

First Cut – Yanbu Cement Co.

Lower volumes and cement realization impacts revenue: Yanbu Cement 3Q23 revenue at SAR189mn was down by 27.9% YoY and was impacted by a 32.4% YoY fall in clinker volume to 0.5mn tons and a 15.8% YoY fall in cement volume to 0.9mn tons. The revenue was further impacted by the blended realization falling by 7.3% YoY to SAR140/ton. The revenue reported by Yanbu Cement was also lower than our estimates of SAR215mn at the back of lower-than-expected cement realization.

Lower revenue sinks gross margins: Gross profit fell by 56.7% YoY to SAR39mn for 3Q23 and was impacted by lower revenue and a 11.8% YoY increase in cost of sales per ton (blended) to SAR112. Gross margins fell to 20.4% for 3Q23, compared to 34.1% for the same period previous year, and was impacted by the negative pricing scenario. Operating expenses on the other was flat at SAR14mn, with net income falling by 77.6% YoY to SAR16mn. The net income was substantially lower than our estimate of SAR44mn, and was impacted by lower-than-expected cement realization and the resultant negative impact on the gross margins.

Estimates and target price will be revisited: Overall, the performance of Yanbu Cement has been weaker than expected, in line with its peers in the industry, as cement prices come lower than our expectation. We expect the weak pricing scenario to continue for the next few quarters, which is likely to put pressure on both the company's top and bottom line. We have a HOLD rating and a target price of SAR37 per share on the company and is currently quoting at 42x its 2023E EPS. We will be revisiting our estimates and the target price of Yanbu and we will come out with a more comprehensive report on the company, once the detailed results are made available.

in SAR mn	3Q23	2Q23	QoQ	3Q22	YoY	3Q23e	YoY	9M23	9M22	YoY	2022	2021	YoY	2023E	YoY
Revenue	189	174	8.9%	262	-27.9%	215	-12.3%	587	742	-20.9%	981	934	5.0%	776	-20.9%
Gross profit	39	55	-29.7%	89	-56.7%	64	-39.9%	166	207	-19.9%	285	224	27.3%	205	-28.0%
Gross margins (%)	20.4%	31.6%		34.1%		29.8%		28.3%	27.9%		29.0%	23.9%		26.4%	
Operating profit	25	41	-39.7%	75	-67.0%	49	-49.3%	122	166	-26.7%	233	176	32.8%	147	-36.8%
Operating margins	13.1%	23.7%		28.7%		22.8%		20.8%	22.4%		23.8%	18.8%		19.0%	
Net income	16	35	-55.9%	69	-77.6%	44	-64.4%	102	156	-34.8%	215	160	35.0%	122	-43.1%
Net margins	8.2%	20.3%		26.4%		20.3%		17.4%	21.1%		22.0%	17.1%		15.8%	

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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