



Yamama Cement came below estimates on higher than expected OPEX. Net income came at SAR 47.8mn, compared to our estimate of SAR 56.6mn. Cost per tonne stood at SAR 103.1/tonne, in-line with our expectation of SAR 106.3/tonne. Revenue came at SAR 161.7mn, above our estimates of SAR 145.4mn, where selling price stood at SAR 192.2/tonne under our estimates of SAR 205.1/tonne. Volumetric sales came at 841KT against our estimates of 709KT. We maintain our **"Neutral"** recommendation on the stock with a revised TP at **SAR 22.8/share**.

- Yamama Cement posted net income of SAR 47.8mn in Q2-20 (EPS; SAR 0.24/share); compared to SAR 124.0mn in Q1-20 and SAR 53.2mn in Q2-19. Net income came under our and market consensus estimates of SAR 56.6mn and SAR 48.7mn, respectively. The Y/Y decline of 10.0% in net income is mainly attributed to an increase in OPEX by 45.6%.
- Revenue stood at SAR 161.7mn (a decline of 44.3%Q/Q, 2.2%Y/Y), well above our estimates of SAR 145.4mn. During Q2-20, the company registered an increase of 5.3%Y/Y and a decrease of 40.8%Q/Q in volumetric sales, as dispatches stood at 841KT vs. 799KT in Q2-19 and 1,421KT in Q1-20, coming above our estimates of 709KT. Average price realization stood at SAR 192.2/tonne, below expected of SAR 205.1/tonne and SAR 204.1/tonne in Q1-20.
- Gross profit came at SAR 74.9mn, above our estimates of SAR 70.1mn due to higher than expected revenue. Cost per tonne stood at SAR 103.1/tonne, against our estimates of 106.3/tonne. The cost per tonne came below the average in FY19 of 119.8/tonne.
- Operating profit stood at SAR 53.6mn, below our expectation of SAR 55.7mn, due to higher than expected OPEX. OPEX came at SAR 21.3mn, showing an increase of 47.9%Y/Y.

AJC view: Yamama cement selling prices has declined by 7.1%Y/Y, where dispatches increased by 5.3%Y/Y due to higher local demand in the last month of the quarter due to pre buying before the VAT hike; however, we believe dispatches will show a decline in the short term. Clinker inventory declined by 2.7%Y/Y to reached 4.9MT, which can be enough to cover more than 110% of the trailing 12TMM volume sales. The commercial production of new plant is expected to commence in Q4-20 with design capacity of 6.4MT/ annum. We believe, cement sector is going to face some bumps in the road that will effect dispatches sales in the short-term, but a better outlook in the med-term. on the other hand, we don't expect any further price war between players due to the recognized impacts on the companies' financials during the price war starting three years back. Yamama cement is expected to post SAR 257.7mn in net income (1.27 EPS) for FY20; against a SAR 256.3mn in FY19, an increase of 0.6%Y/Y. The company is trading at a forward PE of 18.7x based on FY20 earnings forecast, compared to current PE of 15.8x. We maintain our **"Neutral"** recommendation on the stock with a revised TP at **SAR 22.8/share**.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	165.3	290.0	161.7	-2.2%	-44.3%	11.2%
Gross Profit	65.4	146.0	75.0	14.5%	-48.6%	6.9%
Gross Margin	39.6%	50.3%	46.4%	-	-	-
EBIT	50.8	131.3	53.6	5.6%	-59.2%	-3.7%
Net Profit	53.2	124.0	47.9	-10.0%	-61.4%	-15.5%
EPS	0.26	0.61	0.24	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) 22.8

Upside / (Downside)* -3.9%

Source: Tadawul *prices as of 26th of July 2020

Key Financials

	FY19	FY20E	FY21E
Revenue	801.9	806.4	802.8
Growth %	53.8%	0.6%	-0.4%
Net Income	256.3	257.8	121.0
Growth %	NM	0.6%	-53.0%
EPS	1.27	1.27	0.60

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	42.0%	47.5%	40.0%
Net Margin	32.0%	32.0%	15.1%
P/E	20.5x	18.7x	39.8x
P/B	1.4x	1.2x	1.2x
EV/EBITDA	14.8x	13.1x	14.8x
Dividend Yield	1.9%	0.0%	0.0%

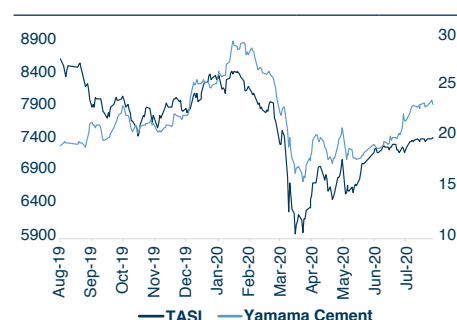
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	4.76
YTD %	-8.26%
52 Week (High)/(Low)	30.00/15.40
Shares Outstanding (mn)	202.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst
Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@Aljaziracapital.com.sa



RESEARCH DIVISION

AGM-Head of Research

Talha Nazar

+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115
F.alsuwelimy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions

Ahmad Salman, CFA

+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region

Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068