



**US\$1.713bn** Market cap  
**51%** Free float  
**US\$2.411mn** Avg. daily volume

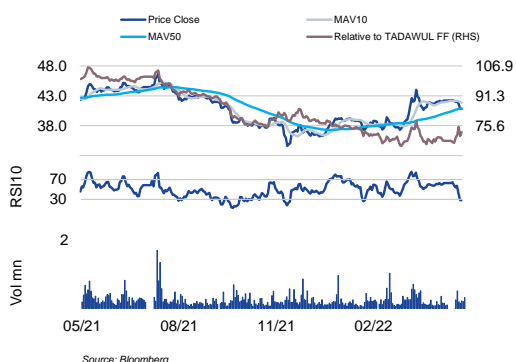
Target price **37.00** -9.4% over current  
Current price **40.85** as at 17/5/2022

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Existing rating

**Underweight** **Neutral** **Overweight**

Performance



Earnings

(SAR mn)	2021	2022E	2023E
Revenue	934	857	939
Revenue growth	-1%	-8%	10%
Gross profit	224	190	251
Gross margin	24%	22%	27%
EBITDA	368	321	372
EBITDA margin	39%	38%	40%
Net profit	160	122	181
Net margin	17%	14%	19%
EPS	1.01	0.78	1.15
DPS	2.25	1.50	1.50
Payout ratio	222%	193%	130%
EV/EBITDA	18.2x	20.6x	17.7x
P/E	40.3x	52.6x	35.5x
RoE	5.7%	4.6%	6.9%

Source: Company data, Al Rajhi Capital

## Yanbu Cement

### Operating stress to continue; TP at SAR37/sh

Yanbu Cement (YCC) registered a revenue of SAR242mn, a y-o-y fall of 17.4% and was higher than our estimate of SAR224mn. Fall in sales was attributed to a 6.7% y-o-y fall in cement volume and a fall in the average cement realization. Cement sales volume for Q1 2022 came in at 1.3mn tons, broadly in line with our estimate. Gross profit fell by 33.0% y-o-y, while operating profit fell by 41.4% y-o-y. Lower revenue and the resultant fall in operating leverage impacted profitability, as gross margins fell to 22.5% for Q1 2022, compared to 27.8% a year back. For Q1 2022, cement volume of YCC fell by 6.7% y-o-y, better than the industry, which on an average fell by 10.1%, and the performance of the Western region, which registered a fall of 10.0%. However, cement prices were weak and fell on a y-o-y basis resulting in pressure on the operating performance of the company. We expect construction activity to remain weak; along with this, with a clinker inventory of 34.7 mn tons, in April-22, which is around seven months of production (LTM), we expect the average realization to remain under pressure. However, there could be a slight recovery in both the volume and prices post H1 2022, as we expect marginal recovery in demand backed by an improvement in the execution of mega and giga projects. However, this recovery is likely to be limited, resulting in cement sales volume coming lower in 2022, compared to 2021. Overall, we reduce our target price to SAR37/share from SAR40/share, but maintain our rating at “Neutral”.

**Q1 results:** Total volume sold during the quarter came at 1.3mn tons in Q1 2022, compared to 1.2mn tons in Q4 2021 and 1.4mn tons a year back. At the back of lower volume and average realization, gross margins fell to 22.5% in Q1 2022, compared to 27.8% a year back, though the same was better than 20.2% in the previous quarter. Net margins at 16.1% in Q1 2022 was lower than 24.9% a year back, though it was better than 5.2% in Q4 2021.

#### Figure 1 Yanbu Cement: Summary of Q1 2022 results

(SARmn)	Q1 2022	Q1 2021	Q4 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	242	292	191	-17%	26%	224
Gross Profit	54	81	39	-33%	41%	66
Gross Margin	23%	28%	20%	NA	NA	29%
Operating Profit	40	69	27	-41%	51%	53
Net Profit	39	73	10	-47%	294%	46

Source: Company data, Al Rajhi Capital

**Valuation and risks:** For our estimates, we expect input and energy prices to remain flat. We value the company based on a weighted average mix of DCF (45%) and dividend capitalization (55%). The DCF target price is based on a 2.0% terminal growth and WACC of 7.9% and comes to SAR36/share. Dividend capitalization is based on a fair value yield of 4.0% and comes to SAR38/share. Overall, we have reduced our target price for the company to SAR37 per share, a downside of 9.4%, which implies an “Neutral” rating. The key downside risk is a decline in volume and lower than expected cement prices. The key upside risks are higher than the forecasted pick up in the construction activity, resulting in improved volume and prices.



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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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