Yanbu Cement
Cement – Industrial
YNCCO AB: Saudi Arabia
19 March 2018

الراجحي المالية
Al Rajhi Capital

US$1.039bn	51%	US$1.288mn
Market cap	Free float	Avg. daily volume

Target price	25.00	8.6 % Below current
Current price	28.90	as at 18/3/2019

Existing rating

Underweight | **Neutral** | **Overweight**

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Yanbu Cement

Q4: Earnings beat, raise TP to SAR25/sh

Yanbu Cement reported Q4 net profit of SAR34.3mn (-65% y-o-y and 153% q-o-q), comfortably beating our estimate of SAR12mn and consensus estimate of SAR17.9mn respectively. The beat was mainly driven by higher-than-expected average prices realized in the local region, given the company's continued strategy of maintaining pricing power, similar to what others are following recently. However, local sales volume decreased significantly (-28% y-o-y). Yanbu was able to export 0.07mn cement and 0.45mn clinker. Going forward, we expect local demand to be flat; however, companies will be able to continue maintaining current level of prices for the short term. Further, we expect Yanbu to focus on export as a solution to liquidate the high level of inventory it has (4.3mn ton, representing 113% of last twelve month sales). We remain Neutral on Yanbu Cement stock, with a new TP of SAR25/share.

Revenue& Profitability: The company sold 1.35mn ton (0.9mn cement locally, 0.07mn cement export and 0.45mn clinker export) with average price of SAR148 per ton (Average selling price in Q3 2018 was SAR115 per ton). The company's gross and operating margins improved to ~29% and ~22% respectively in Q4 from ~16% and ~8% in the previous quarter, largely on account of lower cost per ton.

Export: If the company is able to maintain the current level of export, then it can export ~1.6mn tons of clinker and 0.25mn tons of cement in 2019, implying an export revenue of ~SAR140mn (SAR120mn for clinker + SAR20mn for cement) in 2019. Further, this will also help liquidating the huge inventory level (4.3mn ton which represent 113% of last twelve month sales) while increasing the EPS to SAR0.9 for 2019.

Dividends: Board of directors has recommended a SAR 0.5 per share cash dividend for the second half of 2018. Therefore total dividends distributed for the year is SAR157.5mn (SAR1 per share), implying 173% pay-out ratio with 5.4% dividend yield. We don't believe this level of pay-out is sustainable as the cash position of the company is not solid, which will force the company to increase debt to finance its working capital.

Conclusion and Valuation: In short term we believe Saudi cement companies have the ability to maintain the price balance and keep current prices levels. As such, we have changed our future prices forecast, also we recalculated export revenue based on the new level. Therefore, we have raised our target price for Yanbu cement to SAR25 per share (9%WACC,1% terminal growth and 26x P/E) which implies 8.6% downside and a "Neutral" rating.

Performance

Source: Bloomberg

Earnings

Period End (SAR)	2017A	2018A	2019E
Revenue (mn)	917	767	837
Revenue Growth	-29%	-16%	9%
EBITDA (mn)	542	314	347
EBITDA Growth	-32%	-42%	10.4%
EPS	2.04	0.58	0.89
EPS Growth	-40%	-72%	54%

Source: Company data, Al Rajhi Capital

Figure 1 Yanbu Cement: Summary of Q4 2018 results (SARmn)

	Q4 2018	Q4 2017	Q3 2018	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	202	222	153	-9%	32%	165
Gross Profit	58	115	24	-50%	143%	23
Gross Margin	29%	52%	16%	NA	NA	14%
Operating Profit	45	100	12	-55%	263%	11
Net Profit	34	97	14	-65%	153%	12

Source: Company data, Al Rajhi Capital

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