Qassim Cement
Cement – Industrial
QACCO AB: Saudi Arabia
15 January 2017

الراجحي المالية
Al Rajhi Capital

Target price	60.00	0.8% over current
Current price	59.50	as at 12/1/2017

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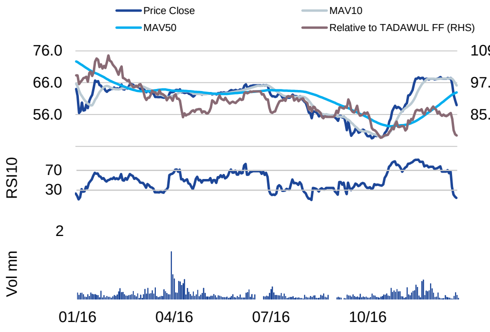
Existing rating

Underweight	Neutral	Overweight

Performance



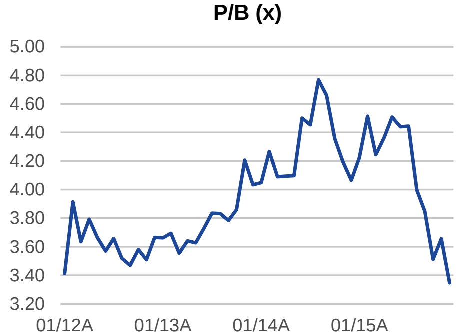
Source: Bloomberg

Earnings

Period End (SAR)	12/14A	12/15A	12/16E	12/17E
Revenue (mn)	986	1,024	884	891
Revenue Growth	-6.2%	3.9%	-13.7%	0.9%
EBITDA (mn)	659	678	511	503
EBITDA Growth	-5.3%	2.8%	-24.6%	-1.6%
BVPS	21.93	20.93	21.16	21.39
BVPS Growth	-1%	-5%	1%	1%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Qassim Cement

Q4: Sale price declines amidst weak demand

Qassim Cement reported a weak set of numbers for Q4 2016. The company's net profit came in at SAR88.8mn (-37% y-o-y,+26% q-o-q), below our SAR101.5mn estimate as well as consensus estimate of SAR96mn. Earnings declined mainly due to sharp drop in average realized price/ton to SAR193 (vs. SAR225 in Q4 2015 & SAR212 in Q3 2016). Further, sales volume declined 19.2% y-o-y during the quarter, which in turn was due to high competition amid weak demand situation in the kingdom. Gross and operating profit margins dropped to 51.8% and 46.7%, respectively (from 59.6% and 57.1% in the same period last year). The trend of falling sales volume and profitability has been witnessed across the cement sector as the Kingdom's construction activities remain under pressure. Post the revised regulation on allocation to statutory reserves, Qassim has decided to transfer ~SAR150 million from its statutory reserve to retained earnings. We maintain our neutral rating with unchanged target price of SAR60 per share.

- **Revenue down 30% y-o-y:** Qassim cement reported revenue of SAR185mn (down 30.5% y-o-y), as compared to our SAR 191mn estimate. In 2016, company's sales volume declined 8.3% y-o-y. During Q4, the company sold 959k tons (-19% y-o-y). We believe that recording a positive y-o-y growth in sales volume could be a challenge for the company in the upcoming quarters as well.

- **Gross and operating profit declined c40% y-o-y:** Qassim's gross profit declined 39.6% y-o-y and stood at SAR96mn, below our estimate of SAR104mn. Similarly, operating profit fell 43% y-o-y and stood at SAR86.6mn compared to our estimate of SAR97mn .The decline in gross and operating profit was mainly attributed to higher cost per ton as a result of lower fuel subsidy as well as the sharp drop in average realized price per.

- **Net profit:** Qassim Cement's net profit slipped by 37% y-o-y to SAR88.8mn, coming in below our SAR101.6mn estimate and consensus forecast of SAR96mn. We believe the decline in average realized price was on account of low demand and stiff competition in the central region.

Figure 1 Qassim Cement: Summary of Q4 2016 results

(SAR mn)	Q4 2015	Q3 2016	Q4 2016	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	266.8	171.2	185.3	-30.5%	8.2%	198
Gross Profit	159.0	84.0	96.0	-39.6%	14.3%	104
Gross Margin	60%	49%	52%	NA	NA	53%
Operating Profit	152.0	78.0	86.6	-43.1%	11.0%	97
Net Profit	126.5	70.2	88.8	-29.8%	26.5%	101.6

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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