

July 31, 2017

Rating  
12- Month Target Price

Neutral  
SAR 53.00

## SAUDI CEMENT COMPANY (SACCO)

2Q2017 First Look

### Expected Total Return

Price as on Jul-30, 2017	SAR 50.00
Upside to Target Price	6.0%
Expected Dividend Yield	6.0%
Expected Total Return	12.0%

### Market Data

52 Week H/L	SAR 71.8/47.1
Market Capitalization	SAR 7,650 mln
Enterprise Value	SAR 7,645 mln
Shares Outstanding	153.0 mln
Free Float	81.1%
12-Month ADTV ('000's)	140.7
Bloomberg Code	SACCO AB

### 1-Year Price Performance



Fig in SAR mln	RC. Est	Actuals
Revenue	278	270
Gross Profit	152	121
EBIT	131	99
Net Income	127	94
EPS (SAR)	0.83	0.61

## Margin Squeeze

Saudi Cement Company (SACCO) reported 2Q2017 results with earnings miss but revenues came in-line with our expectations. EPS of SAR 0.61 missed our SAR 0.83 estimate and street's SAR 0.90, reporting one of its bleak quarters posting an enormous EPS decline of -62% Y/Y and -43% Q/Q. Key highlights in 2Q that raises headwinds are i) -6% Y/Y and -5% Q/Q drop in realization to SAR 224/ton, a mere starter for a large erosion in the coming quarters ii) a -28% Q/Q and -34% Y/Y decline in EBIT/ton to SAR 82/ton is alarming for a high margin producer versus its 2016 average of SAR 128/ton iii) sharp decline of -43% Q/Q and -49% in clinker production has taken utilization rates to 57% driving up per unit fixed costs iv) margins contracted by an average of 1100 bps Q/Q across the board v) limited exports to Bahrain in 2Q puts pressure and export fees could hamper margins and lastly vi) adjusted inventories (cement + clinker) of 5.44 MT is nearly 93% of LTM sales volumes, a grave concern. We revise our 2017-19 estimates and our target price to SAR 53.00 (earlier SAR 56.00). 2017E P/E of 16.5x is expensive to TASI's 14.3x which is unjustified. Maintain Neutral.

### Topline witnessed steady fall

Revenue of SAR 270 million came in-line with our expectations of SAR 278 million, declined by -45% Y/Y and -22% Q/Q due to fall in sales volume (-18% Q/Q and -41% Y/Y) to 1.47 MT. A steady fall in market share is a concern, losing nearly 3.5% over the last 12 months and currently stands at 10.7% versus 14.3% in 2Q2016. We believe the furious price war in the KSA cement market has led to a backlash for SACCO's fall in realization to SAR 224/ton as peers sell at 20-30% discount (Yamama-SAR 162/ton, Qassim-SAR 153/ton, City-SAR 147/ton) garnering higher market share. SACCO is believed to have partially adopted same strategy by offering discounts but not enough to meet peers volume-price mix. SACCO's attempt to preserve its pricing is appreciated, but not a right strategy in a scenario of mounting inventories.

### Margins contract significantly

Gross margins contracted 1030 bps to 45% in 2Q versus 55% in 1Q2017, which is lower from 57% in 2Q2016 due to higher costs and low utilization. The adverse impact of lower utilization has led to large spike in total opex/ton by +17% Q/Q and +26% Y/Y. The wide impact on fixed costs led gross profit to a decline of -57% Y/Y and -43% Q/Q reporting SAR 121 million, which came lower to our SAR 152 million estimate. In addition, a large drop in clinker and cement production (-18% Q/Q and -42% Y/Y) has led to spike in cash cost by +21% Y/Y and +15% Q/Q to SAR 108/ton. With such an increase, operating margins declined by 1180 bps leading to a -62% Y/Y and -41% Q/Q fall in operating profit at SAR 99 million; lower to our SAR 131 million estimate. SACCO reported earnings of SAR 94 million which fell by -43% Q/Q and -62% Y/Y, taking margins to new normal of 35%, fell by 1280 bps from 1Q2017.

### Revising DPS and TP, but maintain Neutral

We further revise our 2017-19 estimates as earnings trends looks uneven and cut our 2017 DPS forecast to SAR 3.00, which yields 6.0%. We also revise our target price to SAR 53.00 (earlier SAR 56.00), while continue to recommend Neutral.

### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	1,778	1,186	1,254
EBITDA*	1,149	593	615
Net Profit	902	463	485
EPS (SAR)	5.90	3.03	3.17
DPS (SAR)	5.50	3.00	3.00
BVPS (SAR)	21.41	22.71	23.79

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	22%	11%	11%
ROAE	28%	13%	13%
P/E	8.5x	16.5x	15.8x
P/B	2.3x	2.2x	2.1x
EV/EBITDA	6.7x	12.9x	12.4x
EV/Sales	4.3x	6.4x	6.1x

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## Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

\* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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