



Key themes

This is our quarterly update on Cement production, volumes and inventory in Saudi Arabia.

What do we think?

Stock	Rating	Price Target
Yamama	UW	SAR 11.0
Southern	UW	SAR 30.0
Saudi	UW	SAR 38.0
Yanbu	N	SAR 23.0
Qassim	N	SAR 33.5
Arabian	N	SAR 20.5

Saudi Cement sector: Sales volume continued to decline

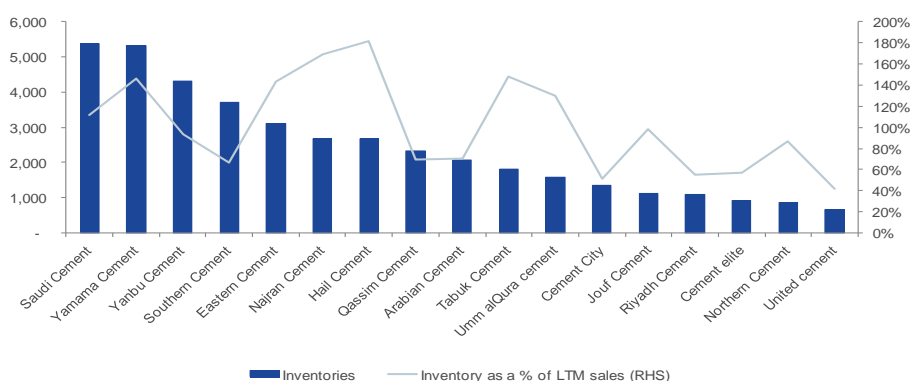
The Saudi Cement Sector continued to remain under pressure in Q3 2018, with the average sales volume dropping 12.5% y-o-y (albeit at a slower pace than the previous quarter's decline of 15.4% y-o-y). The aggregate revenue of all the public listed cement companies declined 18.6% y-o-y in Q3 2018 (9M 2018: -21% y-o-y). We observed that some companies recorded a significantly lower cost per ton, which, in our opinion, is primarily due to their higher than normal clinker production relative to cement production. Going forward, we believe the cement demand might improve, on the back of higher government spending in the coming years, however, prices are unlikely to pick up soon, due to huge excess inventory and stiff competition. Overall, we remain on neutral on the sector, given the current weak market dynamics.

Production & Inventory levels

Cement production fell 11.6% in Q3 2018, almost in-line with the decline in sales volume, but from clinker production, it dropped only 6%, which could be attributable to the industry nature and scale. We also noticed that the gap between clinker production and cement production is widening as the total production of clinker is more than the cement production by 4.7mn tons in 2018 so far (2.8mn tons in 2017), which resulted in higher clinker inventory. In our opinion, this could be because; some producers are witnessing an improvement in production cost per unit through aggressive production, as evidenced in Saudi Cement, Arabian Cement and Tabuk Cement, whose cost levels came significantly lower than industry average.

Inventories rose 15% y-o-y to 41mn tons in September 2018 (35.2mn tons in December 2017), representing 97% of the LTM sales, mainly due to wider gap between clinker production and cement sales, as discussed earlier. Among the cement companies, Arabian cement, Umm al-Qura cement and Qassim Cement witnessed the fastest YTD growth in inventory, up by 93% , 92% and 49% respectively.

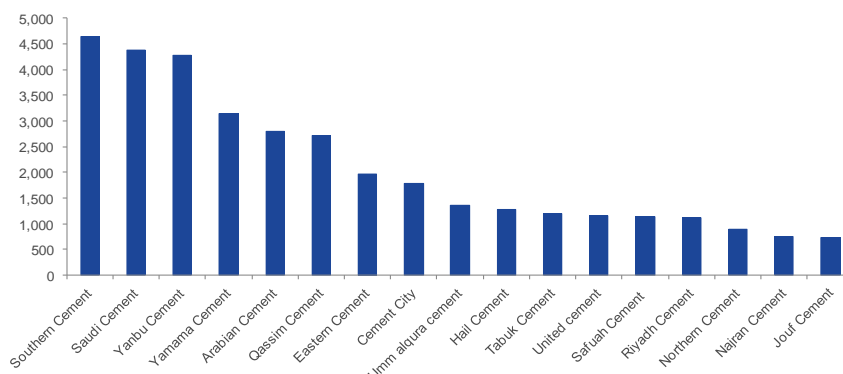
Figure 1 Inventories Data (as of Sep 2018)



