Yanbu Cement
Cement – Industrial
YNCCO AB: Saudi Arabia
25 Nov 2018

الراجحي المالية
Al Rajhi Capital

US$1.039bn	51%	US$1.288mn
Market cap	Free float	Avg. daily volume

Target price	23.00	-7.0 % Below current
Current price	24.74	as at 22/11/2018

Existing rating

Underweight	**Neutral**	Overweight

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Yanbu Cement

Q3: Earnings beat

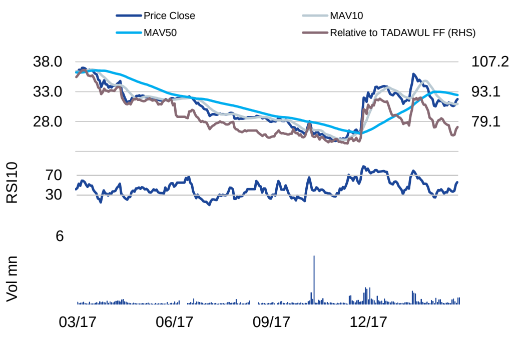
Yanbu cement's Q3 net profit came at SAR13.5mn (-25% y-o-y and 215% q-o-q), beating our (SAR2mn) as well as consensus estimates (SAR3.8mn) by a wide margin. This beat was due to higher-than-expected export prices, around 90% up (clinker prices reached SAR 136/ton) and lower cost per ton. The company was able to lower cost per ton by keeping the high level of production at 1.58 mn ton (+30% y-o-y), which enabled the company to benefit from the economies of scale. However, sales volume decreased by a wide margin (-37% y-o-y), resulted into elevated levels of inventory (reached 4.3mn ton; represents 93% of LTM sales). Going forward, we expect the cement demand to increase as the anticipated rise in the government spending should increase the construction activities, however, we don't expect prices to pick up any time soon, due to high inventory level and huge competition. We remain Neutral on Yanbu cement stock keeping our TP at SAR23/share.

Revenue: The company's top-line of SAR153mn (-12% y-o-y, -22% q-o-q) was weighted down by lower domestic sales price at ~SAR 115/ton (-15% y-o-y, -16% q-o-q) and an exported clinker price of around SAR136/ton. The domestic cement sales volume declined 37% y-o-y (-26% q-o-q) to 792k tonnes, while the company exported 416k tonnes of clinker and 30k tonnes of cement.

Profit margins: The company's gross and operating margins improved to ~16% and ~8% respectively in Q3 from ~10% and ~4% in the previous quarter, largely on account of lower cost per ton. We don't believe the current low level of cost of goods sold is sustainable, as the company can't maintain higher production run rates for long period, while demand is weak.

Conclusion and Valuation: The challenging market conditions and the volatility in prices are likely to continue in the Western region, given that it has the highest number of producers/ production capacities. We value the company based on an equal weighted average of DCF (10.3% WACC) and relative valuation (P/E of 12x). We maintain our Neutral rating on the stock with the same target price of SAR23 per share, implying a 7% downside from the current price.

Performance



Source: Bloomberg

Earnings

Period End (SAR)	2017A	2018E	2019E
Revenue (mn)	917	715	700
Revenue Growth	-29%	-22%	-2%
EBITDA (mn)	542	289	360
EBITDA Growth	-32%	-47%	24.5%
EPS	2.04	0.47	0.93
EPS Growth	-40%	-77%	95%

Source: Company data, Al Rajhi Capital

Figure 1 Yanbu Cement: Summary of Q3 2018 results (SARmn)

	Q3 2018	Q3 2017	Q2 2018	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	153	173	197	-12%	-22%	162
Gross Profit	24	27	20	-13%	18%	15
Gross Margin	16%	16%	10%	NA	NA	9%
Operating Profit	12	19	7	-36%	73%	5
Net Profit	14	18	4	-25%	215%	2

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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