

# Yanbu Cement Company

Q3 2017

## Recommendation

Neutral

## Fair Value (SAR)

28.00

|                              |       |
|------------------------------|-------|
| Price as of November 8, 2017 | 25.89 |
| Expected Return              | 8.1%  |

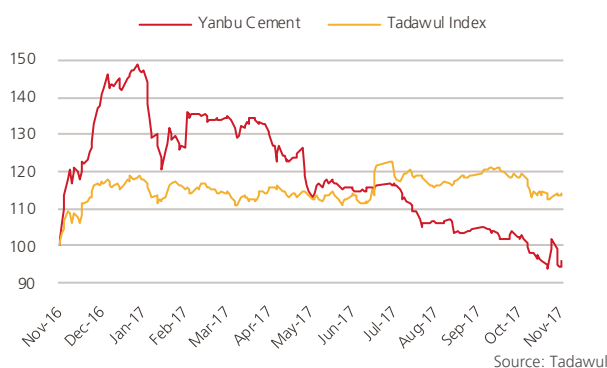
## Company Data

|                                          |         |
|------------------------------------------|---------|
| Tadawul Symbol                           | 3060.SE |
| 52 Week High (SAR)                       | 41.10   |
| 52 Week Low (SAR)                        | 23.50   |
| YTD Change                               | -36.7%  |
| 3-Month Average Volume (Thousand Shares) | 208     |
| Market Cap. (SAR Million)                | 4,078   |
| Market Cap. (USD Million)                | 1,087   |
| Outstanding Shares (Million Shares)      | 157.5   |

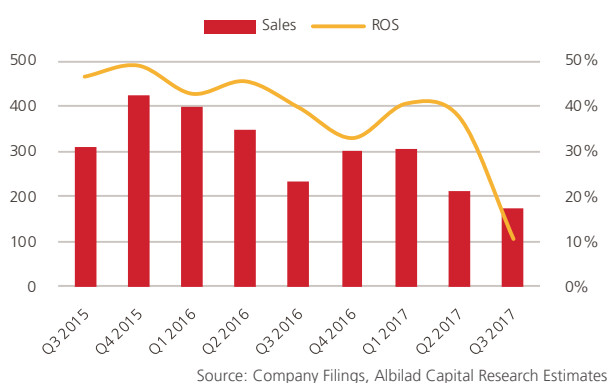
## Major Shareholders ( > 5% )

|                                           |        |
|-------------------------------------------|--------|
| General Organization for Social Insurance | 12.37% |
| Public Investment Fund                    | 10.00% |
| Abdullah Abdulaziz Saleh Al Rajhi         | 5.98%  |
| Al Rajhi Bros. Group Company              | 5.17%  |

## 52-week Stock Price Movement



## Quarterly Net Income (SAR mn)



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Yanbu Cement Company disclosed its lowest quarterly bottom line in 10 years revealing net profit of SAR 18.1 million in Q3 2017 compared to SAR 92.1 million in Q3 2016 falling 80% YoY, and 78% QoQ from SAR 80.6 million in the previous quarter. Therefore, the nine-month figure dwindled 47% to SAR 223 million versus SAR 422 million in 9M 2016. This resulted in a net profit margin of 32.2% in the current period compared with 45.7% for 9M 2016.

Total revenues amounted to SAR 173 million in Q3 2017 compared to SAR 236 million in Q3 2016 slumping 27%, while sliding 19% from SAR 214 million in Q2 2017. Thus, the nine-month revenues totaled SAR 694 million compared with SAR 983 million in 9M 2016 tumbling 29%.

The company sold 1.27 million tons of cement in Q3 2017 compared to 1.14 million tons in Q2 2016, soaring 12% YoY and 4% QoQ. However, the nine-month sales dropped to 4.07 million tons during FY 2017 versus 4.44 million tons in 9M 2016, down 8%.

The YoY decline in bottom line during 9M 2017 was triggered by the dip in selling prices and dispatches, despite an unrealized gain on the market value of derivatives compared to unrealized loss in 9M 2016. Compared with the previous quarter, the third quarter was affected by the sharp drop in the average selling prices, despite dispatches improvement.

Operating profit concluded Q3 2017 at SAR 19 million compared with SAR 98 million in Q3 2016 slumping 80% YoY and 73% QoQ. The nine-month operating profit edged down 52% posting SAR 214 million compared with SAR 443 million in 9M 2016, thus the operating margin shrank to 30.8% versus 45% in 9M 2016.

Total market sales in Q3 2017 tumbled 5.3% YoY reaching 10.4 million tons compared to 10.9 million tons in Q3 2016, despite the addition of the sales of Umm Al-Qura Cement and United Cement for the first time. The figure also slid 7.7% from 11.2 million tons in Q2 2017. Meanwhile, clinker inventory reached the highest level recording 34.7 million ton by the end of September 2017.

The earnings figure for Q3 2017 was remarkably affected by the sharp drop in the average selling prices to SAR 136 per ton compared with SAR 177 per ton for Q2 2017 as well as the increase in the cost per ton, despite dispatches improvement in the third quarter of FY 2017, bringing net profit below our estimate and analysts' consensus of SAR 67 million. Furthermore, we expect a tough competition as demand continued to weaken in the local market couple with high levels of clinker stocks. Meanwhile, we believe the pressure on cement prices will continue till local demand recovers. In the medium term, we believe that adjusting the prices of energy inputs will negatively affect the profitability margins going forward. As a result, we revised our future estimates and profit margins, therefore our valuation is downgraded from SAR 31 to SAR 28 per share.

## FY - Ending December

|                | 2014A | 2015A | 2016A  | 2017E  |
|----------------|-------|-------|--------|--------|
| EV/EBITDA      | 4.14  | 4.09  | 5.33   | 8.61   |
| EV/Sales       | 2.71  | 2.62  | 3.29   | 4.59   |
| P/E            | 5.08  | 5.06  | 7.61   | 14.94  |
| Dividend Yield | 15.4% | 19.3% | 11.6%  | 7.7%   |
| P/BV           | 1.16  | 1.10  | 1.16   | 1.21   |
| P/Revenue      | 2.61  | 2.53  | 3.17   | 4.42   |
| Revenue Growth | -3.8% | 3.4%  | -20.3% | -28.3% |
| EPS (SAR)      | 5.09  | 5.12  | 3.40   | 1.73   |

Source: Company Filings, Albilad Capital Research Estimates

| Income Statement (SAR mn)         | 2013A          | 2014A          | 2015A          | 2016A          | 2017E        |
|-----------------------------------|----------------|----------------|----------------|----------------|--------------|
| <b>Sales</b>                      | <b>1,620.3</b> | <b>1,559.4</b> | <b>1,613.0</b> | <b>1,286.3</b> | <b>921.6</b> |
| COGS                              | 529.8          | 497.4          | 533.4          | 450.8          | 391.5        |
| SG&A                              | 37.3           | 39.6           | 44.8           | 41.2           | 38.4         |
| <b>EBITDA</b>                     | <b>1,053</b>   | <b>1,022</b>   | <b>1,035</b>   | <b>794</b>     | <b>492</b>   |
| EBITA Margin                      | 65.0%          | 65.6%          | 64.1%          | 61.8%          | 53.4%        |
| Depreciation and amortization     | 206.2          | 209.6          | 209.0          | 222.1          | 226.8        |
| <b>EBIT</b>                       | <b>847.0</b>   | <b>812.8</b>   | <b>825.7</b>   | <b>572.2</b>   | <b>265.0</b> |
| Net interest income               | (12.6)         | (9.4)          | (7.5)          | (5.7)          | (3.8)        |
| Others                            | 7.3            | 21.9           | 3.6            | (15.8)         | 24.7         |
| <b>Pre-Tax and Zakat Income</b>   | <b>841.6</b>   | <b>825.4</b>   | <b>821.7</b>   | <b>550.7</b>   | <b>285.9</b> |
| Tax and Zakat                     | 16.4           | 21.7           | 15.5           | 14.3           | 12.2         |
| <b>Net Income before Minority</b> | <b>825.2</b>   | <b>803.6</b>   | <b>806.2</b>   | <b>536.4</b>   | <b>273.6</b> |
| Minority                          | 3.9            | 1.7            | 0.1            | 0.9            | 0.7          |
| <b>Net Income</b>                 | <b>821.3</b>   | <b>801.9</b>   | <b>806.1</b>   | <b>535.5</b>   | <b>272.9</b> |
| ROS                               | 50.7%          | 51.4%          | 50.0%          | 41.6%          | 29.6%        |

