

October 24, 2017

Rating  
12- Month Target Price

Neutral  
SAR 47.00

## SAUDI CEMENT COMPANY (SACCO)

3Q2017 First Look

### Expected Total Return

Price as on Oct-23, 2017	SAR 38.00
Upside to Target Price	23.7%
Expected Dividend Yield	7.9%
Expected Total Return	31.6%

### Market Data

52 Week H/L	SAR 71.8/37.8
Market Capitalization	SAR 5,814 mln
Enterprise Value	SAR 6,495 mln
Shares Outstanding	153.0 mln
Free Float	81.1%
12-Month ADTV (000's)	138.6
Bloomberg Code	SACCO AB

### 1-Year Price Performance



Fig in SAR mln	RC. Est	Actuals
Revenue	235	250
Gross Profit	104	116
EBIT	84	94
Net Income	81	87
EPS (SAR)	0.53	0.57

## Modest Beat

Saudi Cement Company (SACCO) reported 3Q2017 results with a modest beat on earnings and topline, as realization improved beyond our expectations. EPS of SAR 0.57 beat our SAR 0.53 estimate and street's SAR 0.54, with a decline of -57% Y/Y and -8% Q/Q. Factors that drove 3Q2017 results are i) improvement in selling prices with a growth of +4% Y/Y though declined by -5% Q/Q to SAR 233/ton versus our estimate of SAR 213/ton ii) sales volume decline of -11% Q/Q and -29% Y/Y to 1.07 MT, came in-line iii) sharp comeback in utilization rates to 62% with a surge in clinker production by +49% Q/Q, offers a respite from higher fixed costs, though production declined by -34% Y/Y iv) gross and operating margins stayed up by 150-200 bps from 2Q2017, except net margins in this quarter stayed flat versus 2Q2017 and lastly v) adjusted inventories (cement + clinker) of 5.70 MT is nearly 106% of LTM sales volumes, the major risk. We slightly revise our 2017-19 estimates and target price to SAR 47.00 (earlier SAR 53.00) on bleak earnings outlook for 2018. 2018E P/E of 12.2x is at par with large-cap peers though cheaper than TASI's 13.8x, which is unjustified with a 12% valuation discount to TASI unlike sectors 25-30% discount. Maintain Neutral.

### Topline improves slightly on prices

Revenue of SAR 250 million had a modest beat to our expectations of SAR 235 million, as we expected realization to weaken, unlike a rise. Revenue declined by -33% Y/Y and -7% Q/Q due to impact of fall in sales volume, which came in-line, while prices have improved Q/Q. A steady fall in volume market share is a growing concern, losing nearly 400 bps since 2Q2016 and currently stands at 10.3% versus 14.3% in 2Q2016. The continued competition coupled with influx of producers from other regions, has put a halt on market share expansion for SACCO. The available selling price data (Yamama-SAR 176/ton and Qassim-SAR 150/ton) from peers reported in 3Q points to a tough price environment, as peers are selling at 20%-25% discount to SACCO's prices.

### Margins contract significantly

With SACCO administering its new low margin environment, cost control is the only way forward. Gross margins on a Y/Y basis have experienced a large contraction to 46% in this quarter from 61% in 3Q2016; however, it improved Q/Q on cost control. Gross profit declined to SAR 116 million; almost halved on a Y/Y basis and -4% Q/Q. SACCO was able to manage its Opex comparatively better on a Q/Q basis, with total opex/ton declining to SAR 147/ton. However, cash cost stood stable at SAR 108/ton in 3Q, though cash cost was significantly low at SAR 84/ton in 3Q2016, though not fully comparable. With such decrease in costs, margins improved by 90 bps Q/Q to 38% in this quarter though declined from 55% in 3Q2016. Operating profit fell by -55% Y/Y and -5% Q/Q to SAR 94 million; higher to our SAR 84 million estimate. SACCO reported earnings of SAR 87 million in this quarter with a modest beat to our SAR 81 million estimate. Earnings declined by -8% Q/Q and -57% Y/Y as margins stayed stable at 35% in 3Q2017 fell from 53% in 3Q2016.

### Revising TP, but maintain Neutral

We revise our estimates and target price to SAR 47.00 (earlier SAR 53.00); continue to recommend Neutral. 2018E dividend yield of 7.9% is the only attractive element.

### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	1,778	1,136	1,207
EBITDA*	1,149	572	602
Net Profit	902	437	477
EPS (SAR)	5.90	2.86	3.12
DPS (SAR)	5.50	3.00	3.00
BVPS (SAR)	21.41	21.26	21.38

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	22%	11%	11%
ROAE	28%	13%	15%
P/E	6.4x	13.3x	12.2x
P/B	1.8x	1.8x	1.8x
EV/EBITDA	5.7x	11.4x	10.8x
EV/Sales	3.7x	5.7x	5.4x

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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

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