



Key themes

This is our monthly update on Cement production, volumes and inventory in Saudi Arabia.

What do we think?

Stock	Rating	Price Target
Arabian	Neutral	SAR 65.0
Yamama	Overweight	SAR 44.0
Saudi	Overweight	SAR 95.0
Qassim	Neutral	SAR 85.0
Southern	Overweight	SAR 97.0
Yanbu	Overweight	SAR 69.0

Saudi Cement Monthly

Sales volumes declined 8% y-o-y

According to the latest data released by Yamama Cement, total cement sales volume in the Kingdom declined 8% y-o-y to 4.29mn tons in the month of September (-12% m-o-m). The decline in sales volume could be attributed to the Hajj and holiday season. Total inventory stood at 24.4mn tons, representing 41% of last 12 months sales. Inventory has grown 16% y-o-y and 4% m-o-m. With rising inventories, cement companies started to cut their production. Cement production in the Kingdom stood at 4.3mn tons during September, down 8% y-o-y (-11% m-o-m). For the remaining months of 2015, we expect cement demand to remain modest. For now, we are Overweight on Southern Province, Yamama, Yanbu and Saudi Cement.

Sales Volume: In September 2015, cement sales volume in the Kingdom stood at 4.29mn tons (-8% y-o-y, -12% m-o-m). City Cement and Northern Province each posted 20% y-o-y jump in sales volume. For the companies under our coverage, only Qassim Cement witnessed sales growth of 5.6% y-o-y. On the other hand Arabian Cement and Saudi Cement saw double digit decline in sales volume of -35.5% and -12.8% respectively.

Production: Cement production in the Kingdom declined 8% y-o-y in September to 4.3mn tons (-11% m-o-m) led by Arabian Cement and Tabuk Cement with a production cut of 31.5% and 26.5% respectively. For the companies under our coverage, production of Saudi Cement fell 12% y-o-y, while that of Yamama and Southern Province fell -5% and -6.4% y-o-y respectively. On the other hand, production volume of Yanbu were flat during the same period.

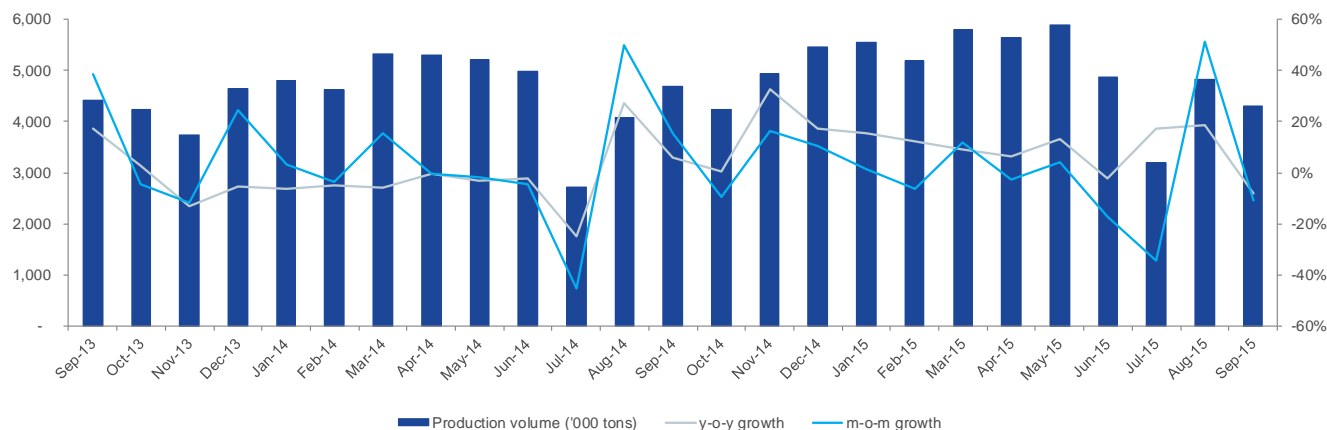
Inventory: Total inventory in the Kingdom stood at 24.4mn tons at the end of September 2015 (+16% y-o-y, +4% m-o-m), representing 41% of last 12-month sales. Among the companies under our coverage, Arabian Cement posted the highest increase in inventories (+69% y-o-y), representing 14% of the company's last 12-month sales. Yamama Cement's inventory grew 47% y-o-y, representing 60% of sales, while Saudi's and Yanbu's inventories grew 26% each, representing 49% of sales for both. On the other hand, Southern Province Cement's inventory declined 26% y-o-y, which represents 16.0% of last 12 month sales.

