Yamama Cement Co.

Results Flash Note Q1-24

Earnings came broadly in-line with our estimates, improved selling prices are the key support for Yamama to fully offset the recent feedstock hikes.

Yamama Cement posted a net income of SAR 115.0mn in Q1-24 (up 2.3% Y/Y and 118.0% Q/Q), broadly in-line with our estimated SAR 131mn, while beating market consensuses of SAR 78.3mn. The small deviation from our estimate is mainly due to lower than expected top-line and margins, as selling prices recovered in a slower pace than we expected. Volumetric sales were impacted by the seasonality impact of Ramadan and came at 1.41MT (down 12.0%Y/Y and 6.5%Q/Q), while selling prices averaged around SAR 194.7 per tonne, (up 30% Q/Q), against our estimated SAR 211.4. Cost per tonne stood at SAR 97.3 per tonne in-line with our estimated SAR 96.7, as feedstock impact was diluted by the low-cost inventories. Yamama's current selling prices are more than enough for the company to absorb the full feedstock impact and to protect its profitability, hence, we stay positive on its fundamentals. We keep our "Overweight" recommendation on Yamama with a TP of SAR 40.1/Share.

- Yamama Cement posted a net income of SAR 115.0mn in Q1-24 (EPS: SAR 0.57/share); compared to SAR 112.4mn in Q1-23, broadly in-line with estimated SAR 131.0mn with a deviation of 12.2%, but beating market consensus of SAR 78.3mn by 47.0%. The deviation from our estimate is mainly due to the lower than expected top-line. The Q/Q improvement of 118.0% in net income is mainly attributed to the higher top-line and stronger margins, which were mainly supported by the improved selling prices and controlled COGS.
- Revenue totaled SAR 273.7mn in Q1-24 (down 2.2%Y/Y, but up 21.9%Q/Q), slightly below our estimate of SAR 286.8mn by 4.6%; due to lower than-expected recovery of average selling prices per tonne (SAR 194.7 Vs. our estimated SAR 211.4). The Y/Y slight decline is mainly due to volume sales as Q1-24 had extra 12 days of Ramadan season compared to Q1-23, leading Yamama to sell 1406MT compared to 1597MT in Q1-23. However, this volume impact was offset by higher selling prices compared to SAR 175 per tonne in Q1-23. Meanwhile, the impressive 21.9% Q/Q growth in the top-line came on the back of higher selling prices (Q4-23,SAR 149 per tonne), despite the 6.5% decline in volume sales.
- Gross profit stood at SAR 136.9mn, stable on Y/Y basis, but recorded an impressive Q/Q growth of 70.6%; supported by the Q/Q growth in the top-line. However, GP missed our estimated SAR 155.6mn by 12%; due to lower top-line. Cost per tonne for Q1-24 came at SAR 97.3 per tonne, compared to our estimated SAR 96.7 and SAR 96.0, per tonne, in Q4-23. We believe that the recent hike in feedstock prices was diluted by the company's low-cost inventories during the quartor. GP margin came at 50.0%, below our estimate of 54.3% but higher than 47.8% in Q1-23 and 34.8% in Q4-23.
- Operating profit amounted to SAR 117.5mn, up 101.7% Q/Q but stable on yearly basis. This however came below our estimated SAR 138.6mn by 36.8% due to lower than-expected top-line. OPEX came around SAR 19.4mn (up 15.6% Y/Y, but down 11.8% Q/Q), compared to our estimated SAR 17mn. As a result, the OPEX-to-sales ratio for Q1-24 reached 7.1%, compared to 6.0% in Q1-23 and 9.8% in Q4-23, leading to an operating margin of 42.9%, compared to our estimate of 48.3%, and 41.8% in Q1-23.

AJC view and valuation: Yamama's posted a strong set of result during Q1-24. The small deviation from our estimates stemmed mainly slower than expected recovery in selling prices. The prices posted a recovery of 30% Q/Q, and we expect the prices to keep improving and average above SAR 200 per tonne in the coming quarters as competition in the sector has eased. The company succeeded on keeping stable earnings on Y/Y basis, despite the lower volume sales thanks improved prices. The feedstock impact during the quarter was diluted as expected by the low-cost inventories, and we expect cost per tonne to slightly increase in the coming periods. However, we believe the company could easily offset the impact of feedstock as current selling prices is higher than what it needs to fully absorb it. Thus, we stay positive in the company's fundamentals. We expect the company to be able to raise its DPS this year by an additional SAR 0.5, supported by the stronger expected earnings. The stock is currently trading at 27.9x compared to a forward P/E of 14.4x based on FY24 earnings. We watch closely the competition scene in the sector, as any return of price war provides a downside risk to our valuation. We keep our "**Overweight**" recommendation on Yamama Cement with a TP of SAR 40.1/Share.

Results Summary

SAR mn	Q1-FY23	Q4-FY23	Q1-FY24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	279.9	224.6	273.7	(2.2%)	21.9%	(4.6%)
Gross Profit	133.8	80.2	136.9	2.3%	70.6%	(12.0%)
Gross Margin	*48.9%*	*35.7%*	*50.0%*	-	-	-
EBIT	117.1	85.3	117.5	0.4%	101.7%	(36.8%)
Net Profit	112.4	52.8	115.0	2.3%	118.0%	(12.2%)
EPS	0.56	0.26	0.57	-	-	-

Source: company report, Aljazira Capital Research

Recommendation	Overweight
Target Price (SAR)	40.1
Upside / (Downside)*	21%

Source: Tadawul *prices as of 29th of April 2024

Key Financials

SARmn (unless specified)	FY21	FY22	FY23	FY24E
Revenues	736	1,008	935.2	1,102
Growth %	-23.0%	37.0%	-7.2%	17.8%
Net Income	154	356	304	479
Growth %	-62.1%	131.5%	-14.5%	53.0%
EPS	0.76	1.76	1.50	2.30
DPS	0.00	1.00	1.00	1.50

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23	FY24
Gross Margin	30.0%	41.4%	35.9%	51.4%
Net Margin	20.9%	34.8%	32.5%	42.2%
P/E (x)	34.3	17.8	22.7	14.4
P/B (x)	1.23	1.36	1.46	11.37
EV/EBITDA (x)	39.1	20.1	18.5	11.6
Dividend Yield	0.0%	3.2%	2.9%	4.5%

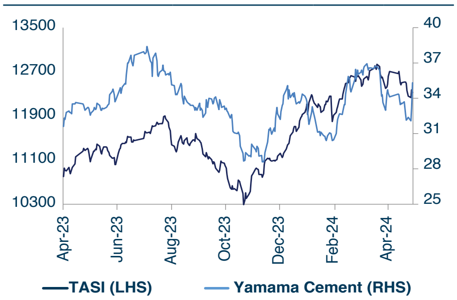
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	6.885
YTD%	(2.93%)
52 week (High)/(Low)	38.55/28.1
Share Outstanding (mn)	202.50

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer