# Yanbu Cement

**Cement – Industrial**

YNCCO AB: Saudi Arabia

01 November 2021

الراجحي المالية
Al Rajhi Capital

| US$1.615bn | 51% | US$2.711mn |
|---|---|---|
| Market cap | Free float | Avg. daily volume |

| | | |
|---|---|---|
| Target price | 40.00 | +4.0% over current |
| Current price | 38.45 | as at 31/10/2021 |

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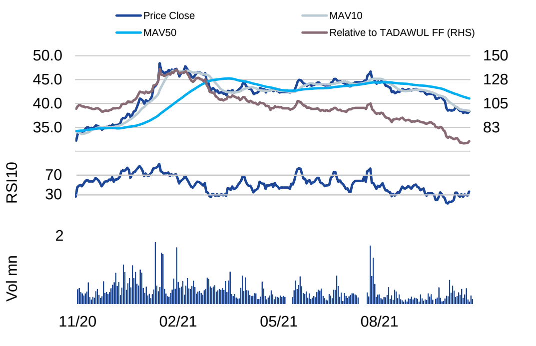
**Existing rating**

| Underweight | Neutral | Overweight |
|---|---|---|

**Performance**




Source: Bloomberg

**Earnings**

| (SAR mn) | 2020A | 2021E | 2022E |
|---|---|---|---|
| Revenue | 940 | 961 | 959 |
| Revenue growth | -4% | 2% | 0% |
| Gross profit | 342 | 234 | 240 |
| Gross margin | 36% | 24% | 25% |
| EBITDA | 500 | 393 | 386 |
| EBITDA margin | 53% | 41% | 40% |
| Net profit | 281 | 186 | 193 |
| Net margin | 30% | 19% | 20% |
| EPS | 1.78 | 1.18 | 1.22 |
| DPS | 2.25 | 1.75 | 2.00 |
| Payout ratio | 126% | 148% | 163% |
| EV/EBITDA | 12.1x | 15.3x | 15.5x |
| P/E | 21.5x | 32.6x | 31.4x |
| RoE | 9.4% | 6.4% | 6.9% |

**Source:** Company data, Al Rajhi Capital

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## Short term stress to continue; TP at SAR40/sh

*Yanbu Cement (YCC) registered revenue of SAR208mn, a y-o-y fall of 13.6% and was in line with our estimate of SAR203mn. Fall in sales was attributed to a fall in the average cement realization, which was also lower than our estimates. Lower construction activity, due to new building code, delay in the execution of infrastructure projects, and shortage of labour, and high clinker inventory in the industry has put pressure on cement prices. Cement sales volume too fell 12.0% y-o-y and 5.6% q-o-q and was in line with our expectation. Gross profit and operating profit fell by 43.6% y-o-y and 55.0% y-o-y respectively and were impacted by lower revenue and higher cost of production, due to maintenance activity in the company. Cement volume in the industry fell by 12.3% y-o-y, while Western region volume fell by 14.2% y-o-y. YCC's performance was in line with the industry performance and outperformed the regional Q3 2021 performance. We expect construction activity to remain weak in Q4 2021, resulting in subdued prices. Though cement volumes are likely to improve from Q3 2021 levels, the same is likely to remain lower on a y-o-y basis. Given this, and the recent maintenance activity undertaken by YCC, dividend pay-out for 2021 is likely to be subdued. We estimate, dividend per share to fall to SAR1.75 per share in 2021e, from SAR2.25 per share in 2020. However, we expect the scenario to improve by H1 2022, at the back of steady mortgage growth and an improvement in the execution of mega and giga projects. Added to this, post the maintenance activity, we expect the production process to improve, which is likely to aid in lower cost of production. We expect the impact of this to be reflected in H2 2022. Overall, we maintain our target price at SAR40/share and maintain our rating at "Neutral".*

**Q3 results:** Total volume sold during the quarter came at 1.0mn tons in Q3 2021, compared to 1.1mn tons in Q2 2021 and 1.2mn tons a year back. At the back of deterioration in pricing scenario, gross margins fell to 24.3% in Q3 2021, compared to 37.3% a year back, though the same was better than 21.9% in the previous quarter. Net margins at 17.1% in Q3 2021 was lower than 33.9% a year back, though it was in line with Q2 2021 levels.

**Figure 1 Yanbu Cement: Summary of Q3 2021 results**

| (SARmn) | Q3 2021 | Q3 2020 | Q2 2021 | % chg y-o-y | % chg q-oq | ARC Estimates |
|---|---|---|---|---|---|---|
| Revenue | 208 | 240 | 243 | -14% | -14% | 203 |
| Gross Profit | 51 | 90 | 53 | -44% | -5% | 37 |
| Gross Margin | 24% | 37% | 22% | NA | NA | 18% |
| Operating Profit | 37 | 83 | 43 | -55% | -13% | 26 |
| Net Profit | 35 | 81 | 41 | -56% | -14% | 25 |

Source: Company data, Al Rajhi Capital

**Valuation and risks:** For our estimates, we expect input and energy prices to remain flat. We value the company based on a weighted average mix of DCF (45%) and dividend capitalization (55%). The DCF target price is based on a 2.0% terminal growth and WACC of 7.9% and comes to SAR45/share. Dividend capitalization is based on a fair value yield of 4.8% and comes to SAR36/share. Overall, we have maintained our target price for the company at SAR40 per share, an upside of 4.0%, which implies an "*Neutral*" rating. The key downside risk is a decline in volume and lower than expected cement prices. The key upside risks are higher than the forecasted pick up in the government's infrastructure spending.

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