

Cement Sector

Yamama Cement – Pricing pressure continues

Maintain HOLD: 12M TP @ 30

Valuation Summary (TTM)

Price (SAR)	29.95
PER TTM (x)	15.7
P/Book (x)	1.3
P/Sales (x)	5.8
EV/Sales (x)	7.5
EV/EBITDA (x)	14.6
Dividend Yield (%)	3.3
Free Float (%)	87%
Shares O/S (mn)	203
YTD Return (%)	11%
Beta	1.0

(mn)	SAR	USD
Market Cap	6,065	1,617
EV	7,277	1,940

Price performance (%)	1M	3M	12M
Yamama Cement Co	-9%	-16%	3%
Tadawul All Share Index	-1%	-5%	-6%
Industry Index	-1%	-5%	-6%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	6,610	7,267	8,669
Avg Daily Volume (,000)	247	221	253

52 week	High	Low	CTL*
Price (SAR)	38.55	25.30	18.4

* CTL is % change in CMP to 52wk low

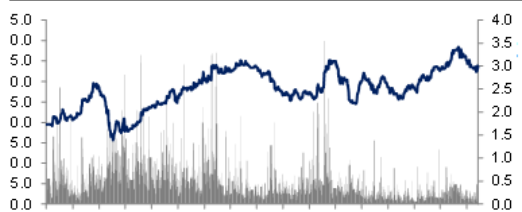
Major shareholders

Al-Saud Sultan Moham	6%
Al-Salem Saleh Abdul	5.3%
Vanguard Group Inc/T	1.9%
Others	87.2%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.3%

Key ratios	2020	2021	2022
EPS (SAR)	2.00	0.76	1.76
BVPS (SAR)	19.39	21.14	22.97
DPS (SAR)	0.00	0.00	1.00
Payout ratio (%)	0%	0%	57%

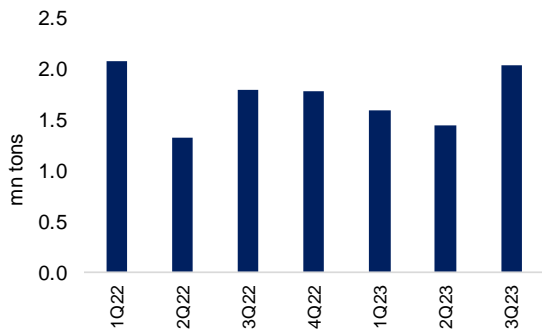


Yamama Cement Company (YSCC) reported its 3Q23 revenue at SAR212mn, which was lower by 14.8% YoY. The topline was impacted by a 24.7% YoY fall in cement realization, even as cement volumes increased by 13.1% YoY. The average cement realization at SAR104/ton for 3Q23 was the lowest since SAR107/ton was registered in 1Q22. Revenue was also substantially lower than our estimate of SAR299mn. Gross profit of YSCC declined by 66.4% YoY to SAR38mn, as gross margins fell to 17.8% in 3Q23 from 45.0% in 3Q22. SG&A expenses increased by 9.5% YoY, at the back of higher administrative expenses. Profitability was supported to a certain extent by a SAR10mn gain booked towards the sale of a part of the company's old production line. YSCC also booked other income of SAR19mn towards reversals of certain Zakat provisions from earlier periods. Overall net income fell by 59.8% YoY to SAR41mn and this decline could have been much steeper but for the non-operating incomes. We expect the weak pricing scenario to continue for the next few quarters and the profitability of YSCC to remain under pressure. The stock is currently quoting at c.24x its 2024e EPS, which we feel is on the higher side, given the weak market dynamics. Owing to the dismal numbers, we are reducing our target price on the stock to SAR30/share, while retaining HOLD recommendation.

