



Update on Q3 2013

Sector: Basic Materials and Industrial Products
Country: Yamama Cement Company
Date: November 13, 2013

Share Price (SAR): 59.75
Target Price (SAR): 62.59
Upside: 4.8%
Dividend Yield: 6.0%
Recommendation: ACCUMULATE

Maintaining our ACCUMULATE rating with a target price of SAR 62.59 on attractive dividend yield

Slowing construction activity weighs on Q3 top-line

Yamama revenues fell by 4.0% y-o-y in Q3 2013 to SAR 294 million, affected by lower sales volume following a slowdown in construction activity during the month of Ramadan. Conversely, Yamama posted a 1.8% rise in revenues during the first nine months of 2013 to reach SAR 1,232 million. The size of the Saudi cement market grew 6.2% y-o-y to 42.7 million tons up to September 2013 with Yamama capturing a market share of 11.9% to satisfy 5.1 million ton of the demand for cement. Going forward, revenues are expected to reach SAR 1,654 billion in 2013, increasing at a CAGR of 3.7% between 2013 and 2016.

Higher production costs further pressure margins and earnings

The dwindle in revenues coupled with a 7.1% upsurge in production costs dragged Yamama's gross income down by 12.3% in Q3 2013 to SAR 154 million, compared to SAR 176 million recorded a year earlier. This translated into gross margins tightening from 57.4% in Q3 2012 to 52.5% in Q3 2013. Similarly, net income contracted by 5.5% y-o-y to SAR 148 million. However, Yamama managed to report a 7.6% increase in bottom-line during the first nine months of 2013 to attain SAR 693 million. We estimate earnings to grow at a CAGR of 3.7% in the next three years, rising by 7.8% in 2013 to SAR 898 million.

Growth in housing and infrastructure to expand cement sector

Yamama has endured a challenging Q3 2013, but we expect conditions to improve following higher construction activity amidst the government plans to develop infrastructure and provide housing for the growing population. The Kingdom currently has planned to spend \$400 billion in infrastructure projects and \$67 billion in a housing construction program. However, the cement export ban and the government's imposition of a price ceiling of SAR 240 per ton to respond to the unprecedented rally in cement prices are expected to continue threatening the profitability of the Saudi cement sector. Companies are also suffering from the lack of fuel supply which is limiting their capacity expansion plans.

Issuing an ACCUMULATE on positive outlook and attractive dividend yield

We maintain our ACCUMULATE rating on Yamama, raising our target price from SAR 57.74 to SAR 62.59 after it was reached in November. This only presents a 4.8% premium over its current closing price of SAR 59.75, however the potential return becomes rewarding when combined with its attractive dividend yield of 6%. Our overweight rating is additionally supported by Yamama being undervalued relative to peers with a P/E of 13.48 compared to 15.3 for other Saudi cement companies. We expect Yamama's share price to benefit from growth in demand and economies of scale in the medium term by boosting its capacity to 10,000 tons per day. However, the government's crackdown on illegal workers in line with its policy of Saudization may continue to negatively affect the construction activity of real estate developers in the near term.

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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

Share Data

Bloomberg Symbol	YACCO.AB
Reuters Symbol	3020.SE
Market Cap (SAR)	12,099,375,000
Number of Shares	202,500,000
Free Float	77.10%
Price-to-Earnings	13.48
Price-to-Book	2.01

Share Performance



Source: Reuters

1 Month Return	13.8%
3 Month Return	10.1%
6 Month Return	22.2%
12 Month Return	34.9%
52 Week Range	43.40 – 60.25

Quarterly Income Statement

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

Source: Yamama

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	Q3 '13
Current Assets				
Cash & cash equivalents	700	898	1,241	1,304
Trade receivables	245	301	322	302
Due from RP	26	24	24	25
Other receivables	24	21	21	28
Inventory	132	137	66	88
Total current Assets	1,127	1,380	1,675	1,747
Non-current assets				
Investments	394	419	438	569
Fixed assets	2,106	1,959	1,809	1,706
Projects under progress	7	40	69	72
Deferred Revenue	19	23	14	12
Total non-current assets	2,527	2,441	2,331	2,359
Total Assets	3,653	3,822	4,005	4,106
Current liabilities				
ST portion of LTD	77	142	17	20
Creditors	-	-	-	-
Due to RP	6	3	2	1
Accounts Payable	87	103	182	195
Other payables	8	18	21	19
Dividends Payable	41	39	43	52
Payables to Zakat	26	29	48	36
Total current liabilities	246	334	313	324
Non-current payables				
Long term loans	190	48	31	21
EOS provision	59	64	62	64
Total non-current liabilities	249	112	94	85
Total Liabilities	495	446	406	409
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	759
Unrealized gains on investments	50	70	102	117
Total Equity	3,159	3,375	3,599	3,698
Total Liabilities & Equity	3,653	3,822	4,005	4,106

Source: Yamama

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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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