

Yanbu Cement Company

Q1 2018

Recommendation **Neutral**

Fair Value (SAR) **28.00**

Price as of June 4, 2018 26.35
Expected Return 6.3%

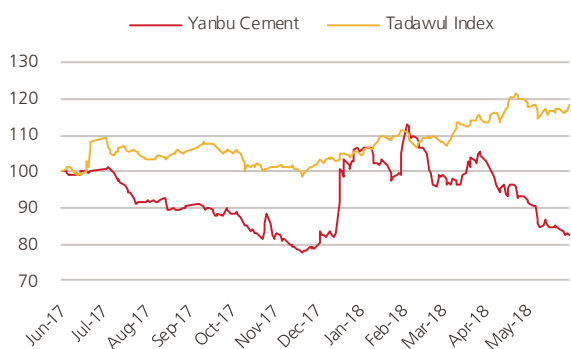
Company Data

Tadawul Symbol	3060.SE
52 Week High (SAR)	36.20
52 Week Low (SAR)	23.50
YTD Change	-21.6%
3-Month Average Volume (Thousand Shares)	449
Market Cap. (SAR Million)	4,150
Market Cap. (USD Million)	1,107
Outstanding Shares (Million Shares)	157.5

Major Shareholders (> 5%)

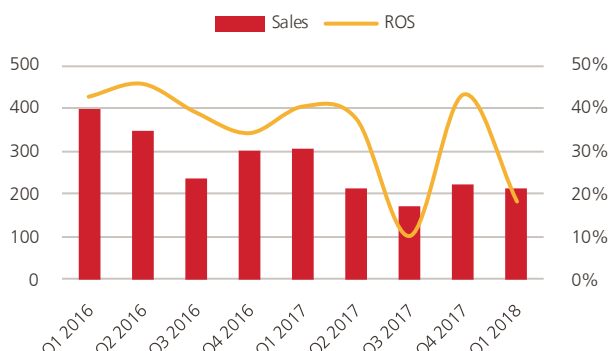
General Organization for Social Insurance	12.37%
Public Investment Fund	10.00%
Al Rajhi Bros. Group Company	5.17%

52-week Stock Price Movement



Source: Tadawul

Quarterly Net Income (SAR mn)



Source: Company Filings, Albilad Capital Research Estimates

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Yanbu Cement Company disclosed its Q1 2018 interim results revealing a net profit of SAR 39.6 million compared to SAR 124.3 million in Q1 2017, slumping 68% YoY and 58% QoQ from SAR 96.2 million in Q4 2017. Accordingly, net profit margin dropped significantly in the first quarter to 18.4% compared with 40.5% for Q1 2017 and 43.2% for the previous quarter.

Total revenues amounted to SAR 216 million in Q1 2018 compared with SAR 307 million in Q1 2017 falling 30% YoY, while shrinking slightly by 3.1% QoQ. Moreover, the company sold 1.49 million tons of cement in Q1 2018 versus 1.59 million tons in Q1 2017 sliding 6.5%, however the despatches soared 18.4% QoQ from 1.26 million tons in Q4 2017.

The YoY and QoQ remarkable slump in bottom line during Q1 2018 was triggered by several reasons, including:

- Lower revenues driven by the dip in selling prices and despatches.
- The increase in cost of sales per ton as result of reducing production.

The decline in profits came in spite of the increase in other revenues during the first quarter resulting from the sale of property and equipment for the first, second and third production lines at SAR 10.8 million.

Operating profit concluded Q1 2018 at SAR 30.3 million compared with SAR 123 million in Q1 2017 dwindling 75% YoY and 70% QoQ from SAR 100 million in Q4 2017. Thus, the first-quarter operating margin dropped significantly to 14.0% versus 40.1% for Q1 2017 and 45.1% for the previous year.

Total market sales in Q1 2018 tumbled 12.7% YoY reaching 11.91 million tons compared to 13.64 million tons in Q1 2017. The figure shrank marginally by 0.6% from 11.98 million tons in the previous quarter. Meanwhile, clinker market inventory reached a record level of 35.7 million tons by the end of March 2018.

