

Beat sector on volume and consensus on earnings

1Q16 beat consensus with strong volume growth

Jouf Cement reported a net profit of SAR24.7mn (-4% y/y, +381% q/q – not comparable due to seasonality) for 1Q16, which beat consensus by 70%. According to management commentary, y/y decrease in profit was attributed to a lower selling price and increase in finance cost. In addition, 381%q/q increase in net profit was attributed to increase in volume and normalization in maintenance expenses which had spiked in 4Q15. At the operating level, the company reported a profit of SAR27.5mn (-3% y/y and up 250% q/q). Jouf's Cement's total volume for January–March 2016 is +13% Y/Y vis-à-vis +3% for the sector.

Cautious outlook on sector due to overall slowdown in economy

In light of the government removing subsidies on electricity and fuel as it weans the economy off oil price dependency, we expect margins to remain under pressure in the near term. Higher clinker inventory levels would put further pricing pressure on the sector. Volume growth is expected to be modest in the near term due to a decline in government spending. Capacity additions could pose a bigger threat to the sector. Clinker capacity stood at 57.8mn tons in 1H15, with a further 11.7mn tons (20% addition to the capacity in 1H15) of new capacity scheduled to be installed between 2H15 and end-2017. On the upside, as part of its initiatives to support non-oil GDP, the government is attempting to bolster construction activity in the housing sector, which may support volumes. We believe the government's decision to lift the ban on exports could offset the slowdown in the domestic market, but company managements are finding attached conditions tough to meet.

Under Review rating

We will update our model and revise forecasts upon full disclosure by the company later this month. Given the relatively weak outlook for the sector and negative impact of higher electricity and fuel costs, we expect a limited upside in the stock in the near term.

EV / Ton of Jouf Cement



Source: Bloomberg, SFC

	1Q16A	1Q16E	% diff	Cons.	% diff	4Q15	% Ch. QoQ	1Q15	% Ch. YoY
Volume ('000 tons)	Na	Na	Na	Na	Na	1,600	Na	1,600	Na
Revenues	90.8	Na	Na	91.7	-1%	88.6	Na	87.4	Na
Gross Profit	35.5	Na	Na	Na	Na	16.0	122%	36.8	-3%
EBIT	27.5	Na	Na	15.0	84%	7.9	250%	28.3	-3%
Net Income	24.7	Na	Na	14.6	70%	5.1	381%	25.8	-4%

Source: Company, SFC, Bloomberg

Rating Summary

Recommendation	UR
12-Month Target price (SAR)	UR
Upside/(Downside)	NA

Stock Details

Last Close Price*	SAR	9.5
Market Capitalization	SAR mln	1,232
Shares Outstanding	mln	130
52-Week High	SAR	18.4
52-Week Low	SAR	7.4
Price Change (3M)	%	+22.6
EPS 2016E#	SAR	0.5
Reuters / Bloomberg	3091.SE	JOUF AB

Source: Tadawul, Bloomberg *as of 20 Apr 2016, #consensus

Key Shareholders (%)

KBS Capital	5.0%
Other investors	42.4%
Public	52.6%

Source: Tadawul

Price Multiples*

	2016E	2017E
P / E	19.2x	10.2x
EV / EBITDA	11.6x	9.1x
Dividend Yield (%)	0%	2.6%

Source: Bloomberg, * based on consensus

1-Year Share Performance



Source: Bloomberg

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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.

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