Valuation: The Saudi cement index remained under pressure through September, falling 3.2% in comparison to TASI which ended the month flat. The cement index is currently trading at an aggregate 2015PE of 11.2x, which is below the Tadawul PE of 16.4x (Source: Bloomberg).

Q3 results: Only two companies announced their Q3 results so far- Yanbu and Qassim. Yanbu cement reported Gross profit of SAR162mn (-10.5% YoY, -38.17% QoQ), and net profit of SAR145mn (-11.04% YoY, -41.06% QoQ) vs. consensus estimates of SAR169mn. Qassim cement posted Gross profit of SAR126.4mn (+8.3% YoY, -24.6% QoQ), and net profit of SAR115mn (+5.6% YoY, -31.5% QoQ) vs. consensus estimates of SAR127mn. Qassim maintained its dividend policy for Q3 2015 at SAR1.5 per share.

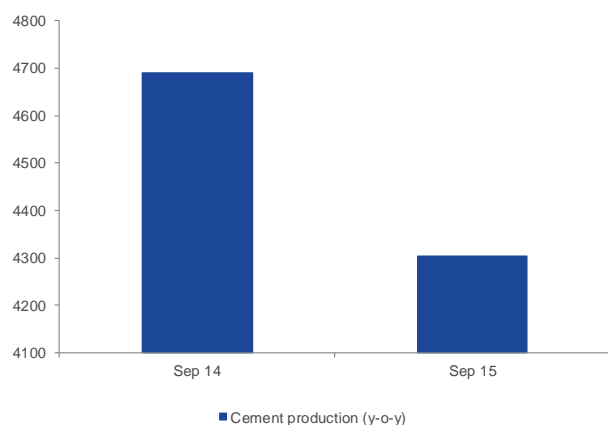


Figure 1 Cement production volume (absolute, y-o-y, m-o-m)



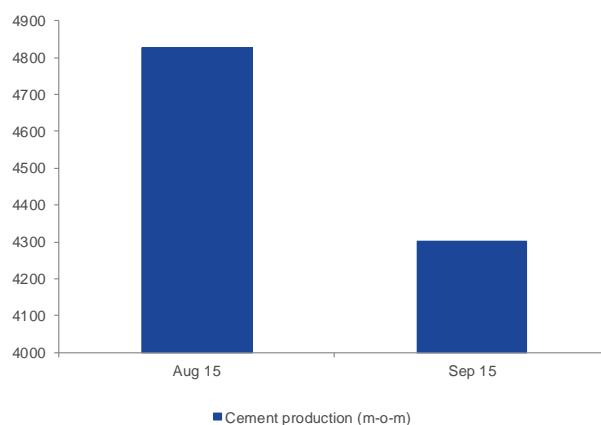
Source: Company data, Al Rajhi Capital

Figure 2 Cement production (y-o-y)



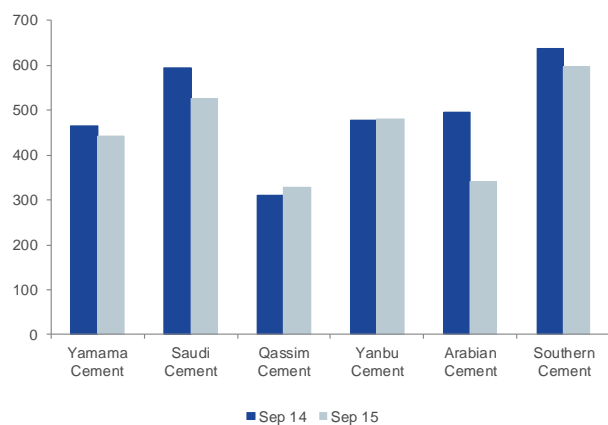
Source: Company data, Al Rajhi Capital

Figure 3 Cement production (m-o-m)



