



Update on H1 2013

Sector: Basic Materials and Industrial Products

Country: Yamama Cement Company

Date: August 27, 2013

Share Price (SAR): 54.50

Target Price (SAR): 57.74

Upside: 5.9%

Dividend Yield: 6.0%

Recommendation: ACCUMULATE

Maintaining our ACCUMULATE rating with a higher target price of SAR 57.74 after accounting for revised forecasts

Growth in infrastructure and housing to support Yamama's top-line

Revenues at Yamama increased by 3.8% to SAR 938 million in H1 2013, mainly due to higher sales volumes and pricing. The size of the Saudi cement market rose 9.7% y-o-y to 31.37 billion tons in H1 2013, of which Yamama captured a market share of 12.24%, satisfying 3.84 million ton of the demand for cement up to June 2013. The cement industry continues to grow on the back of the stimulus package of the government which supports a robust development for infrastructure and housing projects in the kingdom. We estimate sales to increase by 5% to reach SAR 1.65 billion for 2013, driven by higher construction activity.

Earnings rise on strong revenues and lower production costs

Yamama's production costs decreased 0.6% to SAR 399 million in H1 2013, driving down the gross margin from 56.1% in H1 2012 to 58.0%. Hence, the company's gross income rose 6.9% y-o-y to attain SAR 526 million. Yamama continues to benefit from its advantage over its Saudi peers in terms of production efficiencies due to the integration of its production of clinker and cement in addition to the cogeneration of its power supply enabling the use of both electricity and heat in cement manufacturing. Net income rose 11.8% during H1 2013 to reach SAR 544 million. We estimate 2013 earnings to increase 7.8% to SAR 898 million.

Liquidity drops on cash dividend distribution policy

During H1 2013, liquidity at Yamama decreased, mainly due to the cash dividend distribution with an average yearly payout ratio of 75%. The company is expected to maintain its dividend distribution policy and delay the expansion of its capacity due to a shortage in subsidized fuel, which threatens growth in the Saudi cement sector amid accelerating demand. However, we expect liquidity to be high in the coming years with a continuous downtrend in the debt ratios. The company was able to rely mostly on its excess cash balances to finance expansion of its operations and investments in fixed assets with little reliance on borrowing.

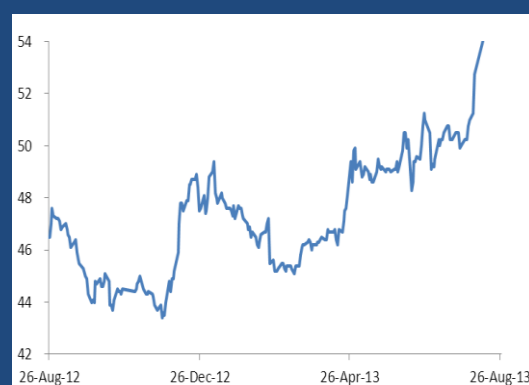
Increasing target price on favorable outlook and attractive dividend yield

We maintain an ACCUMULATE rating on Yamama, raising its target price to SAR 57.74 from SAR 51.20 previously after it was reached during June 2013 and continues to rally. Yamama appears to be undervalued with a price-to-earnings ratio of 11.6 compared to 16.2 for the average of the industry. Our overweight rating is further supported by the attractive dividend yield of 6% in addition to the company's location advantage. Its high capacity and inventory levels also enable Yamama to be a first mover in case of a sudden rise in demand in the central region.

Share Data

Bloomberg Symbol	YACCO.AB
Reuters Symbol	3020.SE
Market Cap (SAR million)	11,036,250,000
Number of Shares	202,500,000
Free Float	77.10%
Price-to-Earnings	11.56
Price-to-Book	1.73

Share Performance



Source: Reuters

1 Month Return	6.86%
3 Month Return	10.32%
6 Month Return	20.58%
12 Month Return	17.20%
52 Week Range	43.40 – 56.75

Contact Information:

Research Analyst: Malak Hawa
Malak.hawa@blominvestbank.com

Head of Equities: Issa Frangieh
issa.frangieh@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Performance and Forecasts

	2011	2012	2013e	2014f	2015f
Revenues (SAR millions)	1,442	1,576	1,654	1,757	1,866
Net Income (SAR millions)	740	833	898	953	1,011
EPS (SAR)	5.5	4.1	4.4	4.7	5.0
BVPS (SAR)	28.3	29.7	29.7	30.0	30.5
ROA	19.4%	21.3%	22.4%	23.6%	24.7%
ROE	22.6%	23.9%	25.0%	26.4%	27.6%

