

Yamama Cement results came higher than estimates due to one-off gain of SAR 39.2mn from liquidation of Hail cement shares. Net income came at SAR 113.7mn, compared to our estimate of SAR 78.6mn. Revenue came at SAR 210.7mn, against our estimates of SAR 231.7mn, where realization per tonne, stood at SAR 171.7/tonne, 8.1% below expectation. Volumetric sales came at 1.23MT in-line with our estimates of 1.24MT. We maintain our “**Neutral**” recommendation on the stock with a TP at **SAR 24.9/share**.

- Yamama Cement posted net income of SAR 113.7mn in Q4-20 (EPS; SAR 0.56/share); compared to SAR 77.7mn in Q3-20 and SAR 77.8mn in Q4-19. Net income came above our and market consensus estimates of SAR 78.6mn and SAR 77.5mn, respectively. The Y/Y increase of 46.2% in net income is mainly attributed to an increase in investment income which stood at around SAR 57.8mn due to liquidation of 6.1% equity stake in Hail cement. Whereas normalized earnings stood at SAR 74.5mn, slightly below AJC estimates of SAR 78.6mn.
- Revenue stood at SAR 210.7mn (a decline of 3.8%Q/Q, 10.8%Y/Y), against our estimates of SAR 231.7mn. During Q4-20, the company registered an increase of 6.9%Y/Y and 3.8%Q/Q in volumetric sales, as dispatches stood at 1.23MT, coming in-line with our estimates of 1.24MT. Whereas average price realization stood at SAR 171.7/tonne, below our expectation of SAR 186.8/tonne and SAR 205.7/tonne in Q4-19.
- Gross profit came at SAR 80.2mn, below our estimates of SAR 103.5mn due to lower than expected gross margin with the current weak selling prices. Cost per tonne came in-line with our expectations to stand at SAR 106.4/tonne, which came below the average in FY19 of 119.8/tonne.
- Operating profit stood at SAR 62.9mn, below our expectation of SAR 84.5mn. OPEX came at SAR 20.2mn, showing an increase of 29.0%Q/Q.

AJC view: Yamama cement selling prices has declined by 16.5%Y/Y, whereas dispatches increased by 6.9%Y/Y due to higher local demand. We believe that the selling prices will remain low for the coming two quarters, due to adjustment in prices as a result of VAT. The producers instead of passing on the VAT seems to be absorbing the impact. This can create an opportunity for long-term investors as high demand for cement will eventually push selling prices. Clinker inventory declined by 35.3%Y/Y to reached 3.68MT, which can be enough to cover more than 80% of the TTM volume sales. The commercial production of new plant is expected to commence in Q3-21 with design capacity of 6.4MT/annum; while the new factory was mostly financed through debt. We believe, cement sector will show a short-term decline in net income due to selling price discount. However, we are optimistic on the sector for the long-term with the increase in mortgage loans by 83.2%Y/Y in FY20, and the future demand form Giga projects. For FY20, total sector dispatches stood at 58.4MT (including exports) compared to 50.2MT in FY19, depicting an increase of 16.3%Y/Y. Yamama Cement is expected to post SAR 278.1mn in net income (1.37 EPS) for FY21; against a SAR 360.3mn in FY20, a decline of 23.4%Y/Y. The company is trading at a forward PE of 21.7x based on FY21 earnings forecast, compared to current PE of 16.6x. We maintain our “**Neutral**” recommendation on the stock with a TP at **SAR 24.9/share**.

Results Summary

SAR mn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	236.2	217.5	210.7	-10.8%	-3.2%	-9.1%
Gross Profit	104.3	96.7	80.2	-23.2%	-17.1%	-22.5%
<i>Gross Margin</i>	<i>44.2%</i>	<i>44.5%</i>	<i>38.1%</i>	-	-	-
EBIT	83.6	81.0	62.9	-24.8%	-22.4%	-25.6%
Net Profit	77.8	77.7	113.7	46.2%	46.3%	44.7%
EPS	0.38	0.38	0.56	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) **24.9**

Upside / (Downside)* **-16.4%**

Source: Tadawul *prices as of 11th of February 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenue	801.9	879.9	955.9
Growth %	53.8%	9.7%	8.6%
Net Income	256.3	363.3	278.1
Growth %	NM	41.7%	-23.4%
EPS	1.27	1.79	1.37

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	42.0%	45.2%	40.8%
Net Margin	32.0%	41.3%	29.1%
P/E (x)	20.5	16.5	21.7
P/B (x)	1.4	1.5	1.4
EV/EBITDA (x)	14.8	15.0	14.9
Dividend Yield	0.0%	0.0%	0.0%

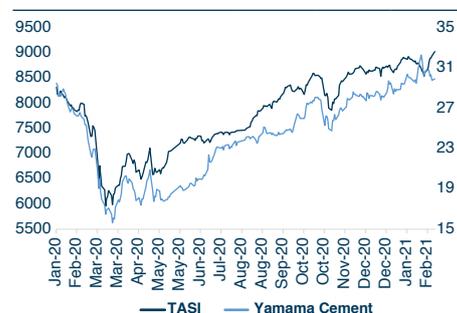
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	6.08
YTD%	0.85%
52 week (High)/(Low)	33.65/15.40
Share Outstanding (mn)	202.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst

Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@Aljaziracapital.com.sa



RESEARCH DIVISION

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

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

Analyst
Faisal Alsuwelimy
+966 11 2256115
F.alsuweilmy@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 international and institutions
Ahmad Salman, CFA
+966 11 2256201
a.salman@aljaziracapital.com.sa

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

AGM-Head of Central & Western Region
Investment Centers
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@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 Al-Jazira Capital from sources believed to be reliable, but Al-Jazira 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. Al-Jazira 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 maybe, 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 Al-Jazira 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 Al-Jazira 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 Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira 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 Al-Jazira 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 Al-Jazira 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 Al-Jazira 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