On the other side, cement export tariffs have been canceled as of early February; a move aiming to curb huge inventory levels. As mentioned in our previous report, we expect limited impact on the selling prices in the local market. However, we still believe that Saudi companies will encounter fierce competition in export market, especially given the slow-down in main neighbouring economies and the hefty cost of exporting to remote markets. Nevertheless, some companies are expected to benefit from the reconstruction of neighbouring Iraq, especially after Saudi Arabia announced the allocation of USD 1 billion for this process, in addition to USD 500 million to support Saudi exports to Iraq.

Yanbu Cement announced signing one-year agreement to export 1 million tons of clinker and 0.5 million tons of cement with a Middle Eastern trader of cement, starting from April 2018. The financial impact of this agreement is expected to reach SAR 150 million, including SAR 100 million during 2018.

The average selling price fell significantly during the first quarter to reach SAR 145 per ton compared with SAR 193 in first quarter of 2017 and SAR 177 in the previous quarter. Moreover, the cost per ton skyrocketed to SAR 84 per ton versus SAR 75 in Q1 2017 and SAR 40 in Q4 2017, bringing net profit below our estimate of SAR 91 million and analysts' consensus of SAR 90 million. Meanwhile, we expect an improvement in the company's selling prices coupled with the continues of price fluctuation till the local demand recovers, despite the expected benefit of the export agreement on inventory level and selling prices. In the light of the above, we downgraded our valuation of Yanbu Cement from SAR 31 to SAR 28 per share; after reviewing future estimates for the company's performance in the coming years factoring in the gradual removal of subsidies on energy products, which will significantly impact profitability margins going forward.

FY - Ending December	2015A	2016A	2017A	2018E
EV/EBITDA	4.16	5.60	7.95	8.65
EV/Sales	2.67	3.35	4.70	4.40
P/E	5.15	7.89	13.01	14.78
Dividend Yield	19.0%	11.4%	7.6%	7.6%
P/BV	1.12	1.18	1.22	1.24
P/Revenue	2.57	3.23	4.53	4.28
Revenue Growth	3.4%	-20.3%	-28.7%	5.9%
EPS (SAR)	5.12	3.34	2.02	1.78

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018E
Sales	1,559.4	1,613.0	1,286.3	916.6	970.7
COGS	497.4	533.4	450.1	332.2	431.0
SG&A	39.6	44.8	66.7	42.7	45.7
EBITDA	1,022	1,035	769	542	494
EBITA Margin	65.6%	64.1%	59.8%	59.1%	50.9%
Depreciation and amortization	209.6	209.0	224.5	228.1	216.6
EBIT	812.8	825.7	545.0	313.6	277.4
Net interest income	(9.4)	(7.5)	(5.0)	(6.3)	(5.6)
Others	21.9	3.6	1.0	23.1	19.4
Pre-Tax and Zakat Income	825.4	821.7	541.0	330.4	291.2
Tax and Zakat	21.7	15.5	14.3	9.9	8.9
Net Income before Minority	803.6	806.2	526.6	320.5	282.3
Minority	1.7	0.1	0.9	1.6	1.4
Net Income	801.9	806.1	525.8	318.9	280.8
ROS	51.4%	50.0%	40.9%	34.8%	28.9%

Balance Sheet (SAR mn)	2014A	2015A	2016A	2017A	2018E
Cash and Marketable securities	289.7	286.8	111.0	97.9	43.2
Accounts Receivable	191.4	219.6	164.3	152.3	169.4
Inventory	551.3	528.9	520.7	622.5	626.4
Others	24.8	25.2	29.2	19.1	21.2
Total ST Assets	1,057.1	1,060.4	825.2	891.7	860.2
Net Fixed Assets	3,107.0	2,986.1	2,930.2	3,037.5	2,949.6
Others	80.2	120.2	266.6	6.8	14.6
Total LT Assets	3,187.2	3,106.4	3,196.8	3,050.7	2,969.0
Total Assets	4,244.3	4,166.8	4,022.1	3,942.4	3,829.1
Short Term Debt and CPLTD	239.1	57.1	93.4	86.7	51.9
Accounts Payable	21.8	13.2	8.4	15.0	15.1
Accrued Expenses	64.0	71.8	61.4	51.7	54.7
Others	122.7	114.1	139.7	131.1	125.6
Total ST Liabilities	447.7	256.3	302.9	284.5	247.3
Total Long Term Debt	168.2	101.1	121.0	168.6	116.8
Other Non-Current Liabilities	98.9	105.9	90.9	97.0	107.0
Equity	3,529.5	3,703.4	3,507.3	3,392.2	3,358.1
Total Liabilities and Equity	4,244.3	4,166.8	4,022.1	3,942.4	3,829.1