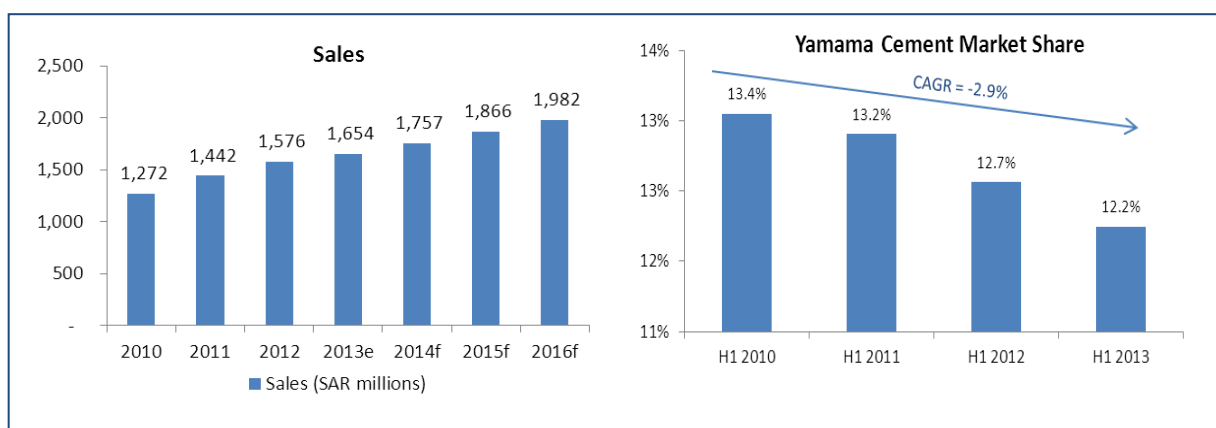
Source: Yamama, Blominvest

INCOME STATEMENT HIGHLIGHTS

Revenues' uptrend remains strong on resilient construction activity

Revenues at Yamama reached SAR 938 million in the first half of 2013, up by 3.8% from SAR 904 million registered a year earlier, mainly due to higher sales volumes and pricing. The size of the Saudi cement market rose 9.7% y-o-y to 31.37 billion tons in H1 2013. Yamama captured a market share of 12.24%, satisfying 3.84 million ton of the demand for cement up to June 2013 compared to 12.69% or 3.63 million tons a year earlier.

The cement industry continues to grow on the back of the stimulus package of the government which supports a robust development for infrastructure and housing projects in the kingdom with plans to build more than 1.65 million housing units over the next five years. Moreover, the mortgage laws passed by the government in February 2013 will help facilitate credit growth and construction activity, backing expansion in the cement industry over the next coming years. Hence, we estimate sales to reach SAR 1.65 billion in 2013, 5% higher than SAR 1.58 billion recorded a year earlier, driven by the flourishing construction activity.



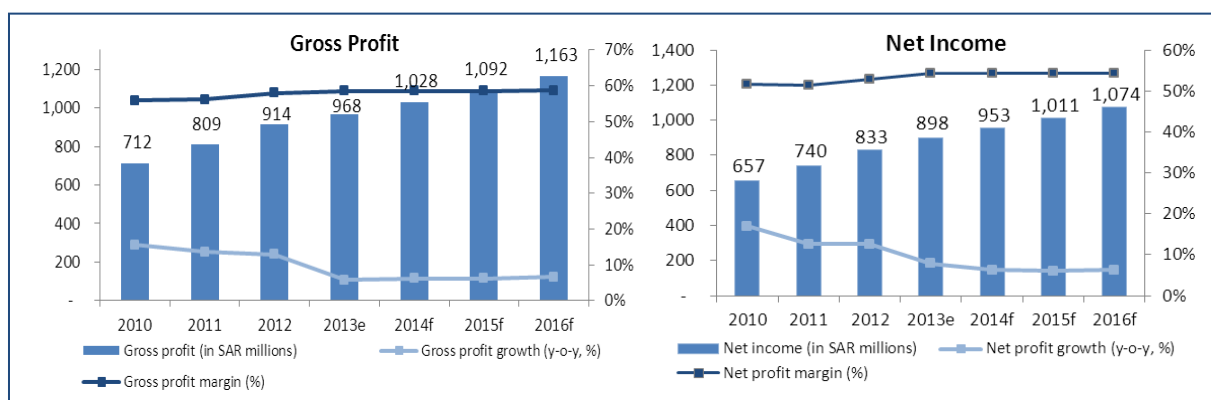
Source: Yamama, Blominvest

Yamama's cement market share decreased from 13.4% in H1 2010 to 12.2% in H1 2013 as the Saudi cement market is increasing at a faster pace than Yamama's production.

Bottom-line grows on the back of higher revenues and lower costs

Yamama's gross income increased by 6.9% y-o-y during the first half of 2013 to attain SAR 526 million as sales grew and the company cut cost of revenues during the period. Hence, gross margin rose to 58.0% from 56.1% in H1 2012. Yamama continues to benefit from its advantage over its Saudi peers in terms of production efficiencies due to the integration of its production of clinker and cement in addition to the cogeneration of its power supply enabling the use of both electricity and heat in cement manufacturing.

