

# QASSIM CEMENT



## EVENT FLASH

### In-line set of 2Q14 results

Qassim Cement reported a net income of SR161mn, which is down 3.0% YoY and 1.3% QoQ. These results were in-line with the NCBC and consensus estimates. The company underperformed the sector in terms of sales performance in 2Q14, which we believe is mainly due to companies from remote areas selling at discounts in the Central region. Despite this risk, being one of the lowest cost/ton producers due to efficiencies and not importing clinker remains a key positive at the company.

- **Gross profit:** 2Q14 came in at SR171mn decreasing 5.5% YoY, in-line with our estimates of SR171mn. 2Q14 was an increase of 0.9% QoQ.
- **Operating profit:** 2Q14 came in at SR164mn, down 5.7% YoY, in-line with our estimates of SR163mn. 2Q14 was an increase of 1.1% QoQ.
- **Net Income:** 2Q14 came in at SR161mn decreasing 3.0% YoY, in-line with NCBC estimate of SR159mn. 2Q14 was an increase of 1.3% QoQ.
- In summary, Qassim Cement reported an in-line set of results with net income declining 3.0% YoY. Profit lines were down 3-6% YoY, with it being relatively flat QoQ. The company did not import any clinker, with the slowdown in construction being the only factor effecting sales and profitability levels.
- Sales for 2Q14 stood at 1.07mn tons, in-line with NCBC estimates of 1.10mn tons. Sales of cement were down 10.0% YoY, and flat QoQ. This is worse than the sector performance, which was up 0.6% YoY and 5.0% QoQ in 2Q14. We believe this is due to the slowdown in the construction sector and the impact on Central region companies from peers in remote areas selling in their region at discounts.
- We assumed a price of SR252/ton and a cost of SR97.0/ton. When adjusting for sales of 1.07mn tons, the selling price could have been as high as SR259/ton with costs potentially being as low as SR92.0/ton. The two year average for prices is SR252/ton, with the average cost standing at SR101/ton. We believe this shows that the company has not offered discounts, and is increasing its operating efficiencies.
- We are currently Neutral on the stock with a PT of SR92.3. Key positives at the company are low costs from not importing and the expected high demand from the Riyadh Metro project as of 4Q14. Key risks involve competition from remote areas offering discounts, in addition to any potential penalty from not importing clinker, as instructed by the Royal decree.

#### 2Q14 Results Summary

SR mn	2Q14A	2Q13A	% YoY	2Q14E	% Var <sup>^</sup>
Gross income	171	181	(5.5)	171	0.2
Operating income	164	173	(5.7)	163	0.6
Net income	161	166	(3.0)	159	1.2
EPS (SR)	1.79	1.85	(3.0)	1.77	1.2

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

## NEUTRAL

**Target price (SR)** 92.3

**Current price (SR)** 99.0

#### STOCK DETAILS

M52-week range H/L (SR)	99.6/83.0
Market cap (\$mn)	2,375
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.3	10.0	15.4
Rel. to market	7.2	6.8	(12.2)

Avg daily turnover (mn)	SR	US\$
3M	9.8	9.2
12M	2.6	2.5

Reuters code	3040.SE
Bloomberg code	QACCO AB
	<a href="http://www.qcc.com.sa">www.qcc.com.sa</a>

#### VALUATION MULTIPLES

	13A	14E	15E
Reported P/E (x)	15.2	14.6	15.1
P/B (x)	4.5	4.4	4.31
EV/EBITDA (x)	13.0	12.8	13.41
Div Yield (%)	6.3	6.3	6.31

Source: NCBC Research estimates

#### SHARE PRICE PERFORMANCE



Source: Tadawul

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- 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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