Cash Flow (SAR mn)	2014A	2015A	2016A	2017A	2018E
Cash flow from Operations	930.7	1,008.9	763.8	460.7	479.0
Cash flow from Financing	(836.3)	(883.7)	(658.5)	(391.8)	(398.9)
Cash flow from Investing	(115.9)	(128.1)	(281.1)	(82.0)	(134.9)
Change in Cash	(21.5)	(2.9)	(175.7)	(13.1)	(54.7)

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

* The financial statements for the period 2016-2018 are presented according to IFRS.

Cement and Clinker Summary by the End of Q1 2018

Figure in thousand ton	Q1 2018	Q1 2017	YoY	Q4 2017	QoQ
Sector Production					
Cement	11,996	13,693	(12%)	11,933	1%
Clinker	11,109	12,870	(14%)	11,815	(6%)
Sector Dispatches					
Cement	11,910	13,643	(13%)	11,982	(1%)
Clinker	130	2	-	-	-
Sector Inventory					
Cement	1,184	1,239	(4%)	1,092	8%
Clinker	35,739	28,999	23%	35,626	0.3%
Cement Production / Company					
Yamama Cement	747	1,242	(40%)	837	(11%)
Saudi Cement	1,533	1,455	5%	1,267	21%
Eastern Cement	572	618	(7%)	660	(13%)
Qassim Cement	933	1,068	(13%)	1,054	(11%)
Yanbu Cement	1,439	1,645	(13%)	1,288	12%
Arabian Cement	1,035	1,122	(8%)	881	17%
Southern Cement	1,322	1,518	(13%)	1,481	(11%)
Tabuk Cement	352	337	4%	305	15%
Riyadh Cement	510	868	(41%)	573	(11%)
Najran Cement	498	568	(12%)	501	(1%)
City Cement	722	1,031	(30%)	859	(16%)
Northern Cement	351	305	15%	308	14%
Jouf Cement	348	434	(20%)	346	1%
Safwa Cement	465	478	(3%)	448	4%
Hail Cement	335	266	26%	325	3%
Umm Al-Qura Cement	366	302	21%	352	4%
United Cement	468	436	7%	448	4%
Cement Dispatches / Company					
Yamama Cement	746	1,242	(40%)	865	(14%)
Saudi Cement	1,450	1,471	(1%)	1,314	10%
Eastern Cement	579	614	(6%)	651	(11%)
Qassim Cement	923	1,073	(14%)	1,045	(12%)
Yanbu Cement	1,489	1,592	(6%)	1,258	18%
Arabian Cement	1,035	1,113	(7%)	875	18%
Southern Cement	1,312	1,527	(14%)	1,489	(12%)
Tabuk Cement	357	343	4%	314	14%
Riyadh Cement	510	862	(41%)	581	(12%)
Najran Cement	479	566	(15%)	503	(5%)
City Cement	722	1,051	(31%)	865	(17%)
Northern Cement	348	323	8%	306	14%
Aljouf Cement	341	409	(17%)	332	3%
Safwa Cement	467	485	(4%)	445	5%
Hail Cement	328	263	25%	325	1%
Umm Al-Qura Cement	363	303	20%	359	1%
United Cement	461	406	14%	455	1%

Albilad Capital Rating Methodology

Al-Bilad Capital uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by $< 10\%$.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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