	25.9	23.1
Yanbu Cement	3060.SE	OW	1,556	15.0	(8.6)	9.1	6.5	1.6	241	9.5	17.7	15.4
Eastern Cement	3080.SE	OW	754	12.7	(4.8)	10.5	7.0	1.2	208	7.6	11.3	10.1
Arabian Cement*	3010.SE	NC	1,152	(9.8)	(3.4)	7.1	5.7	1.3	223	10.4	18.8	15.3
Al Jouf Cement*	3091.SE	NC	307	(1.3)	(1.7)	15.7	11.6	0.7	304	0.0	4.8	2.9
Tabuk Cement*	3090.SE	NC	314	1.6	2.4	15.6	11.6	1.0	278	5.7	6.4	3.9
Najran Cement*	3002.SE	NC	522	(1.5)	(3.6)	10.8	7.4	1.0	184	8.4	8.7	6.0

Source: Bloomberg, NCBC Research  
YTD prices as of 10 January 2017, \* On a TTM basis  
NC: Not Covered

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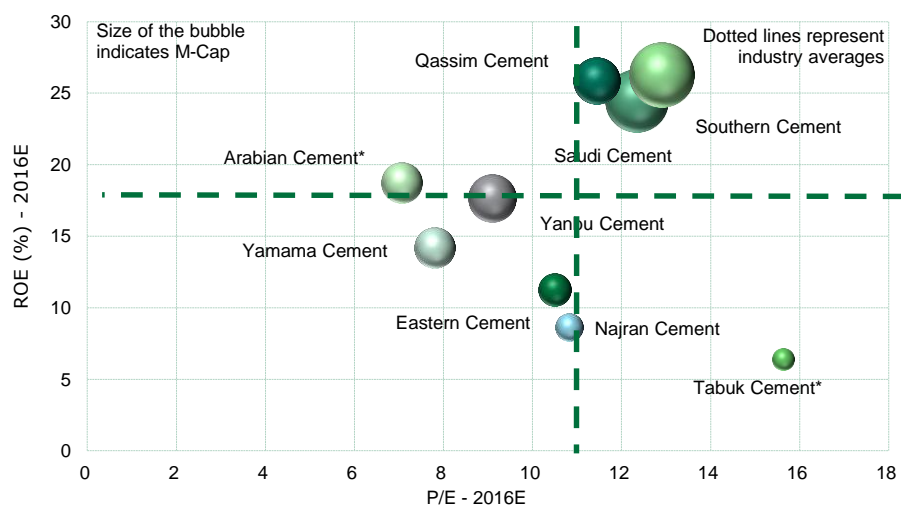
Exhibits 17 and 18 illustrate current valuation of Saudi cement companies.

**Exhibit 17: EV per ton vs. EBITDA margin**



Source: NCBC Research, \* is on TTM basis

**Exhibit 18: P/E vs. ROE**



Source: NCBC Research, \* is on TTM basis



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## Appendices

### Appendix 1 – Cement Production and Sales

#### Exhibit 19: Cement production and Saudi sales

\*000 tons

Description	Dec-16	Dec -15	% chg YoY	Nov-16	% chg MoM	(Jan- Dec) 2016	2015	% chg
<b>Production</b>								
Cement	4,412	5,718	(22.8)	4,230	4.3	55,924	61,483	(9.0)
Clinker	4,688	5,066	(7.5)	4,382	7.0	55,810	57,096	(2.3)
<b>Domestic Sales</b>								
Cement	4,296	5,736	(25.1)	4,146	3.6	54,772	60,744	(9.8)
Clinker	0	35	(100.0)	0	NA	399	1,329	(70.0)
<b>Company-wise Cement Production</b>								
Yamama Cement	374	549	(31.9)	373	0.3	5,375	5,831	(7.8)
Saudi Cement	538	642	(16.2)	523	2.9	7,377	7,662	(3.7)
Eastern Cement	249	289	(13.8)	221	12.7	2,640	3,124	(15.5)
Qassim Cement	292	405	(27.9)	320	(8.8)	4,061	4,414	(8.0)
Yanbu Cement	756	672	12.5	673	12.3	6,410	7,018	(8.7)
Arabian Cement	352	532	(33.8)	313	12.5	4,443	5,397	(17.7)
Southern Cement	442	768	(42.4)	508	(13.0)	7,495	8,487	(11.7)
Tabuk Cement	107	121	(11.6)	80	33.8	1,344	1,314	2.2
Riyadh Cement	260	320	(18.8)	251	3.6	3,608	3,389	6.5
Najran Cement	193	374	(48.4)	193	0.0	2,921	4,458	(34.5)
City Cement	312	275	13.5	247	26.3	3,162	2,649	19.4
Northern Cement	102	238	(57.1)	108	(5.6)	1,861	2,357	(21.0)
Aljouf Cement	176	172	2.3	175	0.6	1,964	1,747	12.4
Safwa Cement	187	173	8.1	148	26.4	1,863	1,876	(0.7)
Hail Cement	72	188	(61.7)	97	(25.8)	1,400	1,758	(20.4)
<b>Company-wise Domestic Sales</b>								
Yamama Cement	374	545	(31.4)	388	(3.6)	5,356	5,825	(8.1)
Saudi Cement	504	649	(22.3)	482	4.6	6,780	7,223	(6.1)
Eastern Cement	230	279	(17.6)	214	7.5	2,490	3,008	(17.2)
Qassim Cement	304	420	(27.6)	300	1.3	4,038	4,405	(8.3)
Yanbu Cement	746	660	13.0	690	8.1	6,435	7,008	(8.2)
Arabian Cement	347	513	(32.4)	317	9.5	4,452	5,380	(17.2)
Southern Cement	436	779	(44.0)	496	(12.1)	7,441	8,490	(12.4)
Tabuk Cement	94	117	(19.7)	99	(5.1)	1,338	1,301	2.9
Riyadh Cement	252	328	(23.2)	234	7.7	3,412	3,266	4.5
Najran Cement	190	380	(50.0)	199	(4.5)	2,897	4,460	(35.0)
City Cement	312	282	10.6	234	33.3	3,136	2,655	18.1
Northern Cement	104	240	(56.7)	109	(4.6)	1,865	2,370	(21.3)
Aljouf Cement	142	182	(22.0)	142	0.0	1,884	1,726	9.1
Safwa Cement	188	179	5.0	147	27.9	1,856	1,861	(0.3)
Hail Cement	73	183	(60.1)	95	(23.2)	1,392	1,766	(21.2)

\* Source: Yamama Cement, NCBC Research

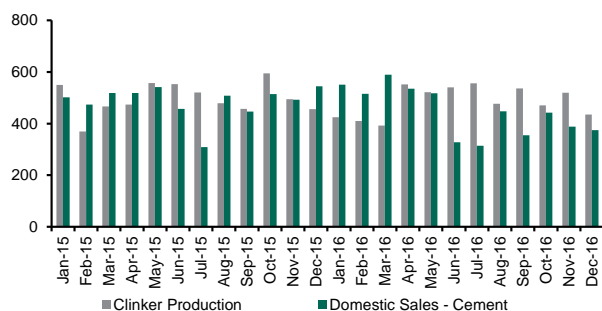
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## Appendix 2 – Company charts

