



**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	Neutral	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 jumped 26% y-o-y

According to the latest data released by Yamama Cement, total cement sales volume in the Kingdom increased 26% y-o-y to 5.1mn tons in the month of October (+18% m-o-m). The big jump in sales volume could be attributed to the Hajj season, which has largely shifted to Q3. Total inventory stood at 24.2mn tons, representing 41% of last 12 months sales. Inventory has grown 9% y-o-y and was flat m-o-m. Cement production in the Kingdom stood at 5.2mn tons during October, up 22% y-o-y (+21% m-o-m). For the remaining weeks of 2015, we expect cement demand to remain modest. For now, we are Overweight on Southern Province, Yanbu and Saudi Cement.

**Sales Volume:** In October 2015, cement sales volume in the Kingdom stood at 5.1mn tons (+26% y-o-y, +18% m-o-m). City Cement and Northern Province each posted roughly 62% y-o-y jump in sales volume. For the companies under our coverage, all of them witnessed strong positive growth. Yanbu Cement sales volumes grew 47% y-o-y, followed by Yamama 35%, Southern Province 28%, and Qassim 25%. Arabian and Saudi Cement saw single digit growth in sales volume of 9% and 8%, respectively.

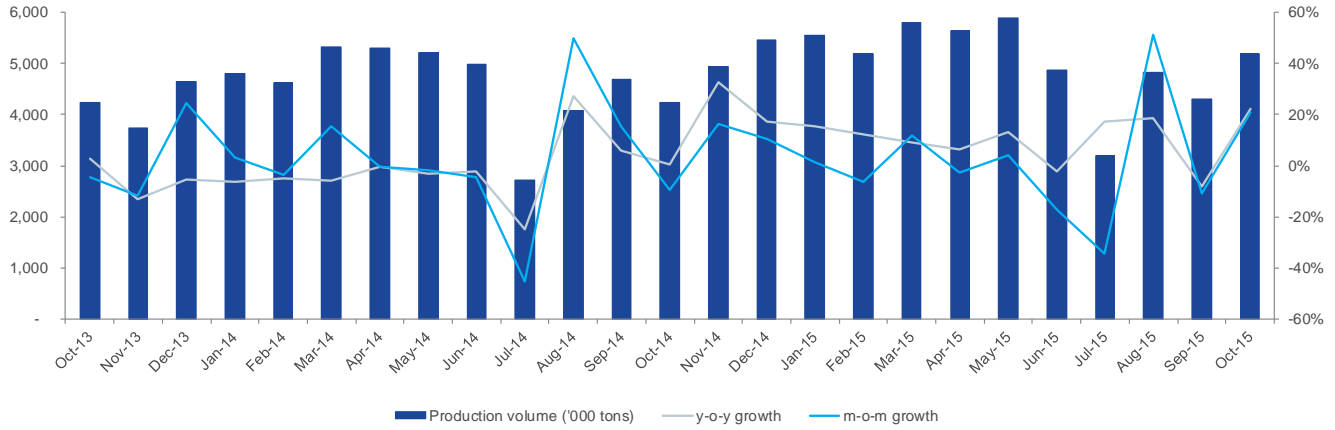
**Production:** Cement production in the Kingdom increased 22% y-o-y in October to 5.2mn tons (+21% m-o-m) led by Southern Cement and Yanbu Cement with a production growth of 24% and 50% respectively. For the companies under our coverage, production of Yamama and Qassim Cement increased 26% and 36% y-o-y, respectively. On the other hand, Saudi Cement's production volumes grew by 6%, while that of Arabian Cement fell by 1% y-o-y.

**Inventory:** Total inventory in the Kingdom stood at 24.2mn tons at the end of October 2015 (+9% y-o-y, -1% m-o-m), representing 41% of last 12-month sales. Among the companies under our coverage, Arabian Cement posted the highest increase in inventories (+51% y-o-y), but represents 17% of the company's last 12-month sales. Yamama Cement's inventory grew by 34% y-o-y, representing 61% of sales, while Saudi's and Yanbu's inventories grew 14% and 19%, respectively, representing 51% of last 12 month sales for both. On the other hand, Southern Province Cement's inventory declined 36% y-o-y, which represents 16.0% of last 12 month sales.

