Yamama Cement Company

BLOMINVEST SAUDI ARABIA

Update on H1 2012	
Sector:	Basic Materials and Industrial Products
Country:	Yamama Cement Company
Date:	August 06, 2012

Share Price (SAR):	45.80
Fair Value (SAR):	51.20
Upside:	11.8%
Recommendation:	ACCUMULATE
Risk:	Medium

Maintaining our ACCUMULATE Rating with a Fair Value of SAR 51.20 per share from SAR 49.33 issued in December 2011

Revenues decline by 16% due to external factors

In March 2012, the government imposed a price ceiling of SAR 240 per ton to respond to the unprecedented rally in cement prices. Along with the removal of import bans, these policies have capped the revenue growth of many Saudi cement companies and resulted in a 25% drop in Yamama's Q2 net income. However, we believe these measures are temporary as KSA cement production capacity continues to expand.

Growth in housing and infrastructure to expand cement sector

KSA's construction industry is set to grow at a real y-o-y rate of 4% over the next 5 years predominantly driven by the government's efforts to boost housing and infrastructure. Beyond 2014, where the current housing plan is scheduled to complete, the recent mortgage law and other reforms will have taken effect to help increase mortgage credit and home ownership. With mortgage penetration currently at 1.4% of GDP, real estate growth trends are expected to continue until 2020.

New dividend policy expected to maintain payout ratio

Accompanying Yamama's February dividend of SAR 2.00, the company declared a stock dividend whereby for every 2 shares outstanding, 1 new share is distributed. Furthermore, Yamama announced they will pay a SAR 1.5 per share in July 2012, resulting in a dividend yield of 6% based on the 2011 end of year closing price. The new dividend policy is expected to maintain Yamama's payout ratio at 74%.

Share price reflects cement industry's rebound

We estimate the fair value of Yamama at SAR 51.2 per share using a Discounted Cash Flow methodology with a discount rate of 11%. For cement price growth, we assume that the current peg of SAR 240 per ton will be relieved and resume growth at a conservative rate of 4% as of 2013. Cement production is expected to grow at a CAGR of 6.6% over 5 years. For our terminal year we assumed perpetual growth at the long run expected GDP growth rate of 4%.

Share Data

Bloomberg Symbol	YACCO.AB
Reuters Symbol	3020.SE
Market Cap (SAR million)	9,031.5
Number of Shares	202,500,000
Free Float	76.54%
Price-to-Earnings	10.92
Price-to-Book	2.78

Share Performance

Source: Bloomberg

1 Month Return	-9.2%
3 Month Return	-10.8%
6 Month Return	-6.4%
12 Month Return	7.5%
52 Week Range	37.83 - 57.75

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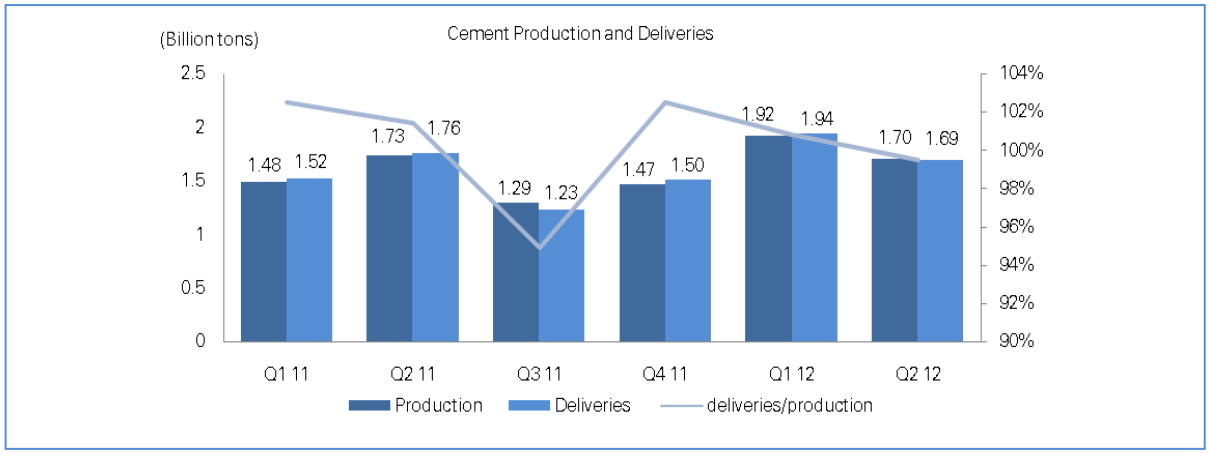
Performance and Forecasts

