



US\$0.607bn Market cap
94% Free float
US\$3.246mn Avg. daily volume

Target price **20.00** 15.3% over current
Consensus price **17.83** 1.9% over current
Current price **17.35** as at 23/1/2014

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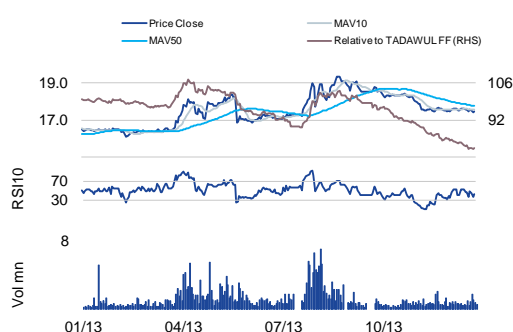
Existing rating

Underweight Neutral Overweight

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

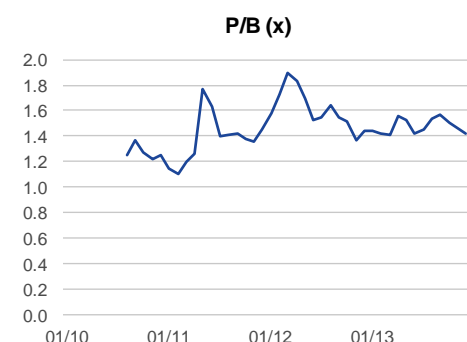


Earnings

Period End (SAR)	12/11A	12/12A	12/13E	12/14E	12/15E
Revenue (mn)	316	369	385	396	462
Revenue Growth	206.0%	16.9%	4.3%	2.9%	16.7%
Gross profit margin	37.6%	41.6%	40.9%	43.3%	44.3%
EBITDA margin	47.7%	49.7%	53.1%	66.7%	66.8%
Net profit margin	26.1%	28.7%	29.1%	32.0%	33.6%
EPS	0.64	0.81	0.86	0.98	1.19
EPS Growth	399.6%	28.1%	5.8%	13.4%	22.4%
ROE	6.3%	7.7%	7.9%	8.7%	10.6%
ROCE	5.5%	6.3%	6.7%	6.7%	8.4%
Capex/Sales	114.2%	96.7%	27.5%	54.8%	20.0%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Al Jouf Cement Disappointing Q4 results

Al Jouf Cement reported weak Q4 results with earnings declining by 74% y-o-y and 16% q-o-q to SAR6.1mn, missing ours and consensus estimates of SAR22mn and SAR20mn respectively. We believe that the company's weak performance was a result of a decline in the value and volume of sales due to sluggish cement demand during the quarter following government's initiatives to clean-up the labour market. The company was also affected due to maintenance shutdowns and an increase in general and administrative expenses. For now, we reiterate our Neutral rating with an unchanged target price of SAR20 per share.

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

- Revenue numbers not released:** Al Jouf has not reported its quarterly revenues as yet. Based on its operating performance, we expect the top line to be below our estimate of SAR105mn.
- Gross and operating profits fall dramatically:** Gross profit came in at SAR17.2mn (-57.5% y-o-y and -3.9% q-o-q), well below our estimate of SAR43.9mn due to a 57% y-o-y decline in sales volume. Operating profit stood at SAR8.4mn (-74.6% y-o-y and -20.0% q-o-q), missing our estimate of SAR28.1mn by a wide margin.
- Net profit records double-digit decline:** The poor operating results of the company in Q4 led to weaker earnings. Al Jouf reported a net profit of SAR6.1mn missing both our estimate of SAR28.1mn and consensus estimate of SAR20.3mn by a wide margin.

Figure 1 Al Jouf Cement: Summary of Q4 2013 results

(SAR mn)	Q4 2012	Q3 2013	Q4 2013	% chg y-o-y	% chg q-o-q	ARC est
Revenue	103.4	50.1	Not disclosed	n.a	n.a	105
Gross Profit	40.5	17.9	17.2	-57.6%	-3.9%	43.9
Gross Profit margin	39.2%	35.7%	n.a	n.a	n.a	41.8%
Operating profit	33.1	10.5	8.4	-74.6%	-20.0%	28.1
Net profit	24.1	7.3	6.1	-74.6%	-16.4%	22.6

Source: Company data, Al Rajhi Capital



- **Conclusion:** Al Jouf reported a sharp decline in all its profit lines during Q4 on account of weaker sales volume and increased cost of revenues. While most cement companies in the Kingdom generally saw improved results on a q-o-q basis following a recovery of business activities post the Ramadan season, Al Jouf experienced a dip in its operating results and earnings during the same period. However, given that the company has major plans to expand and potentially triple its revenue within the next three years, the company's prospects in the long term still appear bright. We await detailed financial results for further analysis. For now, we reiterate our Neutral rating on Al Jouf Cement with a target price of SAR20.0 per share.



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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