**Valuation:** The Saudi cement index remained under pressure through October, falling 8% m-o-m in comparison to TASI, which fell by 3%. The cement index is currently trading at an aggregate 2016e PE of 10.5x, below the Tadawul PE of 14.1x (Source: Tadawul). For now, we are Overweight on Southern Province, Yanbu, and Saudi Cement.

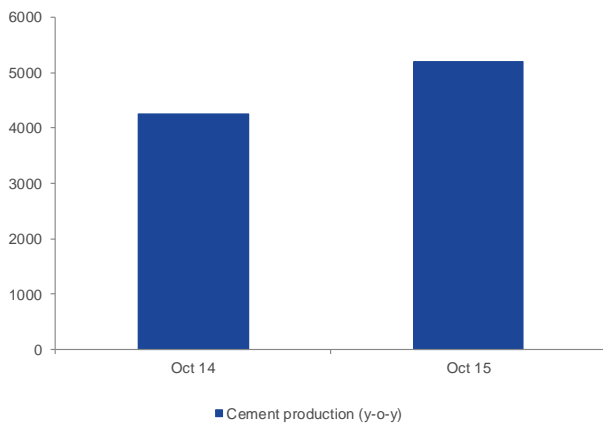


Figure 1 Cement production volume (absolute, y-o-y, m-o-m)



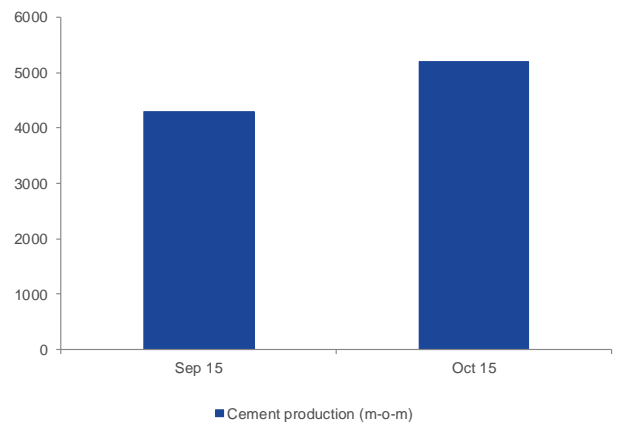
Source: Yamama data, Al Rajhi Capital

Figure 2 Cement production (y-o-y)



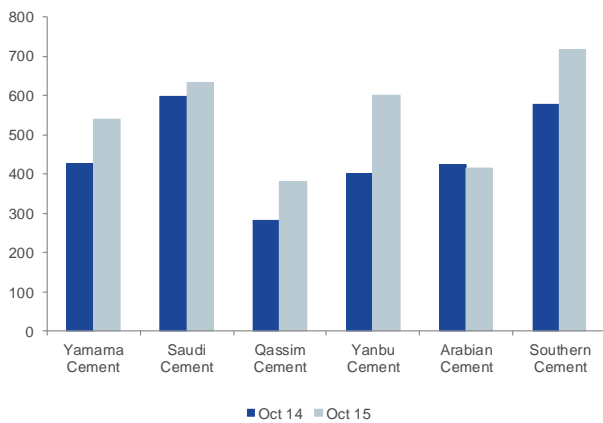
Source: Yamama data, Al Rajhi Capital

Figure 3 Cement production (m-o-m)



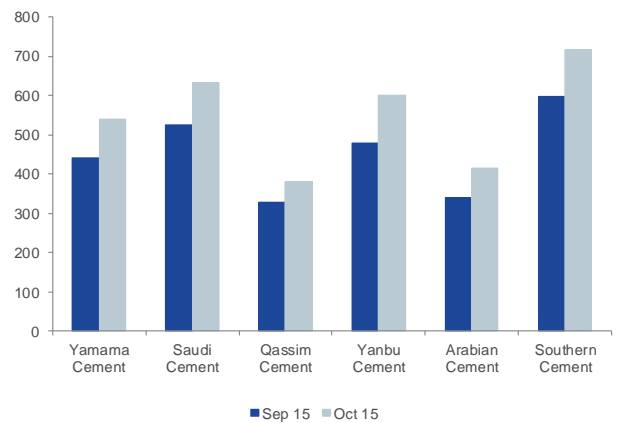
Source: Yamama data, Al Rajhi Capital

Figure 4 Cement production (y-o-y)