SG&A expenses and finance costs declined by 13.5% and 25%, respectively. As a result, Yamama's net profit rose by 11.8% during H1 2013 to reach SAR 544 million as opposed to SAR 487 million a year earlier. We estimate 2013 net income to register a growth of 7.8% to SAR 898 million.



Source: Yamama, Blominvest

Government restrictions continues to negatively impact the cement sector

The Saudi government imposed several restrictions on the cement sector to avoid price inflation, which has negatively affected the profitability of several cement companies. As a result of the growth in construction activity and lack of similar growth in cement production capacity, the price of cement reached record highs of SAR 264 per ton in March 2012. This prompted action on the part of the ministry of commerce to maintain its cement export ban, remove import restrictions, and impose a price ceiling of SAR 240 per ton to increase competition in the sector. However, we believe these measures are temporary as KSA cement production capacity continues to expand.

BALANCE SHEET HIGHLIGHTS

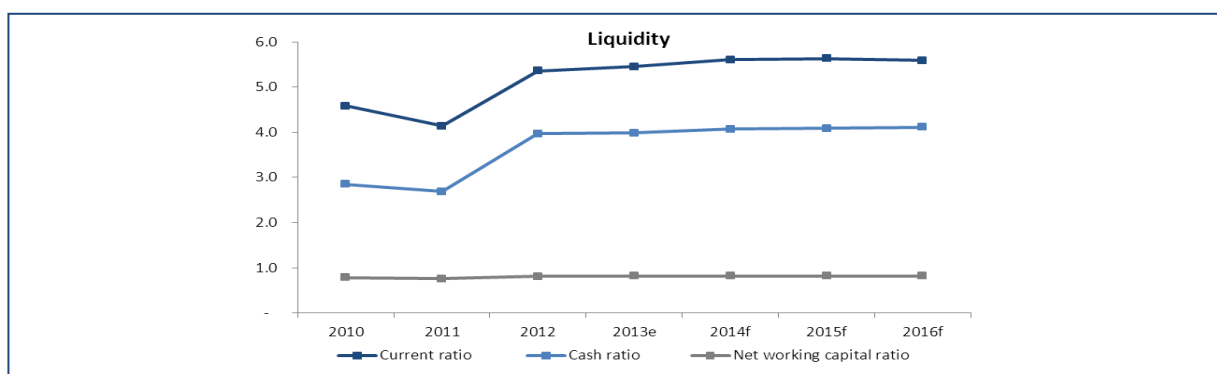
Liquidity

Yamama's total assets increased 3.9% from year start to reach SAR 4.16 billion in June 2013. Current liabilities rose by SAR 223 million, outpacing the SAR 111 million rise in current assets. As a result, the current ratio declined to 3.33 in June 2013 from 5.35 recorded in December 2012. Similarly, Cash and net working capital ratios registered a respective decrease to 2.62 and 0.70 against 4.0 and 0.81 in 2012. The drop in cash balances is mainly attributed to the cash dividend distribution policy with an average yearly payout ratio of 75%. We expect the company's liquidity to be high in the coming years with an estimated current, cash, and net working capital ratios of 5.4, 4.0, and 0.8 respectively.

Current Ratio = Current Assets / Current Liabilities

Cash Ratio = Cash / Current Liabilities

Net Working Capital Ratio = (Current Assets – Current Liabilities) / Current Assets



Source: Yamama, Blominvest

Dividend payment

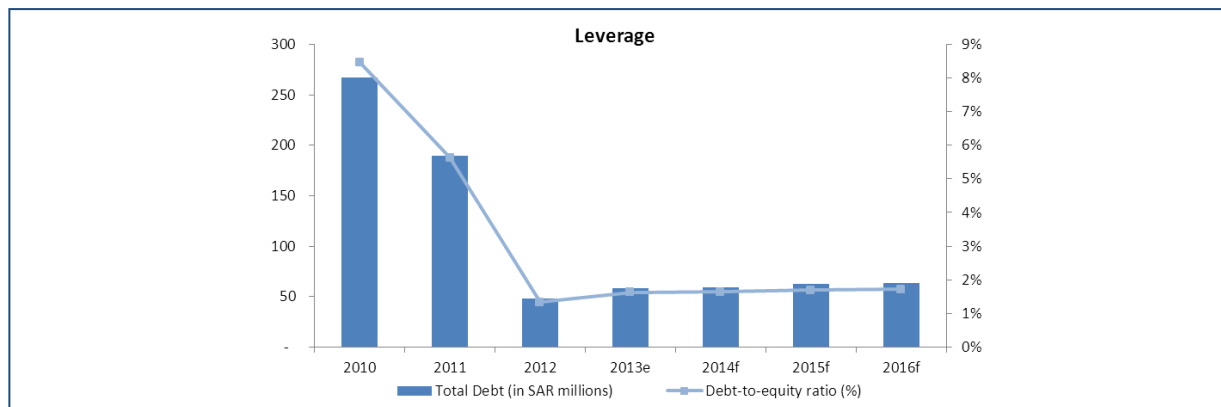
Yamama Saudi Cement distributed SAR 303.75 million as cash dividend, equivalent to SAR 1.5 per share for the first half of the fiscal year 2013 for a gross yield of 3% on June 2013 closing share price of SAR 50.50. The company has consistently distributed dividends twice per annum over the past few years. With a strong anticipated performance outlook, Yamama may maintain its dividend distribution policy and delay the expansion of its capacity due to a shortage in subsidized fuel, which threatens growth in the Saudi cement sector amid accelerating demand.