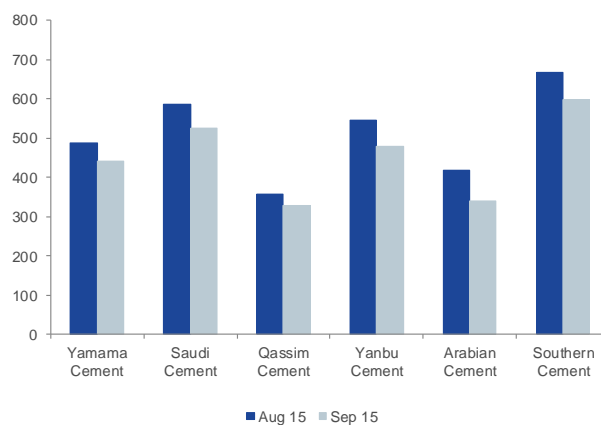
Source: Company data, Al Rajhi Capital

Figure 4 Cement production (y-o-y)



Source: Company data, Al Rajhi Capital

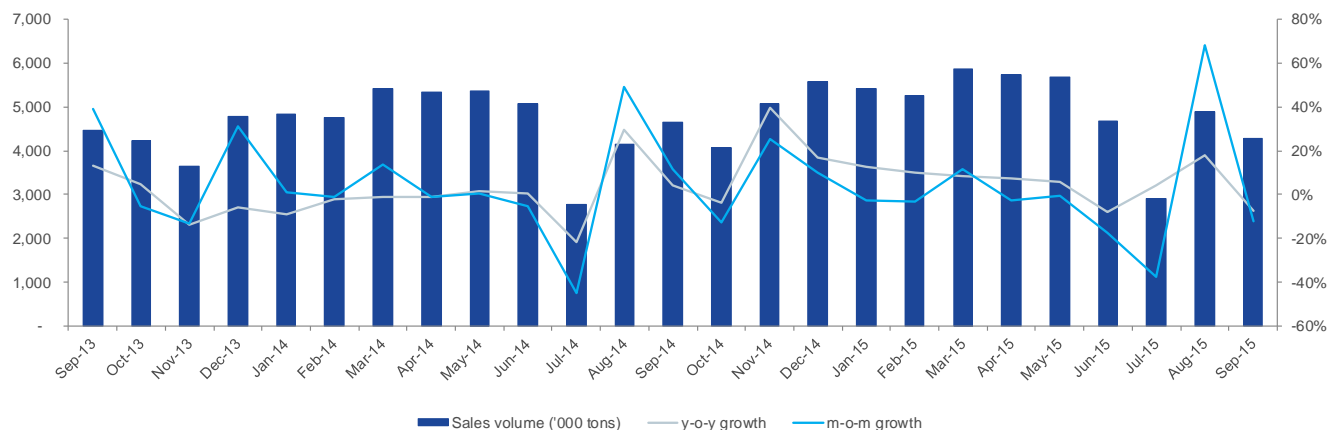
Figure 5 Cement production (m-o-m)



Source: Company data, Al Rajhi Capital

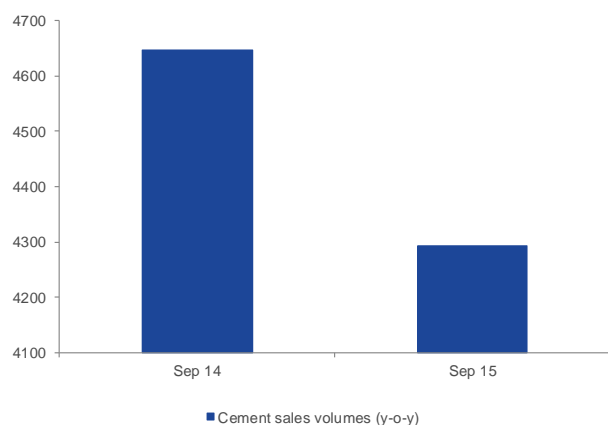


Figure 6 Cement sales volumes (absolute, y-o-y, m-o-m)



