

October 31, 2017

Rating **Neutral**
12- Month Target Price **SAR 29.00**

YANBU CEMENT COMPANY

3Q2017 First Look

Expected Total Return

Price as on Oct-30, 2017	SAR 26.16
Upside to Target Price	10.9%
Expected Dividend Yield	5.7%
Expected Total Return	16.6%

Market Data

52 Week H/L	SAR 41.1/25.6
Market Capitalization	SAR 4,120 million
Enterprise Value	SAR 4,313 million
Shares Outstanding	157.5 million
Free Float	69.1%
12-Month ADTV('000's)	215.1
Bloomberg Code	YNCCO AB

1-Year Price Performance

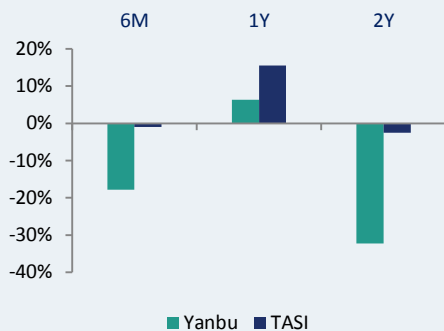
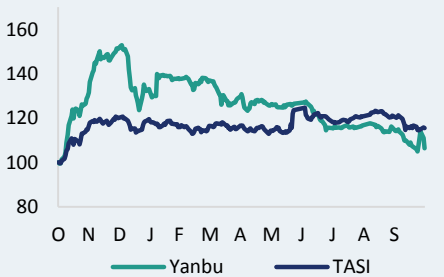


Fig in SAR Mln	RC.Est	Actuals
Revenue	205	173
Gross Profit	78	27
Operating Income	67	19
Net Income	64	18
EPS (SAR)	0.41	0.11

Earnings Flaw

Yanbu Cement Company (Yanbu) reported 3Q2017 results with earnings widely missing RC and street; at nethermost levels on plummeted selling prices. EPS of SAR 0.11 missed our SAR 0.41 estimate and consensus of SAR 0.43. The wider earnings miss is assumed to be a one-time impact (Yanbu applied similar low price-high volume strategy in 4Q2016), but further earnings contraction from our earlier estimates is likely, hence revise our outlook for 2017-19. 2017E P/E of 12.8x is slightly cheaper to TASI P/E of 13.9x but does not justify its valuation discount to TASI due to bleak earnings. We revise our target price to SAR 29.00 (earlier SAR 31.00); maintain Neutral.

Factors that drove the miss

Key takeaways for 3Q2017 results are: i) low revenue share in the industry despite a +4% Q/Q and +12% Y/Y rise in sales volume to 1.27 MT ii) volume share growth among regional peers, United (+100 bps) and Umm Al Qura (+70 bps) is a concern, but improved market share of 12.2% for Yanbu (+113 bps increase) is a relief; missed the top slot marginally from Southern iii) drop in realization by -23% Q/Q and -34% Y/Y to SAR 137/ton versus our estimate of SAR 170/ton is the key for bleak 3Q2017 results and comparably low to peers with selling prices (SAR/ton) of Yamama (SAR 176), Qassim (SAR 150) and Southern (SAR 170) iv) EBIT/ton tumbles to SAR 15; -74% Q/Q and -83% Y/Y signifies the pressure due to low selling prices v) operating margins contract to record lows of 11% in 3Q from 33% in 2Q and lastly vi) inventory/LTM sales ratio 71% (65% in 2Q) as of 3Q stands better to industry's 81%.

Revenue misses on low selling prices

Revenue of SAR 173 million missed our SAR 205 million estimate, declining by -27% Y/Y and -19% Q/Q, recording the lowest revenue number among comparable peers by capacity. We believe this could be a one-off strategy in the similar lines of 4Q2016.

Record low earnings

Yanbu's high clinker utilization in the range of 90% (clinker production of 1.63 MT, +15% Q/Q and +14% Y/Y) in 3Q2017 remained high, but cement operating rates at 67% is low. This pushed up total Opex to SAR 122/ton (+3% Q/Q and +1% Y/Y) and higher cash costs of SAR 80/ton (+21% Q/Q and +13% Y/Y) versus realization of SAR 137/ton is erroneous. Though cement production of 1.22 MT (+1% Q/Q and +8% Y/Y) is aligned with demand, but a hit in margins is visible with gross margins of 16% in 3Q2017 from 39% in 2Q2017. With such a margin fall, gross profit of SAR 27 million trailed our estimate of SAR 78 million, declined by -75% Y/Y and -67% Q/Q with similar decline in operating profit to SAR 19 million (-81% Y/Y and -73% Q/Q). Earnings widely missed street's nearest estimate of SAR 57 million, consensus of SAR 67 million and ours SAR 64 million. Earnings came in 1/6th of SAR 93 million reported in 3Q2016, declined by -78% Q/Q, with net margin tumbling to 10% in this quarter from 37% in 2Q2017.

Revise TP to SAR 29, maintain Neutral

We expect 2018 to see another trough earnings cycle versus our earlier estimates, hence revise our expectations and target price to SAR 29.00 (earlier SAR 31.00). We revise DPS expectations to SAR 1.50 for 2017 and SAR 1.75 for 2018, yields 5.7%.

Key Financial Figures

FY Dec31 (SAR Mln)	2016A	2017E	2018E
Revenue	1,286	888	927
EBITDA*	774	513	532
Net Profit	536	284	322
EPS (SAR)	3.40	1.80	2.04
DPS (SAR)	3.00	1.50	1.75
BVPS (SAR)	22.60	22.90	23.20

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	6%	7%
ROAE	15%	8%	9%
P/E	7.7x	14.5x	12.8x
P/B	1.2x	1.1x	1.1x
EV/EBITDA	5.6x	8.4x	8.1x
EV/Sales	3.4x	4.9x	4.7x

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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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