

March 21, 2018

Rating	Buy
12-Month Target Price	SAR 34.00

## YANBU CEMENT COMPANY (YCC) 4Q2017 First Look

### Price Focused Quarter

Yanbu Cement Company (YCC) reported 4Q2017 results with a positive surprise, beating our expectations as well as the street's estimates. EPS of SAR 0.61 was above our forecast of SAR 0.37 and consensus of SAR 0.36. Key 4Q2017 highlights are: i) Increase in realization (+17% Y/Y and +30% Q/Q) to SAR 177/ton vs SAR 137/ ton in the preceding quarter. ii) Adjusted inventory levels (clinker and cement) at 4.6 million tons as of 4Q (represents 87% of TTM sales), slightly higher than the industry's 86%. iii) COGS/ton declined to SAR 86/ton, on efficient cost control. We have recently adjusted our target price from SAR 29.00 to SAR 34.00 in our KSA Cement Sector Handbook and raised our recommendation from Neutral to Buy due to cheaper valuations and higher dividend yield, despite the fact that sector outlook remains muted. However, we believe that YCC could be less affected.

### Topline improves on prices

Revenues of SAR 223 million came above our expectations of SAR 191 million as we expected Yanbu to focus on depleting inventories at cheaper prices and retain its market share. Revenues declined by -26% Y/Y but increased by +29% Q/Q due to improvement in realization to SAR 177/ton. The improvement in selling prices came at cost of recording lower sales volume (-1% Q/Q and -37% Y/Y) and losing its market share. Yanbu's market share declined by -172 bps Q/Q to a multi-year low of 10.5%.

### Margins expand across the board

Gross profit of SAR 115 million, which came above our expectations of SAR 68 million, is down by -16% Y/Y but up by +326% Q/Q on the back of higher cost efficiency. Gross margins expanded from 15.6% to 52.6% Q/Q as cost of sales per ton declined by -26% Q/Q to SAR 86/ton due to more efficient cost control and decreasing cash costs to SAR 75/ton (-6% Q/Q). Operating profit of SAR 89 million, though declined by -43% Y/Y but up by +368% Q/Q, came above our estimate of SAR 59 million. Operating margins reached 40% in 4Q from 11% sequentially. In addition, EBIT/ton improved by +371% Q/Q and +36% Y/Y to SAR 71/ ton, one of the highest in the sector. Yanbu reported earnings of SAR 96 million this quarter exceeding our estimate of SAR 58 million, improving by +433% Q/Q but declining by -4% Y/Y. As a result, net margins expanded to 43% from 10.4% in 3Q.

### Maintain a Buy

2018E P/E of 15.3x though expensive to TASI's 14.2x, is lower than large peers. We cut our 2018 DPS forecast to SAR 2.00 but 2018E dividend yield remains attractive at 6.1%, in the median range despite a gloomy environment. We continue with our Buy recommendation.

### Key Financial Figures

FY Dec31 (SAR Mln)	2016A	2017E	2018E
Revenue	1,286	917*	926
Gross Profit	68	115	
EBIT	59	89	
Net Income	58	96	
EPS (SAR)	0.37	0.61	

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	8%	10%
ROAE	14%	7%	7%
P/E	9.0x	17.2x	15.3x
P/B	1.4x	1.4x	1.5x
EV/EBITDA	6.6x	10.3x	9.9x
EV/Sales	4.0x	5.8x	5.5x

\*Preliminary announced data

Fig in SAR Mln	RC.Est	Actuals
Revenue	191	223
Gross Profit	68	115
EBIT	59	89
Net Income	58	96
EPS (SAR)	0.37	0.61

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## 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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