

# Al Yamamah Steel Industries Co

Metals – Industrial

YAMAMAH AB: Saudi Arabia

30 December 2021

الراجحي المالية  
Al Rajhi Capital



US\$0.585bn

Market cap

39%

Free float

US\$5.92mn

Avg. daily volume

Target price

46.00

6.6% over current

Current price

43.15

as at 29/12/2021

Research Department

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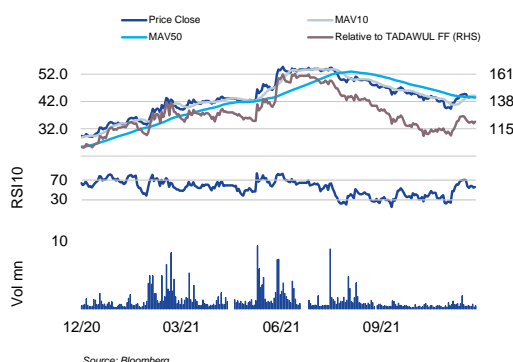
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2021A	2022E	2023E
Revenue	1,619	1,692	1,821
Revenue growth	-13%	4%	8%
Gross profit	364	333	297
Gross margin	22%	20%	16%
EBITDA	332	302	266
EBITDA margin	20%	18%	15%
Net profit	208	176	148
Net margin	13%	10%	8%
EPS	4.09	3.46	2.91
DPS	1.75	1.38	1.16
Payout ratio	43%	40%	40%
P/E	10.5x	12.5x	14.8x
EV/EBITDA	8.1x	8.1x	8.8x
RoE	27.2%	20.2%	15.4%

Source: Company data, Al Rajhi Capital

## Al Yamamah Steel Industries Co Results lower than expected; reduce target price to SAR46/sh

Al Yamamah Steel Industries Co (Yamamah) Q4 2021 revenue came in at SAR326mn and was down 31.3% y-o-y and was lower than our estimate of SAR437mn. We estimate that lower than expected volume from the construction segment resulted in a lower-than-expected revenue. Despite a fall in revenue, relative to the previous year, gross profit increased by 8.5% y-o-y and was aided by an improvement in gross margins. We expect better inventory management to have aided improvement in profitability. Operating profits on the other hand increased by 36.8% y-o-y, at the back of higher gross profits and lower operating expenses. However, the profitability of Yamamah was lower than expected and was impacted by lower-than-expected revenue. Going forward, we expect average steel prices to fall slightly in FY2022, compared to FY2021. We also expect the margins of the company to come under pressure. In FY2021, the company earned an average gross margin of c.22%, which we feel is not sustainable and we expect the same to come under pressure and fall in FY2022. While we feel that the profitability is likely to come under pressure for the next two years, we expect the performance to stabilise post this, aided by performance from electricity and pipes. Given this, we reduce our target price to SAR46 per share from our earlier target price of SAR55 per share but maintain our rating at 'Neutral'.

**Q4 results:** Gross margins of Yamamah fell to 25% in Q4 2021, corresponding to 26% in Q3 2021, though it was an improvement from 16% a year back. While favourable inventory management aided the y-o-y improvement in margins, the same was unfavourable on a q-o-q basis. Net income margins, improved to 12% in Q4 2021, compared to 5% a year back, but were lower than 16% in the previous quarter.

Figure 1 Earnings Summary

SAR(mn)	Q4 2021	Q3 2021	Q4 2020	% chg y-o-y	% chg q-o-q	ARC est
Revenue	326	406	474	-31%	-20%	437
Gross Profit	80	104	74	9%	-23%	96
Gross Margin	25%	26%	16%	NM	NM	22%
Operating Income	66	83	48	37%	-21%	76
Net income	40	65	25	59%	-38%	58

Source: Company data, Al Rajhi Capital

**Valuation:** We value the company based on an equal mix of DCF and relative valuation. The DCF based target price has a 2% terminal growth and 9.0% WACC and comes to SAR44/sh. P/E-based relative valuation has an 15x multiple and gives a target price of SAR48/sh. Thus, we have revised our target price for the company to SAR46/sh, an upside of 6.6%, which implies a "Neutral" rating. The key downside risks are oil price weakness, fall in average realization, adverse movement in raw material prices and the inability of the company to pass on the same, and shortage in labour impacting the construction segment.



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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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