Qassim Cement
Cement – Industrial
QACCO AB: Saudi Arabia
10 April 2016

US$1.474bn	51%	US$1.789mn
Market cap	Free float	Avg. daily volume

Target price	64.00	4.2% over current
Current price	61.41	as at 7/4/2016

Existing rating

Underweight	**Neutral**	Overweight

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Qassim Cement
Q1: Margin contracts

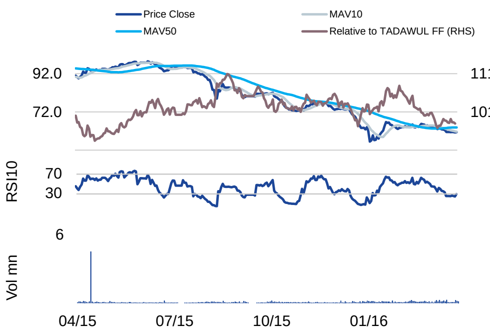
Qassim Cement's Q1 2016 net profit came in at SAR135mn (-16.7% y-o-y,-3.6% q-o-q) slightly below our estimate of SAR 141.5mn (consensus SAR 153mn). Gross and operating profits decline 17% y-o-y (vs. our -9% estimate) as a result of increased fuel prices despite improved volumes and value as per the company's statement. We believe that costs were impacted by a combination of increased energy prices and transportation costs. We expect the top line to be close to our estimate of 281.4mn (-0.4% y-o-y). We see limited upside potential for the stock, thus we reiterate our Neutral rating with a target price of SAR64.

Earnings vs our forecast	Above	In Line	**Below**
Likely impact:			
Earnings estimates	Up	**No Change**	Down
Dividend estimates	Up	**No Change**	Down
Recommendation	Upgrade	**No Change**	Downgrade
Long term view	Stronger	**Confirmed**	Weaker

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/13A	12/14A	12/15A	12/16E
Revenue (mn)	1,051	986	1,026	971
Revenue Growth	0.3%	-6.2%	4.1%	-5.4%
EBITDA (mn)	696	659	623	561
EBITDA Growth	4.0%	-5.3%	-5.4%	-9.9%
BVPS	22.19	21.93	22.18	22.39
BVPS Growth	1%	-1%	1%	1%

Source: Company data, Al Rajhi Capital

- **Revenues:** Qassim is yet to release Q1 2016 revenue numbers. We expect Qassim's top-line to come in line with our estimate of SAR281.4mn (-0.4%% y-o-y) based on cement sales volume of ~ 1.26mn tons(+10.3% y-o-y).

- **Gross and operating profit:** Qassim posted a gross profit of SAR145.5mn (-17.5% y-o-y, -8.5% q-o-q), below our expectation of SAR160mn. Similarly, operating profit declined 17.2% y-o-y and stood at SAR138.4mn, compared to our SAR152mn estimate.

- **Net profit:** Qassim's net profit slipped 16.7% y-o-y to SAR135mn, coming in below our SAR 141.5mn estimate.

- **Valuation:** The company's 16-18% y-o-y decline in profit levels was largely expected due to lower fuel subsidy and higher competition. We continue with our Neutral rating on Qassim with a target price of SAR64 per share.

Figure 1 Qassim Cement: Summary of Q4 2015 results

	Q1 2015	Q4 2015	Q1 2016	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	282.5	266.8	NA	NA	NA	281
Gross Profit	176.0	159.0	145.5	-17.4%	-8.5%	160
Gross Margin	62%	60%	NA	NA	NA	57%
Operating Profit	167.0	152.3	138.4	-17.1%	-9.1%	152
Net Profit	162.7	140.5	135.4	-16.8%	-3.6%	141.5

Source: Company data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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