



# Najran Cement

KSA Cement Sector | 2Q 2014 Preliminary Results | July 20, 2014

## 2Q14 review: Earnings modestly ahead of estimates; Maintain Hold

**2Q14 net profit modestly beats estimates:** Najran Cement reported 2Q14 net profit of SAR84m (+57% qoq, +33% yoy) which has beaten our/consensus estimates by a modest c.5%/2%. Operational performance was also stronger than expected; while cement volume was in-line, gross profit/EBITDA/EBIT was c.9%/5%/7% ahead meaning the beat has come from higher margin potentially from a lower proportion of high cost imported clinker in the sales mix. All else equal, keying in the 2Q14 volume in our model would imply 2Q14 EBITDA margin of c.54% vs. our estimate of c.52% (SFC 2014-15E EBITDA margin estimate c.55%).

**Cement volume seems to have fully recovered to normalized levels:** The company recorded 959k tons of cement sales in 2Q14 (in-line) which would imply c.+38% qoq (vs. c.+5% qoq for the sector) and c.+82% from 4Q13 (when cement volume was significantly affected by crackdown on illegal expatriates). However, the key difference with many KSA cement peers is that for Najran Cement, volume seems to have recovered to normalized levels; 2Q14 cement volume of 959k tons is c.+32% yoy vs. 0% yoy for the sector in 2Q14 (excluding City Cement).

**Trades at 2014E/15E P/E of 19.8x/14.9x; Maintain Hold:** The company completed the construction of its 6,500tpd third clinker line in 3Q13 and increased clinker capacity by c.72% to c.5mtpa. However, Aramco's refusal to supply fuel for the 3<sup>rd</sup> line implies the company would be unable to fully utilize the new capacity. While refusal to supply fuel is indeed a negative, WHR project (trial run started in 2Q14) should enable partial utilization (c.35%) of new capacity despite lack of fuel allocation. While 2014E multiples (P/E 19.8x and EV/EBITDA 14.8x) are irrelevant (WHR benefits not expected to fully kick in), even on our 2015E estimates (a largely normalized year when WHR benefits would be fully visible), the stock trades at a P/E of 14.9x (KSA peers 14.8x, GCC/MEA 12.6x, EM 12.7x) implying valuation is largely full. In line with recent earnings trends, we have updated our model and increased 2014-15E earnings estimates by c.13%. Consequentially, we have revised our target price to SAR29.0/share (from SAR 25.8/share) but maintain our Hold rating.

**When and if it happens, fuel allocation to 3rd line can act as a catalyst:** We believe the company would continue negotiating with Aramco to secure fuel supply for 3<sup>rd</sup> line, but since fuel allocation is a sector-wide issue, a concrete solution could take time. If Aramco decides to supply fuel to the new capacity, it could unlock significant value; according to our estimates, in a blue sky scenario, the potential unutilized capacity (c.60-65% of 3rd line and c.25% total capacity) could be worth SAR 12.0/share (c.40% of our target price).

SAR mn	2Q14A	2Q14E	%diff	Cons*	%dev	1Q14	%qoq	2Q13	%yoy	2014E	2015E
Volume***	959	954	0%	Na	Na	696	38%	728	32%	3,907	3,907
Revenues	Na	224	Na	224	Na	164	Na	177	Na	770	936
Gross Profit	104	96	9%	103	1%	71	47%	82	27%	345	439
EBITDA (est)**	121	116	5%	Na	Na	90	35%	96	27%	422	513
EBITDA Mar	Na	52%	Na	Na	55%	54%	55%	55%	55%	55%	55%
EBIT	93	88	7%	90	4%	62	51%	75	24%	310	401
<b>Net Profit</b>	<b>84</b>	<b>80</b>	<b>5%</b>	<b>83</b>	<b>2%</b>	<b>54</b>	<b>57%</b>	<b>64</b>	<b>33%</b>	<b>271</b>	<b>361</b>

Source: Company, Saudi Fransi Capital analysis, \* Bloomberg consensus\*\*estimated from available disclosure, \*\*\*in '000 tons

### Rating Summary

Recommendation	Hold
Target price (SAR)	29.0
Upside/ (downside)	-8%

### Stock Details

Closing price*	SAR	31.6
Market capitalization	SAR mn	5,372
Shares outstanding	Mn	170
52-Week High	SAR	32.6
52-Week Low	SAR	23.7
Price chg. (3 months)	%	29.3
EPS 2014E	SAR	1.60
Ticker (Reuters/ Bloomberg)	3002.SE	NAJNAN AB

\*Price as of July 19, 2014

### Key Shareholding (%)

Public	69.0
Khaled Mohammed Al Barrak	13.0
Abdullah A.S Al Rajhi	12.3
Mohammed M.S. Aballala	5.7

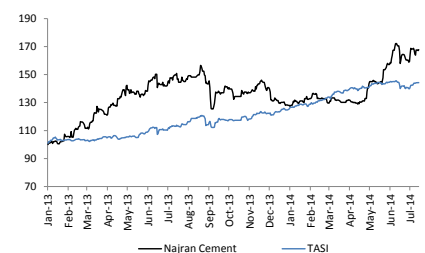
Source: Tadawul

### Key Ratios

	2014E	2015E
P/E (x)	19.8	14.9
EV/EBITDA (x)	14.8	12.2
Dividend yield (%)	3.2	4.0

Source: Company, Saudi Fransi Capital analysis

### Stock price movement vs. TASI



Source: Tadawul

Sector Coverage  
**Dipanjan Ray**  
dipanjanray@fransicapital.com.sa  
+966-11-2826861

**AbdulAziz Jawdat**  
ajawdat@fransicapital.com.sa  
+966-11-2826856



## Recommendation Framework

**BUY:** The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

**HOLD:** The analyst recommends a HOLD when our fair value estimate ranges within  $\pm 10\%$  of the current share price.

**SELL:** The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.



KSA Cement Sector | 2Q 2014 Preliminary Results | July 20, 2014

## Contacts

### RESEARCH & ADVISORY DEPARTMENT

[Research&Advisory@FransiCapital.com.sa](mailto:Research&Advisory@FransiCapital.com.sa)

### SAUDI FRANSI CAPITAL

#### Call Centre

800-125-9999

#### Website

[www.sfc.sa](http://www.sfc.sa)

### SAUDI FRANSI CAPITAL LLC

C.R. 1010231217, PO Box 23454, Riyadh 11426,

Saudi Arabia, Head Office Riyadh

Authorized and regulated by the Capital Market Authority (CMA) License No. (11153-37)



## Disclaimer

This report is prepared by Saudi Fransi Capital ("SFC"), a fully-fledged investment firm providing investment banking, asset management, securities brokerage, research, and custody services. SFC, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. SFC strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this report take into account both risk and expected return.

To the maximum extent permitted by applicable law and regulation, SFC shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute SFC's judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of SFC. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

**Saudi Fransi Capital LLC; C.R. 1010231217, P.O Box 23454, Riyadh 11426, Saudi Arabia, Head Office – Riyadh. Authorized and regulated by the Capital Market Authority (CMA) License No. (11153-37)**