

Rating **Neutral**
 12- Month Target Price **SAR 53.00**

QASSIM CEMENT COMPANY (QACCO)

2Q2017 First Look

Expected Total Return

Price as on Jul-17, 2017	SAR 48.55
Upside to Target Price	9.2%
Expected Dividend Yield	6.2%
Expected Total Return	15.4%

Market Data

52 Week H/L	SAR 67.8/48.2
Market Capitalization	SAR 4,369 million
Enterprise Value	SAR 3,595 million
Shares Outstanding	90.0 million
Free Float	79.2%
12-Month ADTV('000's)	63.3
Bloomberg Code	QACCO AB

1-Year Price Performance

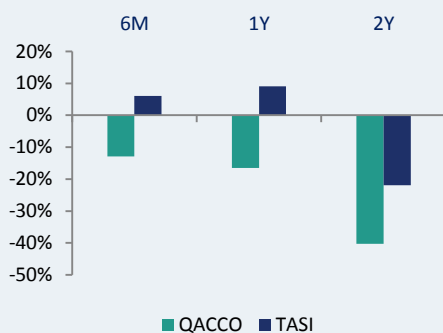
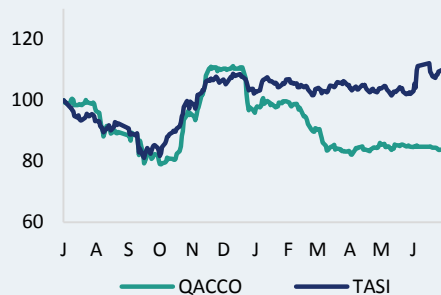


Fig in SAR Mln	RC.Est	Actuals
Revenue	165	135
Gross Profit	74	56
Operating Income	66	49
Net Income	64	53
EPS (SAR)	0.71	0.59

Estimate Miss Across the Board

Qassim Cement Company (Qassim) reported bleak set of 2Q2017 results with earnings missing our estimates and consensus due to persistent industry weakness. At first look, the key reasons are i) weak cement demand has led to a -13% Y/Y and -18% Q/Q decline in sales volumes partially due to impact of Ramadan ii) record drop of -14% Q/Q and -32% Y/Y in realization iii) weak utilization rates of 78% leading to gross margin contraction of 460 bps. Qassim has recorded one of the weakest earnings in its operational history, missing most estimates. EPS of SAR 0.59 missed our SAR 0.71 estimate and consensus of SAR 0.70. 2017E P/E of 15.9x is expensive with TASI P/E of 14.9x and also to peers. We revise our 2017-19 estimates and our target price to SAR 53.00, but continue to recommend Neutral. With the revision, our 2017E DPS is revised to SAR 3.00, yields 6.2%. Maintain Neutral.

Record low realization in this quarter

Revenue of SAR 135 million in 2Q2017 declined by -29% Q/Q and -40% Y/Y, missed our estimate of SAR 165 million and streets SAR 163 million. Key factors for the decline are i) the large fall in sales volume, 881K tons in 2Q2017 vs 1073k tons in 1Q2017 ii) record fall in realization to SAR 153/ton in 2Q from SAR 178/ton in 1Q2017 iii) drop in market share by 200 bps at a time when industry is facing stiff competition. Among the central region producers, Qassim and City have witnessed the sharpest decline in sales volumes during 2Q2017.

Margins contract significantly

Gross profit of SAR 56 million declined by -53% Y/Y and -36% Q/Q, missed our estimate of SAR 74 million. Key reasons for the decline are the lower sales volumes coupled with sharp drop in utilization rate on a Y/Y basis, which is currently at 78% in 2Q. However, cement production rates unlike clinker continued at similar rate with a -3% Y/Y and -4% Q/Q decline. The lower clinker production rates have led to a decline of -10% Q/Q and -19% Y/Y in cash costs, which is at SAR 77/ton in 2Q, thanks to its cement grinding strategy more linked to the demand. However, gross margins declined to 42% with a fall of 460 bps in 2Q due to low sales volumes. Despite the slow pace of clinker production, inventories have increased by 20% Q/Q and +35% Y/Y to 1.2 MT which is a concern, points to an increase in Adj.inventory/LTM sales volumes to 36% in 2Q from 28% in 1Q2017. Operating profit of SAR 49 million declined by -57% Y/Y and -40% Q/Q, missing our estimates of SAR 66 million. As a result, operating margins of 36% in 2Q declined 610 bps from last quarter, largely lower from 51% in 2Q2016. This followed suit, with net margins decline of 280 bps to 39% in 2Q2017 but at large fall from 51% in 2Q2016. Net income of SAR 53 million declined by -34% Q/Q and -53% Y/Y, missing RC estimate of SAR 64 million and consensus estimate of SAR 66 million.

Revise TP to SAR 53.00, maintain Neutral

We expect DPS at SAR 3.00 for 2017, yields 6.2% which is less attractive. We believe with continued contraction in margins, 2017 poses a tough year for Qassim and expect valuation to further subside. 2017E P/E of 15.9x is expensive to TASI 14.9x, unlike a discount to TASI which is evident in its trading patterns in the past. We cut target price to SAR 53.00 but continue to recommend Neutral.

Key Financial Figures

FY Dec31 (SAR Mln)	2016A	2017E	2018E
Revenue	852	757	769
EBITDA*	492	352	371
Net Profit	410	274	279
EPS (SAR)	4.56	3.04	3.10
DPS (SAR)	4.00	3.00	3.00
BVPS (SAR)	15.37	15.41	15.51

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	11%	11%
ROAE	30%	20%	20%
P/E	10.7x	15.9x	15.7x
P/B	3.2x	3.1x	3.1x
EV/EBITDA	7.3x	10.2x	9.7x
EV/Sales	4.2x	4.7x	4.7x

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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