

## QASSIM CEMENT



## EVENT FLASH

## Further discounts reflect muted sector outlook

Qassim Cement reported a disappointing set of 3Q16 results, with net income declining -38.8% YoY to SR70.4mn. This is significantly below the NCBC and consensus estimates of SR88mn and SR92mn, respectively. We believe the YoY weakness and deviation from our estimates came from lower than expected prices and lower other income. We expected selling prices of SR218/ton and believe it may have been as low as SR201/ton. The company trades at a fair 2017E P/E of 11.1x vs. 8.3x for the sector, which we believe is fair.

- **NCBC view on results:** Qassim Cement reported a disappointing set of 3Q16 results, with net income declining -38.8% YoY (-38.9% QoQ) to SR70.4mn. This is significantly below the NCBC and consensus estimates of SR88mn and SR92mn, respectively. We believe the YoY decline and deviation from estimates is due to higher than expected discounts offered and lower other income (-SR2mn vs. our estimates of SR4mn).
- Based on our calculations, we believe selling price may have been as low as SR201/ton vs. our estimate of SR218/ton. This also compares to the 3Q15 price of SR230/ton and 2Q16 price of SR218/ton. The further discounts offered came despite Qassim Cement reducing its clinker production by -10.8% YTD in vs. the sector's clinker production cut of -0.7% YTD. Accordingly, we believe the company offered further discounts as a result of smaller companies in remote regions offering significant discounts to sell in high demand areas. Such discounts are expected to continue provided the muted overall outlook for the sector.
- Total sales of Qassim Cement for the two months of July and August 2016 stood at 0.53mn tons, decreasing -9.8% YoY. This is higher than the industry declines of -6.0% during the same period. This weakness during 3Q16 led to sales quantities declining -3.1% YTD for Qassim Cement vs. -3.7% YTD declines for the sector.
- **Read across for the sector:** We believe cement companies in Saudi may have offered further discounts, similar to Qassim Cement in 3Q16 due to the overall slowdown and muted outlook.
- We are currently Neutral on the stock, with a PT of SR71.0. The company trades at a fair 2017E P/E of 11.1x vs. 8.3x for the sector, which we believe is fair. Although we expect dividends to decline in 2017E, the dividend yield remains attractive at 7.8%.

## 3Q16 Results Summary

SR mn	3Q16A	3Q15A	% YoY	3Q16E	% Var^
Gross income	84	126	(33.2)	98	(14.2)
Operating income	78	120	(34.8)	92	(14.7)
Net income	70	115	(38.8)	88	(20.1)
EPS	0.78	1.28	(38.8)	0.98	(20.1)

Source: Company, NCBC Research ^ % Var indicates variance from NCBC estimates

## NEUTRAL

<b>Target price</b>	<b>71.0</b>
<b>Current price (SR)</b>	<b>51.3</b>
<b>Upside/Downside (%)</b>	<b>38.4</b>

## STOCK DETAILS

52-week range H/L (SR)	82.1/49.3
Market cap (\$ mn)	1,230
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.1)	(21.3)	(37.2)
Rel. to market	2.8	(6.1)	(8.9)

Avg daily turnover (mn)	SR	US\$
3M	3.9	1.0
12M	5.9	1.6

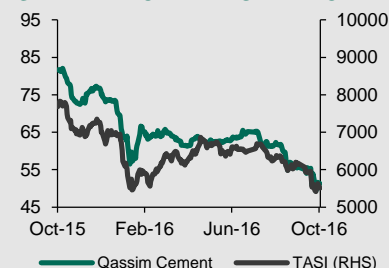
Reuters code	3040.SE
Bloomberg code	QACCO AB
	<a href="http://www.qcc.com.sa">www.qcc.com.sa</a>

## VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	7.9	9.7	11.1
P/B (x)	2.4	2.6	2.7
EV/EBITDA (x)	7.0	8.2	9.5
Div Yield (%)	12.2	10.2	7.8

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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**NCBC Investment Ratings**

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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