### Yamama Cement (YSCC)

#### Exhibit 20: Production and sales

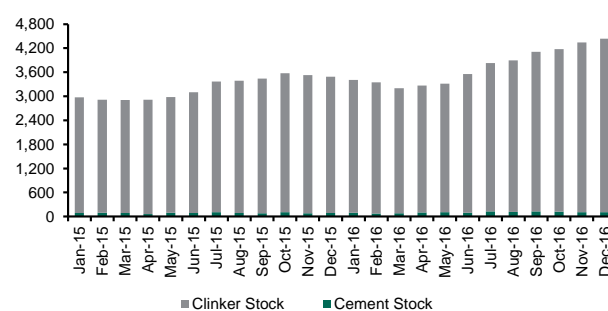
'000 tons



Source: Yamama Cement, NCBC Research

#### Exhibit 21: Inventory – Cement and clinker

'000 tons

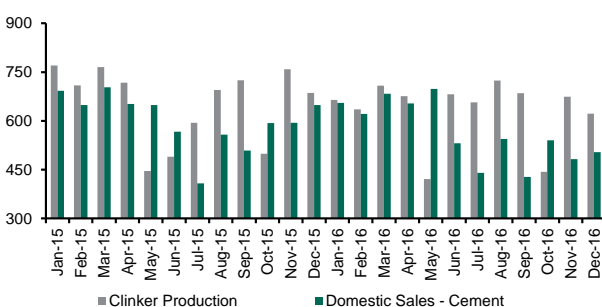


Source: Yamama Cement, NCBC Research

### Saudi Cement (SCC)

#### Exhibit 22: Production and sales

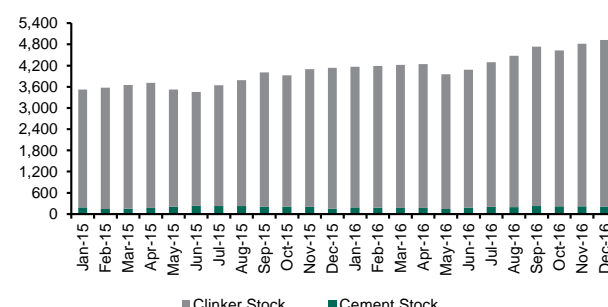
'000 tons



Source: Yamama Cement, NCBC Research

#### Exhibit 23: Inventory – Cement and clinker

'000 tons

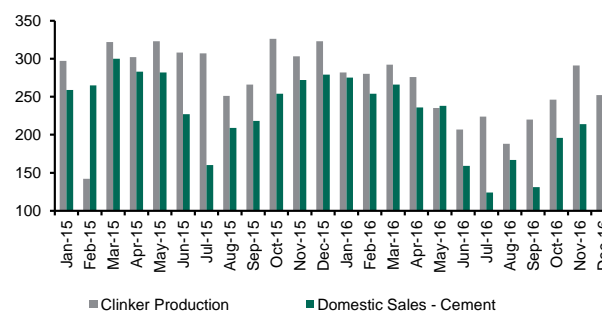


Source: Yamama Cement, NCBC Research

### Eastern Province Cement (EPCC)

#### Exhibit 24: Production and sales

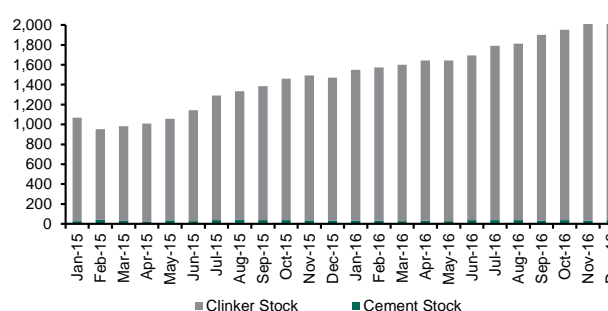
'000 tons



Source: Yamama Cement, NCBC Research

#### Exhibit 25: Inventory – Cement and clinker

'000 tons



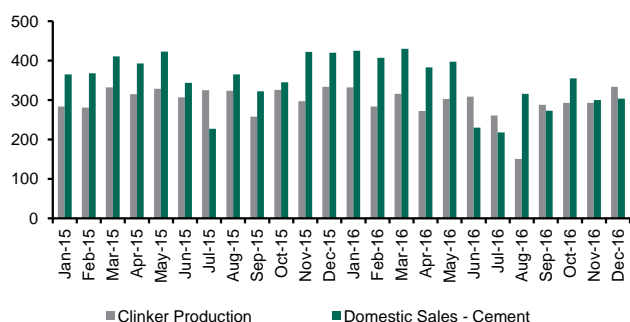
Source: Yamama Cement, NCBC Research

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## Qassim Cement (QCC)

### Exhibit 26: Production and sales

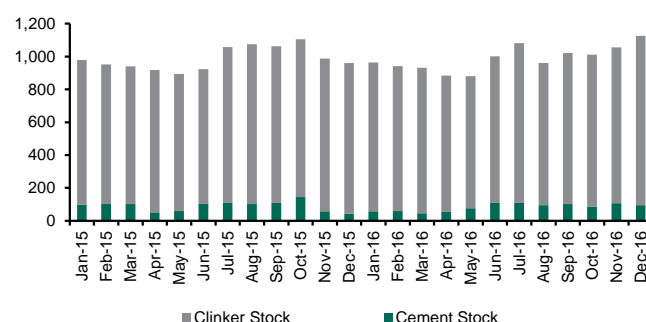
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 27: Inventory – Cement and clinker

