

QASSIM CEMENT



EVENT FLASH

Earnings disappointment on higher Opex

Qassim Cement reported a lower than expected set of 4Q14 results. Net income decreased 1.1% YoY to SR134mn. This is 10% below the NCBC estimates and 4% below consensus. Although gross profit was in-line, we believe the variance in net income came mainly from higher Opex. The company trades at an attractive trailing P/E of 14.3x vs. 15.8x for the sector.

- **Gross profit:** 4Q14 came-in at SR158mn, up 7.3% YoY and in-line with the NCBC estimate of SR161mn.
- **Operating profit:** 4Q14 came-in at SR141mn increasing 1.9% YoY. This is 8% lower than the NCBC estimate of SR153mn.
- **Net income:** 4Q14 came-in at SR134mn, decreasing 1.1% YoY. This is 10% below the NCBC and 4% below consensus estimates of SR150mn and SR139mn, respectively. 4Q14 earnings were up 23.1% on a QoQ basis.
- **NCBC View on Results:** Qassim Cement reported a weak set of 4Q14 results. Net income declined 1.1% YoY but increasing 23.1% QoQ to SR134mn. Although gross profits were in-line with our estimates, net income was 10% below the NCBC estimates and 4% below consensus. Accordingly, we believe the weakness came from high Opex and lower than expected other income.
- Total sales for the two months of October and November increased by 5% YoY compared to the industry's growth of 4.4% YoY. We expected sales of Qassim Cement to grow 13% in December, with 4Q14 sales up 7.9% YoY. This growth is mainly due to a low base effect, with 4Q13 sales being impacted by changes in the labour market and the end of the amnesty period on expats in Nov-2013.
- Gross profits were in-line with our estimates at SR158mn. We believe the 7.3% YoY growth was supported by higher sales. However, other profit lines were below our estimates by 8-10% mainly due to higher Opex. Based on our estimates, Opex came in at around SR17mn vs our estimates of SR8mn.
- We are currently Neutral on the stock with a PT of SR98.6. Key positive of the company is low costs from efficiencies and not importing clinker. Although the company did not import any clinker, the slowdown in construction and discounts offered by companies from remote regions negatively impacted sales and profitability levels. The dividend yield of Qassim Cement is among the highest in the sector at 7.1% vs. 5.7% for the sector.

4Q14 Results Summary

SR mn	4Q14A	4Q13A	% YoY	4Q14E	% Var [^]
Gross income	158	147	7.3	161	(1.8)
Operating income	141	139	1.9	153	(7.8)
Net income	134	136	(1.1)	150	(10.6)
EPS	1.5	1.5	(1.1)	1.7	(10.6)

Source: Company, NCBC Research [^] % Var indicates variance from NCBC estimates

Please refer to the last page for important disclaimer

NEUTRAL

Target price (SR) 98.6

Current price (SR) 92.7

STOCK DETAILS

M52-week range H/L (SR)	106.8/85.5
Market cap (\$ mn)	2,224
Shares outstanding (mn)	90
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.5)	(5.9)	5.6
Rel. to market	(3.1)	10.8	8.7

Avg daily turnover (mn)	SR	US\$
3M	6.0	1.6
12M	7.6	2.0

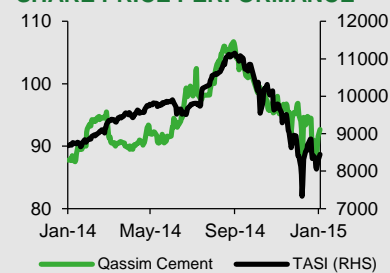
Reuters code	3040.SE
Bloomberg code	QACCO AB
	www.qcc.com.sa

VALUATION MULTIPLES

	13A	14E	15E
Reported P/E (x)	14.3	14.4	14.5
P/B (x)	4.2	4.1	4.2
EV/EBITDA (x)	11.9	12.3	12.4
Div Yield (%)	6.7	7.0	7.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an in 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

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CS: Coverage Suspended. NCBC has suspended coverage of this company

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