



US\$1.119bn

Market cap

89%

Free float

US\$3.421mn

Avg. daily volume

Target price

22.00

6.2% over current

Current price

20.72

as at 16/10/2019

Research Department

Abdulmalik Alsalem

Tel +966 11 836 5465, AlsalemA@alrajhi-capital.com

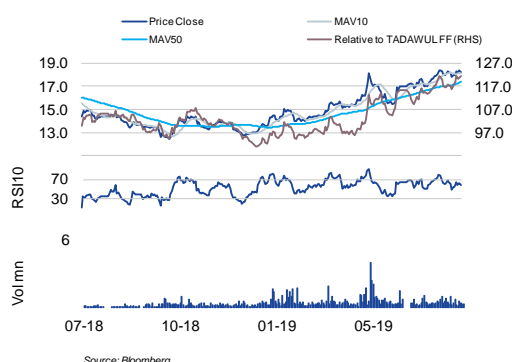
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2018	2019e	2020e
Revenue	521	787	832
Revenue growth	6.0%	51.0%	5.7%
Gross profit	34	331	358
Gross margin	6.5%	42.0%	43.0%
EBITDA	172	457	490
EBITDA margin	33.0%	58.1%	58.9%
Net profit	-52	249	215
Net margin	-9.9%	31.6%	25.9%
EPS	-0.3	1.2	1.1
P/E	NA	16.8x	19.5x
EV/EBITDA	22.9x	10.8x	10.0x
RoE	-1.5%	6.9%	5.6%

Source: Company data, Al Rajhi Capital

## Yamama Cement

### Q3: Robust performance on the back of surge in prices

Yamama Cement posted a net income of SAR55mn (vs. loss of SAR46mn in Q3 2018), which missed our and consensus estimates of SAR61mn and SAR60mn respectively. The miss was mainly on the back of higher production costs, lower than expected quantities sold and higher tax provision. Although quantities sold decreased by 18% y-o-y the top line increased by 73% y-o-y on back of higher realised selling prices at SAR206/ton (SAR97/ton in Q3 2018) in-line with the industry. Going forward, we expect the company to maintain the current level of selling prices and also recover the lost market share partially (the company market share in Q3 19: 9% vs Q3 18: 12.2%) as the company is well positioned to serve Governmental and private projects in Riyadh and Central region. However, upcoming relocation of its manufacturing facilities, accumulating inventory and higher capex requirements are a few challenges for the company in the near future. Post Q3 result, we revise our estimates and change our TP to SAR22/share. We maintain our rating at Neutral on the stock.

**Q3 results:** Yamama reported robust top-line growth of SAR187mn (+73% y-o-y, +13% q-o-q) in line with our estimate of SAR191mn. Higher selling price was the main factor driving the growth as it increased 112% y-o-y (flat q-o-q) owing to focus on higher selling prices. Sales volume decreased to 906K tons (-18% y-o-y, +13% q-o-q). The company reported gross margin of 41% (Q2 2018: -23%) on account of higher selling price and lower production cost per ton by -6% y-o-y (+6% q-o-q). Because of elevated production but lower sales, inventory increased to 5.9mn tons (155% of last 12m sales) from 5.7mn ton in Q2 2019 (142% of last 12m sales). Moreover, the company operating costs has increased by 6% which partially lowered the bottom line growth.

Figure 1 Yamama Cement: Summary of Q3 2019 results

(SAR mn)	Q3 2018	Q2 2019	Q3 2019	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	108	165	187	73.1%	13%	191
Gross Profit	(25)	65	76	NA	16%	80
Gross Margin	-22.9%	39.6%	40.8%	NA	NA	41.9%
Operating profit	(39)	51	61	NA	20%	64
Net Profit	(46)	53	55	NA	3%	61

Source: Company data, Al Rajhi Capital

**Valuation and risks:** Post Q3, we revise our estimates, reflecting higher cement prices and demand pick-up resulting in increasing our TP to SAR 22/sh. (from SAR 19/sh. earlier). We value the company based on an equal mix of DCF and relative valuation (forward P/E of 18.1x). The company currently trades at a forward P/E of 18.7x vs Saudi cement peers at 19.9x. The downward key risks are higher than expected facility relocation costs, higher than planned capex requirement. The key upward risks are higher than anticipated cement sales quantities and higher than forecasted government's infrastructure spending pick up.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

**Mazen AlSudairi**  
Head of Research  
Tel : +966 11 836 5468  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

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