Source: Yamama data, Al Rajhi Capital

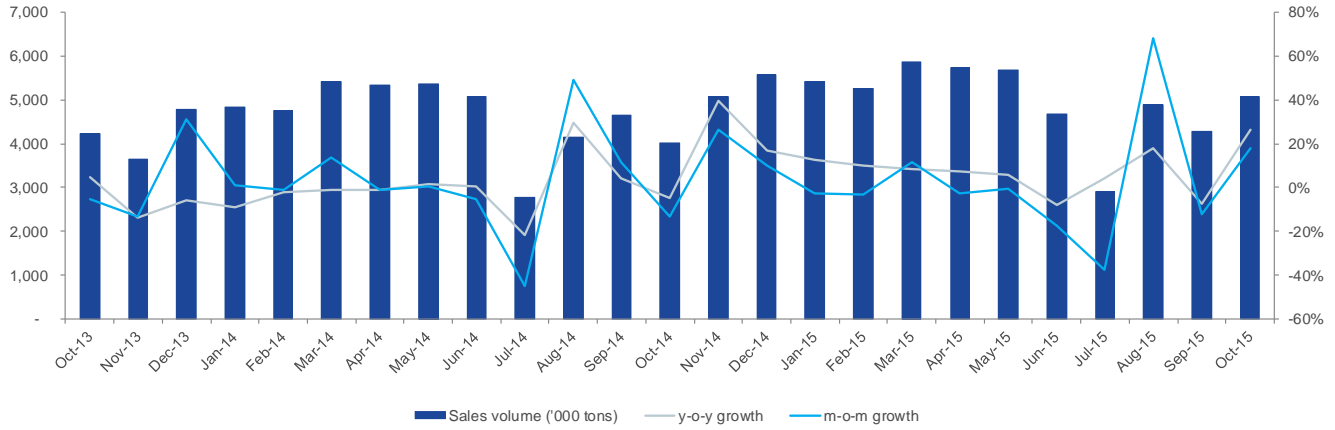
Figure 5 Cement production (m-o-m)



Source: Yamama data, Al Rajhi Capital

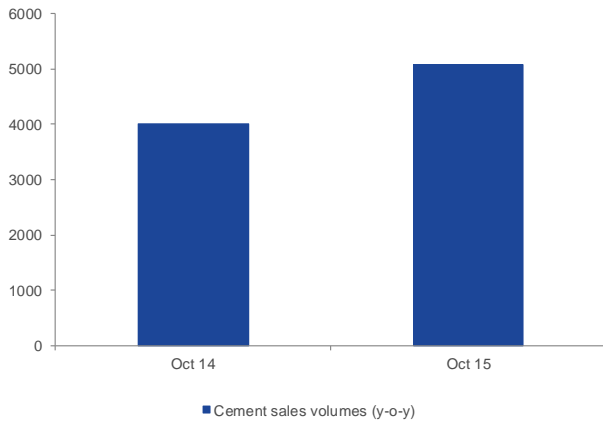


Figure 6 Cement sales volumes (absolute, y-o-y, m-o-m)



