

## Below consensus due to weak volume growth and lower selling price

### 1Q16 missed consensus due to weak volume growth and lower selling price

Tabuk Cement reported a net profit of SAR22.2mn (-32% Y/Y, -8% Q/Q – not comparable due to seasonality) for 1Q16, below consensus expectations (-8%). According to management commentary, decrease in profit was attributed to the decline in selling price and rise in cost of sales. Tabuk reported revenue of SAR75.5mn which was 7% below consensus. At operating level Tabuk's performance was also weak, gross margins fell 1,038 bps Y/Y and 779 bps Q/Q. The company's net margin also witnessed steep decline (-940bps Y/Y and -533bps Q/Q). We believe weak volume growth, declining selling prices and higher fuel costs contributed to declining margins. Tabuk's Cement's total volume for January–March 2016 is +2% 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.

### 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 Tabuk Cement



Source: Bloomberg, SFC

	1Q16A	1Q16E	% diff	Cons.	% diff	4Q15	% Ch. QoQ	1Q15	% Ch. YoY
Volume ('000 tons)	Na	Na	Na	Na	Na	1,485	Na	1,485	Na
Revenues	75.5	Na	Na	81.0	-7%	65.2	16%	84.0	-10%
Gross Profit	26.4	Na	Na	28.4	-7%	27.9	-5%	38.1	-31%
EBIT	22.3	Na	Na	22.0	1%	23.4	-5%	33.1	-33%
Net Income	22.2	Na	Na	24.0	-8%	22.6	-2%	32.6	-32%
Gross Margin	35%	Na	Na	35%	-3 bps	43%	-779 bps	45%	-1,038 bps
EBIT Margin	30%	Na	Na	27%	238 bps	36%	-644 bps	39%	-986 bps
Net profit Margin	29%	Na	Na	30%	-22 bps	35%	-533 bps	39%	-940 bps

Source: Company, SFC, Bloomberg

### Rating Summary

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

### Stock Details

Last Close Price*	SAR	16.8
Market Capitalization	SAR mln	1,512
Shares Outstanding	mln	90
52-Week High	SAR	27.4
52-Week Low	SAR	13.0
Price Change (3M)	%	+29.7%
EPS 2016E#	SAR	0.65
Reuters / Bloomberg	3090.SE	TACCO AB

Source: Tadawul, Bloomberg \*as of 21 Apr 2016, #consensus

### Key Shareholders (%)

Khaled S.A. Al Shithry	12.7%
Public Pension Agency	5.0%
Public	82.3%

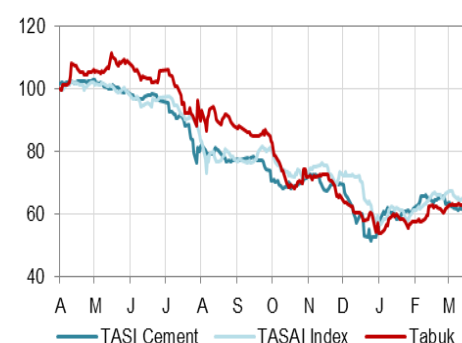
Source: Tadawul

### Price Multiples\*

	2016E	2017E
P / E	23.7x	22.5x
EV / EBITDA	11.6x	10.6x
Dividend Yield (%)	4.5%	4.7%

Source: Bloomberg, \* based on consensus

### 1-Year Share Performance



Source: Bloomberg

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## Research and Advisory Department

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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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