| Balance Sheet (SAR mn)              | 2013A          | 2014A          | 2015A          | 2016A          | 2017E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash and Marketable securities      | 311.2          | 289.7          | 286.8          | 111.0          | 99.7           |
| Accounts Receivable                 | 180.0          | 191.4          | 219.6          | 164.3          | 159.0          |
| Inventory                           | 481.3          | 551.3          | 528.9          | 558.5          | 606.6          |
| Others                              | 59.7           | 24.8           | 25.2           | 29.2           | 29.3           |
| <b>Total ST Assets</b>              | <b>1,032.2</b> | <b>1,057.1</b> | <b>1,060.4</b> | <b>863.0</b>   | <b>894.6</b>   |
| Net Fixed Assets                    | 3,233.8        | 3,107.0        | 2,986.1        | 2,898.8        | 2,977.7        |
| Others                              | 46.9           | 80.2           | 120.2          | 266.6          | 34.9           |
| <b>Total LT Assets</b>              | <b>3,280.7</b> | <b>3,187.2</b> | <b>3,106.4</b> | <b>3,165.4</b> | <b>3,012.6</b> |
| <b>Total Assets</b>                 | <b>4,312.9</b> | <b>4,244.3</b> | <b>4,166.8</b> | <b>4,028.4</b> | <b>3,907.2</b> |
| Short Term Debt and CPLTD           | 280.5          | 239.1          | 57.1           | 67.1           | 85.9           |
| Accounts Payable                    | 45.3           | 21.8           | 13.2           | 8.4            | 14.2           |
| Accrued Expenses                    | 87.5           | 64.0           | 71.8           | 61.4           | 44.0           |
| Others                              | 114.8          | 122.7          | 114.1          | 133.3          | 112.8          |
| <b>Total ST Liabilities</b>         | <b>528.2</b>   | <b>447.7</b>   | <b>256.3</b>   | <b>270.3</b>   | <b>256.9</b>   |
| Total Long Term Debt                | 407.4          | 168.2          | 101.1          | 144.8          | 168.6          |
| Other Non-Current Liabilities       | 96.3           | 98.9           | 105.9          | 85.4           | 100.8          |
| <b>Equity</b>                       | <b>3,281.0</b> | <b>3,529.5</b> | <b>3,703.4</b> | <b>3,528.0</b> | <b>3,380.9</b> |
| <b>Total Liabilities and Equity</b> | <b>4,312.9</b> | <b>4,244.3</b> | <b>4,166.8</b> | <b>4,028.4</b> | <b>3,907.2</b> |

| Cash Flow (SAR mn)        | 2013A     | 2014A   | 2015A   | 2016A   | 2017E   |
|---------------------------|-----------|---------|---------|---------|---------|
| Cash flow from Operations | 808.5     | 930.7   | 1,008.9 | 763.8   | 434.4   |
| Cash flow from Financing  | (1,193.7) | (836.3) | (883.7) | (658.5) | (371.7) |
| Cash flow from Investing  | (90.1)    | (115.9) | (128.1) | (281.1) | (74.0)  |
| Change in Cash            | (475.3)   | (21.5)  | (2.9)   | (175.7) | (11.3)  |

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

\* Historical financial statements were prepared according to the previous Saudi reporting standards. Some items in the financials statements for 2017 are reclassified according to IFRS.

