Saudi Cement
Cement – Industrial
SACCO AB: Saudi Arabia
17 January 2017

الراجحي المالية
Al Rajhi Capital

Target price	62.00	1.4% over current
Current price	61.13	as at 16/1/2017

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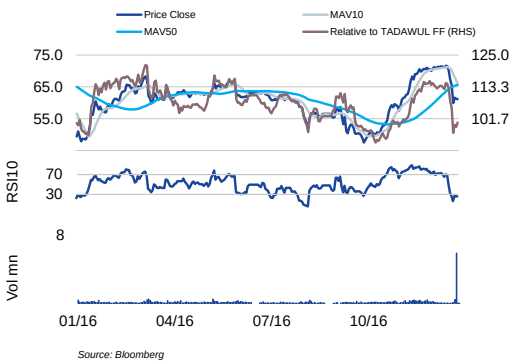
Existing rating

Underweight	Neutral	Overweight

Performance

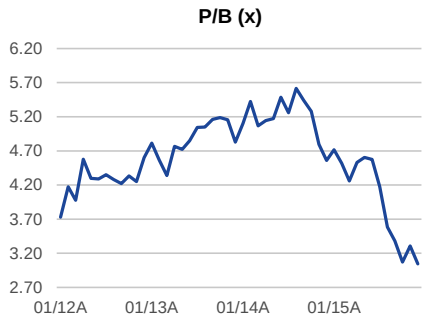


Earnings

Period End (SAR)	12/14A	12/15A	12/16E	12/17E
Revenue (mn)	2,025	1,932	1,858	1,837
Revenue Growth	-7.4%	-4.6%	-3.9%	-1.1%
EBITDA (mn)	1,329	1,249	1,183	1,100
EBITDA Growth	-4.2%	-6.0%	-5.3%	-7.0%
BVPS	20.98	21.31	21.62	21.92
BVPS Growth	0%	2%	1%	1%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Saudi Cement

Q4: Superior pricing power; May not sustain

Saudi Cement's Q4 2016 bottom-line came in at SAR187mn (+6.3% y-o-y), lower than our estimate of SAR204mn as well as consensus' SAR203mn estimate. The growth in profit on a y-o-y basis is primarily due to the low base in Q4 last year because of the impairment loss of SAR66.1mn on the book values of kilns 4 & 5. Sluggish demand in the Eastern region and lower fuel subsidy impacted sales volume (down 17% y-o-y) and gross profit (declined 21% y-o-y to SAR221mn). Despite weaker volumes, helped by locational advantage, it seems that the company was able to maintain its average selling price at the same level as in Q3 (as compared to deep discounts offered by other cement companies). Saudi Cement also holds the highest level of inventory in the sector (4.7mn tons), which could give the company an advantage over its peers in the coming quarters after any potential removal of energy subsidies. However, we believe that the advantages are unlikely to sustain due to increasing competition amid weak demand outlook. We continue with our Neutral rating on the stock and an unchanged target price of SAR62 per share.

- **Revenue largely in line:** Saudi cement reported Q4 revenue of SAR397mn (down 18% y-o-y, up 6% q-o-q), which was in line with our SAR400mn estimate. The company sold 1.65mn tons of cement during this quarter (-15% y-o-y) including 127k tons of export sales (+9.5% y-o-y), which constitutes 7.5% of the total sales.

- **Gross profit and operating profit:** Saudi Cement reported a Q4 gross profit of SAR221mn (-21% y-o-y, +20% q-o-q), slightly below our estimate of SAR231mn. Operating profit came in at SAR195mn (+5.4% y-o-y) during the quarter, as operating profit in Q4 2015 was impacted by a one off SAR66.1mn impairment loss associated with retirement of kilns 4 & 5.

- **Net profit and valuation:** Q4 net profit came in at SAR187mn (+6.3% y-o-y) and was below our SAR204mn estimate. Adjusting for the impairment loss in last year's Q4 profit, the reported Q4 2016 net profit indicate a decline of 22.8% y-o-y on a comparable basis. We continue with our Neutral rating on the stock and an unchanged target price of SAR62 per share.

Figure 1 Saudi Cement: summary of Q4 2016 results

	Q4 2015	Q3 2016	Q4 2016	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	483.6	375.0	397.0	-17.9%	5.9%	400
Gross Profit	280.0	230.0	221.0	-21.1%	-3.9%	231
Gross Margin	58%	61%	56%	NA	NA	58%
Operating Profit	185.0	207.0	195.0	5.4%	-5.8%	205
Net Profit	176.0	200.0	187.0	6.3%	-6.5%	204

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.

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