UNITED SECURITIES LLC.

INVESTMENT RESEARCH | Saudi Arabia

Cement Sector

Saudi Cement company	BUY
12M Price Target (SAR)	63.00
CMP (SAR)	57.00
Potential upside	10.5%
Market cap (SAR mn)	8,721
P/B (FY23e)	4.00
P/E (FY23e)	19.60
Dividend Yield (FY23e)	6.10%
ROE (FY23e)	20.20%

Yamama Cement company	HOLD
12M Price Target (SAR)	36.00
CMP (SAR)	33.60
Potential upside	7.1%
Market cap (SAR mn)	6,804
P/B (FY23e)	1.40
P/E (FY23e)	21.90
Dividend Yield (FY23e)	3.00%
ROE (FY23e)	6.50%

Southern Province Cement	HOLD
12M Price Target (SAR)	54.00
CMP (SAR)	52.40
Potential upside	3.1%
Market cap (SAR mn)	7,336
P/B (FY23e)	2.20
P/E (FY23e)	23.10
Dividend Yield (FY23e)	2.40%
ROE (FY23e)	9.50%

Yanbu Cement company	HOLD
12M Price Target (SAR)	37.00
CMP (SAR)	36.20
Potential upside	2.2%
Market cap (SAR mn)	5,702
P/B (FY23e)	2.10
P/E (FY23e)	23.70
Dividend Yield (FY23e)	5.50%
ROE (FY23e)	8.90%

Najran Cement company	BUY
12M Price Target (SAR)	16.00
CMP (SAR)	14.30
Potential upside	11.9%
Market cap (SAR mn)	2,431
P/B (FY23e)	1.20
P/E (FY23e)	17.40
Dividend Yield (FY23e)	5.20%
ROE (FY23e)	7.00%

Riyad Cement company	BUY
12M Price Target (SAR)	36.00
CMP (SAR)	32.25
Potential upside	11.6%
Market cap (SAR mn)	3,870
P/B (FY23e)	2.30
P/E (FY23e)	16.60
Dividend Yield (FY23e)	5.40%
ROE (FY23e)	13.80%

Prices as of Thursday, 11 May 2023

Saudi Cement Sector - Cautiously Optimistic

We initiate coverage on the Saudi Cement Sector. The industry is highly competitive with 17 players, with the top 5 five accounting for c.51% of the market share, in terms of sales volume. The industry had witnessed pressure due to a slowdown in the construction demand and heavy price competition from the later part of 2021 to most of 2022. We expect cement demand to improve gradually in 2023, on the back of an improving macro environment. Cement average realization on the other hand have started to improve, and we do not expect the same to revert to late 2021 levels, though we continue to remain cautious on the extent of price growth, given the nature of the industry.

Cement sales volume in KSA had fallen by 1.5% y-o-y in 2022, as the year was plagued by various headwinds in the construction industry, including high inflation, especially in construction materials, high interest rate, global political uncertainty, etc. However, we believe that the core demand drivers in Saudi (KSA) remain intact, in the form of stable demand from residential construction and the execution of various Mega and Giga projects in the country. The various Mega and Giga projects are in different stages and the combined project value is estimated at c.USD 715bn. We also expect a steady growth in residential construction, aided by new mortgages growing at an average rate of between SAR 7-8bn per month in 2023. Oil prices are expected to remain strong (Bloomberg median consensus estimates of Brent at c.USD 86/bbl. for 2023 and 2024), and this will aid in the execution of the various construction projects. Overall, we expect the offtake of cement volume in KSA to improve, albeit slowly, and grow by c.0-3% for 2023, and pickup to c.3-6% by 2024.

Given the highly competitive nature of the cement industry in KSA, we have witnessed price competition among the players in the past. The second half of 2021 and the first half of 2022 too saw pressure on the average realization of cement, with the same being more pronounced in 4Q21, when it fell below SAR100/ton in some cases. As per our calculations, the average realization during 2021 and 2022 was c. SAR170/ton, compared to c. SAR200/ton in 2020. We believe the scenario is changing for the better, recent trends indicate to a recovery in prices. The average realization in 4Q22 improved to SAR180-190/ton in the Central region, which was the most impacted by the price war. Aided by an expected improvement in the demand scenario, we expect the realization to recover from 2022 levels in the next two years. However, given the historical track record and the high clinker inventory levels, of c.7 months of production (as of 1Q23), we remain conservative on the upside. Overall, we have forecasted the cement realization to average at SAR181/ton for 2023 and SAR184/ton for 2024.

