

Yamama Cement recorded a positive bottom line against our estimates and the market consensus of loss for Q4-18. The above estimated earning is a result of increase in selling prices, which we believe is due to the rationalization of cement producers that, price war is not conducive for the health of the business. However, we do not expect a long term continuation of price rationalization, as summer season will put further downward pressure on demand. The company's new plant is fully funded by debt, which in the current rising interest rate environment is the main downside. We update our recommendation to **"underweight"** with unchanged PT of SAR 12.60/share.

- Yamama Cement reported a net profit of SAR 6.95mn (-43.2%Y/Y) compared to our estimates and the market consensus of a loss of SAR 29.9mn and SAR 21.2mn, respectively. The sudden shift to profitability is attributed to selling price rationalization by the cement producers, which we believe will be short-term.
- Revenue stood at SAR 160.4mn (-5.1%Y/Y) above our estimates of SAR 106.7mn. Selling price was higher than our estimates by 47.6% and stood at SAR 154.9/tonne. Volumetric sales stood at 1.04MT compared to 865K year earlier. Selling prices are expected to normalize in upcoming quarters, at lower levels.
- Gross profit stood at SAR 33.3mn (-37.9%Y/Y), compared to our estimates of a loss of SAR 15.2mn. Despite the decline in cost per tonne, gross margin decline by 1100bps. Cost per tonne for the year stood at SAR 125.4/tonne compared to SAR 131.2/tonne in FY-17. Operating profit stood at SAR 15.7mn showing a decline of 61.8%Y/Y. OPEX at SAR 17.6mn, showed an increase of 41.6%.

AJC view: We remain negative on the sector for FY-19, as the announced projects and the recovery in housing market are expected to materialize in FY-20 onward. The company has an inventory of 5.3MT above FY-18 dispatches by 35.9%. The company announced it will start production at its new plant by Q4-19/Q1-20. By re-locating the plant the company will lose its competitive advantage, of its current location. Moreover the company announced it will finance its CAPEX entirely through debt (SAR 4.5bn) which poses a risk to the company. The company announced in Q3-18 statements that it has broken one of its loans covenant, and the company is in the process of re-negotiation with the creditors. High leverage in rising interest rate environment combined with low operating environment, in our view will pose multiple challenges for the company, hence our negative outlook. We update our recommendation to **"Underweight"** with unchanged PT of **SAR 12.60/share**.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	168.9	107.7	160.4	-5.03%	48.93%	50.33%
Gross Profit	53.6	(24.7)	33.3	-37.87%	-	-
Gross Margin	31.7%	-	20.8%	-	-	-
EBIT	41.2	(39.3)	15.7	-61.89%	-	-
Net Profit	12.2	(46.4)	6.9	-43.44%	-	-
EPS	0.06	(0.23)	0.03	-	-	-

Source: Company Reports, Aljazira Capital

Underweight

Target Price (SAR) 12.60

Upside / (Downside)* -15.4%

Source: Tadawul *prices as of 14th of February 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	748.0	521.2	531.9
Gross Profit	191.4	34.1	60.3
Net Profit	104.4	(51.8)	9.2
EPS	0.52	(0.26)	0.05

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	25.6%	6.5%	11.3%
Net Margin	13.9%	-	1.7%
P/E	12.09	-	NM*
P/B	1.04	0.76	0.89
EV/EBITDA (x)	13.1	30.6	35.1
Dividend Yield	-	-	-

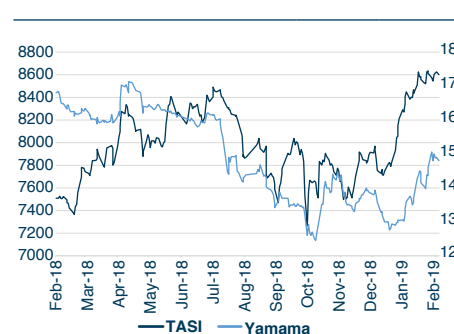
Source: Company reports, Aljazira Capital *NM: Not meaningful

Key Market Data

Market Cap (bn)	3.0
YTD %	16.8
Shares Outstanding (mn)	202.5
52 Week High/ Low	17.30/12.28

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, 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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