



Yanbu Cement came below estimates on higher than expected COGS and Zakat. Net income came at 37.3mn, below our expectation of 40.9mn. Cost per ton stood at SAR 136.2/ton, above our estimates of SAR 106.9/ton. Where volumetric sales surpassed our expectations to reach 740KT, compared to our estimates of 685KT. Gross margin expanded by 563bps to 35.8% from 30.1% in Q2-19 due to improved price realization on exports which stood at SAR 164.8/ton compared to SAR 79.5/ton in Q2-19. We maintain our **“Neutral”** recommendation on the stock with a revised TP at **SAR 30.1/share**.

- Yanbu cement recorded a net income of 37.3mn in Q2-20 (EPS; SAR 0.24/share); indicating a decline of 59.5%Q/Q, 7.1%Y/Y. Net income came below our estimates and above market consensus estimates of SAR 40.9mn and SAR 36.0mn, respectively. The decrease in net income is mainly attributed to a significant domestic sales decline of 50.0%Y/Y, due to government procedures to avoid the spread of COVID-19. The deviation of Q2-20 earnings from our estimates is mainly ascribed to higher than expected COGS and Zakat.
- The company posted revenue of SAR 156.9mn (down by 43.4%Q/Q, 25.1%Y/Y), above our estimates of SAR 124.5mn. During Q2-20, Yanbu cement registered a decline of 50.0%Y/Y in volumetric sales to 740KT; higher than our volume estimates of 685KT. Based on our calculation, domestic realization per tonne came at SAR 216.3/ton, while export realization per tonne increased by 107%Y/Y to stand at SAR 164.8/tonne. Average price realization/tonne stood at SAR 181.7/tonne, against SAR 174.4/tonne in Q1-20.
- Gross profit stood at SAR 56.1mn (a decline of 49.5%Q/Q, 11.1%Y/Y), above our estimates of SAR 51.2mn, due to higher than expected revenue. Cost per tonne came at SAR 136.2/ton compared to an average of SAR 100.9/ ton in FY19.
- Operating profit stood at SAR 43.6mn, where OPEX came at SAR 12.5mn, showing a decline of 45.0%Y/Y, above our estimates of SAR 11.6mn

AJC view: Yanbu Cement dispatches for the first two months in the Quarter showed a sharp decline by 40.8%Y/Y due to the lock-down. However, in the last month of the quarter dispatches increased by 95.5% due to pre-buying before the VAT hike; however, we believe dispatches will show a decline in the short term. The company has an inventory of 4.7MT, which could be enough to cover more than 88% of the total sales volume during TTM. We believe the cement sector will continue facing demand challenges, however, we don't expect any further price war between players due to the recognized impacts on the companies' financials during the pricing war starting 3 years back. Yanbu cement is expected to post SAR 271.5mn in net income (1.72 EPS), for FY20, recording an increase of 5.4%Y/Y. The company is currently trading at TTM PE of 17.4x compared to a forward PE of 17.6x based on FY20 earnings. We maintain our **“Neutral”** recommendation on the stock with a revised TP at **SAR 30.1/share**.

Results Summary

SARmn	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	209.6	277.4	156.9	-25.1%	-43.4%	26.0%
Gross Profit	63.2	111.0	56.1	-11.1%	-49.5%	9.5%
Gross Margin	30.1%	40.0%	35.8%	-	-	-
EBIT	40.4	97.8	43.6	7.8%	-55.4%	9.9%
Net Profit	40.2	92.2	37.3	-7.1%	-59.5%	-8.7%
EPS	0.26	0.59	0.24	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **30.1**

Upside / (Downside)* **-0.5%**

Source: Tadawul *prices as of 26th of July 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenue	976	798	773
Growth %	27.2%	-18.2%	-3.2%
Net Income	258	272	299
Growth %	182.8%	5.3%	10.3%
EPS	1.64	1.72	1.90

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	34.3%	43.4%	47.9%
Net Margin	26.4%	34.0%	38.8%
P/E	23.3x	17.6x	15.9x
P/B	1.82x	1.45x	1.46x
EV/EBITDA (x)	12.6x	9.7x	9.3x
Dividend Yield	3.3%	5.9%	6.6%

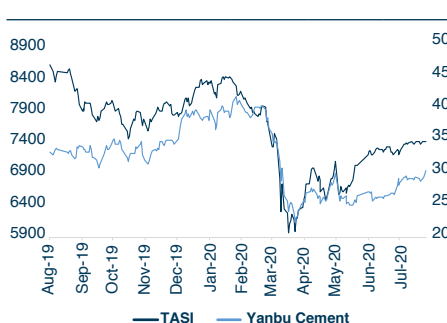
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	4.77
YTD %	-23.5%
52 Week (High)/(Low)	41.95/21.90
Shares Outstanding (mn)	157.50

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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