	H1 2011	H2 2011	H1 2012	H2 2012	H1 2013
Price / Share	43.83	46.67	49.80	47.50	50.50
Dividend Paid / Share	1.33	2.00	1.50	1.50	1.50
Dividend Yield	3.0%	4.3%	3.0%	3.2%	3.0%
Earnings/Share	1.98	1.67	2.41	1.70	2.69
Dividend Payout Ratio	67.2%	119.8%	62.2%	88.2%	55.8%

Source: Yamama, Blominvest

Financial Leverage

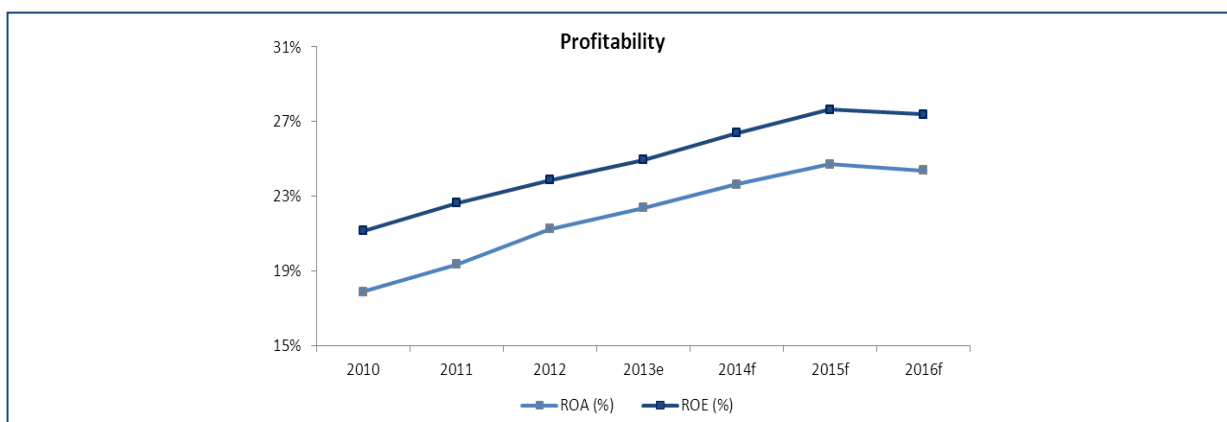
Yamama's debt-to-equity ratio remains in a downtrend, decreasing from 20% in 2008 to as little as 1% in H1 2013 as the company has been able to rely mostly on its excess cash balances to finance expansion of its operations and investments in fixed assets, with little reliance on borrowing. We expect the debt-to-equity ratio to be around 2% in 2013.



Source: Yamama, Blominvest

Profitability

In H1 2013, the cement producer's Return on Assets (ROA) increased to 13.1% as opposed to 12.5% in H1 2012. As well, Return on Equity (ROE) rose from 15.0% to 15.4% as the low reliance on leverage continues to be a great advantage to Yamama's profitability with low borrowings costs supporting strong margins. We expect a further jump in ROA and ROE in the coming years, reaching 22.4% and 25.0% in 2013, respectively.