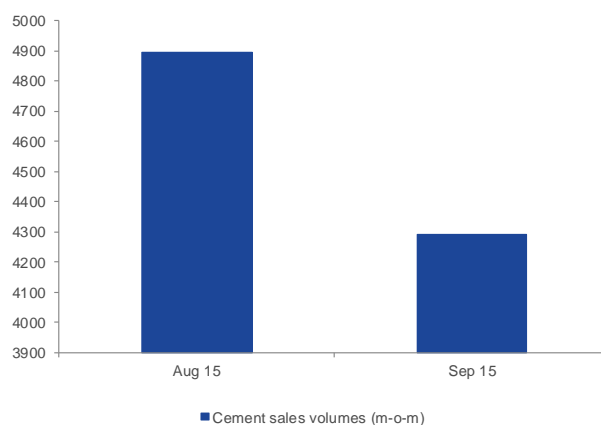
Source: Company data, Al Rajhi Capital

Figure 7 Cement sales volumes (y-o-y)



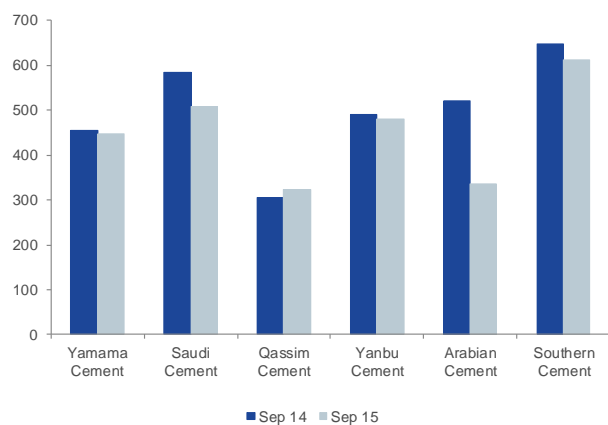
Source: Company data, Al Rajhi Capital

Figure 8 Cement sales volumes (m-o-m)



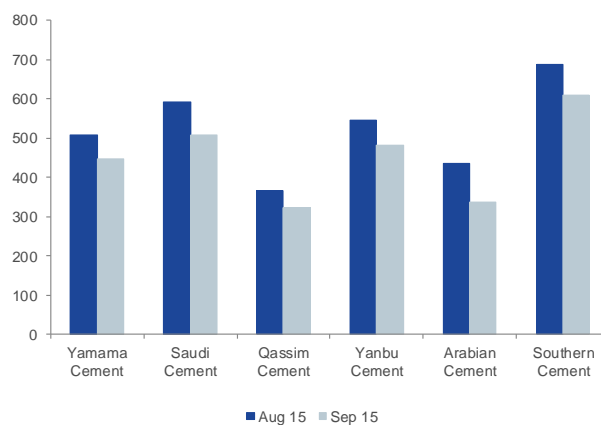
Source: Company data, Al Rajhi Capital

Figure 9 Cement sales volumes (y-o-y)



Source: Company data, Al Rajhi Capital

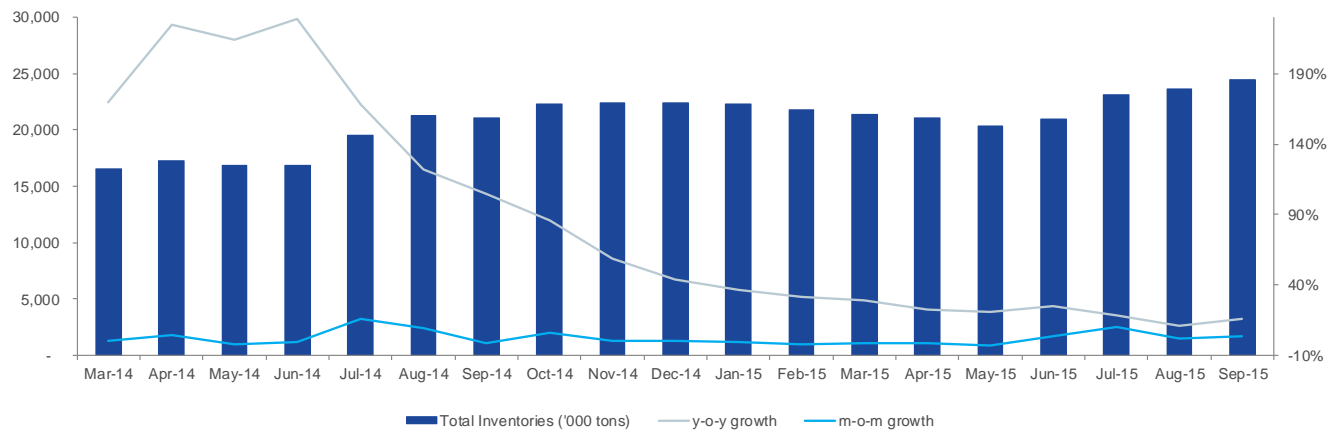
Figure 10 Cement sales volumes (m-o-m)