'000 tons

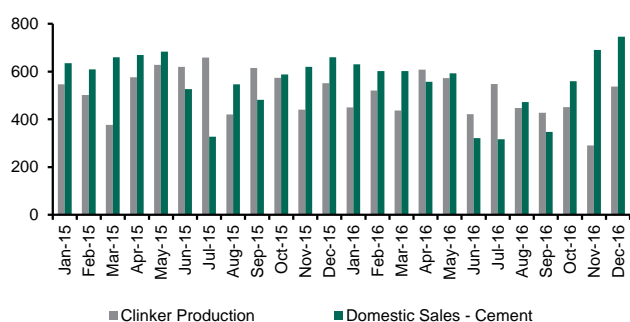


Source: Yamama Cement, NCBC Research

## Yanbu Cement (YCC)

### Exhibit 28: Production and sales

'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 29: Inventory – Cement and clinker

'000 tons

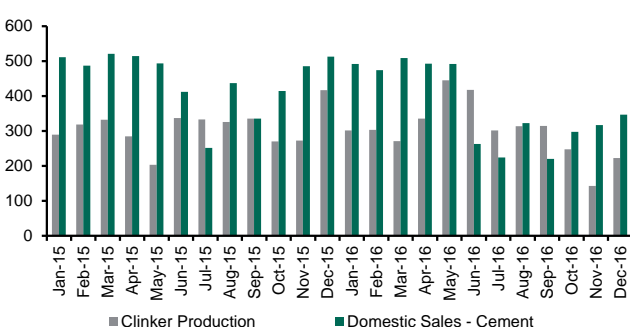


Source: Yamama Cement, NCBC Research

## Arabian Cement (ACC)

### Exhibit 30: Production and sales

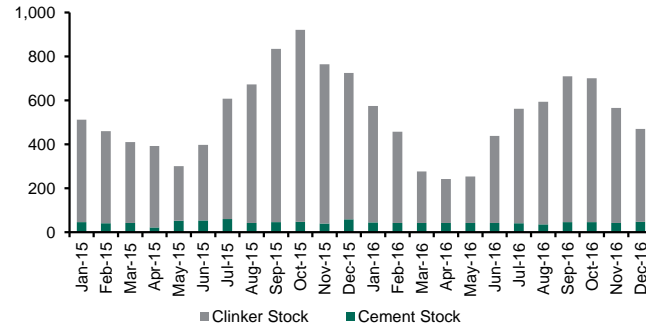
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 31: Inventory – Cement and clinker

'000 tons



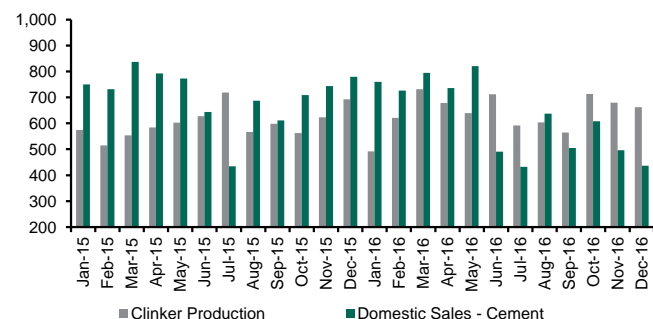
Source: Yamama Cement, NCBC Research

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## Southern Province Cement (SPCC)

### Exhibit 32: Production and sales

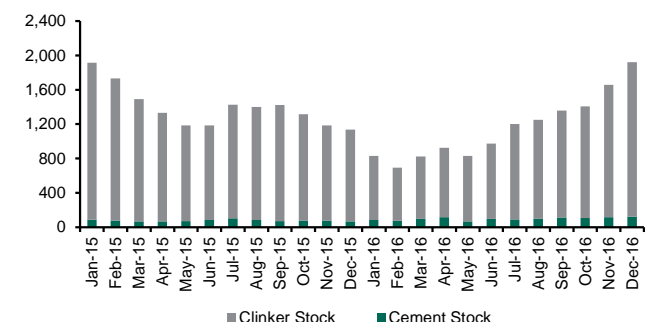
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 33: Inventory – Cement and clinker

