

QASSIM CEMENT



EVENT FLASH

In-line, but relatively weak 2Q11 numbers

Qassim Cement announced its preliminary 2Q11 results on 9 July 2011. All numbers came in 3-5% below our estimates with net income up 6.6% YoY to SR145mn. Although the YoY gain is better than the declines seen in 2010, it is significantly below the 15% increase we expect for the covered stocks as a whole in 2Q11. We await full details before updating our model.

- **Gross profit:** 2Q11 came in at SR155mn, increasing 3.6% YoY but 4.4% below the NCBC estimate for 2Q11 of SR162mn. 2Q11 was a decrease of 1.2% QoQ
- **Operating profit:** 2Q11 came in at SR146mn, increasing 3.2% YoY but 4.7% below the NCBC estimate for 2Q11 of SR153mn. 2Q11 was a decrease of 1.3% QoQ
- **Net profit:** 2Q11 came in at SR145mn, increasing 6.6% YoY but 3.4% below the NCBC estimate for 2Q11 of SR150mn. 2Q11 was a decrease of 0.4% QoQ
- **EPS:** 2Q11 came in at SR1.61, increasing 6.6% YoY but 3.4% below the NCBC estimate for 2Q11 of SR1.66. 2Q11 was a decrease of 0.4% QoQ
- In summary, Qassim Cement reported 3-6% YoY growth in all profit lines in 2Q11. However, all profit lines came in 3-5% below NCBC estimates. The key issue with Qassim Cement remains its limited stock levels and its already high utilization rates, both limiting its ability to meet any increase in demand.
- The company attributed the YoY rise in profitability to 1) higher sales volumes and 2) improved operating performance of its subsidiary companies. We believe QCC will have also benefited from increased prices seen in 2Q11.
- Although the YoY growth in 2Q11 is better than the YoY declines seen in 2Q10, we believe the 6.6% growth will come in significantly below the 15% YoY growth we expect for the six cement stocks under coverage. We believe the key reason for this is QCC's limited ability to increase production.
- QCC has been reported in the local press as investigating the possibility of opening a new line of production. Any such increase in capacity could be seen as a potential positive catalyst to the stock.

2Q11 Results Summary

SR mn	2Q11A	2Q10A	% YoY	2Q11E	% Var [^]
Sales	N/A	256	N/A	280	N/A
Gross income	155	150	3.6%	162	-4.4%
Operating income	146	141	3.2%	153	-4.7%
Net income	145	136	6.6%	150	-3.4%
EPS	1.61	1.51	6.6%	1.66	-3.4%

Source: Company, NCBC Research [^]% Var indicates variance from NCBC forecasts

NEUTRAL

Target price	71.7
Current price (SR)	66.5

STOCK DETAILS

M52-week range H/L (SR)	72/56
Market cap (\$ mn)	1,598
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.5	9.5	(6.0)
Rel. to market	(2.9)	9.2	(12.9)

Avg daily turnover (mn)	SR	US\$
3M	10.8	2.9
12M	7.2	1.9

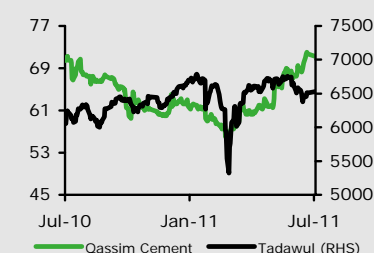
Reuters code	3040.SE
Bloomberg code	QACCO AB
	www.qcc.com.sa

VALUATION MULTIPLES

	10A	11E	12E
Reported P/E (x)	11.9	11.3	10.3
P/B (x)	3.2	3.1	2.9
EV/EBITDA (x)	8.9	8.6	8.5
Div Yield (%)	7.5	7.50	6.4

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

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- OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents expected returns 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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