



US\$1.421bn Market cap
51% Free float
US\$2.511mn Avg. daily volume

Target price 34.00 +6.9% over current
Current price 31.80 as at 04/11/2019

Existing rating

Underweight Neutral Overweight

Performance



Earnings

(SARmn)	2018	2019e	2020e
Revenue	767	951	973
Revenue growth	-5%	24%	2%
Gross profit	143	323	360
Gross margin	18.6%	34.0%	37.0%
EBITDA	288	450	481
EBITDA margin	37.6%	47.3%	49.5%
Net profit	93	241	279
Net margin	12.2%	25.4%	28.7%
EPS	0.6	1.5	1.8
P/E	40.5x	21.4x	18.5x
EV/EBITDA	13.7x	11.5x	10.3x
RoE	2.9%	7.4%	8.6%

Source: Company data, Al Rajhi Capital

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Yanbu Cement

Q3: Earnings beat on the back of better selling mix and lower operating costs

Yanbu Cement reported Q3 net profit of SAR61mn (+352% y-o-y, +53% q-o-q), beating our and consensus estimate of SAR49mn and SAR53mn respectively. The growth was primarily driven by significant decline in operating cost (-57% q-o-q, -14% y-o-y) along with the support from healthy increase in average selling prices (+2% q-o-q, +89% y-o-y). Furthermore, a better mix of sales in Q3 aided the company's top-line growth, which was driven by a positive growth of 7% y-o-y (+20% q-o-q) in domestic sales and partially offset by decline in exports. Going forward, we expect local demand to recover gradually, but at a slower rate. However, we also believe that the local players will continue to maintain the current high level of prices in future. Further, we expect Yanbu to focus on local market sales in order to recover their lost market share and maintain higher selling margins to benefit from the increasing domestic demand relative to exports. After incorporating Yanbu's higher local market share penetration, higher average realized prices in the domestic market and healthier selling mix of the company in our forecasts, we revise our TP to SAR34/share (SAR30/sh. Earlier) with a "Neutral" rating.

Revenue & Profitability: The company sold 1.42mn tonnes of cement and clinker (0.69mn tonnes locally, 0.06mn tonnes cement export and 0.73mn tonnes clinker export) with an average local price of SAR217 per ton (+2% q-o-q, +89% y-o-y) and export price of ~ SAR80 per ton. The company's gross margins improved to ~33% (from ~16% in Q3 2018) mostly on the back of better selling mix partially offset by a 6% increase in production costs, while operating margin increased to ~29% (from ~8% in the Q3 2018), largely because of significantly lower operating cost (-57% q-o-q, -14% y-o-y).

Figure 1 Yanbu 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	153	210	228	49%	9%	211
Gross Profit	24	63	75	218%	20%	71
Gross Margin	15.6%	30.1%	33.1%	NA	NA	33.6%
Operating profit	12	40	66	429%	63%	53
Net Profit	14	40	61	352%	53%	49

Source: Company data, Al Rajhi Capital

Valuation and risks: In the short run, we believe Saudi cement market will continue to recover gradually in the subsequent quarters, driven by the commencement of mega-governmental projects as well as improving market and investment sentiments. Further, few of the projects are already in the construction phase. Based on this, we have changed our future sales forecasts, recalculated export revenue on the basis of new level of exports and lowered inventory balance estimates. We value the company based on an equal mix of DCF and relative valuation (forward P/E of 16.6x). The company currently trades at a forward P/E of 18.5x vs. Saudi cement peers at 20.5x. Therefore, we have raised our target price for Yanbu cement to SAR34per share, which implies a "Neutral" rating. **The key downside risks** are further decline in exports. **The key upside risks** are higher than expected market share and higher than forecasted pick up in government's infrastructure spending.



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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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