Saudi Cement
Cement – Industrial
SACCO AB: Saudi Arabia
30 July 2017

الراجحي المالية
Al Rajhi Capital

US$2.049bn	85%	US$1.126mn
Market cap	Free float	Avg. daily volume

Target price	51.0	1.4% over current
Current price	50.3	as at 27/7/2017

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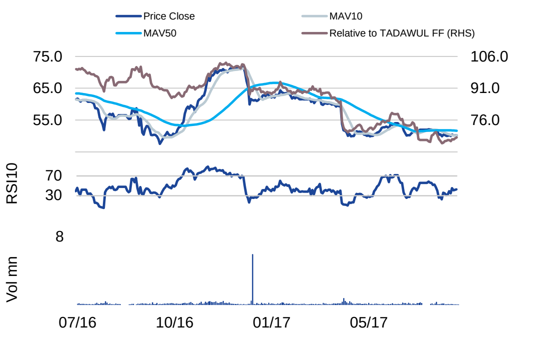
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	1932	1778	1291	1352
Revenue Growth	-4.6%	-8.0%	-27.4%	4.7%
EBITDA (mn)	1249	1149	811	794
EBITDA Growth	-6.0%	-8.0%	-29.4%	-2.1%
EPS	6.01	5.89	3.86	3.94
EPS Growth	-10.0%	-2.0%	-34.5%	2.1%

Source: Company data, Al Rajhi Capital

Saudi Cement

Q2: Below estimates. Remain neutral (TP: 51/sh)

Saudi cement reported a Q2 net profit of SAR94mn (-62% y-o-y, -43% q-o-q), below our estimate of SAR138mn as well as consensus forecast of SAR136mn. The main reason for the miss was lower than expected sale price as well as higher than expected cost per ton. The company attributed the decline in profit to the drop in sales volume and sale price as a result of sluggish demand. Despite the decline of 5% q-o-q in sale price per ton (SAR 224/ton vs. our estimate of SAR230), helped by locational advantage , the company still enjoys high selling prices compared to the sector (average of SAR 175/ton). Going forward, we expect further decline in average realized price/ton due to the high inventories and low demand. The company's cost/ ton increased by 15% q-o-q, mainly due to lower sales volume and higher energy prices. Saudi cement halted its exports to Bahrain during the quarter due to the implementation of export fees (vs. 176k ton in Q2 2016). After the recent 50% cut on export fees, we expect the company to benefit and to export higher volumes in H2 than last year but there will be more pressure on profit margins. We revised our estimates to reflect the drop in company's sales volume , our target price on the company comes to SAR51 per share.

- **Revenues and profit margins:** Saudi cement reported Q2 revenue of SAR270mn (-46% y-o-y, -22% q-o-q), below our SAR292mn estimate. The company sold 1.2mn tons of cement during this quarter (-41% y-o-y), impacted by Eid al-fitr season and Bahrain exports. Low selling prices along with high cost/ton have led to further contraction in profit margins as gross and operating margins came at 45% and 37%, respectively.

- **Outlook:** We believe that low leverage and limited capex will lead Saudi cement to raise its 2017 payout ratio (93% in 2016). sharp drop in selling prices in the central and northern regions may increase the competition in the eastern region and lead the company to offer deep discounts.

- **Net profit and Valuation:** Q2 net profit came in at SAR94mn (-62% y-o-y) and was below our SAR138mn estimate. An escalation in cost of goods due to higher fuel prices and lower selling prices due to the slowdown in construction activities have put further downward pressure on the company's bottom-line. Based on our weighted average of DCF and PE relative valuation methods, we maintain our Neutral rating on Saudi cement with a revised target price of SAR51/share.

Figure 1 Saudi cement: Summary of Q2 2017 results

	Q2 2016	Q1 2017	Q2 2017	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	498.8	346.0	269.5	-46.0%	-22.1%	292
Gross Profit	282.0	191.0	121.0	-57.1%	-36.6%	152
Gross Margin	57%	55%	45%	NA	NA	52%
Operating Profit	257.0	168.0	99.0	-61.5%	-41.1%	134
Net Profit	249.0	165.0	94.0	-62.2%	-43.0%	138

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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