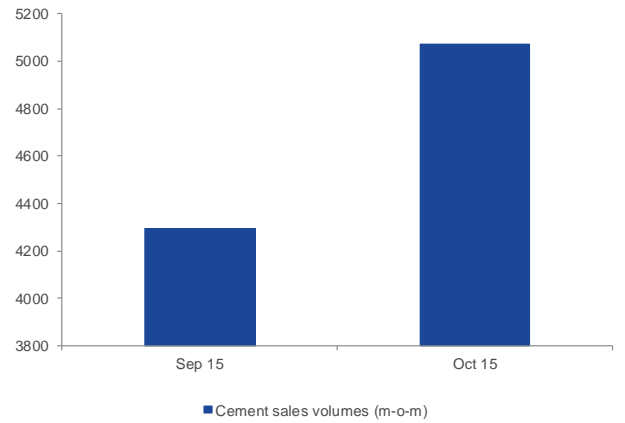
Source: Company data, Al Rajhi Capital

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



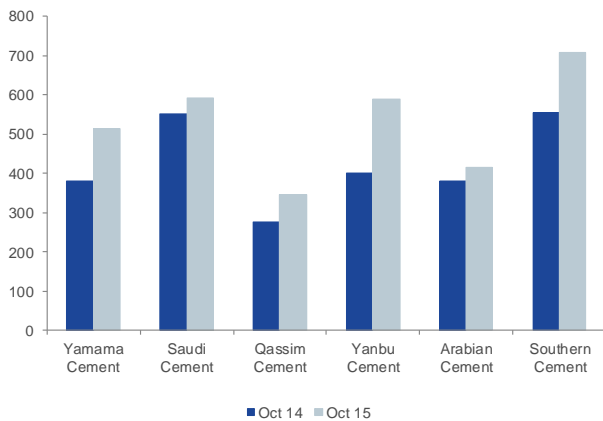
Source: Company data, Al Rajhi Capital

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



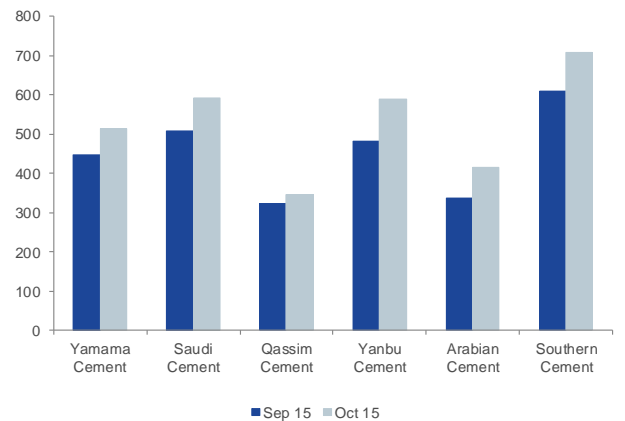
Source: Company data, Al Rajhi Capital

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



Source: Company data, Al Rajhi Capital

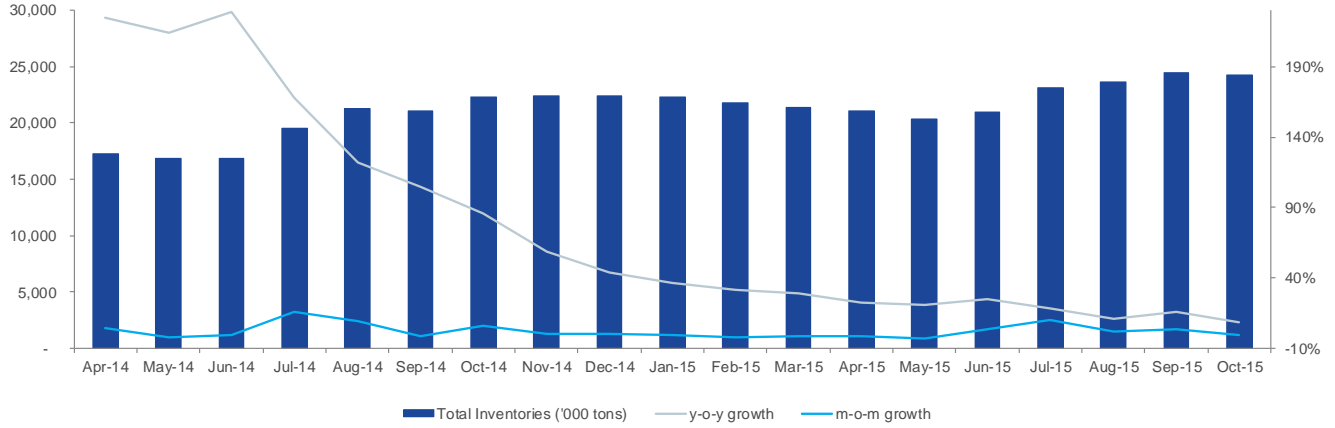
Figure 10 Cement sales volumes (m-o-m)