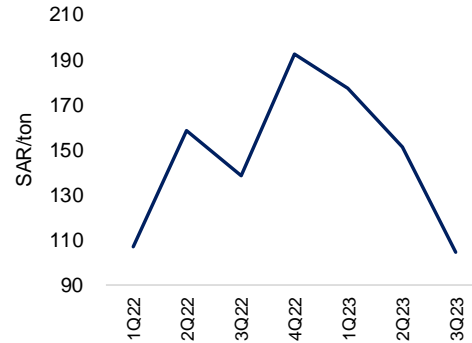
Weakness in cement prices to continue: Cement demand in Saudi has been weak in 2023, with the industry sales volume falling by 5.6% YoY for 9M23 and 3Q23. For 9M23, YSCC's cement volume fell by a much lower 2.2% YoY, while it increased by more than 13% YoY for 3Q23. The company was the largest player in the industry with a market share of 14%, in terms of cement volumes sold, for YTD'Sep-2023. In this scenario, we expect YSCC to maintain its aggressive pricing strategy to retain its leadership position and gain further market share. As a result of this we expect its realization to trail the industry average for the next few quarters. Its volumes however are likely to perform better than the industry average in the medium term. However, this is unlikely to make up for the lower pricing, resulting in continued pressure on the financial performance.

Valuations: We remain cautious about the operating and financial performance of YSCC for the next few years. The overall cement demand in the Kingdom continues to stagnate, with the recovery expected to remain slow. In this scenario, the company's low pricing strategy is likely to lead to lacklustre financial performance. Given this, we revise our target price downwards to SAR30/share, which implies fully valued nature of the stock, while retaining our HOLD rating on the name.

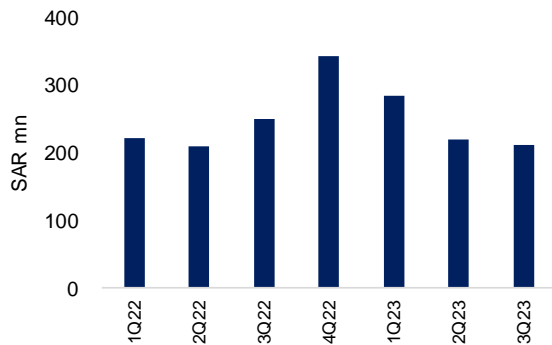
Cement volume increases at the back of lower pricing



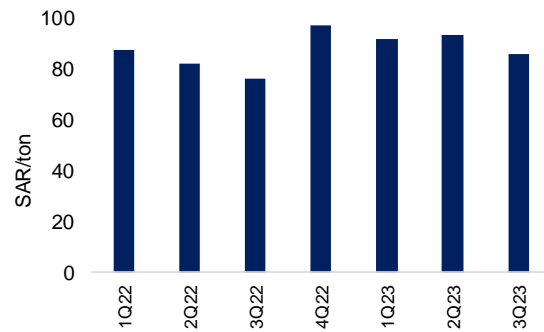
Realization falls again; close to 1Q22 levels



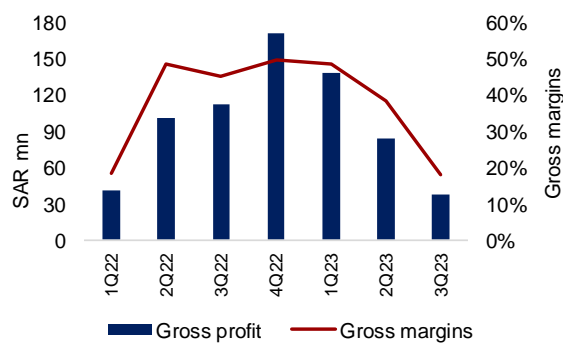
3Q23 revenue under pressure due to lower realization



