

Rating **Buy**
 12- Month Target Price **SAR 41.00**

Expected Total Return

Price as on May-02, 2019	SAR 30.60
Upside to Target Price	34.0%
Expected Dividend Yield	3.9%
Expected Total Return	37.9%

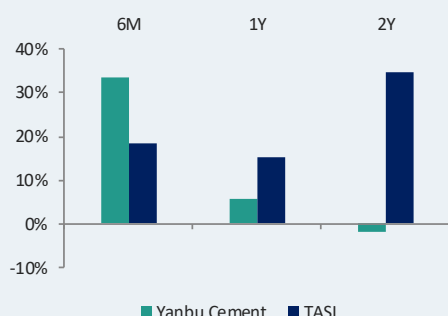
Market Data

52 Week H/L	SAR 32.1/18.9
Market Capitalization	SAR 4,820 mln
Enterprise Value	SAR 4,932 mln
Shares Outstanding	158 mln
Free Float	75.5%
12-Month ADTV ('000's)	217.3
Bloomberg Code	YNCCO AB

1-Year Price Performance



Source: Bloomberg



YANBU CEMENT COMPANY (YCC)

1Q2019 First Look

Clinker Exports Surge

Yanbu Cement Company (YNCCO) reported 1Q2019 numbers with a net profit of SAR 73 million (+81% Y/Y, +106% Q/Q), ahead of our forecast and market's expectations of SAR 36 million and SAR 41 million respectively. The main reasons for the increase in net profit on yearly basis are higher average selling prices, record clinker exports and lower average cost. We believe domestic selling prices have increased from SAR 213/ton in 4Q2018; it is difficult to accurately estimate it for 1Q given revenues have a substantial clinker export component with no break-up available. The stock is trading at a 2019E P/E of 16.3x, lower than TASI's estimated 17.3x. We have revised our estimates upwards going forward in line with our view of an increase in demand as well as better prices. Resultantly, our target price also rises from SAR 32.00 to SAR 41.00 and we maintain our Buy recommendation.

Revenues up +21% Y/Y

Yanbu Cement reported strong revenues of SAR 260 million (+21% Y/Y, +29% Q/Q) on the back of strong volumes in exports as well as estimated higher selling prices. Product price was at SAR 213/ton in 4Q 2018; we expect domestic selling prices to have increased in 1Q. It is difficult to estimate selling price accurately as revenues include domestic cement sales as well as exports of clinker without a break-up amongst the two. Yanbu sold 839k tons of cement in 1Q, down -44% Y/Y and -11% Q/Q while the Company exported 942k tons of clinker in the quarter. As a result, domestic market share declined from 8.9% in 4Q 2018 to 7.9% in this quarter. The Company was able to reduce its clinker inventory from 4.41 million tons at December-end to 4.28 million tons at March-end. However, this still represents 119% of TTM sales.

Higher clinker exports

Net income of SAR 73 million was higher by +81% Y/Y and +106% Q/Q, we believe largely due to bumper exports of 942k ton of clinker in 1Q 2019 and lower average cost which was driven by higher clinker production (increased by +10% Q/Q to 1.58 million tons). We feel that the company's focus on increasing its exports was a good strategy to offset the tough domestic market and also serves to reduce built up inventory.

Significant expansion in margins

We are pleased to report a substantial expansion in gross margins to 36% in 1Q2019 as compared to 19% in 1Q2018 and 25% in 4Q2018. Operating margins have also risen from 14% to 31% on a yearly basis and from 22% to 31% on a quarterly basis. Yanbu Cement reported a gross profit of SAR 93 million, rising by +124% Y/Y, +62% Q/Q.

Maintain Buy

YNCCO reported better than expected earnings and we expect further improvements in the future as the Company stands to benefit from mega projects located in the Western region, which have the potential to increase demand in the coming years. We have revised upwards our revenue and profit forecasts going forward. Our target price also rises from SAR 32.00 to SAR 41.00. Trading at a 2019E P/E of 16.3x, we maintain a Buy recommendation.

Key Financial Figures

FY Dec31 (SAR mln)	2018A	2019E	2020E
Revenue	767	959	1,036
EBITDA	290	453	488
Net Profit	91	235	262
EPS (SAR)	058	1.49	1.66
DPS (SAR)	1.75	1.20	1.30

Key Financial Ratios

FY Dec31	2018A	2019E	2020E
ROAA	2.4%	5.9%	6.3%
ROAE	2.7%	7.2%	7.9%
P/E	41.9x	16.3x	14.6x
P/B	1.0x	1.0x	1.0x
EV/EBITDA	14.9x	9.5x	8.8x

Fig in SAR mln	RC. Est	Actuals
Revenue	195	260
Operating Profit	39	81
Net Income	36	73
EPS (SAR)	0.23	0.46

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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

For any feedback on our reports, please contact research@riyadcapital.com

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