Yamama Cement Co.

Cement – Industrial
YACCO AB: Saudi Arabia
27 July 2022

الراجحي المالية
Al Rajhi Capital

US$1.563bn	89%	US$2.483mn
Market cap	Free float	Avg. daily volume

Target price	30.00	+3.4% over current
Current price	29.00	as at 27/7/2022

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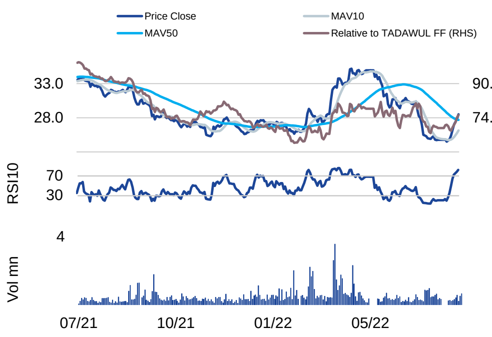
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2021A	2022E	2023E
Revenue	736	947	1,092
Revenue growth	-23%	29%	15%
Gross profit	227	382	498
Gross margin	31%	40%	46%
EBIT	164	308	422
EBIT margin	22%	33%	39%
Net profit	161	310	392
Net margin	22%	33%	36%
EPS	0.79	1.53	1.94
DPS	0.00	0.00	0.00
Payout ratio	0%	0%	0%
EV/EBITDA	37x	19x	14x
P/E	37x	19x	15x
RoE	4%	7%	8%

Source: Company data, Al Rajhi Capital

Yamama Cement Co.

Improved pricing scenario and efficiency aids in profitability growth

Yamama Cement Co (YSCC) registered a revenue of SAR209mn, a y-o-y increase of 3.3% and was higher than our estimate of SAR197mn. Increase in sales was attributed to a robust 55.9% y-o-y increase in cement volume, though the growth was moderated by a fall in average cement realization. Gross profit increased by 5.0% y-o-y, while operating profit increased by 0.8% y-o-y. Higher revenue and the resultant improvement in operating leverage aided profitability, as gross margins improved to 48.1% for Q2 2022, compared to 47.4% a year back. However, profitability was moderated by a 27.0% y-o-y increase in operating expenses. For Q2 2022, cement volume of YSCC increased by 55.9% y-o-y, better than the industry, which on an average fell by 6.4%, and the performance of the Central region, which registered a fall of 1.2%. The strong growth in volumes of the company has come at the back of it improving its market share from 10% in 2021 to 13% for M6 2022. Going forward, we expect the company to maintain its market share at these levels. We also expect the construction sector performance to improve, aided by stable mortgage offtake and favourable movement of construction material prices, which have started to fall. We also expect the average cement realizations of YSCC to have improved in Q2 2022, compared to Q1 2022, though we expect the same to be lower compared to previous year levels. Going forward, we expect the prices to remain stable at the current levels. Aided by these, we expect the cash flow generation of the company to improve, which we feel will be utilised for reducing debt. Overall, we increase our target price to SAR30/share from SAR28/share, and increase our rating to "Neutral" from "Underweight".

Q2 results: Total volume sold during the quarter came at 1.3mn tons in Q2 2022, compared to 0.8mn tons in Q2 2021 and 2.1mn tons a quarter back. Gross margins improved to 48.1% in Q2 2022, compared to 47.4% a year back and 18.4% in the previous quarter, and was aided by higher volumes (y-o-y) and an improvement in average realization (q-o-q). Net margins at 43.3% in Q2 2022 was higher than 38.3% in Q2 2021 and 13.4% in Q1 2022. Apart from operating performance, net margins were also aided by higher non-operating income.

Figure 1 : Yamama Cement: Summary of Q2 2022 results

(SARmn)	Q2 2022	Q2 2021	Q1 2022	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	209	203	222	3%	-6%	197
Gross Profit	101	96	41	5%	147%	85
Gross Margin	48%	47%	18%	NM	NM	43%
Operating Profit	81	80	23	1%	248%	68
Net Profit	91	78	30	17%	206%	64

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 (50%) and P/E (50%). The DCF target price is based on a 2.0% terminal growth and WACC of 6.4% and comes to SAR32/share. P/E is based on a multiple of 16.0x and comes to SAR28/share. Overall, we have increased our target price for the company to SAR30 per share, a upside of 3.4%, 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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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