Source: Yamama, Blominvest

COMPARABLE ANALYSIS

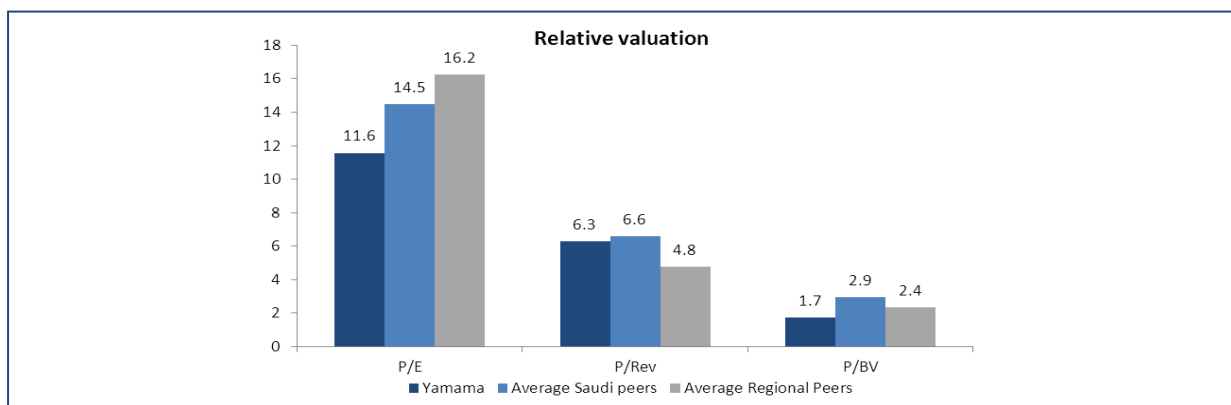
Comparable Firms

We selected a list of 16 cement producers operating in the Middle East and Africa and that are most comparable to Yamama with regards to operations. We draw our sample from companies with a market capitalization that ranges between \$367 million and \$3.9 billion with an average of \$1.4 billion, versus \$2.8 billion for Yamama. We also included 8 listed Saudi cement companies to serve as a separate benchmark. These have an average market cap of \$2 billion, ranging from \$600 million for Al Jouf Cement Company up to \$3.9 billion for Southern Province Cement Company.

The complete list of comparable firms is available in the appendix.

Relative Valuation

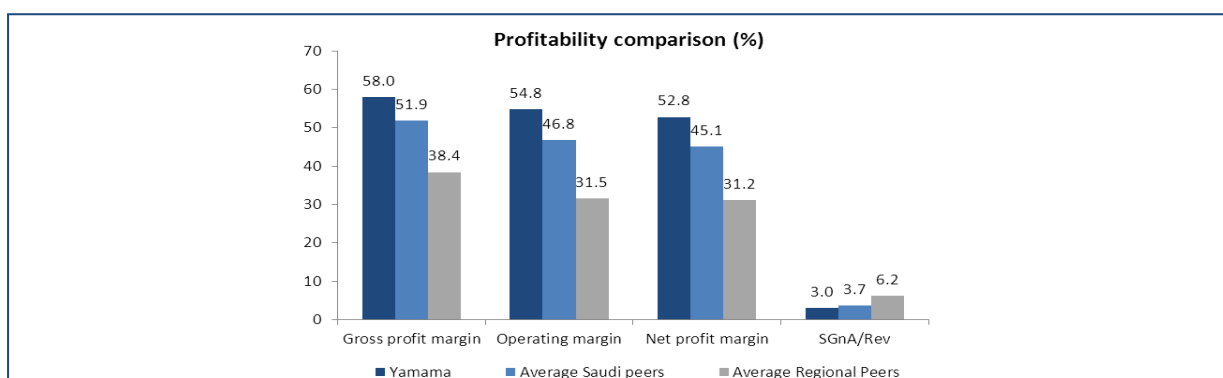
Yamama appears to be significantly undervalued when comparing its price-to-earnings ratio of 11.6 against both its Saudi and regional peers which hold a P/E of 14.5 and 16.2, respectively. This is further confirmed through a lower price-to-book ratio compared to its peers with a P/BV of 1.7 against 2.9 and 2.4 for Saudi and regional peers. With respect to the price-to-revenue ratio, Yamama appears to be fairly priced compared to Saudi cement producers but higher than the regional average. However, we believe Yamama to be undervalued when including our forecast for 2013 results into our analysis as revenues and earnings are estimated to increase by a respective 5.0% and 7.8% during the year.



