November 2019

Yanbu Cement Co.

Result Flash Note Q3-19

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Yanbu Cement beats estimates on higher than expected volumetric sales and domestic price realization. Net income came at 61.4mn, 14.7% above our expectation of 53.5mn. Volumetric sales surpassed our expectations to reach 1.42MT, compared to our estimates of 1.15MT. Gross margin expanded by 297bps to 33.1% from 30.1% in previous quarter due to improved selling prices. We upgrade our recommendation to “**Overweight**” on the stock with a TP at **SAR 35.50/share**.

- Yanbu cement recorded a net income of 61.4mn in Q3-19 (EPS; SAR 0.39/share); indicating an increase of 52.7%Q/Q, 352.4%Y/Y. Net income surpassed our estimates and the market consensus estimates of SAR 53.5mn and SAR 53.0mn, respectively. The strong growth is mainly attributed to a significant domestic sales growth of 20.2%Y/Y and improved selling prices. The deviation of Q3-19 earnings from our estimates is mainly ascribed to higher than expected volumetric sales and domestic selling price.
- The company posted revenue of SAR 228.0mn (an increase of 8.75%Q/Q, 49.2%Y/Y), well above our estimates of SAR 191.4mn. During Q3-19, Yanbu cement registered an increase of 13.9%Y/Y in volumetric sales to 1.42MT; higher than our volume estimates of 1.15MT. Based on our calculation, domestic realization per tonne came at SAR 218.5/tonne, while export sales price is expected to stand at SAR 79.5/tonne. Average price realization/tonne stood at SAR 166.9/tonne, against SAR 141.7/tonne in Q2-19.
- Gross profit stood at SAR 75.5mn (an increase of 19.5%Q/Q, 217.6%Y/Y), exceeded our estimates of SAR 71.0mn, due to higher than expected revenue. Cost per tonne came at SAR 107.4/tonne compared to an average of SAR 99.0/ tonne in 2Q-19.
- Operating profit stood at SAR 65.7mn, where OPEX came at SAR 9.8mn, showed a decline of 14.0%Y/Y, lower than our estimates of SAR 11.1mn.

AJC view: it seems that the company will be able to maintain the export sales high, with total export sales of 2.4MT of clinker and cement in 9M-19, resulting in an export revenue of SAR 191.7mn. We expect the low average realization per tonne will stay, as Yanbu cement extended export contract till Apr-FY20, which could drag down clinker inventory. The company has an inventory of 4.2MT, which is enough to cover more than 69% of the total TTM sales volume. We believe, cement sector is continuing the recovery from its downtrend due to producer’s concentration on selling prices and an increase in both local & export sales. Yanbu cement is expected to post SAR 248.9mn in net income (1.58 EPS), for FY19, recording an increase of 173%Y/Y. The company is currently trading at TTM PE of 24.1x compared to a forward PE of 13.7x based on FY20 earnings. We upgrade our recommendation to “**Overweight**” on the stock with a TP at **SAR 35.50/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**152.8**	**209.6**	**228.0**	49.2%	8.8%	19.1%
Gross Profit	23.8	63.2	75.5	217.5%	19.5%	6.3%
Gross Margin	*15.6%*	*30.1%*	*33.1%*	-	-	-
EBIT	12.4	40.4	65.7	429.5%	62.6%	17.9%
Net Profit	**13.6**	**40.2**	**61.4**	352.4%	52.7%	14.7%
EPS	0.09	0.26	0.39	-	-	-

Source: Company Reports, AlJazira Capital

Overweight

Target Price (SAR)	**35.5**
Upside / (Downside)*	**12.9%**

Source: Tadawul *prices as of 03th of November 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	916.6	767.1	972.5	953.9
Growth %	-28.7%	-16.3%	26.8%	-1.9%
Net Income	320.5	93.2	248.9	366.9
Growth %	-38.6%	-70.9%	173.0%	47.4%
EPS	2.03	0.59	1.58	2.33

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E	FY20E
Gross Margin	39.0%	18.6%	33.2%	46.3%
Net Margin	34.8%	11.9%	25.6%	38.5%
P/E	16.70x	41.45x	20.25x	13.74x
P/B	1.56x	1.17x	1.53x	1.47x
EV/EBITDA (x)	10.1x	13.6x	11.0x	8.1x
Dividend Yield	5.9%	6.3%	7.8%	10.9%

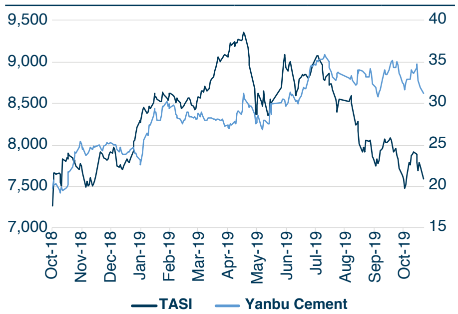
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	5.10
YTD %	**35.0%**
52 Week (High)/(Low)	36.10/21.68
Shares Outstanding (mn)	157.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers Central Region, & acting head Western and Southern Region Investment Centers
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

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.

Disclaimer