

4Q2017 net income came below our estimates of SAR 25.9mn, indicating a deviation of 34.6% from AJC estimates. However, normalized earnings came above estimates by 46.3%. The deviation was mainly attributed to provision of SAR 21.0mn in receivables from its subsidiary in Yemen. Zakat increased by SAR 5.7mn YoY. Revenue and margins came above our estimates. Operating expenses showed a decline of 22.4%YoY. Other income is expected to stand at SAR 5.2mn compared to SAR 5.9mn. We maintain our **"Neutral"** recommendation with PT of SAR 16.20 on the stock.

- Net income of SAR 16.9mn came below our estimates of SAR 25.9mn, a decline of 51.3%YoY, was mainly attributed to i) lower volumetric sales despite the improvement in selling price, ii) provision of SAR 21.0mn of receivables in its subsidiary in Yemen iii) increase in Zakat provision by SAR 5.7mn. Net margin for 2017 stood at 14.6% compared to 32.6% for 2016
- Revenue stood at SAR 169.0mn; a decline of 27.4%YoY, above our estimates of SAR 154.9mn. The YoY decline is mainly attributed to decline in volumetric sales. Cement sales showed a decline of 28.2%YoY to stand at 865KT in 4Q2017 from 1.20MT in 4Q2016. On the other hand, selling prices showed an improvement in Q4-2017, as price per ton stood at SAR 195.4/ton compared to 193.4/ton in 4Q2016. For 2018, we expect selling prices to average at SAR 185.6/ton compared to SAR 176.4/ton in 2017
- Gross profit stood at SAR 53.8mn depicting a decline of 24.7%YoY and an increase of 28.4%QoQ, which was mainly impacted by decline in revenue. Gross margin stood at 31.9% in 4Q2017 compared to 30.7% in 4Q2016 and 25.5% in 3Q2017. We expect gross margin to stand at 28.3% for FY2018 compared to 25.6% for FY2017. Based on our calculation, the cost/ton is expected to be at SAR 133.1/ton in 4Q2017 vs. SAR 134.0/ton in 4Q2016 and 131.3/ton in 3Q2017. Furthermore, we expect cost per ton to remain high due to higher depreciation rate for moving the plant. Operating profit stood at SAR 41.4mn showing a decline of 25.23%YoY and an increase of 62.8%QoQ.

AJC view: Although the government removed the tariffs on cement export, the potential of cement exports for the company is limited due to the location of Yamama cement in the central region. For 2018, we expect Yamama cement to post net income of SAR 164.65mn (EPS of SAR 0.81) an increase of 61.4%YoY, and 26.6% YoY on normalized earnings. Dispatches and selling price are expected to increase in 2018. Inventories are expected to decline as demand is expected to pick up, as the government increases its capital expenditure. Based on our estimates the company is trading at forward P/E and P/BV of 21.04x and 0.91x, respectively. We do not expect the company to pay dividend for 2018. We maintain our **"Neutral"** recommendation, with PT of SAR 16.20 on the stock.

Results Summary

SARmn (unless specified)	Q4-2016	Q3-2017	Q4-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	233.0	164.2	169.0	-27.47%	2.93%	9.12%
Gross Profit	71.5	42.0	53.9	-24.70%	28.37%	29.45%
Gross Margin	30.7%	25.5%	31.9%	-	-	-
EBIT	55.4	25.5	41.4	-25.23%	62.73%	61.21%
Net Profit	34.8	29.2	16.9	-51.34%	-41.89%	-34.59%
EPS	0.98	0.14	0.08			

Source: Company reports, Aljazira Capital

Recommendation	'Neutral'
Current Price* (SAR)	17.04
Target Price (SAR)	16.20
Upside / (Downside)	4.9%

Source: Tadawul *prices as of 7th of February 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	1125.0	748.0	814.9
Gross Profit	472.8	191.7	230.5
Net Profit	366.6	109.1	164.6
EPS	1.81	0.54	0.81

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3450.6
YTD %	-3.35
Shares Outstanding (mn)	202.5
52 Week (High)	19.85
52 Week (Low)	15.80

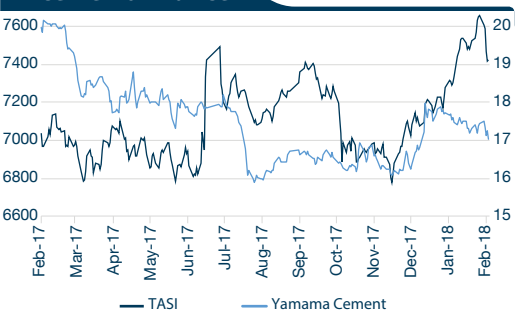
Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	42.0%	25.6%	28.3%
Net Margin	32.6%	14.6%	20.2%
P/E	12.63x	32.65x	21.04x
P/BV	1.24x	1.04x	0.91x
Dividend Yield	4.38%	-	-

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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