Source: Reuters, Blominvest

Profitability Comparison

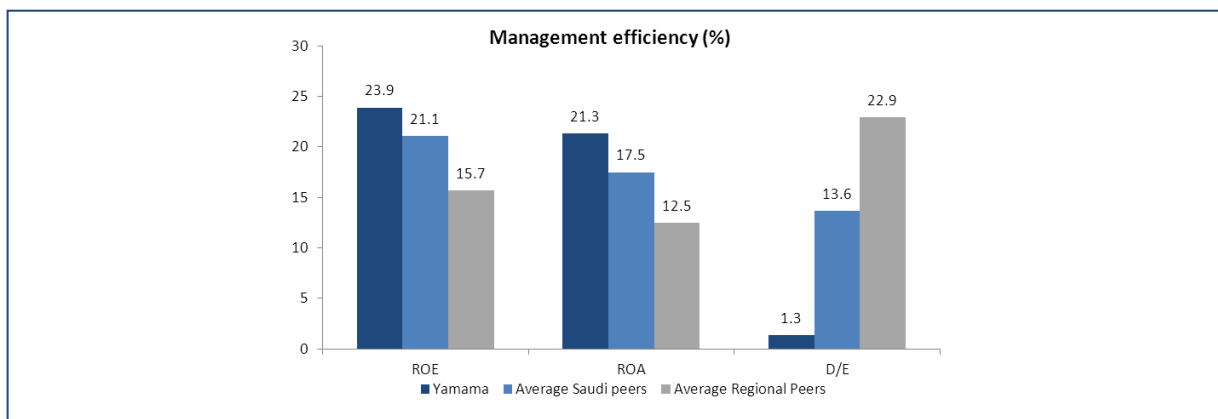
In terms of profitability and production efficiency level, Yamama appears to largely outperform both Saudi and regional peers, supported by its low-cost strategy through the integrated production of both clinker and cement. Moreover, Saudi cement producers continue to benefit from the governmental energy subsidies which give them an edge on the region's manufacturers. As for the net profit margin, Yamama exhibits a much higher ratio of 52.8% compared to peers, mostly due to limited borrowing costs with a debt-to-equity ratio of 1.3% compared to 13.6% and 22.9% for Saudi and regional peers, respectively.



Source: Reuters, Blominvest

Management Efficiency

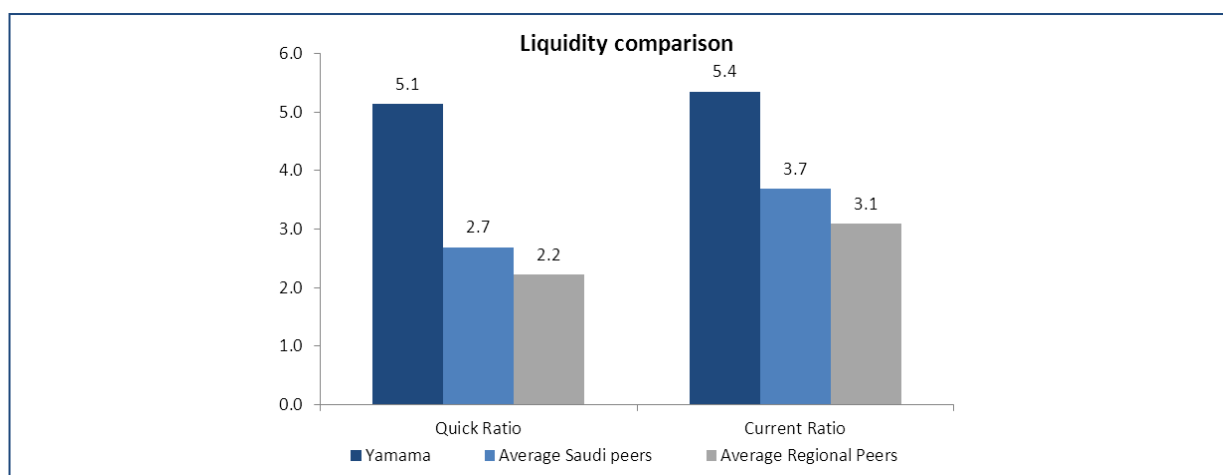
Yamama outperforms its peers in managing its assets and equity with a high ROE and ROA ratios of 23.9% and 21.3% respectively. This is mainly due to the low finance costs relative to its peers following a slowdown in borrowings over the past few years. We expect a further improvement in management efficiency in 2013, supported by low borrowing costs.



Source: Reuters, Blominvest

Liquidity Comparison

Concerning liquidity, Yamama appears to be much more liquid than the average in the market with a quick and current ratios of 5.1 and 5.4, respectively. We believe that these liquidity ratios will remain high in 2013, backed by considerable cash balances and inventory levels in addition to low estimates of current obligations.



Source: Reuters, Blominvest

VALUATION

Maintaining a positive outlook on attractive dividend yield

We maintain an ACCUMULATE rating on Yamama with a target price of SAR 57.74 per share, using a Discounted Cash Flow methodology. This represents a 5.9% premium over the current stock price of SAR 54.50. We kept the discount rate at 12% with a terminal growth rate of 3% after taking into consideration the outlook of the company. Our overweight rating is further supported by the attractive dividend yield of 6% in addition to the company's location advantage and high capacity and inventory levels which gives it the ability to be a first mover in case of a sudden rise in demand in the central region. Additionally, when comparing Yamama to its regional peers, we find that with a P/E ratio of 11.6, the cement producer is significantly undervalued compared to its peers which hold an average P/E of 16.2.

In our forecast, we assume a reasonable 3% annual growth rate for cement prices, given the current and expected market fundamentals. We project CAGR of 5.0% in revenues over the next 5 years. Production costs are expected to decline gradually in the next five years, pushing the gross margin at Yamama upward.

