

Yanbu Cement beats estimates on lower than expected cost per tonne. Net income came at 72.9mn, 55.2% above our expectation of 46.3mn. Sign of recovery in selling price/ton and higher than expected volumetric sales to support growth. Gross margin extended to 35.7%, above our estimates of 29.5% due to lower than expected production cost. The company is expected to maintain the high export sales, with 2.8MT in FY19. We reiterate our **"Neutral"** recommendation on the stock with a revised TP at SAR 32.50/share.

- Yanbu cement recorded net income of 72.9mn in Q1-19 (EPS; SAR 0.46/share); indicating an increase of 106.1%Q/Q, 81.2%Y/Y. Net income surpassed our estimates and the market consensus estimates of SAR 46.3mn and SAR 41.5mn, respectively. The strong growth is mainly attributed to a significant export sales growth. The deviation of Q1-19 earnings from our estimates is mainly ascribed to lower than expected cost per tonne, resulting in lower COGS and higher margins.
- The company posted revenue of SAR 259.8mn (an increase of 29%Q/Q, 20.5%Y/Y), in line with our estimates of SAR 256.7mn. During Q1-19, Yanbu cement registered an increase of 55.2%Q/Q in volumetric sales to 1,855KT; well above our volume estimates of 1,750KT, due to higher than expected export sales (~51.0% of the total). Based on our calculation, domestic realization per tonne came at SAR 200/tonne, while export sales price is expected to stand at SAR 90.0/tonne. Average price realization/tonne came at SAR 140.1/tonne, against SAR 168.6/tonne in Q4-18 that could be indicative of further price discount on export sales.
- Gross profit stood at SAR 92.7mn (an increase of 61.6%Q/Q, 124.3%Y/Y), exceeding our estimates of SAR 57.8mn, due to lower than expected production cost. Based on our calculation, we estimate the cost/tonne to decline to SAR 90.1/ton in Q1-19 vs. average cost/ton of SAR 111.2/tonne in FY18, which we believe is due to high production volume. We expect the company to witness Y/Y decline in cost per tonne for FY19 to SAR 103/tonne.
- Operating profit was realized at SAR 81.2mn, where OPEX came at SAR 11.5mn, showing a decline of 9.3%Y/Y.

AJC view: YCC in our view, is likely to maintain its high export sales at 2.8MT, which can potentially result in revenues in-excess of SAR 250mn. Thus, clinker inventory level could be dragged down to below 2.5MT from the current level of 4.3MT (March-FY19). We expect the average low realization per tonne will stay, while export sales is expected to reach 3MT in FY19 due to renewal of export contract till Q1-20. The company has an inventory of 4.3MT, which will be enough to cover more than 140% of the local sales volume during the year. We believe, cement sector is starting to recover from its current downtrend due to producer's concentration on selling prices and an increase in export sales. Selling prices is expected to continue at the same high level in FY19. In addition, mega projects and other housing initiatives are the key growth driver for the Saudi cement sector and could be realized beyond FY2019. For 3M-19, total sector dispatches stood at 13.3mn tons (including exports) compared to 12.0mn tons in 3M-18, depicting an increase of 10.2%Y/Y. Yanbu cement is expected to post SAR 194.8mn in net income (1.24 EPS), for FY19, an increase of 109%Y/Y. The company is currently trading at TTM PE of 38.4x compared to a forward PE of 24.9x based on FY19 earnings. We reiterated our **"Neutral"** recommendation on the stock with a TP at **SAR 32.50/share**.

Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	215.5	201.4	259.8	20.5%	29.0%	1.2%
Gross Profit	41.3	57.3	92.7	124.4%	61.6%	60.4%
Gross Margin	19.2%	28.5%	35.7%	-	-	-
EBIT	30.3	44.6	81.2	168.3%	81.9%	-
Net Profit	40.2	35.3	72.9	81.2%	106.1%	57.3%
EPS	0.26	0.22	0.46	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR)	32.50
Upside / (Downside)*	6.2%

Source: Tadawul *prices as of 02nd of May 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	916.6	767.1	881.9
Growth %	-28.7%	-16.3%	15.0%
Net Income	320.5	93.2	194.8
Growth %	-38.6%	-70.9%	113.7%
EPS	2.03	0.59	1.24

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	39.0%	18.6%	29.6%
Net Margin	34.8%	11.9%	22.1%
P/E	16.70x	41.45x	24.9x
P/B	1.56x	1.17x	1.50x
EV/EBITDA (x)	10.1x	13.6x	12.2x
Dividend Yield	5.9%	6.3%	3.3%

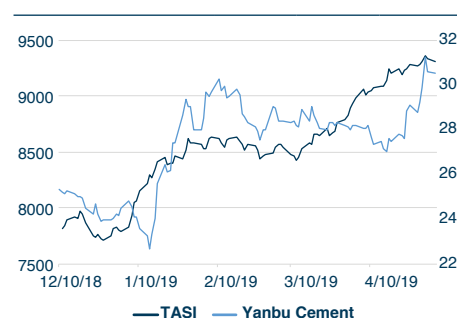
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	4.81
YTD %	27.5%
52 Week (High)/(Low)	30.60/18.90
Shares Outstanding (mn)	157.5

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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.

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