At the back of a recovery in the cement volumes and realization, we expect the cement industry revenue to grow by c.8-12% for 2023 and by 5-8% for 2024. We also expect an improvement in the profitability levels, as we forecast the operating margins of the companies under our coverage to improve by c.200 bps in 2023 and by c.150 bps for 2024. This in turn is likely to aid in the ROE of the companies under our coverage to improve by c.50 bps for 2023 and by c.80 bps for 2024.

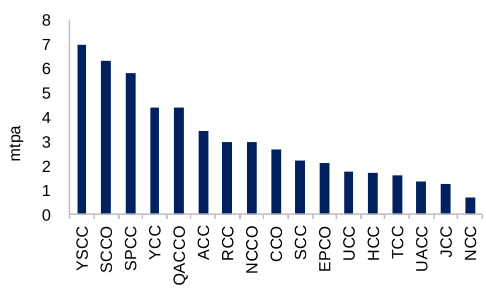
We initiate coverage on Saudi Cement Company (SCCO) (Target Price: SAR63 per share), Najran Cement Company (NCC) (Target Price: SAR16 per share) and Riyadh Cement Company (RCC) (Target Price: SAR36 per share) with a BUY rating and Yamama Cement Company (YSCC) (Target Price: SAR36 per share), Southern Province Cement Company (SPCC) (Target Price: SAR54 per share), and Yanbu Cement Company (YCC) (Target Price: SAR37 per share) with a HOLD rating.

Industry highly competitive with the top five players accounting for c.51% of sales volume in 1Q23.

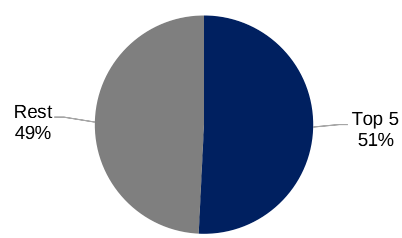
Saudi Cement Sector – Industry Overview

With a capacity to manufacture more than 70 mtpa of clinker, the Kingdom of Saudi Arabia is one of the largest manufacturers of cement in the GCC. The industry is highly competitive, with 17 operating players, of which the top five players accounted for c.51% of the market share in 1Q23, based on cement sales volume. SCCO (market share of 13%), YSCC (market share of 12%), SPCC (market share of 11%), Qassim Cement (QACCO) (market share of 8%), and YCC (market share of 7%) were the top five players in the industry for the period of 1Q23. Overall, the industry is made up of a few large players and many relatively smaller players. Given this, there is a potential for consolidation within the industry.