Hence, from Net Income, we deduce Free Cash Flow to the Firm (FCFF) by applying the following:

In SR Million	2013e	2014f	2015f	2016f	2017f	2018f	Terminal
Net Income to Shareholders	898	953	1,011	1,074	1,110	1,149	
Add: Depreciation	480	512	544	578	597	617	
Subtract: Capital Expenditures	(500)	(500)	(500)	(500)	(500)	(500)	
Subtract: Change in WC	(41)	(78)	(84)	(60)	(50)	(45)	
FCFE	836	888	971	1,092	1,157	1,220	
FCFE Terminal							13,961
FCFE Discounted	836	793	774	777	735	692	7,922
Fair Value (in SAR M)	11,693						
Number of Shares (M)	202.5						
Fair Value per Share (SAR)	57.74						

Source: Blominvest

Sensitivity Analysis

Discount Rate	Terminal Growth	Fair Value/Share	Premium
11%	2%	59.64	9.4%
11%	3%	65.15	19.5%
11%	4%	72.24	32.5%
12%	2%	53.49	-1.9%
12%	3%	57.74	6.0%
12%	4%	63.06	15.7%
13%	2%	48.46	-11.1%
13%	3%	51.82	-4.9%
13%	4%	55.93	2.6%

Source: Blominvest

Quarterly Income Statement

<i>(in SAR million)</i>	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13
Revenues	492	413	306	365	483	456
Cost of Goods Sold	(192)	(187)	(130)	(153)	(190)	(187)
Gross Profit	300	226	176	213	293	269
SG&A	(2)	(1)	(1)	(2)	(2)	(2)
General & Admin exp.	(9)	(10)	(9)	(12)	(11)	(10)
Depreciation Expense	(1)	(1)	(1)	(1)	(1)	(0)
Other Operating Expenses	(0)	(1)	(0)	(0)	(1)	(1)
Total Operating Expenses	(13)	(12)	(11)	(15)	(14)	(13)
Operating Income	287	214	165	198	279	256
Other Non-Operating Income	4	9	5	6	6	20
Interest Expense	(1)	(1)	(1)	(3)	(1)	(1)
Earnings before Zakat						
Zakat	(12)	(12)	(12)	(12)	(8)	(8)
Net Income	278	209	157	189	277	268
Earnings per Share (SAR)	2.06	1.55	0.77	0.93	1.36	1.32

Source: Yamama, Blominvest

Projected Income Statement

<i>(in SAR million)</i>	2010	2011	2012	2013e	2014f	2015f	2016f
Revenues	1,272	1,442	1,576	1,654	1,757	1,866	1,982
Cost of Goods Sold	(560)	(633)	(662)	(686)	(729)	(774)	(818)
Gross Profit	712	809	914	968	1,028	1,092	1,163
SG&A	(8)	(16)	(7)	(13)	(14)	(15)	(16)
General & Admin exp.	(34)	(38)	(40)	(43)	(46)	(49)	(55)
Depreciation Expense	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Other Operating Expenses	(2)	(2)	(2)	(2)	(2)	(2)	(3)
Total Operating Expenses	(46)	(59)	(51)	(61)	(64)	(68)	(76)
Operating Income	666	751	863	907	963	1,024	1,087
Other Non-Operating Income	22	18	25	26	28	28	30
Interest Expense	(6)	(5)	(7)	(3)	(4)	(4)	(4)
Earnings before Zakat	682	764	881	930	988	1,048	1,113
Zakat	(25)	(24)	(48)	(33)	(35)	(37)	(39)
Net Income	657	740	833	898	953	1,011	1,074
Earnings per Share (SAR)	4.87	5.48	4.1	4.4	4.7	5.0	5.3

Source: Yamama, Blominvest

Balance Sheet

<i>(in SAR million)</i>	2010	2011	2012	Q2 '13
Current Assets				
Cash & cash equivalents	700	898	1,241	1,405
Trade receivables	245	301	322	295
Due from RP	26	24	24	23
Other receivables	24	21	21	29
Inventory	132	137	66	34
Total current Assets	1,127	1,380	1,675	1,786
Non-current assets				
Investments	394	419	438	545
Fixed assets	2,106	1,959	1,809	1,731
Projects under progress	7	40	69	91
Deferred Revenue	19	23	14	10
Total non-current assets	2,527	2,441	2,331	2,377
Total Assets	3,653	3,822	4,005	4,163
Current liabilities				
ST portion of LTD	77	142	17	20
Creditors	-	-	-	121
Due to RP	6	3	2	2
Accounts Payable	87	103	182	350
Other payables	8	18	21	15
Dividends Payable	41	39	43	-
Payables to Zakat	26	29	48	29
Total current liabilities	246	334	313	536
Non-current payables				
Long term loans	190	48	31	21
EOS provision	59	64	62	64
Total non-current liabilities	249	112	94	84
Total Liabilities	495	446	406	620
Shareholders' Equity				
Share capital	1,350	1,350	2,025	2,025
Legal Reserve	251	390	472	472
Additional Reserves	958	1,000	325	325
Retained earnings	550	565	675	611
Unrealized gains on investments	50	70	102	110
Total Equity	3,159	3,375	3,599	3,543
Total Liabilities & Equity	3,653	3,822	4,005	4,163

