



Update on H1 2014

Sector: Basic Materials and Industrial Products

Country: Yamama Cement Company

Date: August 28, 2014

Share Price (SAR): 66.00

Target Price (SAR): 63.18

Downside: -4.3%

Dividend Yield: 5%-6%

Recommendation: HOLD

Maintaining a HOLD rating with a higher target price of SAR 63.18 per share on a positive reform in the Saudi equity market

Yamama's shares price tracked the uptrend in the Saudi stock market, hiking by 13% in the past six months following Saudi Arabia's announcement to open its USD 530 billion stock exchange to foreign investors in H1 2015. We believe Yamama will benefit from this strong positive reform which will definitely make the Arab world's biggest bourse more attractive and might lead to as much as USD 40 billion of foreign cash entering the market. Hence, we revise up our target price on Yamama Cement to SAR 63.18 per share, maintaining our HOLD recommendation. We believe the Saudization and the crackdown on visas and immigrant workers will keep on pressuring growth in the construction sector and thus Yamama's performance during 2014 especially after the disappointing H1 results. However, we anticipate fundamental improvement in the long-term, backed by massive government spending. As well, Yamama has four years to finish the relocation of its existing plant to outside Riyadh. Once completed, we expect further benefit from the growing demand in the kingdom especially with the company's plans to increase its production capacity by around 50%. We still didn't incorporate the cost of building the new plant in our valuation as the company didn't announce yet a clear plan.

Yamama underperforms the market

The Saudi cement market size edged down by 5.8% y-o-y to reach 29.4 million tons in H1 2014, hit by a shortage of labors following the new government measures calling for raising the Saudization rate. However, Yamama cement witnessed a steeper cut in sales volume by 21.7% to 3 million tons, which translated into a substantial 21.8% fall in H1 revenues to SAR 733 million. Likewise, the slowing construction activity sent production of cement at Saudi companies' facilities down by 5% to 29.9 million tons compared to a considerable 22.7% decline at Yamama to 3 million tons in H1 2014. Looking forward, we estimate a drop in sales during 2014 to SAR 1,360 million. However, we expect Yamama's top-line to grow at a CAGR of 9% in the coming three years, anticipating a notable pick-up in the construction sector post 2015 amidst the government enormous plans to develop infrastructure and provide housing for the growing population. As well, Riyadh-based Yamama may benefit from the USD 22.5 billion Riyadh metro system, the Kingdom's largest project to date, which is expected to run from 2014 to 2019.

Production costs pressure gross margin

Yamama production costs rose to 48.2% of sales in H1 2014 compared to 40.1% a year earlier, dragging the company's gross profit by 32.4% to SAR 380 million. Earnings followed suit falling by 29.8% as higher income from Murabaha and Islamic investments funds failed to offset the increased SG&A expense and Zakat provisions. Hence, Yamama's net margin decreased to 52.1% from 58.0% in H1 2013. Looking forward, we estimate a decrease in earnings in 2014 to SAR 734 million, expecting growth at a CAGR of 12% in the coming three years.

Optimistic outlook once companies adhere to the new labor rules

The Saudization policy, which focuses on controlling illegal migration and promoting the employment of Saudi nationals, adversely influenced the construction sector during H1 2014 due to its reliance on expatriate workers and the lack of appetite from Saudi nationals for jobs in the sector. This has caused delays in projects and cancellations, while small construction firms went out of business following the increased cost of labor. However, we expect a robust cement market recovery in the medium term once the labor shortage issue is resolved as project awards reached a record level in 2013, supported by the immense government spending on transport, power, industrial and housing development projects.

Share Data

Bloomberg Symbol	YACCO.AB
Reuters Symbol	3020.SE
Market Cap (SAR million)	13,365,000,000
Number of Shares	202,500,000
Free Float	77.10%
Price-to-Earnings	18.20
Price-to-Book	2.24

Share Performance



Source: Reuters

1 Month Return	6.0%
3 Month Return	1.9%
6 Month Return	13.3%
12 Month Return	24.5%
52 Week Range	51.00 – 71.25

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Performance and Forecasts

	2011	2012	2013	2014e
Revenues (SAR millions)	1,442	1,576	1,542	1,360
Net Income (SAR millions)	740	818	870	734
EPS (SAR)	5.48	4.0	4.3	3.6
BVPS (SAR)	28.3	29.7	31.6	29.4
ROA	19.4%	20.9%	19.8%	19.8%
ROE	22.6%	23.4%	21.8%	21.7%

