

EASTERN CEMENT

EVENT FLASH

Discounts and associate income lead to weakness

Eastern Cement reported a weak set of 4Q16 results, with net income declining -37.8% YoY to SR55mn. This compares to the NCBC estimates of SR66mn. We believe this weakness came from 1) decline in sales quantities due to the construction slowdown, 2) all-time low gross margins due to the revised fuel subsidies and 3) lower than expected associate income. Eastern Cement trades at a 2017E P/E of 13.1x vs. covered peers average P/E of 12.1x.

- NCBC view on the results:** Eastern Cement reported a weak set of 4Q16 results, with net income declining 37.8% YoY to SR55mn. This is below the NCBC and consensus estimates of SR65.7mn and SR58.2mn, respectively. We believe the weakness came from 1) lower sales quantities due to the general construction slowdown, 2) weak margins due to the revised fuel support levels and 3) lower than expected associate income.
- Total sales quantity of Eastern Cement stood at 0.68mn tons in 4Q16, coming in-line with our estimates of 0.66mn tons. Sales quantities declined by -19.4% YoY in 4Q16, lower than the industry declines of -20.5% during the same period. Quantities sold by Eastern Cement declined -15.4% in 2016 vs. -9.5% for the sector.
- Average selling prices (cement + precast concrete) stood at SR344/ton vs. our estimates of SR378/ton (+20% YoY, -9% QoQ). As a result sales came -7.5% below our estimates at SR251mn, declining -3% YoY to SR232mn. We believe discounts remain limited at Eastern Cement, due to the high clinker production cuts of -17.1% YoY in 4Q16 vs. industry at -5.4% YoY. However, we believe discounts offered by smaller players in remote regions to sell in high demand areas may lead to further discounts for Qassim Cement.
- Gross profits declined -21.6% YoY to SR72mn. Gross margins reached its lowest level on record, contracting from 38.4% in 4Q15 to 31.0% in 4Q16. This compares to our estimates of 32.0%, leading to a higher variance of -10.2% on the gross profit level. We believe the main reasons behind the decline in gross profits to SR72mn is 1) change in the sales mix and a higher proportion of sales coming from oil well cement and 2) revised support on fuel and utilities. We expect an average gross margin of 32.5% till 2020E.
- We are Neutral on Qassim Cement with a PT of SR71.0. Lower prices due to competition and higher costs from reduced subsidies are key risks going forward. The stock trades at 2017E P/E of 13.1x vs. peer average of 12.1x.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var [^]
Sales	232	239	(3.0)	251	(7.5)
Gross income	72	95	(24.2)	80	(10.2)
Gross margin (%)	31.0%	39.7%	(8.68)	32.0%	(0.92)
Operating income	56	80	(30.0)	63	(11.7)
Operating margin (%)	24.1%	33.4%	(9.30)	25.3%	(1.15)
Net income	55	88	(37.5)	66	(16.3)
Net margin (%)	23.7%	36.8%	(13.08)	26.2%	(2.48)
EPS	0.64	1.02	(37.5)	0.76	(16.3)

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

OVERWEIGHT

Target price (SR)	35.1
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Current price (SR)	30.6
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STOCK DETAILS

M52-week range H/L (SR)	36/22
Market cap (\$mn)	703
Shares outstanding (mn)	86
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.7)	33.6	18.3
Rel. to market	(5.6)	10.1	(6.2)

Avg. daily turnover (mn)	SR	US\$
3M	3.1	0.8
12M	5.9	1.6

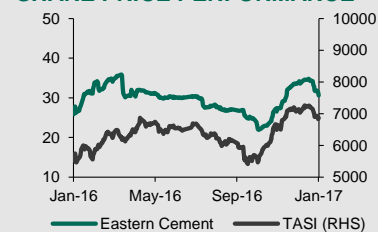
Reuters code	3080.SE
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VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	7.9	10.7	13.1
P/B (x)	1.1	1.1	1.1
EV/EBITDA (x)	5.0	6.3	6.7
Div Yield (%)	8.2	8.2	6.5

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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