

October 18, 2017

Rating **Neutral**
12- Month Target Price **SAR 16.00**

YAMAMA CEMENT COMPANY (YAMAMA)
3Q2017 First Look

Expected Total Return

Price as on Oct-17, 2017	SAR 16.22
Upside to Target Price	(1.4%)
Expected Dividend Yield	3.7%
Expected Total Return	2.3%

Market Data

52 Week H/L	SAR 23.3/15.6
Market Capitalization	SAR 3,284 mln
Enterprise Value	SAR 3,037 mln
Shares Outstanding	202.5 mln
Free Float	85.4%
12-Month ADTV (000's)	242.3
Bloomberg Code	YACCO AB

1-Year Price Performance



Source: Bloomberg

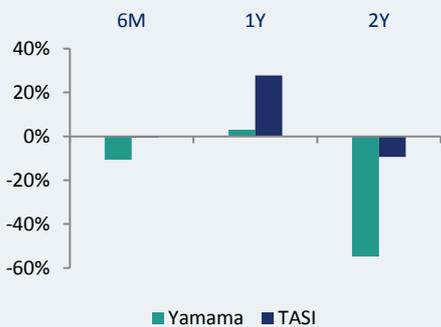


Fig in SAR mln	RC. Est	Actuals
Revenue	163	164
Gross Profit	34	42
EBIT	17	25
Net Income	19	29
EPS (SAR)	0.09	0.14

Cost Driven Recovery

Yamama Cement Company (Yamama) announced strong set of earnings numbers in 3Q2017, beat RC and street expectations, though revenue matches our estimates. EPS of SAR 0.14 positively surprised RC and street estimate of SAR 0.09; increased by +140% Q/Q though declined by -48 Y/Y. However, revenues of SAR 164 million matched our estimate of SAR 163 million, though modestly missed street's SAR 170 million. Some change in selling strategy is evident for Yamama in 3Q2017 as realization improves in the midst of a tough scenario, but at the cost of losing its market share. Notable points in 3Q2017 results are deemed to be i) surge in realization with an increase of +9% Q/Q though declined by -16% Y/Y to SAR 176/ton in 3Q versus SAR 162/ton in 2Q, peers in the Central region-Qassim sold at SAR 150/ton in 3Q ii) Cost curtailment seen as cash costs declined by -13% Q/Q to SAR 91/ton, lowest since 4Q2016, though indirect costs surge by +23% Q/Q iii) margins across the board have expanded between 800-1100 bps, a positive. We slightly tweak our estimate for 2017-19 but maintain our target price at SAR 16.00. We do not see scope for rerating as 2018E P/E of 22.0x is expensive to TASI's 14.3x and Qassim at 14.6x. Maintain Neutral.

Realization improves at the cost of drop in market share

Revenue of SAR 164 million declined by -30% Y/Y and -16% Q/Q due to -23% Q/Q and -17% Y/Y drop in sales volume. Revenue fell in 3Q despite an improvement of +9% Q/Q in realization to SAR 176/ton after a bearish SAR 162/ton in 2Q, though Y/Y it declined from SAR 210/ton, scenario is not fully comparable. This is higher than SAR 150/ton reported by Qassim in 3Q; suggest that Yamama managed to capitalize on decent prices, with limited dealer discounts. However, market share eroded by 170 bps to 9.2% in 3Q, partially lost to Qassim and Hail (Qassim: +60 bps to 8.4% and Hail: +70 bps to 2.5%). However, Yamama still tops by market share in the Central region.

Margins improved across the board

Yamama notably increased its clinker production to 1.23 MT, with an increase of +30% Q/Q though it declined by -21% Y/Y. The high utilization rates have reduced its burden on fixed costs (though inventory has mounted at 4.4 MT) and helped to improve its gross margins to 26% (increase of 870 bps sequentially), though declined Y/Y by 1,650 bps which was anyways expected and not fully comparable. The cost savings and higher realization led to a +27% Q/Q surge in gross profit to SAR 42 million topping our SAR 34 million estimate, though it declined by -58% Y/Y. We see a notable increase of +23% Q/Q and +53% Y/Y in indirect costs, with costs increasing to SAR 18/ton in 3Q versus SAR 15/ton in 2Q. As a result, operating margins have improved, but a tad lower to increase in gross margins; an increase of 770 bps to 16% in 3Q. Operating profit of SAR 25 million tops our estimate of SAR 17 million declined by -70% Y/Y, though surged +67% Q/Q. Earnings of SAR 29 million (+139% Q/Q and -48% Y/Y) also followed suit with an improvement in other income. It also topped our estimate of SAR 19 million and street's SAR 18 million, with margins improving by 1,140 bps to 18% in 3Q.

Maintain SAR 16.00 TP and Neutral rating

We further revise estimates for 2017-19 but maintain our rating as Neutral and TP of SAR 16.00 as valuations are expensive; expect limited room for a re-rating.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	1,125	754	787
EBITDA	714	285	307
Net Profit	366	124	148
EPS (SAR)	1.81	0.61	0.73
DPS (SAR)	1.00	0.50	0.60
BVPS (SAR)	18.40	18.51	18.64

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	6%	2%	3%
ROAE	10%	3%	4%
P/E	8.9x	26.3x	22.0x
P/B	0.9x	0.9x	0.9x
EV/EBITDA	4.2x	10.6x	9.8x
EV/Sales	2.7x	4.0x	3.8x

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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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