Source: Yamama

APPENDIX

List of Comparable Peers

Company	Country	Mkt Cap USD M	Valuation			Profitability				Management Effectiveness			Liquidity	
			P/E	P/Rev	P/BV	Gross profit margin	Operating margin	Net profit margin	SGnA/Rev	ROE	ROA	D/E	Quick Ratio	Current Ratio
Southern Province Cement Company	SAU	3,863.7	14.2	8.0	5.3	58.2	56.0	55.4	2.2	37.2	32.5	0.0	1.5	2.0
Yanbu Cement Company	SAU	3,034.3	14.2	7.6	3.5	52.9	50.6	48.5	2.2	23.4	15.7	32.1	1.8	2.4
Yamama Saudi Cement Company	SAU	2,753.8	11.8	6.6	2.9	58.0	53.8	51.9	3.0	23.4	20.9	1.3	5.1	5.4
Qassim Cement Company	SAU	2,021.8	12.9	7.2	3.8	58.6	55.3	53.5	2.6	28.5	26.2	0.0	5.1	6.4
Arabian Cement Co.	SAU	1,557.2	12.9	4.3	2.0	39.2	28.8	26.8	2.8	13.7	8.5	34.9	1.3	1.9
Eastern Province Cement Company	SAU	1,358.7	13.7	6.1	2.3	50.9	45.6	47.3	5.1	17.8	16.4	0.0	4.0	6.7
Qatar National Cement Company (Q.S.C.)	QAT	1,348.6	11.5	5.1	2.0	48.4	41.3	44.1	5.8	17.9	16.1	3.4	2.0	3.4
Akcansa Cimento Sanayi Ve Ticaret A.S.	TUR	1,068.0	16.3	2.0	2.3	19.4	14.9	11.4	4.5	13.5	9.1	24.6	0.8	1.1
Nuh Cimento Sanayi A.S.	TUR	892.0	20.7	1.9	2.0	17.9	6.8	7.2	11.1	7.6	5.0	40.2	1.1	1.4
Kuwait Cement Company KSC	KWT	849.2	15.1	3.6	1.5	25.2	19.7	22.3	5.5	9.9	5.4	74.3	1.3	2.3
Cimsa Cimento Sanayi ve Ticaret A.S.	TUR	781.3	11.5	1.8	1.5	24.7	19.2	13.0	5.4	12.5	7.9	37.1	0.6	0.9
Tabuk Cement Company	SAU	700.7	13.4	6.7	2.3	55.6	50.9	48.2	4.2	17.0	14.3	0.0	1.5	2.2
Konya Cimento Sanayii A.S.	TUR	626.4	34.0	5.2	3.4	23.1	13.9	15.7	8.2	10.0	8.6	0.0	4.7	5.7
Al Jouf Cement Co	SAU	596.2	22.7	6.1	1.6	42.0	33.5	29.0	7.3	7.8	5.5	40.8	1.3	2.4
Suez Cement Company	EGY	572.2	7.6	0.9	0.6	18.7	15.7	12.9	8.0	7.4	6.1	0.6	1.3	1.8
Arkan Building Materials Company PJSC	ARE	366.9	27.1	3.4	0.8	21.7	-1.4	11.8	22.1	2.9	1.5	77.5	2.2	3.5
Yamama	SAU	2,753.8	11.6	6.3	1.7	58.0	54.8	52.8	3.0	23.9	21.3	1.3	5.1	5.4
Average Saudi peers		1,985.8	14.5	6.6	2.9	51.9	46.8	45.1	3.7	21.1	17.5	13.6	2.7	3.7
Average Peers		1,399.4	16.2	4.8	2.4	38.4	31.5	31.2	6.2	15.7	12.5	22.9	2.2	3.1

Source: Reuters, Blominvest

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rashid Karamah Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 747 802
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 747 802 Ext: 1234

Issa Frangieh, Head of Equities
issa.frangieh@blominvestbank.com
+961 1 1 747 802 Ext: 1208

Malak Hawa, Equity Analyst
malak.hawa@blominvestbank.com
+961 1 1 747 802 Ext: 1260

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

IMPORTANT DISCLAIMER

This research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Blom Bank SAL or BlomInvest SAL can have investment banking and other business relationships with the companies covered by our research. We may seek investment banking or other business from the covered companies referred to in this research. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research. We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Copyright 2013 BlomInvest SAL.

No part of this material may be copied, photocopied or duplicated in any form by any means or redistributed without the prior written consent of BlomInvest SAL.