2022 Cement Sales - Few large and many small players

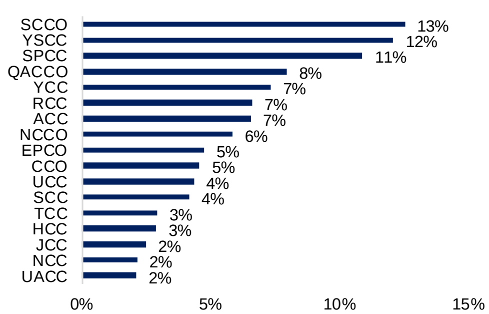


Top 5 account for c.51% of sales volume in 1Q23

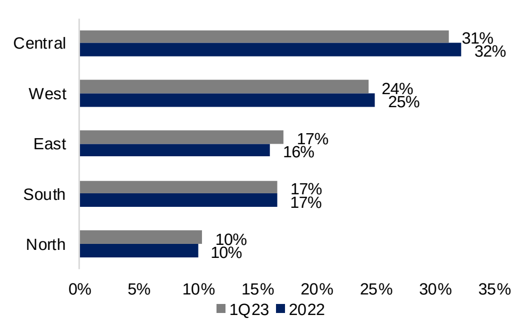


Source: Yamama Cement; US Research

SCCO and YSCC lead the sales volume in 1Q23



Central+Western regions > 50% of the cement volume

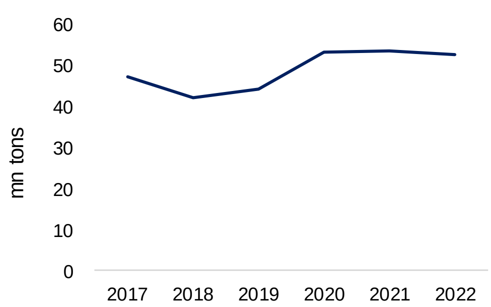


Source: Yamama Cement; US Research (ACC: Arabian Cement, NCCO Northern Region Cement, EPCO: Eastern Province Cement, City Cement, UCC: Umm Al-Qura Cement, SCC: Safwa Cement, TCC: Tabuk Cement, HCC: Hail Cement, JCC: Jouf Cement, NCC: Northern Cement, UACC: Umm Alqura Cement)

The Central and the Western region account for more than 50% of the cement sale in KSA.

The market is divided broadly into five different regions, the Central, West, East, South, and North. The Central region is by far the largest and accounted for 31.2% of 1Q23 cement sales volume and has four players operating in the region. This is followed by the Western region, which accounted for 24.4% of 1Q23 cement sales volume and has five players. The Eastern region accounted for a market share of 17.3% and the Southern region accounted for a market share of 16.7% and both operated with 2 players each. The Northern region is the smallest, with a market share of 10.4%, and functions with 4 players. The primary reason for this segmentation is the historic nature of consumption patterns, especially in terms of the construction of residential and infrastructure projects in the country. We expect interaction between various regions, in terms of cross-selling, to increase going forward.

Post 2020 cement sales volume have flattened



Cement volume dominated by domestic sales

Source: Yamama Cement; US Research

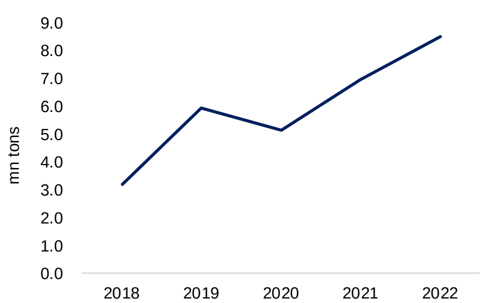
Cement sales dominated by the domestic market.

The revenue of the industry is dependent mainly on the domestic market, which accounted for c.97% of the cement sales volume in 2022. Though cement exports have shown strong growth, they continue to account for a meagre proportion of the total sales. Going forward we expect this trend to continue, as given the size and opportunities available within the domestic market is sufficient to absorb the production, hence we expect the majority of companies will continue to focus on KSA. However, some individual companies, closer to the border and having the required infrastructure, have been exploiting their location advantage to focus on exports, based on the opportunities available.

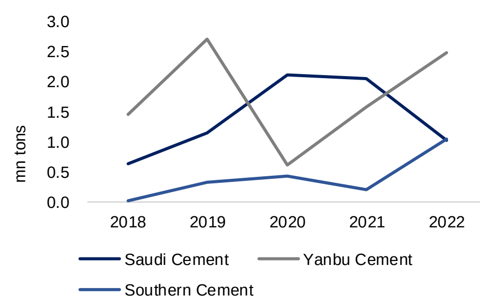
Clinker sales increased during 2022, aided by higher sales from SCCO, YCC, and SPCC, who together accounted for more than 50% of the industry's clinker revenue.

Clinker sales, which are mainly exports, have steadily grown since 2018, except for the covid aberration in 2020, with three companies, SCCO, YCC, and SPCC accounting for more than 50% of the industry sales in 2022. Of these, YCC alone accounted for c.30% of the clinker sales volume in 2022. The main reason for this was the improving opportunities in the neighboring countries, and a weak local market, especially in the first half of 2022, which had prompted the companies with the required infrastructure to export clinker. The main export markets for the industry are Yemen, Jordan, and Bahrain and the sales have been historically volatile and are more opportunistic.

