

Yamama Cement Co. (YSCC)

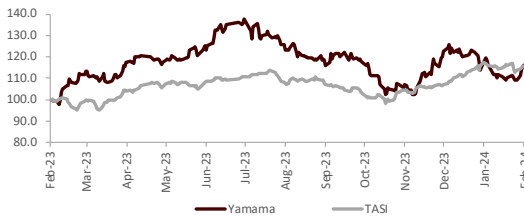
Recommendation

Buy

Current Market Price (SAR)	32.6
52wk High / Low (SAR)	38.6/27.3
Mkt. Cap. (USD/SAR Mn)	1,757/6,591
Shares Outstanding (mn)	202.5
Free Float (%)	99.9%
3m Average Vol. (000)	335.9
3m Avg Daily Turnover (SAR'000)	10,735
Dividend Yield '24e (%)	3.1%
P/E'24e (x)	19.0
EV/EBITDA'24e (x)	15.5

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	736	1,023	883	1,038
Gross profit	220	423	312	394
GPM (%)	30%	41%	35%	38%
EBIT	157	333	243	302
EBIT margin (%)	21%	33%	28%	29%
EBITDA	165	165	165	403
EBITDA margin (%)	22%	22%	22%	39%
Net Income	154	356	298	344
Net margin (%)	21%	35%	34%	33%
EPS (SAR)	0.76	1.76	1.47	1.70
RoE (%)	4%	8%	6%	7%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Saleh Abdulaziz Muhammad Al-Salem	5.28%
Except Prince Sultan Muhammad Saud Al Saud	5.66%

Source: Bloomberg, Yaqeen Capital

Profits decline amid reduced revenue and increased finance expenses

- Yamama Cement observed a decline of 59.8% YoY (-58.5% QoQ) in its net income, amounting to SAR 41mn in 3Q2023. This downturn is attributed to a decrease in sales value for the current quarter compared to the same quarter of the previous year, coupled with an increase in financing expenses. The net income margin contracted by 21.5ppts YoY (-25.6ppts QoQ), settling at 19.3%.
- In 3Q2023, revenue experienced a 14.8% YoY dip (-3.3% QoQ), reaching SAR 212mn. However, for 9M2023, revenue rose by 5.5% to SAR 711mn.
- The gross profit of SAR 38mn in 3Q2023 marked a significant 66.4% YoY decrease and a 55.0% QoQ drop. This decline is primarily attributed to a rise in the cost of revenue in comparison to a fall in revenue, resulting in the gross margin falling to 17.8% (-27.3ppts YoY, -20.4ppts QoQ).
- Operating profit witnessed a decline of 78.5% YoY (-69.1% QoQ) to SAR 21mn in 3Q2023. This decline is primarily attributed to higher G&A expenses (+11.7% YoY, -1.1% QoQ), leading to a corresponding margin decline to 9.8% (-29.0ppts YoY, -21.0ppts QoQ).
- In 9M2023, Yamama Cement's net income increased by 13.5% YoY to SAR 251mn, driven by an increase in sales value for the current period compared to the similar period of the previous year. Additionally, there was an increase in other revenues and a refund of zakat provision for the current period compared to the similar period of the previous year. The net income margin improved to 35.4%, up from 32.9% in the same period in 2022.
- Gross profit in 9M2023 increased by 3.0% YoY to SAR 255mn, showing a slightly slower pace than that of revenue (+5.5% YoY). This was primarily due to a higher rise in the cost of revenue as compared to revenue, resulting in a margin decrease from 36.8% to 35.9%.

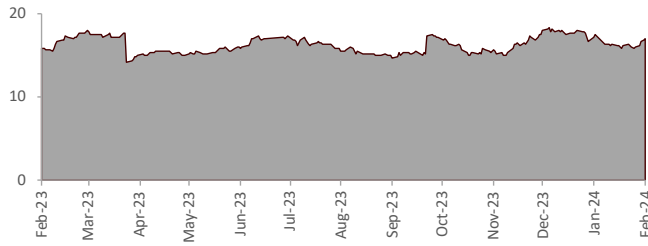
Outlook & Valuation: With ongoing mega-projects like NEOM and Vision 2030, the kingdom's medium- to long-term cement demand is expected to soar. Yamama Cement is well-positioned to take advantage of this growth opportunity. However, a number of short-term challenges, including a slowdown in mortgages due to higher interest rates, heightened competition, and rising fuel prices, are confronting the Kingdom's cement industry. The company's financials are expected to be impacted in the short term due to lower net selling prices and decreased demand for cement products. However, the company's long-term outlook remains positive with the largest market share in the KSA cement market. Based on DCF valuation, we arrive at a fair value of SAR 37.0/share, a strong upside of 13.4% from the current level. Hence, we recommend a Buy rating on the stock.

Financial Summary

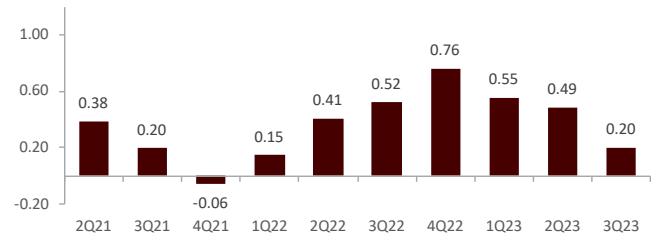
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	212	249	-15%	219	-3%
Gross profit	38	112	-66%	84	-55%
GPM (%)	18%	45%		38%	
EBIT	21	97	-78%	67	-69%
EBIT margin (%)	10%	39%		31%	
EBITDA	23	99	-77%	70	-67%
EBITDA margin (%)	11%	40%		32%	
Net Income	41	106	-61%	98	-59%
Net margin (%)	19%	43%		45%	
EPS (SAR)	0.20	0.52	-61%	0.49	-59%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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