

April 24, 2017

Rating **Neutral**
12- Month Target Price **SAR 56.00**

QASSIM CEMENT COMPANY

1Q2017 First Look

Expected Total Return

Price as on Apr-23, 2017	SAR 50.17
Upside to Target Price	11.6%
Expected Dividend Yield	6.0%
Expected Total Return	17.6%

Market Data

52 Week H/L	SAR 67.8/48.0
Market Capitalization	SAR 4,515 million
Enterprise Value	SAR 3,802 million
Shares Outstanding	90.0 million
Free Float	55.8%
12-Month ADTV('000's)	77.0
Bloomberg Code	QACCO AB

1-Year Price Performance

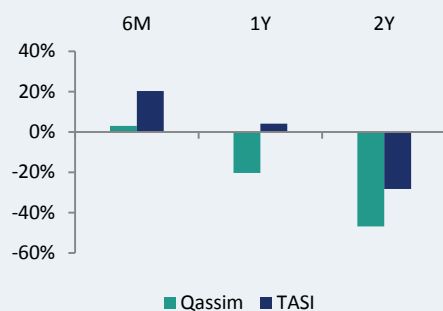


Fig in SAR Mln	RC.Est	Actuals
Revenue	197	191
Gross Profit	96	88
Operating Income	93	81
Net Income	89	80
EPS (SAR)	0.99	0.89

New Normal Margins

Qassim Cement Company (Qassim) reported 1Q2017 results with earnings missing our estimates and consensus, but revenues stood in-line. EPS of SAR 0.89 missed our SAR 0.99 estimate and consensus of SAR 0.98. Key takeaways for this quarter are its i) volume strategy to retain market share has shaped-up well, market share improved to 8.0% in 1Q2017 ii) realization are at multi-year lows of SAR 178/ton in this quarter which led to margin contraction iii) managed to keep inventories at low levels, nearly 1.0 MT or 90 days. 2017E P/E of 14.7x is at par with TASI P/E of 14.4x but remains expensive to peers. We continue to recommend Neutral as minimal upside of +12% is unconvincing. We cut our DPS forecast to SAR 3.00, yield of 6.0% is not attractive versus its past trends. Maintain Neutral.

Realization witnessed a large fall

Revenue of SAR 191 million was in-line with our estimate of SAR 197 million. It declined by -31% Y/Y but improved by +3% Q/Q on improved sales volumes, which grew by +12% Q/Q marking Qassim, the only producer with double-digit growth in Central region. However, volume sales declined by -15% Y/Y, which was expected. Qassim's market share improved to 8.0% in 1Q from 7.4% last quarter, which is a positive. In terms of selling prices, it declined by -19% Y/Y and -8% Q/Q to SAR 178/ton, which is the average realization commanded in the Central region; at par with other producers. We believe Qassim has managed its volume-price mix well, the reason for selling 1.07 million tons in 1Q2017 despite a lower realization.

Margins contract significantly

Gross profit of SAR 88 million missed our estimate of SAR 96 million, declined by -40% Y/Y and -9% Q/Q as cash cost increased to SAR 86/ton. However, the fall in selling prices attributed the large fall in margins which dropped by 600 bps to 46% in 1Q2017 versus 52% in 4Q2016 and 53% in 1Q2016. We believe slight decrease in operating rates (production declined by -4% Q/Q and -5% Y/Y) did not have material impact on costs. Operating profit of SAR 81 million declined by -42% Y/Y and -6% Q/Q as margins declined by 440 bps from last quarter. This followed suit with net margins declining by 600 bps to 42% in 1Q2017 from 48% in 4Q2016. Net income of SAR 80 million declined by -10% Q/Q and -41% Y/Y, missing RC and consensus estimates as both stood at SAR 89 million.

Cutting DPS to SAR 3.00; maintain Neutral

We expect DPS at SAR 3.00 for 2017 as compared to earlier SAR 4.00, is a new normal for investors and lower dividend yield of 6.0% is less attractive. We believe there are limited catalysts for upside and continue to maintain Neutral with target price of SAR 56.00. We may revisit estimates and outlook for the rest of 2017 once we receive more clarity.

Key Financial Figures

FY Dec31 (SAR Mln)	2016A	2017E	2018E
Revenue	852	757	769
EBITDA	492	387	391
Net Profit	410	308	312
EPS (SAR)	4.56	3.42	3.47
DPS (SAR)	4.50	3.00	3.50
BVPS (SAR)	19.96	20.38	20.35

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	12%	12%
ROAE	23%	17%	17%
P/E	11.0x	14.7x	14.5x
P/B	2.5x	2.5x	2.5x
EV/EBITDA	7.7x	9.8x	9.7x
EV/Sales	4.5x	5.0x	4.9x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

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