



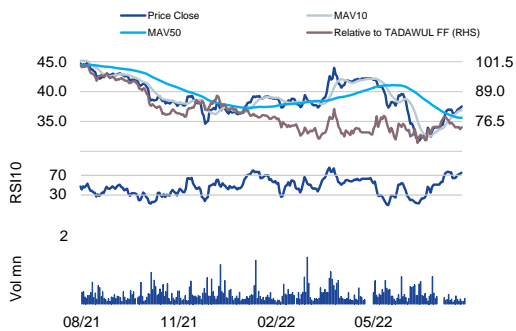
US\$1.555bn Market cap
51% Free float
US\$1.835mn Avg. daily volume

Target price **37.00** -0.3% over current
Current price **37.10** as at 3/8/2022

Research Department
Mazen AISudairi, CFA
Tel +966 11 836 5468, alsudairim@alrajhi-capital.com



Performance



Earnings

(SAR mn)	2021	2022E	2023E
Revenue	934	905	969
Revenue growth	-1%	-3%	7%
Gross profit	224	240	293
Gross margin	24%	27%	30%
EBITDA	368	363	405
EBITDA margin	39%	40%	42%
Net profit	160	182	234
Net margin	17%	20%	24%
EPS	1.01	1.16	1.48
DPS	2.25	1.50	1.75
Payout ratio	222%	130%	118%
EV/EBITDA	16.6x	16.5x	14.6x
P/E	36.6x	32.1x	25.0x
RoE	5.7%	6.6%	8.7%

Source: Company data, Al Rajhi Capital

Yanbu Cement

Improved efficiency aids in profit growth

Yanbu Cement Co (YCC) registered a revenue of SAR238mn, a y-o-y fall of 1.9%, and was attributed to lower cement volume, though the fall was restricted to a certain extent by higher clinker sales. Clinker volume during the period grew by 31.6% y-o-y and was aided by higher exports. The revenue was higher than our estimate of SAR190mn, due to higher-than-expected clinker volume, and sales. Gross profit increased by 19.8% y-o-y, while operating profit increased by 18.0% y-o-y. Despite lower revenue, profitability was aided by improved efficiency, resulting in a lower cost of sales per unit, as gross margins improved to 26.7% for Q2 2022, compared to 21.9% a year back. For Q2 2022, the cement volume of YCC fell by 11.8% y-o-y, underperforming both the industry performance, which on an average fell by 6.4%, and the performance of the Western region, which registered a fall of 5.2%. Cement volume for the period was impacted by lower construction activity, though we feel that the fall in cement volume has reached the bottom. We expect the sector performance to improve, aided by stable mortgage offtake and favorable movement of construction material prices, which have started to fall. We also expect the average cement realizations of YCC to remain stable at the current levels. Overall, we maintain our target price at SAR37/share and maintain our rating at "Neutral".

Q2 results: Total cement volume sold during the quarter came at 1.0mn tons in Q2 2022, compared to 1.1mn tons in Q2 2021 and 1.3mn tons in the previous quarter. Clinker volumes on the other hand improved to 0.8mn tons in Q2 2022, compared to 0.6mn tons in Q2 2021 and 0.4mn tons in Q1 2022. Gross margins improved to 26.7% in Q2 2022, compared to 21.9% a year back, and 22.5% in Q1 2022. Lower cost of sales per unit of production aided improvement in margins.

Figure 1: Yanbu Cement: Summary of Q2 2022 results

(SARmn)	Q2 2022	Q2 2021	Q1 2022	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	238	243	242	-2%	-1%	190
Gross Profit	64	53	54	20%	17%	43
Gross Margin	27%	22%	23%	NA	NA	23%
Operating Profit	51	43	40	18%	26%	30
Net Profit	48	41	39	16%	23%	26

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 an average mix of DCF and dividend capitalization. The DCF target price is based on a 2.0% terminal growth and WACC of 8% and comes to SAR40/share. Dividend capitalization is based on a fair value yield of 5.0% and comes to SAR35/share. Overall, we have maintained our target price for the company at SAR37 per share, a downside of 0.3%, which implies a "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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Contact us

Mazen AlSudairi, CFA
Head of Research
Tel: +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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