



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

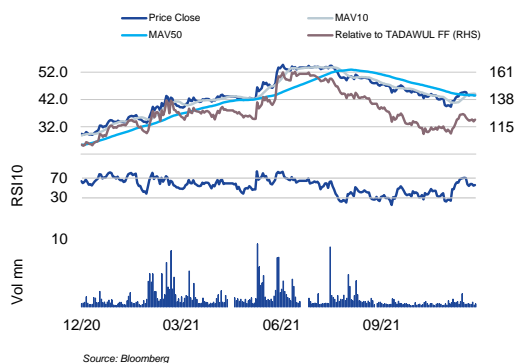
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Existing rating

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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