

Rating **Neutral**
12- Month Target Price **SAR 18.00**

YAMAMA CEMENT COMPANY (YAMAMA)
4Q2018 First Look

Expected Total Return

Price as on Feb-14, 2019	SAR 14.90
Upside to Target Price	20.8%
Expected Dividend Yield	1.7%
Expected Total Return	22.5%

Market Data

52 Week H/L	SAR 17.30/12.28
Market Capitalization	SAR 3,017 mln
Enterprise Value	SAR 4,213 mln
Shares Outstanding	203 mln
Free Float	92.6%
12-Month ADTV (000's)	273.104
Bloomberg Code	YACCO AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC. Est	Actuals
Revenue	123	160
Gross Profit	(9)	33
Net Income	(21)	7
EPS (SAR)	(0.10)	0.03

Welcome Profit

Yamama Cement Company (YSCC) reported 4Q2018 numbers reporting a net profit of SAR 7 million for the quarter after posting losses in the preceding two quarters and defying market consensus of a net loss. The net profit (though -43% lower Y/Y) resulted from a jump in prices by +60% Q/Q after experiencing record lows in 3Q (SAR 97/ton) as producers realized that unsustainably low prices (due to fierce competition) were really in no one's interest. Dispatches for 4Q were lower Q/Q but higher Y/Y. We revise our forecasts on expectations of better sales volumes and prices as demand from new projects start to kick in. Consequently, our target price rises from SAR 14.00 to SAR 18.00 but we remain Neutral on the stock.

Realization rises to SAR 155/ton

Revenues have come in at a healthy SAR 160 million, sequentially highest in 2018, down -5% Y/Y but up +49% Q/Q. The primary driver for higher topline was a jump in selling prices to SAR 155/ton in 4Q2018 versus a record low of SAR 97/ton in the third quarter. However, prices are still lower than SAR 196/ton in 4Q2017. We were only expecting a moderate improvement in selling prices. At the same time, cement dispatches remained subdued, at 1.04 million tons in 4Q as compared to 1.11 million tons in 3Q but higher than 865k tons last year. It appears Yamama has changed its strategy of getting market share at the cost of profitability and selling (at times) below cost. Thus, market share has come down from 12.2% in 3Q to 9.7% in 4Q. While competition in the central region is still stiff, things have eased off in 4Q.

Inventory levels concerning

While Yamama witnessed a marginal decline in clinker inventory levels from a high of 5.31 million tons in August 2018 to 5.13 million tons in November 2018, this has now reversed in December and January. January clinker inventory has risen to 5.27 million tons, 133% of LTM sales and represents 12% of clinker inventory in the sector.

Gross margins at 21%

We are pleased to note that Yamama has recorded a gross profit of SAR 33 million (-38% Y/Y) reversing a gross loss posted in 3Q. Gross margins at 21% for the quarter are also encouraging and we hope to see further improvement in 1Q2019 as long as the Company does not reduce prices to unsustainably low levels.

Target raised to SAR 18.00

A net profit of SAR 7 million for 4Q beat analysts' consensus of a SAR (21) million loss. However, net losses incurred in 2Q and 3Q resulted in a full year 2018 net loss of SAR (52) million. We do not want to prematurely forecast a boom but we are observing encouraging signs from the demand side, which could imply that the worst is now over for Yamama as well as the sector. Our forecasts for 2019 onwards have been adjusted. Consequently, the revised target price stands at SAR 18.00 versus SAR 14.00 earlier. Maintain Neutral

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	748	521*	599
EBITDA	330	185	305
Net Profit	104	(52)*	72
EPS (SAR)	0.52	(0.26)*	0.36
DPS (SAR)	-	-	0.25
BVPS (SAR)	16.99	16.64*	16.92

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	2%	(0.7%)	3%
ROAE	3%	(1%)	2%
P/E	27.8x	-	41.9x
P/B	0.9x	0.8x	0.9x
EV/EBITDA	11.5x	14.7x	10.6x
EV/Sales	5.1x	5.2x	5.4x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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920012299
riyadcapital.com

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الإدارة العامة: 6775 شارع التخصصي - العليا، الرياض 12331 - 3712