Qassim Cement

Cement – Industrial
QACCO AB: Saudi Arabia
18 July 2017

الراجحي المالية
Al Rajhi Capital

US$1.165bn	51%	US$0.441mn
Market cap	Free float	Avg. daily volume

Target price	45.00	-8.5% over current
Current price	49.10	as at 17/7/2017

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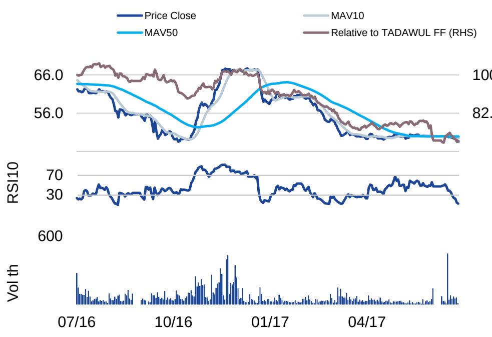
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	1024	852	635	673
Revenue Growth	3.9%	-16.8%	-25.5%	6.0%
EBITDA	678	492	324	327
EBITDA Growth	2.8%	-27.4%	-34.0%	1.1%
EPS	6.1	4.6	2.9	2.8
EPS Growth	-3.2%	-24.9%	-36.9%	-2.1%

Source: Company data, Al Rajhi Capital

Qassim Cement

Q2: Sharp drop in selling prices (SAR153/ton, 30% y-o-y)

Qassim cement's Q2 revenue declined 39% y-o-y (to SAR 135mn), below our estimate of SAR158mn, backed by sharp drop in the average realized price/ton by 30% y-o-y and 14% q-o-q as well as weak sales volume of 881k tons (-13% y-o-y). Qassim's bottom-line of SAR 53.2mn (-53% y-o-y, 34%q-o-q) was below our estimate of SAR67mn as we were factoring slight decline in selling prices on quarterly basis and higher investment income especially after the recent rally in TASI. The stiff competition in the central region, high inventories for northern region producers and current modest demand have led the company to offer huge discounts on the sale price which declined to SAR153 per ton (vs. SAR218 in Q2 2016 and 178 in Q1 2017, going forward, volatility in selling prices is likely to continue in the sector. On the positive side for Qassim, the cost/ton declined 9% y-o-y to SAR89 (vs. average of SAR99 in the last four quarters), however, we don't expect this improvement in cost to continue in the coming few quarters. For now, we continue with our underweight rating on the stock with a target price of SAR45/share.

- **Revenue:** Q2 revenue came in at SAR 135mn (-39% y-o-y), below our estimate of SAR158mn. During the quarter, the company sold 881k tons (-13% y-o-y, vs. sector average of -22%), impacted by Ramadan and Eid al-fitr seasons.

- **Gross and operating profit:** Qassim reported a gross profit of SAR56mn in Q2 compared to our estimate of SAR 70mn. In spite of a 7% q-o-q drop in cost/ton, Q2 gross profit declined to 41.7% (-440bps compared to the previous quarter) on the account of lower selling prices. Consequently, operating margin declined to 36.2%, ~600bps lower than Q1.

- **Dividends:** Qassim Cement's board of directors has recommended SAR 0.65 for Q2 2017 (vs. SAR 1.25 in Q2 2016). In the next couple quarters, We expect Qassim cement to maintain its high payout ratio of +100% and we anticipate total dividends of SAR3 in 2017.

- **Net profit and Valuation:** The company posted a 53% y-o-y and 34% q-o-q decline in net profit due to decrease in sales volume and average realized price/ton. The stock is trading at 2017e PE of 17.1 which is expensive in our view. We remain underweight on the stock with a target price of SAR45/share.

Figure 1 Qassim Cement: Summary of Q2 2017 results

(SAR mn)	Q2 2016	Q1 2017	Q2 2017	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	220.0	191.1	135.1	-38.6%	-29.3%	158
Gross Profit	120.9	88.2	56.4	-53.3%	-36.1%	70
Gross Margin	55%	46%	42%	NA	NA	44%
Operating Profit	113.7	80.9	49.0	-56.9%	-39.4%	63
Net Profit	113.9	80.2	53.2	-53.3%	-33.7%	66.5

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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