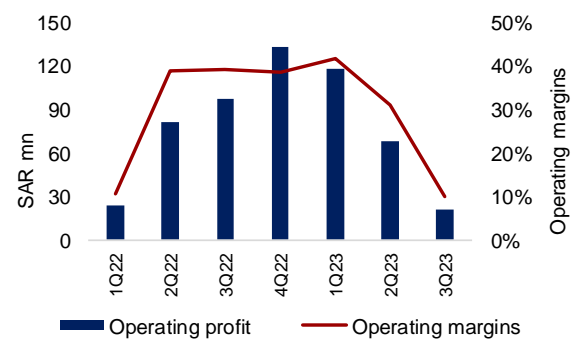
Cost of sales per ton falls in 3Q23



Gross margins under pressure



Operating profit and margins lower due to pricing



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	802	956	736	1,023	937	995	1,045	1,088	1,120
Cost of sales	(465)	(516)	(515)	(599)	(630)	(635)	(680)	(701)	(713)
Gross profit	337	440	220	423	308	360	366	386	407
Operating expenses	(68)	(69)	(64)	(90)	(70)	(72)	(74)	(76)	(78)
Operating profit	269	371	157	333	238	288	291	310	330
Other income	17	47	15	51	95	20	20	20	21
Finance expenses	0	0	0	(7)	(44)	(44)	(47)	(50)	(43)
Earnings before tax	286	419	172	378	288	264	264	281	307
Tax	(30)	(13)	(19)	(22)	(10)	(9)	(9)	(10)	(10)
Net income	256	406	154	356	278	255	255	271	297
Minority interest	0	0	0	0	0	0	0	0	0
Net income post MI	256	406	154	356	278	255	255	271	297

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E (incl. WIP)	4,045	4,493	4,823	4,989	5,115	5,248	5,358	5,198	5,045
Intangibles	1	6	10	9	9	9	9	9	9
Investment in associates	33	33	37	46	46	46	46	46	46
Investment	398	324	519	548	548	548	548	548	548
Others	4	3	3	5	5	5	5	5	5
Total non-current assets	4,481	4,859	5,393	5,597	5,723	5,856	5,967	5,807	5,654
Inventory	613	392	283	267	280	283	303	313	318
Receivables, Net	248	212	121	174	159	169	178	185	190
Cash & Cash Equivalents	74	72	74	76	70	70	70	70	70
Investments	128	36	32	225	225	225	225	225	225
Other current assets	29	25	20	12	12	12	12	12	12
Total current assets	1,090	736	530	754	747	759	787	804	815
Total assets	5,571	5,594	5,923	6,351	6,470	6,615	6,754	6,611	6,469
Share Capital	2,025	2,025	2,025	2,025	2,025	2,025	2,025	2,025	2,025
Total reserves	1,615	1,902	2,255	2,626	2,743	2,796	2,848	2,867	2,860
Total Equity	3,640	3,927	4,280	4,651	4,768	4,821	4,873	4,892	4,885
Short-term & current debt	79	0	0	263	338	338	89	0	0
Lease liabilities - Current	1	1	1	3	3	3	3	3	3
Payable	65	112	186	314	330	333	356	367	374
Other current liab.	113	138	163	160	160	160	160	160	160
Total current liabilities	258	252	351	739	830	833	608	530	536
Long-Term Debt	1,572	1,308	1,178	840	752	842	1,153	1,070	928
Long-term lease liabilities	3	1	1	3	3	3	3	3	3
Other non-current liab.	98	105	112	117	117	117	117	117	117
Total non-current liabilities	1,672	1,415	1,292	960	872	962	1,273	1,190	1,048
Total Liabilities	1,931	1,667	1,643	1,700	1,702	1,795	1,881	1,720	1,584
Equity and liabilities	5,571	5,594	5,923	6,351	6,470	6,615	6,754	6,611	6,469

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	381	709	470	518	469	414	443	453	473
Cash from investments	(413)	(269)	(336)	(441)	(300)	(302)	(303)	(27)	(28)
Cash from financing	(12)	(441)	(131)	(76)	(175)	(113)	(140)	(425)	(445)
Net changes in cash	(44)	(2)	2	2	(6)	0	0	0	0
C/b	74	72	74	76	70	70	70	70	70