Source: Company data, Al Rajhi Capital

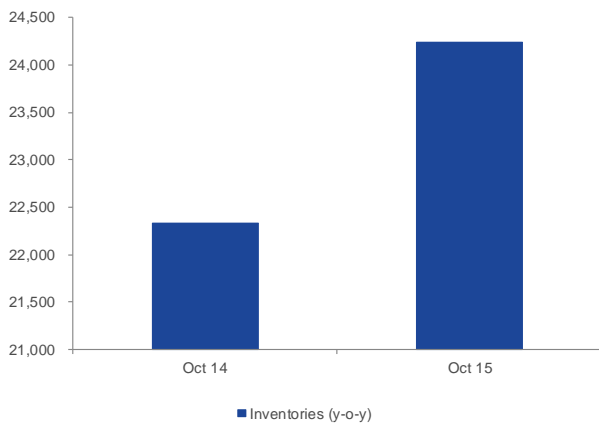


Figure 11 Inventories (absolute, y-o-y, m-o-m)



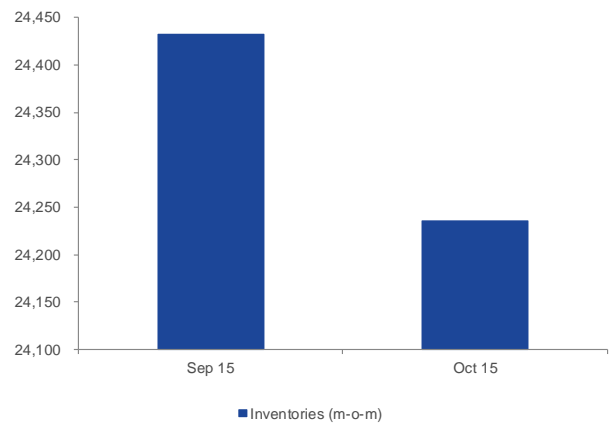
Source: Company data, Al Rajhi Capital

Figure 12 Inventories (y-o-y)



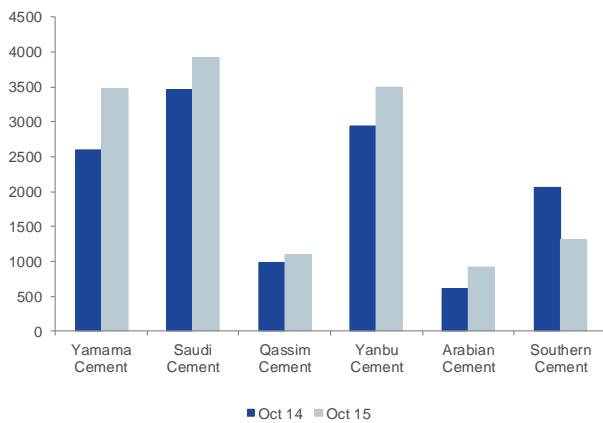
Source: Company data, Al Rajhi Capital

Figure 13 Inventories (m-o-m)



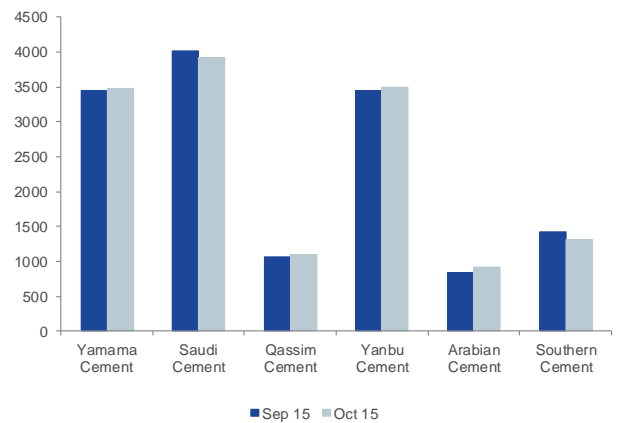
Source: Company data, Al Rajhi Capital

Figure 14 Inventories (y-o-y)



Source: Company data, Al Rajhi Capital

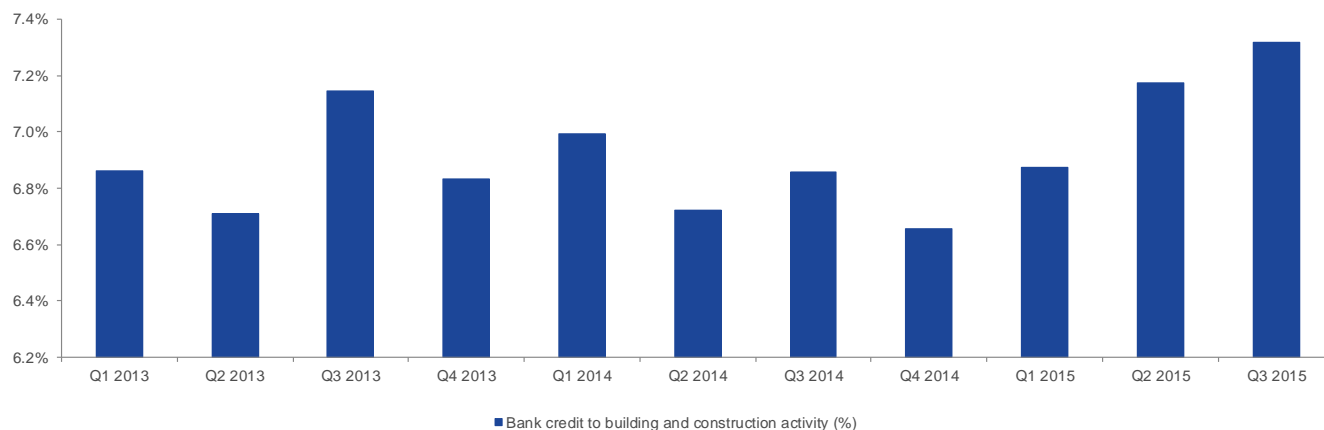
Figure 15 Inventories (m-o-m)



Source: Company data, Al Rajhi Capital



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



Source: SAMA, Al Rajhi Capital

Figure 17 Cement Sector valuation metrics

	Mkt Cap (USD m n)	EV (USD m n)	EBITDA margin (%)			RoE (%)			P/E (x)			EV/EBITDA (x)		
			CY14	CY15E	CY16E	CY14	CY15E	CY16E	CY14	CY15E	CY16E	CY14	CY15E	CY16E
SAUDI CEMENT	2,601	2,615	66	65	63	33	32	31	9	9	10	8	8	8
ARABIAN CEMENT	1,288	1,242	49	50	50	21	na	na	7	8	7	5	na	na
QASSIM CEMENT	1,764	1,558	67	67	64	28	28	27	12	12	12	9	9	9
YANBU CEMENT CO	1,835	1,886	66	66	63	24	22	20	9	9	9	7	6	6
YAMAMA CEMENT CO	1,922	1,625	64	63	62	18	18	17	11	11	10	7	7	7
SOUTHERN PROV INC	2,669	2,814	59	57	59	37	31	30	10	11	10	9	na	na
EASTERN CEMENT	793	711	50	51	47	16	13	13	8	10	10	6	na	na
CITY CEMENT CO	782	697	64	na	na	11	12	13	13	13	12	9	na	na
NAJRAN CEMENT CO	746	949	49	na	na	13	15	14	12	11	12	9	na	na
HAIL CEMENT	395	426	61	na	na	15	14	15	10	12	10	7	na	na
AL JOUF CEMENT	397	613	53	na	na	4	5	6	24	29	22	16	na	na
NORTHERN REGION	742	1,029	38	na	na	9	12	12	14	12	11	10	na	na
TABUK CEMENT CO	406	520	62	57	55	NA	9	10	11	14	12	9	na	na
Average			57.4	59.6	57.8	19.1	17.5	17.3	11.5	12.4	11.4	8.5	7.3	7.4
Median			61.0	60.2	60.4	17.0	14.2	14.7	10.8	11.0	10.5	8.7	7.2	7.2

Source: Bloomberg, Al Rajhi Capital



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### 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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