

# KSA Cement Sector Monthly

Sales volumes decreased 16% YoY while exports remain nil  
Still not a buyer of the sector; risk-reward and dividend profile unattractive

## Share Price Performance

	YTD*	Aug-17
Yamama	-27.9%	4.2%
Saudi	-37.4%	-9.9%
Qassim	-32.8%	-4.4%
Yanbu	-29.3%	-1.5%
Arabian	-28.8%	-5.2%
Southern Province	-39.2%	0.4%
City	-28.5%	-2.1%
Northern Region	-26.0%	-0.2%
TASI	2.3%	2.0%

\*Prices as of Sep 14, 2017 close

19<sup>th</sup> Sep 2017

## SAUDI CEMENT SALES DECREASED BY 15.5% YOY WHILE EXPORTS REMAINED NIL; RISK-REWARD UNFAVORABLE

Saudi cement sales came in at 3.7mn tons in Aug 2017 (c.-16.6% YoY, c.7% MoM). Exports remained nil for the fifth month in a row despite reduction in export fees by 50% previously, since export realisations are not high enough to absorb additional costs, in our view. Within our stock coverage, on a YoY basis, only Qassim Cement reported an increase in domestic sales (c.3% YoY) while Saudi Cement reported the steepest decline (-34% YoY). On MoM basis, within our coverage, all companies, except Yamama and Arabian Cement, reported an increase (in the range of 2-33%). On market share front (MoM), Yanbu Cement saw an increase in market share of 2.5%, while share of Yamama Cement declined by 1.8%.

Cement production decreased c.12% YoY but increased c.12% MoM in Aug to 3.8 mn tons, while clinker production marginally decreased on a YoY and MoM basis to 4.3 mn tons. Clinker inventory increased by c.3% MoM to 33.4mn tons and our estimated total sector inventories remain elevated at 9.5 sales months compared to 5-year historical avg of 4.7 months. Within our coverage, on a MoM basis, Northern Cement reported an increase in clinker inventories of 8%, followed by Arabian and Qassim, reporting an increase of 5% each.

## 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

**IS IT A TIME TO BE AGGRESSIVE BUYERS OF SAUDI CEMENT SECTOR - WE REMAIN ON THE SIDELINES** – we are hearing some market noises that the Saudi cement sector looks ripe for building positions after significant share price decline YTD (our coverage: avg decline of 31% vs. SASEIDX return of +2.3%), with some market participants seeing sector as offering attractive dividend yields. In our view, yields look attractive with a rear view (2016 avg yield for our coverage: 9%), however, based on recent announced dividends we don't see much value – with H1 2017 annualised avg yield of 4% (ranging between 0% and 10%), and we don't expect dividend profile to improve in H2 vs. H1, in general. Additionally, we see limited reasons to be a buyer at this time as: a) structural sector issue lingers – with sector cement inventories estimated at c.9.5 sales months, b) limited uptick expected in construction demand in the short-term, and c) potential further increase in fuel oil price (we now expect increase in Nov, with reported likely increase in gasoline and jet fuel). We see Northern Region Cement as the worst-positioned stock within our coverage due to a) we now don't expect company to pay any dividends in 2017 (vs. previous estimate of SAR 0.35; 2016A: SAR 0.45); b) potential impairments in medium-term (Q2 2017 goodwill: SAR 506mn, 16% of the total assets); and c) high leverage (Q2: 0.5x), with short-term borrowings of over SAR 1bn.

## KSA Cement –Aug 2017 Performance

Company	Cement Sales			Cement Production			Clinker Production		
	Aug-17	YoY (%)	MoM (%)	Aug-17	YoY (%)	MoM (%)	Aug-17	YoY (%)	MoM (%)
Yamama	326	-27.2%	-11.7%	330	-23.4%	-9.3%	429	-10.1%	3.4%
Saudi	386	-33.7%	7.8%	379	-34.1%	6.2%	449	-38.0%	48.7%
Eastern	141	-20.8%	-4.1%	146	-17.0%	-1.4%	202	7.4%	-22.0%
Qassim	324	2.5%	11.0%	330	8.6%	6.8%	337	123.2%	12.3%
Yanbu	462	-2.1%	33.1%	441	-4.3%	28.6%	432	-3.4%	-31.3%
Arabian	259	-19.8%	-2.3%	264	-17.0%	2.3%	263	-16.2%	-22.6%
Southern Province	471	-26.1%	15.2%	487	-24.4%	26.2%	438	-27.4%	-17.5%
Tabuk	78	-30.4%	27.9%	72	-35.1%	24.1%	91	-29.5%	-7.1%
Riyadh	214	-33.5%	-10.8%	234	-30.6%	0.0%	134	-56.4%	1.5%
Najran	111	-53.4%	3.7%	113	-51.3%	41.3%	179	-33.9%	11.9%
City	249	-0.4%	2.0%	262	5.6%	12.9%	335	82.1%	0.0%
Northern Region	85	-26.7%	4.9%	88	-34.3%	15.8%	173	-26.4%	21.0%
Jouf	113	-28.5%	-18.7%	118	0.0%	-7.8%	150	-11.8%	134.4%
Safwa	122	-11.6%	13.0%	128	9.4%	14.3%	221	34.8%	-13.3%
Hail	99	-16.8%	32.0%	106	-9.4%	43.2%	184	39.4%	6.4%
Umm Al-Qura Cement	113	-	17.7%	114	-	34.1%	188	-	6.2%
United Cement									
Industrial Company	171	-	10.3%	175	-	37.8%	149	-	31.9%

**Industry**      **3,724**    **-15.5%**    **6.6%**    **3,787**    **-12.4%**    **12.3%**    **4,354**    **-3.2%**    **-1.6%**

Source: Argaam, Yamama Cement and SHUAA Capital

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For the detailed report, please contact the Investment Management team