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	1.3	2.0	0.8	1.8	1.4	1.3	1.3	1.3	1.5
BVPS	18.0	19.4	21.1	23.0	23.5	23.8	24.1	24.2	24.1
DPS	0.5	0.0	0.0	1.0	0.8	1.0	1.0	1.3	1.5
FCF/share	(0.2)	2.2	0.7	0.4	0.8	0.6	0.7	2.1	2.2
Revenue/share	4.0	4.7	3.6	5.1	4.6	4.9	5.2	5.4	5.5
Valuations									
M.Cap (SAR mn)	6,065	6,065	6,065	6,065	6,065	6,065	6,065	6,065	6,065
EV (SAR mn)	7,088	6,911	6,583	6,278	6,271	6,360	6,423	6,251	6,109
P/E	23.7	15.0	39.5	17.0	21.8	23.8	23.8	22.4	20.4
EV/EBITDA	15.4	18.3	39.9	17.0	15.2	13.9	13.3	12.6	12.0
EV/Sales	8.8	7.2	8.9	6.1	6.7	6.4	6.1	5.7	5.5
P/BV	1.7	1.5	1.4	1.3	1.3	1.3	1.2	1.2	1.2
P/S	7.6	6.3	8.2	5.9	6.5	6.1	5.8	5.6	5.4
Div. yield	1.7%	0.0%	0.0%	3.3%	2.7%	3.3%	3.3%	4.2%	5.0%
FCF yield	-0.5%	7.2%	2.2%	1.3%	2.8%	1.9%	2.3%	7.0%	7.3%
Liquidity									
Cash Ratio	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Current ratio	4.2	2.9	1.5	1.0	0.9	0.9	1.3	1.5	1.5
Quick ratio	1.9	1.4	0.7	0.7	0.6	0.6	0.8	0.9	0.9
Return ratio									
ROA	4.6%	7.2%	2.6%	5.6%	4.3%	3.9%	3.8%	4.1%	4.6%
ROE	7.0%	10.3%	3.6%	7.6%	5.8%	5.3%	5.2%	5.5%	6.1%
ROCE	4.8%	6.6%	2.6%	5.2%	3.7%	4.4%	4.3%	4.7%	5.1%
Cash cycle									
Inventory turnover	0.8	1.3	1.8	2.2	2.2	2.2	2.2	2.2	2.2
Payables turnover	7.1	4.6	2.8	1.9	1.9	1.9	1.9	1.9	1.9
Receivables turnover	3.2	4.5	6.1	5.9	5.9	5.9	5.9	5.9	5.9
Inventory days	474	274	197	160	160	160	160	160	160
Payable days	50	78	130	189	189	189	189	189	189
Receivables days	111	80	59	61	61	61	61	61	61
Cash Cycle	535	275	127	33	33	33	33	33	33
Profitability ratio									
Gross margins	42.0%	46.0%	30.0%	41.4%	32.8%	36.2%	35.0%	35.5%	36.3%
EBITDA margins	57.4%	39.6%	22.4%	36.1%	43.9%	45.9%	46.3%	45.7%	45.6%
Operating margins	33.6%	38.8%	21.3%	32.6%	25.4%	29.0%	27.9%	28.5%	29.4%
PBT margins	35.7%	43.8%	23.4%	36.9%	30.8%	26.6%	25.3%	25.8%	27.4%
Net margins	32.0%	42.4%	20.9%	34.8%	29.7%	25.7%	24.4%	24.9%	26.5%
Effective tax rate	10.5%	3.1%	10.7%	5.8%	3.4%	3.4%	3.4%	3.4%	3.4%
Leverage									
Total debt (SAR mn)	1,655	1,311	1,181	1,109	1,096	1,185	1,248	1,075	934
Net debt (SAR mn)	1,581	1,239	1,107	1,033	1,026	1,115	1,178	1,005	864
Debt/Capital	31.3%	25.0%	21.6%	19.2%	18.7%	19.7%	20.4%	18.0%	16.0%
Debt/Total assets	29.7%	23.4%	19.9%	17.5%	16.9%	17.9%	18.5%	16.3%	14.4%
Debt/Equity	0.5	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.2
Debt/EBITDA	3.6	3.5	7.1	3.0	2.7	2.6	2.6	2.2	1.8
Net debt/EBITDA	3.4	3.3	6.7	2.8	2.5	2.4	2.4	2.0	1.7

Key contacts

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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