	Q2 '12	Q1 '12	Q-o-Q	Q2 '11	Y-o-Y
Revenues *(SAR millions)*	413	492	*-19%*	420	*-2%*
Net Income *(SAR millions)*	209	278	*-33%*	220	*-5%*
Profit Margin	51%	57%	-	52%	-
Production ('000 tons)	1,703	1,919	-13%	1,734	*-2%*
Deliveries ('000 tons)	1,694	1,935	-12%	1,759	*-4%*

Source: Company Historicals

Net income plummets 25% over Q2 due to top line difficulties

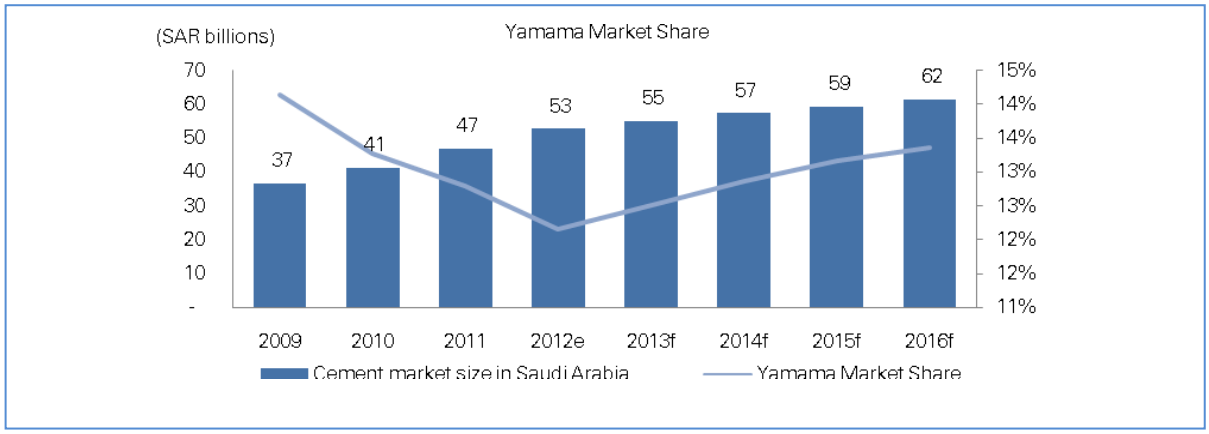
With record earnings in Q1 registering SAR 277 million for the period, the second quarter came in at a disappointing 25% drop. This was mainly attributed to the issuance of a price ceiling of SAR 240 per ton by the Saudi Ministry of Commerce on domestic cement producers, motivated by the desire to maintain Saudi construction efforts. Despite this, Yamama's deliveries fell by 12.5%, resulting in a 16% drop in revenues. Furthermore, Yamama cut cost of revenues and SG&A expense, though not enough to make a meaningful impact on the bottom line.



Source: Yamama, Blominvest

Planned infrastructure and housing projects sustain positive outlook on cement sector

Due to the acute housing shortage in KSA, the government decided to embark on multibillion dollar infrastructure and housing development projects. KSA set aside $100 billion over 5 years to accommodate the housing demand of a growing population. Furthermore, the mortgage law passed by the government will help facilitate growth in the real estate sector after government led projects wind down. With housing credit penetration in KSA at only 1.4% of GDP, there will be room to expand mortgage financing and further housing growth. These will likely keep the cement industry growing over the next 3-5 years.



Source: Yamama, Blominvest

Yamama's strategic geographic position mitigates competition from imports

As a result of the growth in construction activity and lack of similar growth in cement production capacity, the price of cement had reached record highs of SAR 264 per ton in March 2012. This prompted action on the part of the ministry of commerce to maintain its cement export ban, remove import restrictions, and impose a price ceiling of SAR 240 per ton to increase competition in the sector. UAE's chronic excess capacity has been seen as a blessing to project managers in east Saudi Arabia while other GCC cement producers are slashing prices to gain business. These events however, are unlikely to affect Yamama significantly due to cement's notorious transport costs and Yamama's strategic location in central KSA near the growing capital Riyadh.

