

# EASTERN CEMENT



## EVENT FLASH

## Earnings supported by sale of investments

Eastern Cement reported a 43.5% YoY increase in net income to SR157mn, mainly driven by a one-off gain of SR80.7mn from the sale of investments in SIIG. The net income was 7.2% higher than the NCBC estimates and 24% higher than consensus, which we believe is due to lower than expected COGS. However, the 20-27% YoY decline in gross and operating profits is mainly driven by lower volumes (-10.8%).

- **Gross profit:** 1Q14 came in at SR92mn decreasing 19.7% YoY and 16.5% above our estimate of SR79mn. 1Q14 was an increase of 24.3% QoQ.
- **Operating profit:** 1Q14 came in at SR76mn down 26.6% YoY and 13.3% above our estimate of SR67mn. 1Q14 was an increase of 33.1% QoQ.
- **Net Income:** 1Q14 came in at SR157mn increase 43.5% YoY and 7.2% higher than the NCBC estimate of SR146mn. 1Q14 was an increase of 186% QoQ.
- In summary, Eastern Cement reported a 20-27 % YoY decline in gross and operating profit lines. However net income increased by 43.5% YoY to reach SR157mn. This difference is mainly due a one-off gain of SR80.7mn from the sale of investments in SIIG. Net income is 7.2% higher the NCBC estimates and 24% higher than consensus.
- Based on our calculations and preliminary results, we believe the average cost was 8% lower than our expectations of SR162/ton. This represents an increase of 7% YoY but a decrease of 15% QoQ. We believe this is due to a low impact from the imported clinker and inventory build-up.
- The decrease in sales of 10.8% YoY in 1Q14 led to an increase in the company's clinker inventory to reach a 4-year high of 0.63mn tons in March-2014. This is around double the inventory levels a year ago (0.33mn tons). We believe this will enable the company to increase its sales once demand picks up, although it may lead to an increase in costs from the current levels.
- However, we believe that almost 38% of this inventory is due to imports. The company has started importing in October 2013. Such imports are costlier than local production. Therefore, we expect margins to be under pressure in the next few quarters.
- We are currently Neutral on the stock with a PT of SR54.4. The stock's main advantage is the attractive dividend yield of 6.0%. However, the key risks remain the limited capacity and the expected margin pressures from imports.

### 1Q14 Results Summary

SR mn	1Q14A	1Q13A	% YoY	1Q14E	% Var <sup>^</sup>
Gross income	92	115	(19.7)	79	16.5
Operating income	76	104	(26.6)	67	13.3
Net income	157	109	43.5	146	7.2
EPS (SR)	1.83	1.27	43.5	1.70	7.2

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC forecasts

## NEUTRAL

**Target price (SR) 54.4**

**Current price (SR) 58.8**

### STOCK DETAILS

M52-week range H/L (SR)	63/55
Market cap (\$mn)	1,324
Shares outstanding (mn)	86
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(6.5)	(2.5)	1.3
Rel. to market	(10.8)	(13.9)	(30.4)

Avg daily turnover (mn)	SR	US\$
3M	11.2	3.0
12M	8.5	2.3

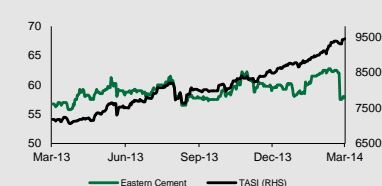
Reuters code	3080.SE
Bloomberg code	EACCOAB
	<a href="http://www.epcco.com.sa">www.epcco.com.sa</a>

### VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	16.1	11.3	13.4
P/B (x)	2.2	2.1	2.0
EV/EBITDA (x)	11.4	10.0	9.6
Div Yield (%)	6.0	6.0	6.0

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

**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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