October 2020

Yamama Cement Co.

Result Flash Note Q3-20

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Yamama Cement results were in-line with our estimates. Net income came at SAR 77.7mn, compared to our estimate of SAR 79.5mn. Realization per tonne, stood at SAR 184.0/tonne, 7.1% below than expected. Revenue came at SAR 217.5mn, in-line with our estimates of SAR 222.9mn, where volumetric sales came at 1.18MT against our estimates of 1.13MT. We maintain our "**Neutral**" recommendation on the stock with a revised TP at **SAR 24.9/share.**

- Yamama Cement posted net income of SAR 77.7mn in Q3-20 (EPS; SAR 0.38/share); compared to SAR 47.9mn in Q2-20 and SAR 54.7mn in Q3-19. Net income came in-line with our and market consensus estimates of SAR 79.5mn and SAR 77.9mn, respectively. The Y/Y increase of 42.0% in net income is mainly attributed to an increase in volumetric sales by 30.5% and a decline in cost per tonne by 16.6%.
- Revenue stood at SAR 217.5mn (an increase of 34.5%Q/Q, 16.6%Y/Y), against our estimates of SAR 222.9mn. During Q3-20, the company registered an increase of 30.5%Y/Y and 40.5%Q/Q in volumetric sales, as dispatches stood at 1.18MT vs. 906KT in Q3-19 and 841KT in Q2-20, coming above our estimates of 1.13MT. Average price realization stood at SAR 184.0/tonne, below expected of SAR 198.0/tonne and SAR 192.2/tonne in Q2-20.
- Gross profit came at SAR 96.7mn, below our estimates of SAR 106.3mn due to tighter than expected gross margin with the current weak selling prices. Cost per tonne came below expectations to stand at SAR 102.2/tonne, which came below the average in FY19 of 119.8/tonne.
- Operating profit stood at SAR 81.1mn, below our expectation of SAR 88.7mn. OPEX came at SAR 15.6mn, showing an increase of 1.9%Y/Y.

AJC view: Yamama cement selling prices has declined by 10.6%Y/Y, where dispatches increased by 30.5%Y/Y due to higher local demand. Clinker inventory declined by 25.8%YTD to reach 4.24MT, which can be enough to cover more than 92% of the TTM volume sales. The commercial production of new plant is expected to commence in early 2021 with design capacity of 6.4MT/annum; while the new factory was mostly financed through debt. We believe, cement sector showed a fast recovery from the losses caused by the pandemic and wasn't effected by the increase of VAT, due to an increase in mortgage loans which registered 85.7%Y/Y during Q2-20. Yamama cement is expected to post SAR 299.3mn in net income (1.48 EPS) for FY20; against a SAR 256.3mn in FY19, an increase of 16.7%Y/Y. The company is trading at a forward PE of 37.0x based on FY21 earnings forecast, compared to current PE of 17.2x. We maintain our "**Neutral**" recommendation on the stock with a revised TP at **SAR 24.9/share.**

Results Summary

SARmn	Q3-19	Q2-20	Q3-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**186.5**	**161.7**	**217.5**	16.6%	34.5%	-2.4%
Gross Profit	76.1	75.0	96.7	27.0%	29.0%	-9.1%
Gross Margin	*40.8%*	*46.4%*	*44.5%*	-	-	-
EBIT	60.8	53.6	81.1	33.4%	51.2%	-8.6%
Net Profit	**54.7**	**47.9**	**77.7**	42.0%	62.4%	-2.2%
EPS	0.27	0.24	0.38	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	24.9
Upside / (Downside)*	-10.6%

Source: Tadawul *prices as of 20th of October 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenue	801.9	905.1	956.6
Growth %	53.8%	12.9%	5.7%
Net Income	256.3	299.3	152.0
Growth %	NM	16.7%	-49.2%
EPS	1.27	1.48	0.75

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	42.0%	46.7%	36.5%
Net Margin	32.0%	33.1%	15.9%
P/E	20.5x	18.8x	37.0x
P/B	1.4x	1.4x	1.4x
EV/EBITDA	14.8x	13.7x	15.9x
Dividend Yield	1.9%	0.0%	0.0%

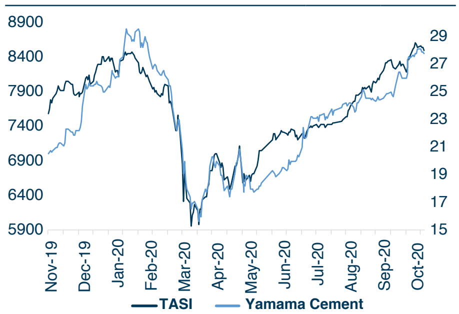
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	5.63
YTD %	7.72%
52 Week (High)/(Low)	30.00/15.40
Shares Outstanding (mn)	202.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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