

HOLD

Target Price
SAR71.9

Qassim Cement Company (QCC)

Market Data

Bloomberg Code:	QACCO AB
Reuters Code:	3040.SE
CMP (18 June 2011):	SAR 68.3
O/S (mn)	90.0
Market Cap (SAR mn):	6,147
Market Cap (USD mn):	1,639
P/E 2011e (x):	11.4
P/Bv 2011e (x):	3.2

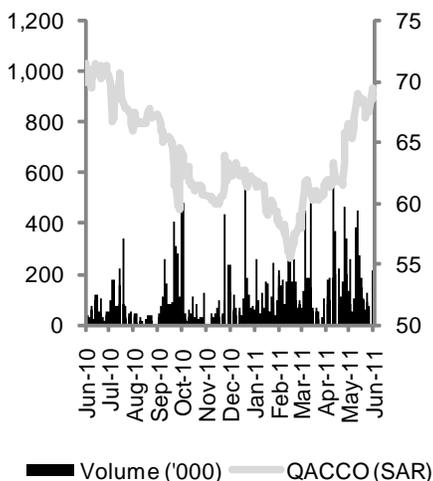
- **1Q11 net profit beat our estimate by 6.1%**
- **Average realization prices increase by 7.6%**
- **Gross margins increase to 59.1% in 1Q11**
- **Fair value upgraded; Recommendation downgraded**

Price Performance 1-Yr

High (SAR):	71.5
Low (SAR):	55.5
Average Volume: (000)	114.5

	1m	3m	12m
Absolute (%)	4.6	20.9	5.2
Relative (%)	7.4	12.6	-0.5

Price Volume Performance



Source: Zawya

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Better than expected performance

1Q11 net profit of SAR147.2mn was 6.1% above our estimate of SAR138.7mn and 1.3% above 1Q10 net profit of SAR145.3mn. Net profit margins remained fairly stable at 53.4% in 1Q11 compared to 53.3% in 1Q10.

Increase in realization prices offset decline in volumes sold

Sales revenue increased slightly by 1.0%YoY to SAR275.4mn in 1Q11. The company is apparently following a strategy to lower volumes for higher realization prices. The volume sold decreased by 6.1% to 1.13mn tons in 1Q11. The lower volumes were more than offset by increase in realization prices by 7.6% to SAR243.3 per ton. Consequently, the gross margins improved to 59.1% in 1Q11 compared to 57.5% in 1Q10.

Improvement in demand mitigates competitive pressure

The increase in industry demand by 7.9%YoY in 1Q11 has helped mitigate the impact of intensification of competition in the Central region which subdued company's performance in 2010. Madina and Riyadh cement, which are both present in the Central region, have increased their combined market share of local dispatches to 11.5% in the first five months of 2011 from 10.1% in the same period last year. However, we expect the market share of these two companies to stabilize at current levels due to their high utilization rates thus giving breathing space to Qassim Cement.

Leveraging the cost advantage

Qassim cement still enjoys the highest gross margins in Saudi Arabia due to its proximity to raw material sources and technologically advanced plants and processes. The advanced plants allow the company to operate above 100.0% capacity utilization levels as seen in 2009 and 2010. We expect the company to operate at a utilization level of around 115.0% in 2011 which will help keep the margins high due to economies of scale.

Revision in estimates

We have increased our sales revenue forecast by 6.2% to SAR1,017mn for 2011 in light of 1Q11 results. We have also increased our 2011 net profit forecast by 9.2% on account of improving margins.

Qassim Cement Company 2011e

SAR mn	Earlier Estimates	Revised estimates	Change %
Revenues	957	1,017	6.2%
Cost of sales	(419)	(422)	0.7%
Operating Profit	504	558	10.8%
Net Profit	495	541	9.2%

Source: Global Research

Valuation update

We have upgraded our fair value by 12.2% to SAR71.9 in light of the improvement in cement demand outlook. However, we downgrade our recommendation to **HOLD** from **BUY** as the stock price has surged by 17.7% since our last **BUY** recommendation on 20 February 2011, pricing in the positive fundamentals. The stock at its current price of SAR68.3 provides an upside of 5.3%. The stocks 2011e P/E of 11.5x is also close to our Saudi cement sector universe average 2011e P/E of 11.7x.

Financial Statements

(SAR mn)	2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement							
Revenue	820	987	968	1,017	1,004	985	981
Revenue growth	-3.2%	20.3%	-1.8%	5.0%	-1.3%	-1.9%	-0.5%
Cost of sales	(294)	(417)	(412)	(422)	(424)	(425)	(423)
Gross Profit	526	569	557	595	580	561	557
SG&A	(22)	(34)	(38)	(37)	(36)	(36)	(36)
Operating Profit	504	535	519	558	544	524	521
Financial charges	-	-	-	-	-	-	-
Other income	27	178	9	10	11	12	14
Profit Before Taxation	518	624	523	563	550	531	528
Zakat and minority interest	(1)	(22)	(22)	(22)	(21)	(21)	(21)
Net Profit	517	602	501	541	528	510	507
Net profit growth	-4.4%	16.5%	-16.9%	8.1%	-2.4%	-3.4%	-0.6%
Balance Sheet							
Cash and Bank Balance	336	16	20	252	348	444	540
Receivables and Prepayments	52	46	51	56	63	65	67
Inventories	207	194	187	200	203	206	205
Other Current assets	318	627	478	338	322	291	263
Total Current Assets	913	882	735	845	936	1,006	1,074
Capital work-in-progress	109	69	23	29	36	45	56
Deferred charges after amortization	48	45	42	40	38	36	34
Net fixed assets	1,200	1,247	1,223	1,218	1,210	1,199	1,186
Total Fixed Assets	1,357	1,362	1,288	1,287	1,284	1,280	1,276
Total Assets	2,270	2,244	2,023	2,132	2,220	2,286	2,350
Accounts payables	29	12	12	19	24	26	28
Dues to shareholders	33	33	33	33	33	33	33
Other current liabilities	267	208	103	112	117	120	123
Long-term debt	200	145	-	-	-	-	-
Employee end-of-service benefits	18	19	20	22	25	27	30
Share capital	450	900	900	900	900	900	900
Retained Earnings	673	468	445	480	504	512	517
Other reserves	601	461	511	565	618	669	720
Total Shareholders Equity	1,723	1,828	1,855	1,946	2,022	2,081	2,137
Total Equity & Liability	2,270	2,244	2,023	2,132	2,220	2,286	2,350
Cash Flow							
Cash Flow from Operating Activities	511	643	548	622	611	597	602
Cash Flow from Investing Activities	(326)	(424)	130	(112)	(63)	(50)	(55)
Cash Flow from Financing Activities	(308)	(540)	(674)	(451)	(451)	(451)	(451)
Change in Cash	(124)	(321)	4	58	96	96	96
Net Cash at End	336	16	20	252	348	444	540
Ratio Analysis							
Gross margin	64.1%	57.7%	57.5%	58.5%	57.8%	56.9%	56.8%
Operating profit margin	61.5%	54.2%	53.6%	54.9%	54.2%	53.2%	53.1%
Net Profit Margin	63.0%	61.0%	51.7%	53.2%	52.6%	51.7%	51.7%
Return on Average Assets	23.9%	26.7%	23.5%	26.0%	24.3%	22.6%	21.9%
Return on Average Equity	31.8%	33.9%	27.2%	28.5%	26.6%	24.9%	24.1%
EV/ton (USD)	255.2	464.1	402.4	424.9	417.9	411.0	404.1
Quick ratio (x)	2.1	2.7	3.7	3.9	4.2	4.5	4.7
Debt / Equity (x)	0.14	0.11	0.00	0.00	0.00	0.00	0.00
EV/EBITDA (x)	7.0	11.8	10.5	10.4	10.5	10.6	10.5
EV/Revenues (x)	4.3	6.5	5.8	5.8	5.8	5.8	5.7
FCF Yield	11.2%	8.7%	9.3%	8.8%	8.6%	8.4%	8.5%
EPS Adj. (SAR)	5.7	6.7	5.6	6.0	5.9	5.7	5.6
Book Value Per Share Adj. (SAR)	19.1	20.3	20.6	21.6	22.5	23.1	23.7
Market Price (SAR) *	80.8	69.5	62.3	68.3	68.3	68.3	68.3
Market Capitalization (SAR mn)	3,634	6,255	5,603	6,147	6,147	6,147	6,147
Dividend Yield	8.7%	7.9%	8.4%	7.3%	7.3%	7.3%	7.3%
P/E Ratio (x)	7.0	10.4	11.2	11.4	11.6	12.1	12.1
P/BV Ratio (x)	2.1	3.4	3.0	3.2	3.0	3.0	2.9

Source: Company Reports & Global Research

* Market price for 2011 and subsequent years as per closing prices on June 18, 2011

Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Qassim Cement Company	HOLD	QACCO AB	3040.SE	SAR 68.3	1,10

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