



US\$2.375bn Market cap
51% Free float
US\$2.605mn Avg. daily volume

Target price **95.70** -3.3% over current
Consensus price **95.84** -3.2% over current
Current price **98.96** as at 13/7/2014

Research Department

ARC Research Team

Tel 966 11 211 9332, gopij@alrajhi-capital.com

Existing rating

Underweight

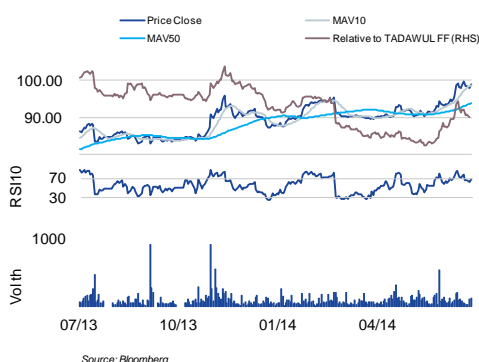
Neutral

Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

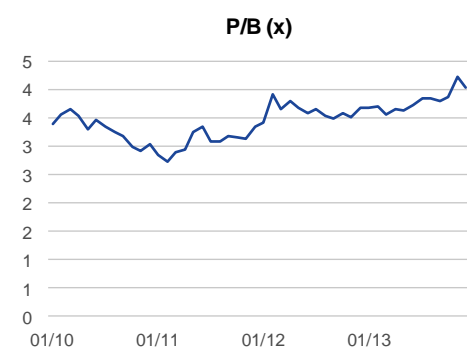


Earnings

Period End (SAR)	12/12A	12/13A	12/14E	12/15E
Revenue (mn)	1,048	1,051	1,049	1,051
Revenue Growth	1.3%	0.3%	-0.2%	0.2%
EBITDA (mn)	669	828	653	646
EBITDA Growth	0.8%	23.9%	-21.2%	-1.1%
BVPS	21.96	22.19	18.66	18.39
BVPS Growth	1%	1%	-16%	-1%

Source: Company data, Al Rajhi Capital

Valuation



Qassim Cement Q2 meets forecasts

Qassim Cement reported Q2 earnings of SAR161.1mn (-1.5% y-o-y), in line with our (SAR154.8mn) estimate. Sales volume fell 10% y-o-y in Q2 to 1.07mn tons on the back of a sluggish construction sector. There were no surprises at the operating level as operating profits came in at SAR163.6mn in line with our SAR160.4mn estimate. Qassim's already high utilization rates and its inability to ramp-up capacity have led us to believe that there is limited upside potential from the current levels. As a result, we reiterate our Neutral rating with an unchanged target price of SAR95.7 per share.

Earnings vs our forecast	Above	In Line	Below
Likely impact:			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenue numbers yet to be published:** Qassim is yet to release its Q2 revenue numbers, which we had estimated at SAR280.4mn. The company sold 1.07mn tons of cement in the quarter as compared to our forecast of 1.11mn tons. Based on this, we expect the company's top-line to come in marginally below our estimate.
- Gross profit declines:** Qassim posted a gross profit of SAR171.3mn (-5.5% y-o-y, +0.9% q-o-q), compared to our SAR168.5mn estimate. The company's operating profit of SAR163.6mn (-5.7% y-o-y, +1.1% q-o-q) was also in line with our estimate of SAR160.4mn. The y-o-y decline in both gross and operating profits is primarily due to lower sales volumes this quarter. On a q-o-q basis, profits edged upward, despite a 0.3% decline in sales volumes, since a fall in cost of sales during the quarter led to improved margin in Q2 as compared to Q1.
- Earnings in line with our estimates:** Qassim reported a net profit of SAR161.1mn (-1.5% y-o-y, +1.3% q-o-q), in line with our SAR154.8mn estimate. The company's earnings declined y-o-y due to a fall in the value and volume of sales on the back of lower demand for cement. However, a slightly higher "other income" this quarter contributed to the q-o-q improvement in earnings.

Figure 1: Qassim Cement Co: summary of Q2 2014 results

(SAR mn)	Q2 2013	Q1 2014	Q2 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	300.7	272.9	Not disclosed	n.a	n.a	280.4
Gross Profit	181.2	169.8	171.3	-5.5%	0.9%	168.5
Gross Profit margin	60.3%	62.2%	n.a	n.a	n.a	60.1%
Operating profit	173.4	161.7	163.6	-5.7%	1.1%	160.4
Net profit	163.6	159.0	161.1	-1.5%	1.3%	154.8

Source: Company data, Al Rajhi Capital



Conclusion: Qassim posted a weak operating performance in Q2 as it reported a y-o-y decline in all profit lines as expected. Sales volumes dipped by nearly 10% y-o-y which was also on expected lines considering the weakness in the sector. The company's expansion plans recently received a major setback after the government refused to supply fuel for its planned new production line, which we believe can result in production commencement delays. Hence, we see limited upside potential in the near-term and reiterate our Neutral rating with a target price of SAR95.7 per share.

Major Q2 Developments

Dividend payout of SAR3 per share

Qassim Cement's Board of Directors announced a dividend distribution of SAR3 per share for the first half of 2014 (SAR2.75 per share for H1 2013), amounting to a total of SAR270mn to be paid out on Thursday, July 24, 2014.

Expansion plans stalled

In the third week of June, the company announced that it has received an approval from its evaluation consultant to proceed with the construction of its new production line with a capacity of 5,500 tons of cement per day. However, Qassim Cement's expansion plans had to be kept on hold for the time being as the Ministry of Petroleum & Mineral Resources indicated that it would be difficult to supply fuel for the new production line.



Disclaimer and additional disclosures for Equity Research

Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Jithesh Gopi, CFA
Head of Research
Tel : +966 11 2119332
gopij@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561
Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.