

KSA Cement Sector Monthly

July domestic sales volumes increased 14% YoY and 68% MoM; exports remained nil
Stock prices down 30% YTD on avg. within our coverage, see limited value in the sector

Share Price Performance

	YTD*	Jul-17
Yamama	-30%	-31%
Saudi	-31%	-30%
Qassim	-32%	-30%
Yanbu	-28%	-28%
Arabian	-25%	-25%
Southern Province	-39%	-38%
City	-28%	-27%
Northern Region	-27%	-27%
TASI	-1%	-2%

*Prices as of Aug 09, 2017 close

Recommendation

	Rec.	Fair Value (SAR)
Yamama	SELL	17.5
Saudi	SELL	57.1
Qassim	SELL	48.0
Yanbu	HOLD	35.4
Arabian	HOLD	37.0
Southern Province	SELL	52.9
City	BUY	13.9
Northern Region	SELL	8.2

Source: SHUAA Capital

10th Aug 2017

SAUDI DOMESTIC CEMENT SALES INCREASED BY 13.7% YOY AND 67.9% MOM IN JUL

Saudi domestic cement sales increased to 3.5mn tons in Jul 2017 (c.14% YoY, c.68% MoM); however, improvement was primarily driven by lower base effect with Eid holidays in June 2017 and June 2016, respectively. The exports remained nil in Jul, even though exports duties were slashed by 50%, and the major industry players asserted that export fee levied should be completely scrapped to make exports competitive. Within our stock coverage on a YoY basis, City Cement reported an increase in domestic sale (c.44% YoY) followed by Qassim (c.34% YoY), while Saudi and Najran reported a decline of 19% and 18%; respectively. On MoM basis, within our coverage, all companies reported an increase in the range of 44-123%. On market share front, Arabian Cement saw an increase in market share of 1.9%, while share of Saudi Cement reported a decline of 1.7%.

Cement production also increased c.5% YoY and c.59% MoM in Jul to 3.4 mn tons, while clinker production marginally decreased on a MoM basis to 4.4 mn tons. Clinker inventory increased by c.4% MoM to 32.5mn tons and our estimated total sector inventories remain elevated at 9.1 sales months compared to historical levels (5 years avg: 4.5). Within our coverage, on a MoM basis, Arabian Cement reported an increase in clinker inventories of 22%, followed by City and Yanbu, reporting an increase of 10% and 9%; respectively.

Q2 2017 cumulative revenues of the companies under our coverage came at SAR 1,509 mn (-c.42% YoY, -c.22% QoQ), while cumulative earnings plummeted to SAR 390 mn (-c.66% YoY, -c.43% QoQ). The earnings decline was primarily driven by top line pressure (QoQ: sales price lower by 5-14%, volumes lower by 3% -27%), while cost per ton, in general, saw limited change. We believe 'real' underlying costs remain masked by massive inventory build-up, with sector clinker inventories increasing by c.2.2 mn mt in Q217, further increasing by 1.3mn mt in July 2017. The stocks in our coverage have declined 30% YTD, on an average, but we remain on the side-lines due to: 1) unsustainable level of inventories (Jul estimated sector inventories at 9.1 months of ttm sales); 2) limited potential up-tick in demand in the short term; 3) likely further increase in fuel oil price (expected Q417/Q118); and 4) muted earnings trajectory, with expensive valuation – average PER of 19x on H117 annualised earnings for the companies under our coverage. We see Northern region cement as the worst-positioned within our coverage, while see some relative value in City Cement and Yanbu cement.

KSA Cement – Jul 2017 Performance

Company	Cement Sales			Cement Production			Clinker Production		
	Jul-17	YoY(%)	MoM(%)	Jul-17	YoY(%)	MoM(%)	Jul-17	YoY(%)	MoM(%)
Yamama	369	17.5%	73.2%	364	4.6%	41.1%	415	-25.4%	1.7%
Saudi	358	-24.8%	43.8%	357	-28.3%	49.4%	302	-54.0%	0.7%
Eastern	147	8.1%	31.3%	148	8.0%	38.3%	259	15.6%	-8.2%
Qassim	292	33.9%	69.8%	309	42.4%	106.0%	300	14.9%	-5.7%
Yanbu	347	9.8%	80.7%	343	5.9%	74.1%	629	14.8%	9.0%
Arabian	265	18.3%	122.7%	258	15.7%	94.0%	340	12.6%	14.1%
Southern Province	409	-5.3%	78.6%	386	-9.8%	90.1%	531	-10.3%	-6.3%
Tabuk	61	-17.6%	110.3%	58	-18.3%	107.1%	98	-22.2%	-25.2%
Riyadh	240	5.7%	58.9%	234	4.9%	41.0%	132	-49.6%	-14.3%
Najran	107	-29.6%	62.1%	80	-48.4%	-4.8%	160	-43.3%	-17.5%
City	244	44.4%	84.8%	232	28.2%	78.5%	335	1.5%	21.8%
Northern Region	81	-18.2%	68.8%	76	-20.0%	52.0%	143	-46.6%	-17.8%
Jouf	139	17.8%	65.5%	128	13.3%	48.8%	64	-58.4%	-35.4%
Safwa	108	13.7%	13.7%	112	0.0%	24.4%	255	87.5%	42.5%
Hail	75	-8.5%	97.4%	74	-14.0%	111.4%	173	-1.7%	-1.1%
Umm Al-Qura Cement	96	-	74.5%	85	-	41.7%	177	-	9.3%
United Cement Industrial Company	155	-	59.8%	127	-	29.6%	113	-	-23.6%
Industry	3,493	11.5%	67.9%	3,371	5.0%	59.5%	4,426	-9.2%	-0.3%

Source: Argaam, Yamama Cement and SHUAA Capital

Sector Coverage

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