Source: Yamama Cement, Al Rajhi Capital



Figure 2 9M 2018 Production volume ('000 tons)

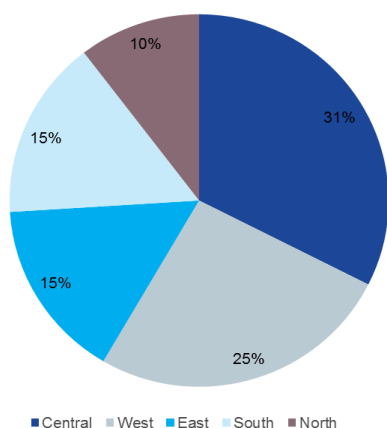


Source: Yamama Cement, Al Rajhi Capital

Market share change over regions

We observed that the Central region companies' market share has decreased so far in 2018, reaching 27% in 9M 2018 (31% 9m 2017), as the other producers, particularly from the North region, have entered the Central region in order to boost sales, enabling them to gain overall market share. Within the Central region, Yamama Cement increased its market share to 39% in Q3 2018 (28% in Q3 2017) by lowering prices to reach SAR97 per ton. Southern region cement companies have also increased their sales in the Western region, helping Southern region companies to increase their overall market share while impacting the Western region companies' market share.

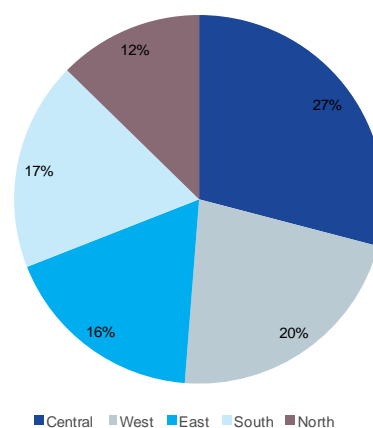
Figure 3 9M 2017 - Region-wise Market Share



■ Central ■ West ■ East ■ South ■ North

Source: Yamama Cement, Al Rajhi Capital

Figure 4 9M 2018 - Region-wise Market Share



■ Central ■ West ■ East ■ South ■ North

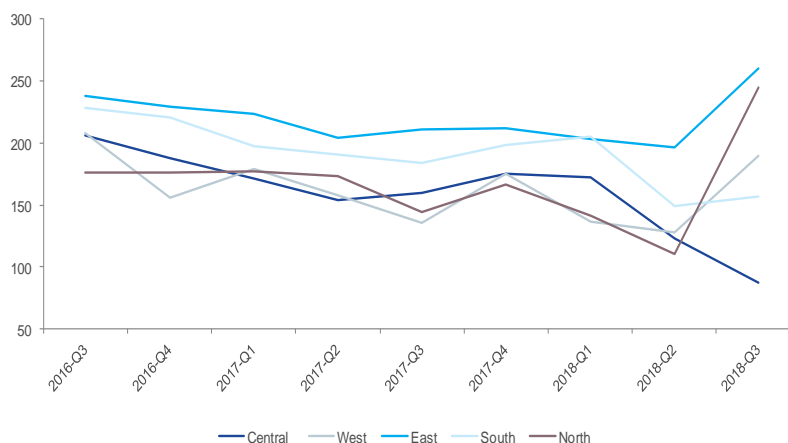
Source: Yamama Cement, Al Rajhi Capital



Prices trend in all regions

In 2018, the Cement Sector witnessed a significant drop in average prices, on account of weak demand amid high inventory & production levels, which triggered a stiff competition and price war among producers. Average selling prices fell 28% YTD. The Central region witnessed the strongest drop in average prices, down by ~37% YTD, reaching to SAR110 per ton in Q3 2018 (SAR159 per ton in Q3 2017). The decline in average prices was mainly because of Yammama Cement Co.'s strategy to increase market share by lowering prices, which also forced the other players to offer huge price discounts. On the other hand, the Eastern region witnessed the lowest price drop of ~7 % YTD (reaching to SAR195 per ton in Q3 2018 from SAR 211 per ton in Q3 2017), supported by the premium clients and relatively low number of players in the region.

