CEMENT | 15 JANUARY 2017

QASSIM CEMENT

الأهلي كابيتال
NCB Capital

EVENT FLASH

Weak operating results; offset by other income

Qassim Cement reported an in-line set of 4Q16 results, with net income declining -36.8% YoY to SR89mn. The YoY declines are mainly attributed to lower quantities sold, which declined -19.2% YoY. This was combined with a -14.0% decline in selling prices, due to the high competition to maintain market share. Qassim Cement trades at a 2017E P/E of 13.6x vs. covered peers average P/E of 12.1x.

- **NCBC view on the results:** Qassim Cement reported an in-line set of 4Q16 results, with net income declining -36.8% YoY to SR89mn. This compares to the NCBC and consensus estimates of SR93mn and SR96mn, respectively. Although earnings were in-line with estimates, operating income was below estimates due to higher than expected price discounts, lower quantities sold and higher Opex.
- Total sales quantity of Qassim Cement stood at 0.96mn tons in 4Q16, coming broadly in-line with our estimates of 1.01mn tons. Sales quantities declined by -19.2% YoY in 4Q16, lower than the industry declines of -20.5% during the same period. Quantities sold by Qassim Cement declined -8.3% in 2016 vs. -9.8% for the sector.
- Selling prices stood at SR193/ton vs. our estimates of SR212/ton, declining by -14% YoY and -9% QoQ. As a result, sales came -13.6% below our estimates at SR185mn. We believe these high discounts came to maintain market share, despite clinker production cuts. 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 contracted significantly in 4Q16 to 51.8% vs. 59.6% in 4Q15 but came in higher than our estimates of 50.2%. We believe the decline in margins came primarily from discounts and higher costs from lower fuel subsidies. Opex came-in at SR9.4mn vs. our estimates of SR6.4mn, leading to a variance of -14.5%. However due to a higher than expected other income of SR11.3mn vs. our estimate of SR1.4mn, net profit came in-line with our expectations.
- We are Neutral on Qassim Cement with a PT of SR71.0. Lower prices due to competition and higher costs from reduced subsidies are key risks going forward. The stock trades at 2017E P/E of 13.6x vs. peer average of 12.1x.

4Q16 Results Summary

SR mn	4Q16A	4Q15A	% YoY	4Q16E	% Var^
Sales	185	267	(30.5)	214	(13.6)
Gross income	96	159	(39.6)	108	(10.8)
Gross margin (%)	*51.8%*	*59.6%*	*(7.80)*	*50.2%*	*1.63*
Operating income	87	152	(43.2)	101	(14.5)
Operating margin (%)	*46.7%*	*57.1%*	*(10.40)*	*47.2%*	*(0.50)*
Net income	89	141	(36.8)	93	(4.7)
Net margin (%)	*47.9%*	*52.7%*	*(4.77)*	*43.4%*	*4.46*
EPS	0.99	1.56	(36.8)	1.03	(4.7)

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

NEUTRAL

Target price	**71.0**
Current price (SR)	**59.5**

STOCK DETAILS

52-week range H/L (SR)	68/49
Market cap ($ mn)	1,428
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(10.9)	16.7	(5.2)
Rel. to market	(7.5)	(4.9)	(19.3)

Avg daily turnover (mn)	SR	US$
3M	6.8	1.8
12M	6.6	1.8

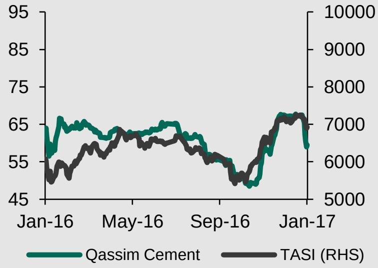
Reuters code	3040.SE
Bloomberg code	QACCO AB
	www.qcc.com.sa

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	9.1	12.9	13.6
P/B (x)	2.8	3.1	3.2
EV/EBITDA (x)	8.1	10.4	11.4
Div Yield (%)	10.5	8.8	6.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

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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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