

YANBU CEMENT



EVENT FLASH

Steep discounts offered to gain market share

Yanbu Cement reported an in-line set of 4Q16 results, with net income declining 52% YoY to SR100mn. We believe the weakness is due to discounts offered to gain a market share in the Western region, in addition to a one-off expense of SR22.4mn as a result of settling an early retirement program. Yanbu Cement trades at a 2017E P/E of 9.8x vs. covered peers average P/E of 12.1x.

- NCBC view on the results:** Yanbu Cement reported an in-line set of 4Q16 results, although being significantly lower than consensus. Net income declined -52.1% YoY to SR100mn. This compares to the NCBC and consensus estimates of SR99mn and SR159mn, respectively. We believe the YoY weakness came primarily from the steep discounts offered to support sales quantities and gain a high market share in the Western region.
- Total sales quantity of Yanbu Cement stood at 1.99mn tons in 4Q16, in-line with our estimates of 1.95mn tons. Sales quantities increased by +6.9% YoY in 4Q16, compared to a decline of -20.5% for the industry. Quantities sold by Yanbu Cement declined -8.2% in 2016 vs. -9.5% for the sector.
- Selling prices stood at an all-time low of SR152/ton in 4Q16 vs. our estimates of SR174/ton, down -34% YoY and -27% QoQ. Sales stood at SR303mn (-28.9% YoY) and came -11.1% below our estimates at SR341mn. We believe high discounts came to gain market share in the Western region and reduce competition of remote region players, as Umm Al Qura Cement and United Cement began operations in the region. The market share of Yanbu Cement increased from 11.5% in December 2015 to 17.4% in December 2016. This led to the market share increasing from 11.4% in 4Q15 to 15.4% in 4Q16.
- Gross margins contracted significantly in 4Q16 to 45.2% vs. 52.5% in 4Q15 but came in higher than our estimates of 38.2%. We believe the decline in margins came primarily from discounts and higher costs from lower fuel subsidies. This led to gross profits declining at a higher rate of -38.8% YoY. Yanbu Cement announced the settlement of an early retirement program in 4Q16, with a one-off expense of SR22.4mn. As result of this, net income declined by 52.1% YoY to SR100mn.
- We are Overweight on Yanbu Cement with a PT of SR57.0. Discounts to gain market share and higher costs from reduced subsidies are key risks going forward. The stock trades at 2017E P/E of 9.8x vs. peer average of 12.1x.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var [^]
Sales	303	426	(28.9)	341	(11.1)
Gross income	137	224	(38.8)	130	5.2
Gross margin (%)	45.2%	52.5%	(7.28)	38.2%	7.02
Operating income	127	212	(40.1)	120	6.1
Operating margin (%)	41.9%	49.8%	(7.84)	35.1%	6.81
Net income	100	209	(52.1)	99	0.7
Net margin (%)	33.0%	49.0%	(15.96)	29.1%	3.89
EPS	0.63	1.33	(52.1)	0.63	0.7

Source: Company, NCBC Research ^ % Var indicates variance from NCBC estimates

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price (SR) 57.0

Current price (SR) 34.0

STOCK DETAILS

M52-week range H/L (SR)	52/26
Market cap (\$mn)	1,428
Shares outstanding (mn)	158
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(14.6)	29.7	(11.0)
Rel. to market	(10.7)	4.2	(35.1)

Avg. daily turnover (mn)	SR	US\$
3M	13.7	3.7
12M	11.8	3.2

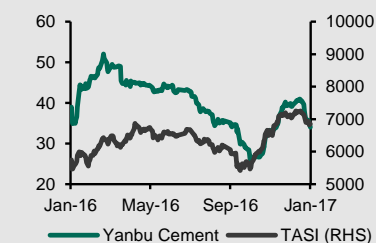
Reuters code	3060.SE
Bloomberg code	YNCCO AB
	www.yanbucement.com

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	6.6	10.0	9.8
P/B (x)	1.4	1.6	1.6
EV/EBITDA (x)	5.0	6.6	6.6
Div Yield (%)	14.7	10.3	10.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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- OVERWEIGHT:** Target price represents an increase in the share price in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents a change in the share price between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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