Source: Yamama Cement, Blominvest Bank

Quarterly Income Statement

<i>(In SAR million)</i>	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14
Revenues	492	413	306	365	483	456	294	310	367	366
Cost of Goods Sold	(192)	(187)	(130)	(153)	(190)	(187)	(140)	(145)	(186)	(167)
Gross Profit	300	226	176	213	293	269	154	165	181	199
SG&A	(2)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
General & Admin exp.	(9)	(10)	(9)	(12)	(11)	(10)	(10)	(11)	(10)	(13)
Depreciation Expense	(1)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(0)
Other Operating Expenses	(0)	(1)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Total Operating Expenses	(13)	(12)	(11)	(15)	(14)	(13)	(13)	(13)	(12)	(16)
Operating Income	287	214	165	198	279	256	141	152	169	183
Other Non-Operating Income	4	9	5	6	6	20	15	30	15	37
Interest Expense	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)	(0)	(1)
Earnings before Zakat	290	221	169	201	284	275	156	181	184	219
Zakat	(12)	(12)	(12)	(12)	(8)	(8)	(8)	(4)	(9)	(12)
Net Income	278	209	157	189	277	268	148	177	175	207
Earnings per Share (SAR)	2.06	1.55	0.77	0.93	1.36	1.32	0.73	0.88	0.86	1.02

Source: Yamama Cement

Projected Income Statement

<i>(In SAR million)</i>	2010	2011	2012	2013	2014e
Revenues	1,272	1,442	1,576	1,542	1,360
Cost of Goods Sold	(560)	(633)	(662)	(661)	(585)
Gross Profit	712	809	914	881	775
SG&A	(8)	(16)	(7)	(7)	(5)
General & Admin exp.	(34)	(38)	(40)	(42)	(37)
Depreciation Expense	(2)	(2)	(2)	(1)	(1)
Other Operating Expenses	(2)	(2)	(2)	(3)	(3)
Total Operating Expenses	(46)	(59)	(51)	(52)	(46)
Operating Income	666	751	863	829	729
Other Non-Operating Income	22	18	10	71	44
Interest Expense	(6)	(5)	(7)	(4)	(4)
Earnings before Zakat	682	764	866	896	769
Zakat	(25)	(24)	(48)	(26)	(35)
Net Income	657	740	818	870	734
Earnings per Share (SAR)	4.87	5.48	4.0	4.3	3.6

Source: Yamama Cement, Blominvest Bank

Balance Sheet

<i>(In SAR million)</i>	2010	2011	2012	2013	Q2 2014
Current Assets					
Cash & cash equivalents	700	898	1,241	1,254	1,349
Trade receivables	245	301	322	298	304
Due from RP	26	24	24	25	27
Other receivables	24	21	21	102	59
Inventory	132	137	66	161	178
Total current Assets	1,127	1,380	1,675	1,839	1,917
Non-current assets					
Investments	394	419	438	648	660
Fixed assets	2,106	1,959	1,809	1,679	1,624
Projects under progress	7	40	69	80	72
Deferred Revenue	19	23	14	17	36
Total non-current assets	2,527	2,441	2,331	2,424	2,392
Total Assets	3,653	3,822	4,005	4,263	4,308
Current liabilities					
ST portion of LTD	77	142	17	21	21
Creditors	-	-	-	-	144
Due to RP	6	3	2	2	1
Accounts Payable	87	103	182	159	52
Other payables	8	18	21	24	18
Dividends Payable	41	39	43	49	-
Payables to Zakat	26	29	48	40	21
Total current liabilities	246	334	313	294	256
Non-current payables					
Long term loans	190	48	31	10	-
EOS provision	59	64	62	65	66
Total non-current liabilities	249	112	94	76	66
Total Liabilities	495	446	406	369	322
Shareholders' Equity					
Share capital	1,350	1,350	2,025	2,025	2,025
Legal Reserve	251	390	472	559	559
Additional Reserves	958	1,000	325	325	412
Retained earnings	550	565	675	848	837
Unrealized gains on investments	50	70	102	136	153
Total Equity	3,159	3,375	3,599	3,893	3,986
Total Liabilities & Equity	3,653	3,822	4,005	4,263	4,308

Source: Yamama Cement

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Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%

Accumulate: Fair Value higher than Market Price by 10% to 20%

Hold: Fair Value ranges between -5% to +10% in relation to Market Price

Reduce: Fair Value lower than Market Price by 5% to 15%

Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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