Source: Company data, Al Rajhi Capital

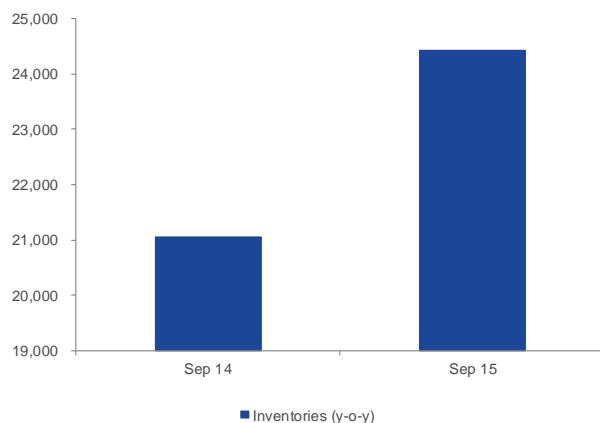


Figure 11 Inventories (absolute, y-o-y, m-o-m)



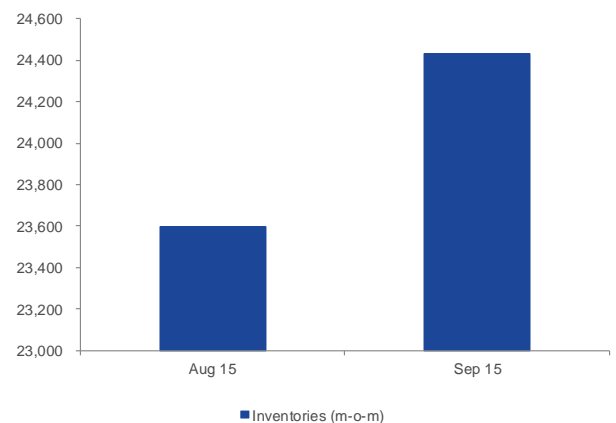
Source: Company data, Al Rajhi Capital

Figure 12 Inventories (y-o-y)



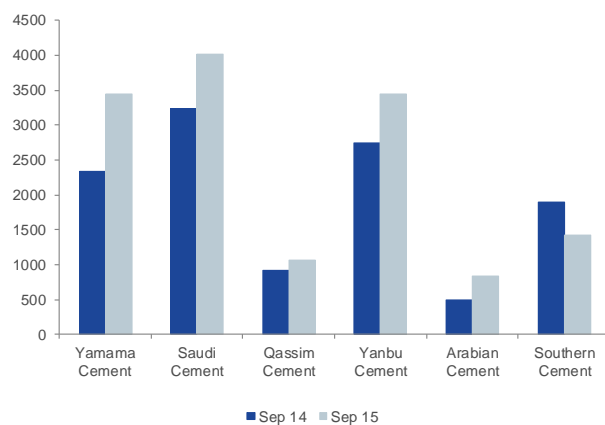
Source: Company data, Al Rajhi Capital

Figure 13 Inventories (m-o-m)



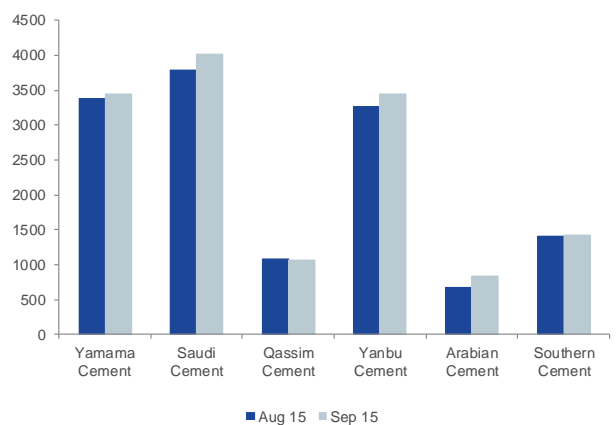
Source: Company data, Al Rajhi Capital

Figure 14 Inventories (y-o-y)