'000 tons

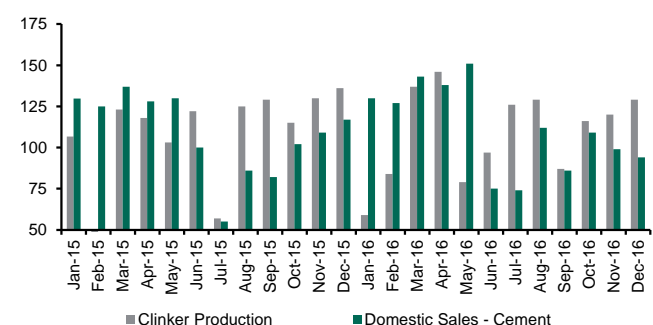


Source: Yamama Cement, NCBC Research

## Tabuk Cement (TCC)

### Exhibit 34: Production and sales

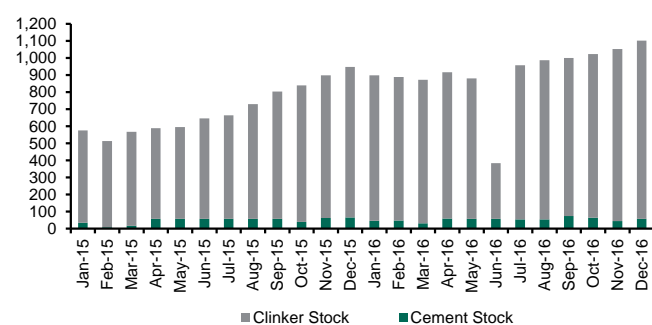
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 35: Inventory – Cement and clinker

'000 tons

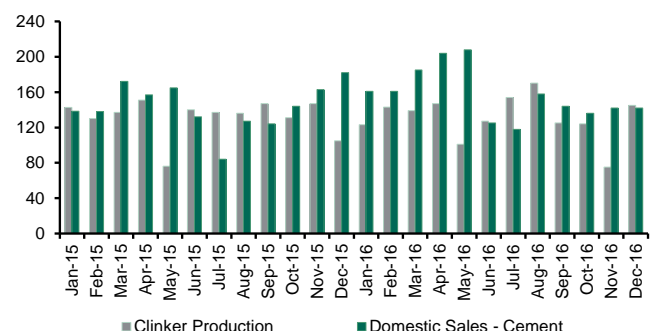


Source: Yamama Cement, NCBC Research

## Al Jouf Cement (JCC)

### Exhibit 36: Production and sales

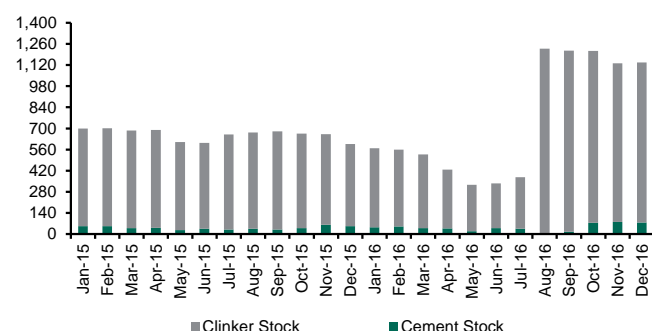
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 37: Inventory – Cement and clinker

'000 tons



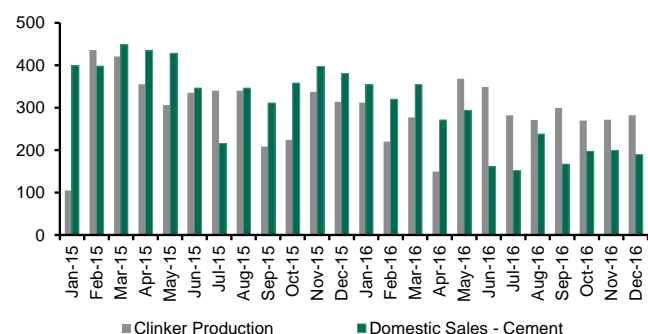
Source: Yamama Cement, NCBC Research

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## Najran Cement (NAJC)

