

QASSIM CEMENT

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NCB Capital

EVENT FLASH

Lowest gross margins on record reflects weakness

Qassim Cement reported a weak set of 1Q17 results, with net income declining -39.9% YoY to SR80mn. This compares to the NCBC estimates of SR94.7mn. We believe this came as a result of 1) lower sales quantities (-15% YoY), 2) lower selling prices (-18% YoY) and 3) lowest gross margins on record of 46.1%. Qassim Cement trades at 2017E P/E of 12.8x vs covered peers at 12.9x.

- **NCBC View on Results:** Qassim Cement reported a weak set of 1Q17 results, with net income declining -39.9% YoY (-9.5% QoQ) to SR80.3mn. This is below the NCBC estimates of SR94.7mn. We believe the weakness came from 1) lower sales quantities due to the construction slowdown, 2) weak margins due to the revised fuel support levels, despite the higher than expected other income of SR6.9mn vs. our estimates of SR4.9mn.
- Total sales quantity of Qassim Cement stood at 1.07mn tons in 1Q17, in-line with our estimates of 1.08mn tons. Sales quantities declined by -15.0% YoY (+11.9% QoQ), lower than the industry declines of -19.9% YoY (+5.1% QoQ) during 1Q17. We believe this weakness reflects the muted sector outlook.
- Average selling prices stood at SR178/ton vs. the NCBC estimates of SR191/ton (-18% YoY, -8% QoQ). We believe these discounts came as a result of the overall construction slowdown and increased competition in the sector. We believe discounts offered by smaller players in remote regions to sell in high demand areas may lead to further discounts for Qassim Cement.
- Gross margins reached the lowest level on record, contracting from 53.3% in 1Q16 to 46.1% in 1Q17. This compares to our estimates of 53.3%, leading to a higher variance of -16.7% at the gross profit level. We believe the main reason behind lower margins and decline in gross profits (-39.9% YoY, -8.1% QoQ) is 1) revised support on fuel and utilities and 2) steep discounts offered. We expect an average gross margin of 47.4% till 2021E.
- **Read across for the sector:** We believe cement companies in Saudi may have offered further discounts, similar to Qassim and Yamama Cement in 1Q17 due to the continued slowdown in demand. We estimate an average discount of 3% in 2017E for covered companies (excl. Eastern Cement).
- We are Neutral on Qassim Cement with a PT of SR59.7. Further contraction in margins and continued demand weakness are key risks for Qassim Cement. The stock trades at 2017E P/E of 12.8x vs. peer average of 12.9x.

1Q17 Results Summary

SR mn	1Q17A	1Q16A	% YoY	1Q17E	% Var [^]
Sales	191	275	(30.6)	206	(7.3)
Gross Income	88	147	(39.9)	106	(16.7)
Gross margin (%)	46.1%	53.3%	(7.16)	51.3%	(5.17)
Operating income	81	139	(41.9)	99	(17.9)
Operating margin (%)	42.3%	50.5%	(8.20)	47.8%	(5.46)
Net income	80	134	(39.9)	95	(15.2)
Net margin (%)	42.0%	48.5%	(6.48)	45.9%	(3.90)
EPS	0.89	1.48	(39.9)	1.05	(15.2)

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

NEUTRAL

Target price	59.7
Current price (SR)	49.3
Upside/Downside (%)	21.1%

STOCK DETAILS

52-week range H/L (SR)	68/48
Market cap (\$ mn)	1,182
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(8.9)	(17.5)	(22.7)
Rel. to market	(8.9)	(18.6)	(29.1)

Avg daily turnover (mn)	SR	US\$
3M	2.1	0.6
12M	4.9	1.3

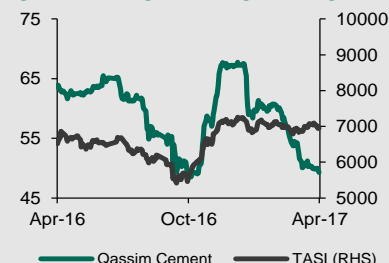
Reuters code	3040.SE
Bloomberg code	QACCO AB
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	10.8	12.8	13.5
P/B (x)	2.5	2.5	2.4
EV/EBITDA (x)	9.3	10.8	11.3
Div Yield (%)	9.6	7.1	7.1

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

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

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