



Qassim cement posted a weak set of results with a net income of SAR 60.4mn, below AJC, and the market estimates of SAR 87.8mn and SAR 75.6mn. The deviation from our estimate is mainly due to the lower-than-expected selling price by 15.4%. Revenue came at SAR 170.3mn as against our estimates of SAR 185.1mn. Realization per tonne stood at SAR 157.1/tonne, significantly below our expectation of SAR 185.6/tonne. Volumetric sales were 1.08MT, above our estimates of 997KT. Although the cement outlook is expected to continue under pressure in the short run due to the revised building code and labor shortage, strong housing demand and healthy mortgage loan growth are key catalysts in the mid-to-long term. Therefore, we maintain our “Neutral” recommendation on the stock with a revised TP at SAR 89.8/share.

- Qassim Cement posted a net income of SAR 60.4mn in Q3-21 (EPS: SAR 0.67/share) compared to SAR 110.1mn in Q3-20. As a result, net income came lower than our estimate of SAR 87.8mn. The Y/Y decline of 45.2% in net income is mainly attributed to a decline in realization per tonne by 16.5%/Y/Y.
- Revenue stood at SAR 170.3mn (a decline of 13.9%Q/Q, 26.5%Y/Y), against our estimates of SAR 185.1mn. During Q3-21, the company registered a decrease of 16.5%Y/Y and 12.4%Q/Q with an average price realization of SAR 157.1/tonne, below expected of SAR 185.6/tonne and SAR 179.3/tonne in Q2-21. Volumetric sales stood at 1.08MT vs. 1.10MT in Q2-21 and 1.23MT in Q3-20, above our estimates of 997KT.
- Gross profit came at SAR 69.7mn, below our estimates of SAR 94.7mn due to lower-than-expected gross margin amid weak selling prices. However, the cost per tonne came in line with our expectations at SAR 92.9/tonne, in line with the average of 92.0/tonne in FY20.
- Operating profit stood at SAR 59.7mn, below our expectation of SAR 87.0mn. OPEX came at SAR 10.0mn, showing an increase of 9.4%/Y/Y.

AJC view: In Q3-21, price realization reduced by 16.5%Y/Y and 12.4%Q/Q. We believe Qassim Cement offers a discount to maintain its market share with the current weak short-term demand. As a result, the company maintained its 9.5% market share in Q3-21. The cement sector witnessed a decline in dispatches in Q3-21 by 9.9%Y/Y, which we believe is due to the revised building code, which has resulted in a long time for approving the commencement of construction and labor shortage in the market. However, our mid-to-long-term outlook on the sector remains positive, driven by solid housing demand backed by mortgage loans growth and government-initiated Giga projects. As mortgage loans started to pick up again to register a strong growth of 32.7%Y/Y in Aug-21. For 9M-21, dispatches stood at 45.15mn tons (including exports) compared to 41.32mn tons in 9M-20, depicting an increase of 9.3%Y/Y. As a result, Qassim cement is expected to post SAR 328.7mn in net income (3.65 EPS) in FY21, a decline of 21.7%Y/Y. Therefore, we maintain our “Neutral” recommendation on the stock with a TP of SAR 89.8/share.

Results Summary

SARmn	Q3-20	Q2-21	Q3-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	231.6	197.8	170.3	-26.5%	-13.9%	-8.0%
Gross Profit	120.7	100.1	69.7	-42.3%	-30.4%	-26.5%
<i>Gross Margin</i>	<i>52.1%</i>	<i>50.6%</i>	<i>40.9%</i>	-	-	-
EBIT	111.5	91.7	59.7	-46.5%	-34.9%	-31.3%
Net Profit	110.1	100.2	60.4	-45.2%	-39.7%	-31.3%
EPS	1.22	1.11	0.67	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **89.8**

Upside / (Downside)* **12.4%**

Source: Tadawul *prices as of prices as of 8th of November 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenue	791.8	898.4	780.7
Growth %	86.0%	13.5%	-13.1%
Net Income	360.7	419.8	328.7
Growth %	198.6%	16.4%	-21.7%
EPS	4.01	4.66	3.65

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	53.9%	52.7%	45.9%
Net Margin	45.6%	46.7%	42.1%
P/E (x)	16.5	17.4	21.9
P/B (x)	3.3	4.0	3.9
EV/EBITDA (x)	12.1	12.7	15.6
Dividend Yield	3.6%	5.4%	4.1%

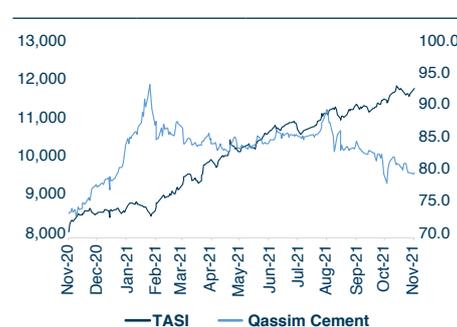
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	7.19
YTD %	-1.36%
52 Week (High)/(Low)	94.80/72.90
Shares Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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