Despite changes in market dynamic, outlook remains unchanged

We predict the recent measures taken by the government to be temporary with moderate cement price inflation resuming. Furthermore, Yamama's plans to boost its capacity from 5,600 tons per day to 10,000 tons per day will likely take place within KSA's 5 year plan to benefit from growth in demand and economies of scale.

We maintain our Accumulate recommendation with an adjusted price target of SAR 51.2 per share. This was obtained using a discounted cash flow analysis with a 5 year time horizon and a discount rate of 11%. We project CAGR of 10% in revenues over the next 5 years and for our terminal value, we use a perpetuity of 4.2% growth.

Valuation Sensitivity Analysis

Terminal Growth \ Discount Rate	13%	12%	11%	10%	9%
5.0%	43.60	49.65	57.76	69.16	86.31
4.5%	41.70	47.11	54.21	63.94	78.04
4.0%	40.02	44.88	**51.17**	59.59	71.42
3.5%	38.51	42.92	48.54	55.91	66.01
3.0%	37.15	41.18	46.23	52.76	61.50

Source: Blominvest

Quarterly Income Statement

(in SAR million)	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12
Revenues	351	420	301	369	492	413
Cost of Goods Sold	155	187	133	157	192	187
Gross Profit	**196**	**233**	**168**	**213**	**300**	**226**
SG&A	11	13	14	16	12	11
Depreciation Expense	1	1	1	1	1	1
Other Operating Expenses	1	1	0	0	0	1
Total Operating Expenses	**12**	**15**	**15**	**17**	**13**	**12**
Operating Income	**184**	**218**	**153**	**196**	**287**	**214**
Other Non-Operating Income	(3)	(9)	(3)	(3)	(4)	(9)
Interest Expense	1	1	1	2	1	1
Earnings before Zakat	**186**	**226**	**155**	**197**	**290**	**221**
Zakat	6	6	6	6	12	12
Net Income	**180**	**220**	**149**	**191**	**278**	**209**
Shares Outstanding	135	135	135	135	202.5	202.5
Basic & Diluted EPS	1.33	1.63	1.10	1.42	1.37	1.03

Source: Yamama

Balance Sheet

(in SAR million)	2009	2010	2011	Q2 '12
Current Assets				
Cash & cash equivalents	712	700	898	1,215
Trade receivables	236	242	301	233
Due from RP	0	0	0	0
Other receivables	25	21	21	25
Inventory	97	132	137	24
Prepaid expenses	6	6	24	28
Total current Assets	**1,077**	**1,102**	**1,380**	**1,536**
Non current assets				
Investments	377	394	419	428
Loans to subsidiaries	4	25	0	0
Fixed assets	2,206	2,106	1,959	1,888
Projects under progress	1	7	40	43
Deferred Revenue	27	19	23	18
Total non-current assets	**2,615**	**2,552**	**2,441**	**2,386**
Total Assets	**3,692**	**3,653**	**3,822**	**3,913**
Current liabilities				
ST portion of LTD	154	77	142	105
Creditors	59	61	103	73
Due to RP	5	7	3	2
Accounts Payable	3	1	18	0
Other payables	37	32	0	11
Dividends Payable	36	41	39	344
Payables to Zakat	22	26	29	24
Total current liabilities	**317**	**246**	**334**	**340**
Non-current payables				
Long term loans	267	190	48	40
EOS provision	54	59	64	65
Total non-current liabilities	**321**	**249**	**112**	**105**
Total Liabilities	**639**	**495**	**446**	**664**
Shareholders' Equity				
Share capital	1,350	1,350	1,350	2,025
Legal Reserve	194	251	390	390
Additional Reserves	908	958	1,000	325
Retained earnings	542	550	565	431
Unrealized gains on investments	61	50	70	78
Total Equity	**3,055**	**3,159**	**3,375**	**3,249**
Total Liabilities & SE	**3,692**	**3,653**	**3,822**	**3,913**

Source: Yamama

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Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%
Accumulate: Fair Value higher than Market Price by 10% to 20%
Hold: Fair Value ranges between -5% to +10% in relation to Market Price
Reduce: Fair Value lower than Market Price by 5% to 15%
Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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