Source: Company data, Al Rajhi Capital

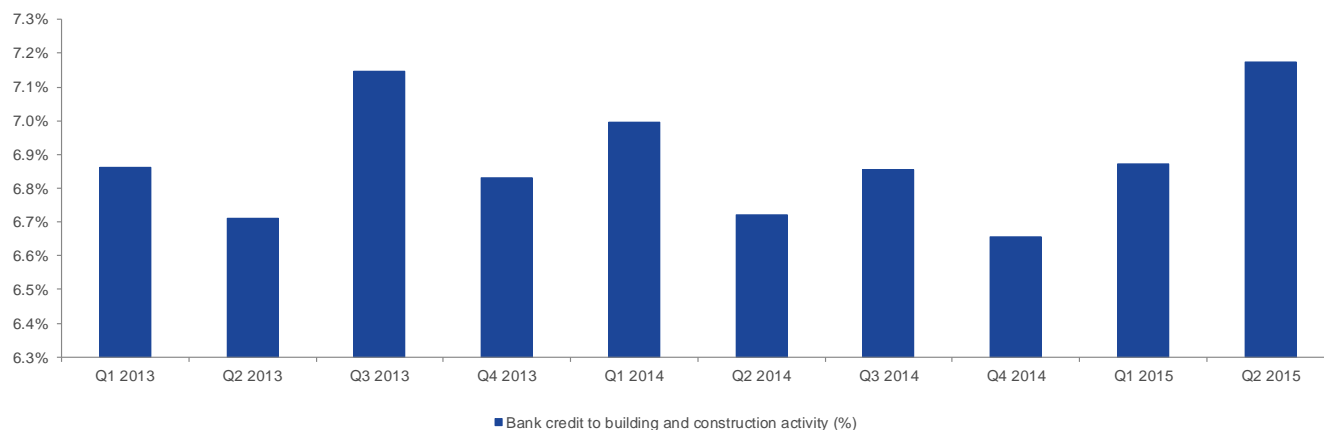
Figure 15 Inventories (m-o-m)



Source: Company data, Al Rajhi Capital



Figure 16 Bank credit to building and construction activity (%)



Source: Company data, Al Rajhi Capital

Figure 17 Cement Sector valuation metrics

	Mkt Cap (USD mn)	EV (USD mn)	EBITDA margin (%)			RoE(%)			P/E (x)			EV/EBITDA (x)		
			CY14	CY15E	CY16E	CY14	CY15E	CY16E	CY14	CY15E	CY16E	CY14	CY15E	CY16E
SAUDI CEMENT	2,937	3,037	66	65	62	33	32	31	10	11	11	9	9	9
ARABIAN CEMENT	1,493	1,413	49	53	50	21	na	na	9	9	8	6	7	7
QASSIM CEMENT	1,956	1,746	67	68	66	28	28	27	13	13	13	10	10	10
YANBU CEMENT CO	2,170	2,209	66	65	63	24	22	21	10	10	11	8	8	8
YAMAMA CEMENT CO	2,095	1,786	64	62	61	18	18	18	12	12	11	8	8	7
SOUTHERN PROVINC	3,005	3,079	59	57	58	37	33	33	11	11	11	10	10	10
EASTERN CEMENT	865	797	50	51	48	16	13	13	9	11	11	7	7	7
CITY CEMENT CO	936	849	64	na	na	11	12	13	16	15	14	11	na	na
NAJRAN CEMENT CO	864	1,059	49	na	na	13	15	15	13	11	12	10	na	na
HAIL CEMENT	454	475	61	na	na	15	15	17	12	10	9	8	na	na
AL JOUF CEMENT	432	631	53	49	48	4	5	5	26	25	23	17	18	15
NORTHERN REGION	837	1,097	38	37	38	9	12	13	16	13	13	11	na	na
TABUK CEMENT CO	492	600	62	60	62	NA	10	11	13	14	14	10	13	11
Average			57.4	56.8	55.6	19.1	17.9	18.0	13.1	12.8	12.3	9.6	9.7	9.2
Median			61.0	58.7	59.2	17.0	15.3	15.9	11.7	11.2	11.1	9.8	8.6	8.7

Source: Bloomberg, Al Rajhi Capital



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"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 6-9 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 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair 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.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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