## Cement and Clinker Summary by the End of Q2 2017

| Figure in thousand ton             | Q3 2017 | Q3 2016 | YoY   | Q2 2017 | QoQ   | 9M 2017 | 9M 2016 | YoY   |
|------------------------------------|---------|---------|-------|---------|-------|---------|---------|-------|
| <b>Sector Production</b>           |         |         |       |         |       |         |         |       |
| Cement                             | 10,284  | 11,060  | (7%)  | 11,218  | (8%)  | 35,201  | 42,931  | (18%) |
| Clinker                            | 13,152  | 13,906  | (5%)  | 12,009  | 10%   | 38,039  | 41,928  | (9%)  |
| <b>Sector Dispatches</b>           |         |         |       |         |       |         |         |       |
| Cement                             | 10,365  | 10,940  | (5%)  | 11,233  | (8%)  | 35,249  | 42,678  | (17%) |
| Clinker                            | 3       | 41      | (93%) | 4       | (25%) | 9       | 489     | (98%) |
| <b>Sector Inventory</b>            |         |         |       |         |       |         |         |       |
| Cement                             | 1,140   | 1,172   | (3%)  | 1,224   | (7%)  | 1,140   | 1,172   | (3%)  |
| Clinker                            | 34,743  | 26,633  | 30%   | 31,179  | 11%   | 34,743  | 26,633  | 30%   |
| <b>Cement Production / Company</b> |         |         |       |         |       |         |         |       |
| Yamama Cement                      | 951     | 1,149   | (17%) | 1,198   | (21%) | 3,392   | 4,192   | (19%) |
| Saudi Cement                       | 1,059   | 1,566   | (32%) | 1,195   | (11%) | 3,709   | 5,745   | (35%) |
| Eastern Cement                     | 430     | 450     | (4%)  | 507     | (15%) | 1,555   | 1,958   | (21%) |
| Qassim Cement                      | 879     | 801     | 10%   | 861     | 2%    | 2,807   | 3,111   | (10%) |
| Yanbu Cement                       | 1,222   | 1,135   | 8%    | 1,210   | 1%    | 4,077   | 4,434   | (8%)  |
| Arabian Cement                     | 731     | 771     | (5%)  | 803     | (9%)  | 2,655   | 3,482   | (24%) |
| Southern Cement                    | 1,263   | 1,593   | (21%) | 1,301   | (3%)  | 4,083   | 5,949   | (31%) |
| Tabuk Cement                       | 201     | 290     | (31%) | 236     | (15%) | 776     | 1,059   | (27%) |
| Riyadh Cement                      | 625     | 810     | (23%) | 717     | (13%) | 2,212   | 2,810   | (21%) |
| Najran Cement                      | 272     | 564     | (52%) | 407     | (33%) | 1,247   | 2,343   | (47%) |
| City Cement                        | 693     | 610     | 14%   | 818     | (15%) | 2,542   | 2,384   | 7%    |
| Northern Cement                    | 252     | 322     | (22%) | 280     | (10%) | 837     | 1,538   | (46%) |
| Jouf Cement                        | 335     | 386     | (13%) | 327     | 2%    | 1,096   | 1,419   | (23%) |
| Safwa Cement                       | 343     | 313     | 10%   | 487     | (30%) | 1,310   | 1,374   | (5%)  |
| Hail Cement                        | 258     | 300     | (14%) | 197     | 31%   | 722     | 1,133   | (36%) |
| Umm Al-Qura Cement                 | 303     | -       | -     | 270     | 12%   | 875     | -       | -     |
| United Cement                      | 467     | -       | -     | 404     | 16%   | 1,306   | -       | -     |
| <b>Cement Dispatches / Company</b> |         |         |       |         |       |         |         |       |
| Yamama Cement                      | 931     | 1,117   | (17)% | 1,204   | (23%) | 3,378   | 4,154   | (19%) |
| Saudi Cement                       | 1,072   | 1,519   | (29%) | 1,203   | (11%) | 3,747   | 5,669   | (34%) |
| Eastern Cement                     | 426     | 456     | (7%)  | 517     | (18%) | 1,558   | 1,963   | (21%) |
| Qassim Cement                      | 874     | 807     | 8%    | 881     | (1%)  | 2,828   | 3,081   | (8%)  |
| Yanbu Cement                       | 1,266   | 1,135   | 12%   | 1,212   | 4%    | 4,071   | 4,443   | (8%)  |
| Arabian Cement                     | 732     | 767     | (5%)  | 811     | (10%) | 2,655   | 3,492   | (24%) |
| Southern Cement                    | 1,268   | 1,574   | (19%) | 1,295   | (2%)  | 4,092   | 5,904   | (31%) |
| Tabuk Cement                       | 201     | 272     | (26%) | 231     | (13%) | 777     | 1,037   | (25%) |
| Riyadh Cement                      | 615     | 796     | (23%) | 727     | (15%) | 2,204   | 2,772   | (20%) |
| Najran Cement                      | 299     | 557     | (46%) | 401     | (25%) | 1,265   | 2,313   | (45%) |
| City Cement                        | 695     | 594     | 17%   | 798     | (13%) | 2,544   | 2,355   | 8%    |
| Northern Cement                    | 251     | 309     | (19%) | 272     | (8%)  | 846     | 1,542   | (45%) |
| Aljouf Cement                      | 356     | 420     | (15%) | 324     | 10%   | 1,089   | 1,464   | (26%) |
| Safwa Cement                       | 335     | 321     | 4%    | 488     | (31%) | 1,309   | 1,367   | (4%)  |
| Hail Cement                        | 258     | 296     | (13%) | 203     | 27%   | 725     | 1,122   | (35%) |
| Umm Al-Qura Cement                 | 307     | -       | -     | 263     | 17%   | 873     | -       | -     |
| United Cement                      | 479     | -       | -     | 403     | 19%   | 1,288   | -       | -     |

Source: Yamama Cement Statistics, Albilad Capital Research

## Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

**Overweight:** The Target share price exceeds the current share price by  $\geq 10\%$ .

**Neutral:** The Target share price is either more or less than the current share price by  $< 10\%$ .

**Underweight:** The Target share price is less than the current share price by  $\geq 10\%$ .

**To be Revised:** No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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