

**Higher than expected net income of SAR 67.19mn (EPS; SAR 0.75) for 4Q2017, indicating a decline of 23.6%YoY and an increase of 31.1%QoQ. Revenue came above our estimates due to higher than expected selling price by 4.3%. Gross margin showed a decline of 720bps, but better than our estimates of 41.9%. However, other incomes are expected to show a decline of 47.5%YoY. FY2018 is expected to show dispatches growth with improved selling prices. Recommendation was revised to "Neutral" with PT of SAR 44.5/share.**

- Net income came above our estimates of SAR 56.3mn, indicating a deviation of 19.3%. The decline in net income is attributed to lower selling price due to high competition in the market, despite the 9.0%YoY increase in dispatches. We expect other income to stand at SAR 5.78mn a decline of 47.5%YoY. Net margin for 2017 stood at 40.2% a decline of 810bps.
- Revenue stood at SAR 168.98; a decline of 8.8%YoY and above our estimate of SAR 154.38mn. The decline in revenue was attributed to weak selling prices, despite the increase in dispatches. Cement sales for 4Q2017 showed an increase of 9.0%YoY to stand at 1.05MT from 959KT in 3Q2016. For 4Q2017, we expect the selling price to stand at SAR 161.7/ton vs. SAR 193.3 in 4Q2016 and SAR 149.6 in 3Q2017. Selling price averaged at SAR 161.7/ton in 2017, a decline from SAR 211.0/ton in 2016.
- Gross profit stood at SAR 75.73mn depicting a decline of 21.5%YoY and an increase of 42.0%QoQ, impacted by decline in revenue, despite the higher production efficiency and lower production cost compared to the previous quarter. Gross margin declined to 44.8% in 4Q2017 from 52.0% in 4Q2016. For 2017, gross margin stood at 43.7% compared to 52.6% in 2016. Based on our calculation, the cost/ton is expected to stand at SAR 89.3/ton vs. SAR 93.1/ton in 4Q2016. For 2017, production cost per ton averaged at SAR 90.95/ton compared to SAR 99.92/ton in 2016. Operating profit stood at SAR 67.67mn showing a decline of 21.5%YoY and an increase of 43.9%QoQ. OPEX at SAR 8.06mn, showed a decline of 14.6%YoY.

**AJC view:** The announced governmental projects and increase in spending in 2018 budget, are primary growth drivers for cement sector in upcoming years. As demand is expected to increase, pressure on selling prices is expected to relief and inventories to decline. Based on our estimates, the company is trading at forward P/E and P/BV of 14.03x and 2.18x, respectively. The company reduced its dividend payment in 2017 to SAR 2.9/share, we expect the company to pay dividend of 3.25/share for 2018 a dividend yield of 7.24% based on current market price. We update our recommendation to "Neutral" on the stock with PT of SAR 44.5/share.

### Results Summary

SARmn (unless specified)	Q4-2016	Q3-2017	Q4-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	185.3	130.8	169.0	-8.82%	29.24%	9.46%
Gross Profit	96.4	53.3	75.7	-21.47%	41.98%	16.98%
<b>Gross Margin</b>	<b>52.0%</b>	<b>40.8%</b>	<b>44.8%</b>	-	-	-
EBIT	86.2	47.0	67.7	-21.51%	43.89%	17.89%
Net Profit	87.9	51.2	67.2	-23.58%	31.13%	19.34%
<b>EPS</b>	<b>0.98</b>	<b>0.57</b>	<b>0.75</b>			

Source: Company reports, Aljazira Capital

Recommendation	<b>Neutral</b>
Current Price* (SAR)	44.9
Target Price (SAR)	<b>44.5</b>
Upside / (Downside)	<b>-0.9%</b>

Source: Tadawul\*Prices as of 28<sup>th</sup> of January 2018

### Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	852.0	625.9	693.3
Gross Profit	449.0	273.7	317.8
Net Profit	405.1	251.8	287.6
EPS	4.50	2.80	3.20

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	4.08
YTD %	<b>0.47</b>
Shares Outstanding (mn)	90.0
52 Week (High )	61.5
52 Week (Low)	38.0

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	52.4%	43.7%	45.8%
Net Margin	48.1%	40.2%	41.5%
P/E	14.94	16.07	14.03
P/BV	3.38	2.32	2.18
EV / EBITDA	12.29	12.53	11.02
Dividend Yield	8.9%	6.44%	7.24%

Source: Company reports, Aljazira Capital

### Price Performance



Source: Bloomberg, Aljazira Capital

Analyst  
**Waleed Al-jubayr**  
+966 11 2256146  
W.aljubayr@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research  
**Talha Nazar**  
+966 11 2256250  
t.nazar@aljaziracapital.com.sa

Analyst  
**Waleed Al-jubayr**  
+966 11 2256146  
W.aljubayr@aljaziracapital.com.sa

Analyst  
**Sultan Al Kadi, CAIA**  
+966 11 2256374  
s.alkadi@aljaziracapital.com.sa

Analyst  
**Muhanad Al-Odan**  
+966 11 2256115  
M.alodan@aljaziracapital.com.sa

Analyst  
**Jassim Al-Jubran**  
+966 11 2256248  
j.aljabran@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 Sales And Investment Centers  
Central Region  
**Sultan Ibrahim AL-Mutawa**  
+966 11 2256364  
s.almutawa@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage  
**Luay Jawad Al-Motawa**  
+966 11 2256277  
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province  
**Abdullah Al-Rahit**  
+966 16 3617547  
aalrahit@aljaziracapital.com.sa

AGM- Head of Western and Southern Region Investment Centers  
**Mansour Hamad Al-shuaibi**  
+966 12 6618443  
m.alshuaibi@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

## Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by AlJazira Capital from sources believed to be reliable, but AlJazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. AlJazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities may, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in AlJazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at AlJazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with AlJazira Capital. Funds managed by AlJazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. AlJazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of AlJazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of AlJazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of AlJazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

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