### Exhibit 38: Production and sales

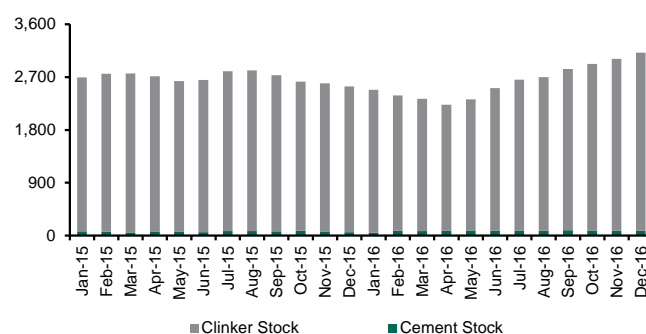
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 39: Inventory – Cement and clinker

'000 tons

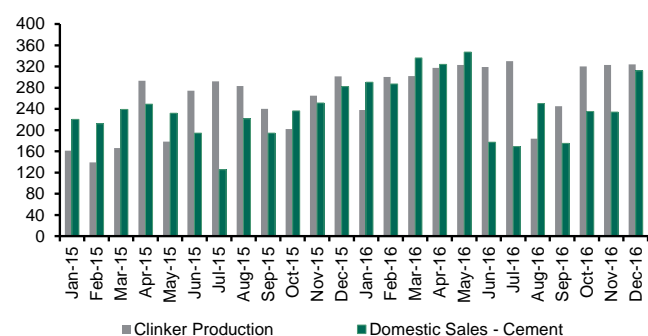


Source: Yamama Cement, NCBC Research

## City Cement (CCC)

### Exhibit 40: Production and sales

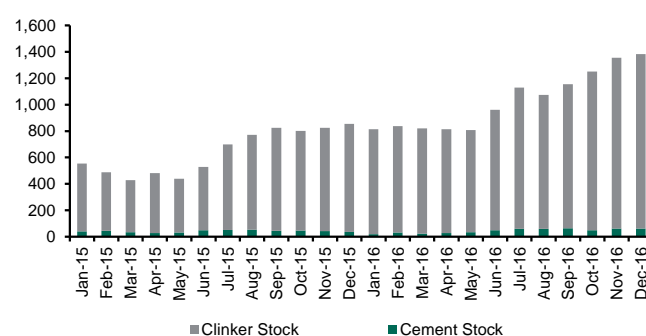
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 41: Inventory – Cement and clinker

'000 tons

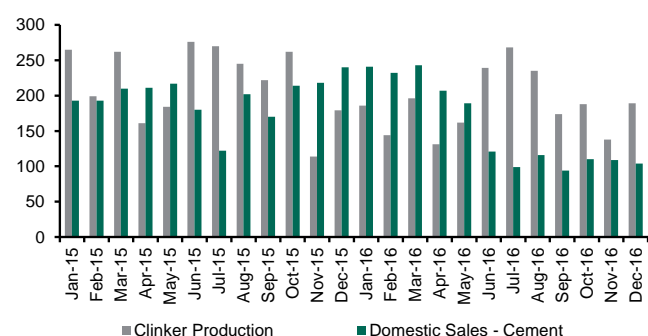


Source: Yamama Cement, NCBC Research

## Northern Cement (NRCC)

### Exhibit 42: Production and sales

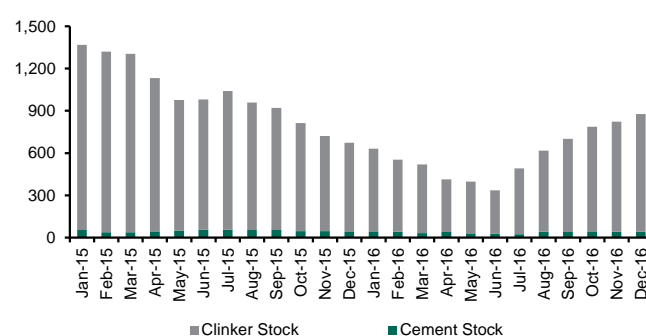
'000 tons



Source: Yamama Cement, NCBC Research

### Exhibit 43: Inventory – Cement and clinker

'000 tons



Source: Yamama Cement, NCBC Research

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Kindly send all mailing list requests to [research@ncbc.com](mailto:research@ncbc.com)

**NCBC Research website**

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**Brokerage website**

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**Corporate website**

[www.ncbc.com](http://www.ncbc.com)

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OVERWEIGHT:	Target price represents an expected increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents an expected change in share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents an expected 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

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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