Figure 5 Region-wise average prices (SAR)



Source: Company data, Al Rajhi Capital

Export helped releasing pressure slightly

Since the removal of export fees in February 2018, Saudi companies were able to export over 2mn tons of clinker and 673k tons of cement (165k tons of cement in 9M 2017). Saudi Cement Co. accounted the biggest share in cement exports, as it exported 423k tons since February (~63% of overall cement exports). In terms of clinker exports, Yanbu Cement exported ~1mn tons of clinker in 2018 (~50% of overall clinker exports). Going forward, we expect exports to continue grow due to the intensive competition, low selling prices and high inventory level in the local market.

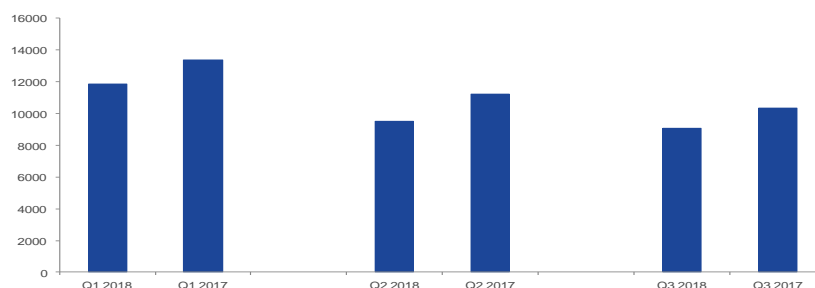
Medium-term future outlook

For the medium term, we expect the cement demand to increase as the anticipated rise in the government spending should increase the construction activities. In this regard, the Kingdom has also recently announced over 600 projects worth ~SAR16bn in the Qassim region and 259 development projects worth ~SAR7bn in the Hail region. However, we don't expect prices to pick up any time soon, due to high inventory level and huge competition. We keep our estimates for 2018 cement sales at 41mn ton.



9M Sales

Figure 6 Sales volume ('000 tons)



Source: Yamama Cement, Al Rajhi Capital

Table of companies under our coverage

Figure 7 Revenues of companies under our coverage.

Company Name	EPS			Revenue (SAR mn)		
	2017 A	2018 E	2019 E	2017 A	2018 E	2019 E
Yamama Cement	0.5	-0.5	-0.1	748	480	655
Saudi Cement	3.0	2.1	2.0	1,185	1,065	1,113
Qassim Cement	2.8	1.0	1.1	626	389	401
Yanbu Cement	2.0	0.5	1.1	917	715	700
Arabian Cement	2.6	-0.5	-0.2	906	549	672
Southern Cement	2.6	1.3	1.8	1,063	851	903

Source: Tadawul, Al Rajhi Capital

Figure 8 Cement Sector (September 2018 data)

Company Name	Sales Volume ('000 tons)			Current Inventory			Inventory as a % of LTM sales
	2017	2018	y-o-y	2017	2018	y-o-y	
Yamama Cement	3,377	2,784	-18%	4,442	5,320	20%	146%
Saudi Cement	3,648	3,498	-4%	5,164	5,395	4%	112%
Eastern Cement	1,529	1,509	-1%	2,549	3,093	21%	143%
Qassim Cement	2,828	2,283	-19%	1,445	2,326	61%	70%
Yanbu Cement	4,070	3,358	-17%	3,847	4,310	12%	93%
Arabian Cement	2,656	2,029	-24%	753	2,059	173%	71%
Southern Cement	4,090	4,072	0%	2,695	3,700	37%	67%
Tabuk Cement	775	904	17%	1,366	1,806	32%	148%
Riyadh Cement	2,167	1,371	-37%	1,301	1,082	-17%	55%
Najran Cement	1,266	1,086	-14%	3,178	2,684	-16%	169%
Cement City	2,544	1,751	-31%	1,317	1,344	2%	51%
Northern Cement	846	693	-18%	1,193	864	-28%	86%
Jouf Cement	1,089	814	-25%	1,158	1,131	-2%	99%
Safwa Cement	1,308	1,148	-12%	847	912	8%	57%
Hail	724	1,151	59%	2,311	2,682	16%	182%
Umm alQura cement	758	849	12%	670	1,571	134%	130%
United cement	1,288	1,135	-12%	507	657	30%	41%
Total	34,963	30,435	-13%	34,743	40,936	18%	97%

Source: Yamama Cement, Al Rajhi Capital



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