



US\$2.257bn Market cap
51% Free float
US\$1.729mn Avg. daily volume

Target price **69.00** 27.7% over current
Current price **53.75** as at 7/10/2015

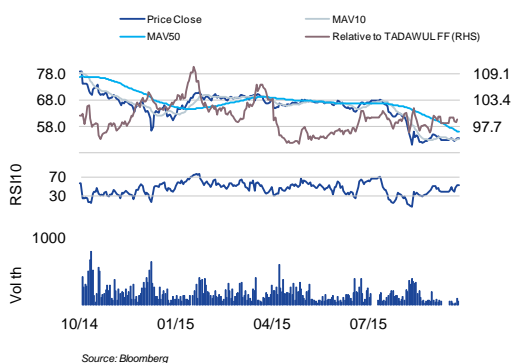
Existing rating

Underweight Neutral **Overweight**

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

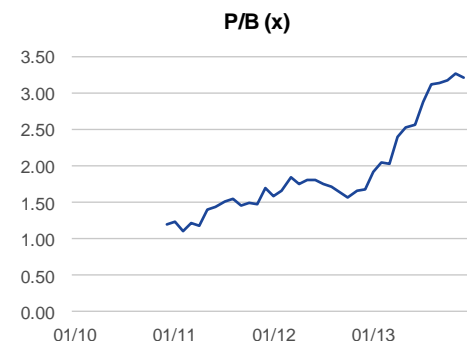


Earnings

Period End (SAR)	12/12A	12/13A	12/14A	12/15E
Revenue (mn)	1,496	1,620	1,559	1,672
Revenue Growth	32.2%	8.3%	-3.8%	7.2%
EBITDA (mn)	945	1,056	1,025	1,078
EBITDA Growth	46.5%	11.7%	-2.9%	5.1%
BVPS	31.45	20.83	22.41	23.55
BVPS Growth	16%	-34%	8%	5%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Yanbu Cement

Q3: A disappointing quarter

Yanbu reported disappointing set of numbers for Q3 2015. The company's net profit came at SAR145mn (down 11% y-o-y) missing our and consensus estimates. Although Yanbu Cement attributed the profit decline to the imported clinker subsidy (SAR37mn) received from the Government last year, we believe that the average realized selling price and September volumes as well, were below our estimates. Post the earnings announcement, the stock traded 2.5% lower during today's session. We will revisit our estimates once the detailed financials are released. For now, we remain Overweight on the stock with a target price of SAR69 per share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues yet to be reported:** Yanbu is yet to publish its Q3 revenues. Given the miss at the gross profit levels, we expect Yanbu to report revenues lower than our SAR323mn estimate.
- Operating profit declined:** Yanbu's operating profit of SAR151mn (-10.5% y-o-y) missed our estimate (SAR178mn). We had anticipated a 3% y-o-y growth in Yanbu's operating income on account of a 25% y-o-y increase in sales volume during the first two months of Q3; however, the reported numbers indicate that the company may have experienced much lower realized price and sales in September compared to our initial estimate.
- Net profit falls:** The company's sluggish operating performance trickled down as net profit declined by 11% y-o-y to SAR145mn, missing our (SAR169mn) as well as consensus (~SAR170mn) forecasts.
- Valuation:** Yanbu's performance has been under pressure on account of an inventory pile up, high competition, and the expectations of decline in Government infrastructure spending. We will revise our estimates once the company comes out with the detailed numbers. We are Overweight on the stock with a target price of SAR69 a share.

Figure 1 Yanbu Cement: Summary of Q3 2015 results

	Q3 2014	Q2 2015	Q3 2015	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	296	439	NA	NA	NA	323
Gross Profit	181	262	162	-10.5%	-38.2%	187
Gross Margin	61%	60%	NA	NA	NA	58%
Operating Profit	172	250	151	-12.2%	-39.6%	178
Net Profit	163	246	145	-11.0%	-41.1%	169

Source: Company data, Al Rajhi Capital



Disclaimer and additional disclosures for Equity Research

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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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