Clinker sales have increased since 2020



Clinker sales driven mainly by three players



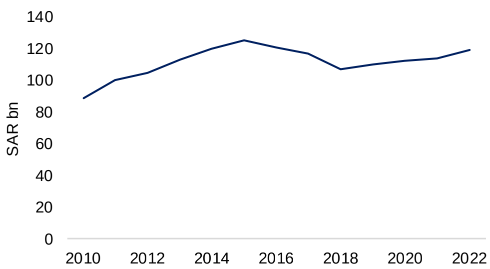
Source: Yamama Cement; US Research

Cement volume growth to improve, albeit slowly

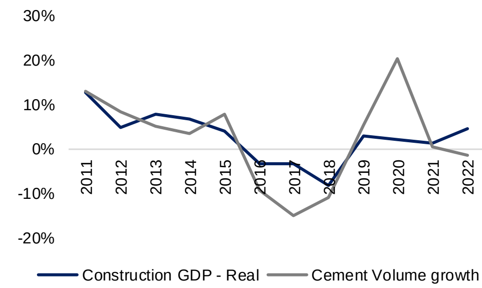
Real construction GDP has shown signs of improvement in 2022, though it continues to be lower than 2015 levels.

Construction activity, as indicated by construction activity in real GDP, in KSA post-2015 has seen some decline. Though it started to improve in 2019, it is yet to achieve the levels of 2015. Between 2018 and 2022 real construction GDP has grown at a CAGR of 3% and has increased by 4% y-o-y in 2022. Going forward, we expect the overall construction activity to improve, aided by continuing strong oil prices (Bloomberg median consensus Brent estimates USD86/bbl for 2023 and 2024), which will support the government spending and construction activity in the Kingdom.

Construction GDP off highs in 2015, though recovering

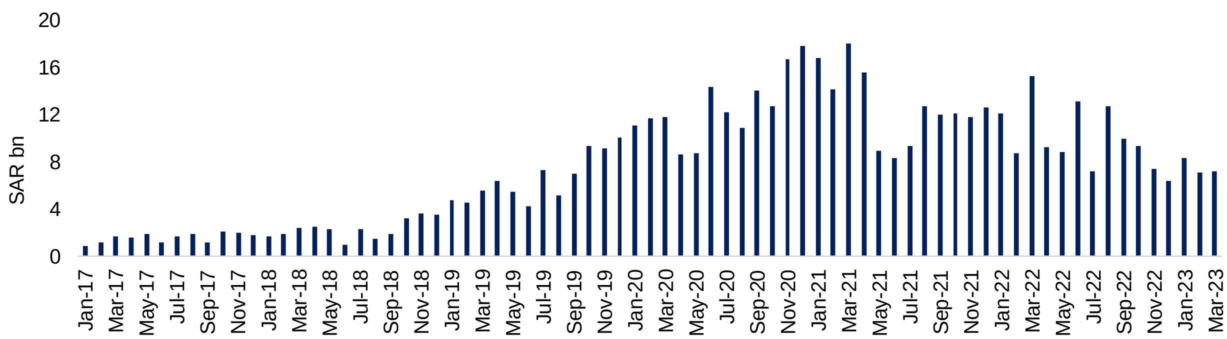


Cement volumes moves in line with construction GDP



Source: GASTAT; Yamama Cement; US Research

Monthly new residential mortgage continues to be strong



Source: SAMA; US Research

Monthly new mortgages continue to be strong.

One of the main drivers of cement sales is mortgages, which have been consistently growing in KSA. Real estate loans provided to retail customers by banks have grown at a CAGR of 35% between 2017 and 2022, and by 23% y-o-y in 2022. Average monthly new residential loans in the country have steadily increased from SAR1.6bn in 2017 to SAR12.7bn in 2021 and fell to SAR10.0 bn in 2022. Going forward, we expect the monthly average of new loans to settle between SAR7bn to SAR8bn in 2023, which will aid in keeping the demand from residential construction steady.

Project	Project Value	Project Commissioned	Expected Completion
	USD bn		
GIGA Projects			
Neom	500.0	7.5	2030
Amaala	1.4	0.6	2028
King Salman Park	17.0	1.2	2027
Al Ula	15.0	0.7	2024
Jabal Omar	4.4	3.9	2024
Thakher	8.0	1.0	2030
Red Sea Project	16.0	3.2	2030-35
Qiddyah	9.0	2.5	2030
Diriyah Gate	20.0	5.0	2027
Jeddah Economic City	30.0	1.7	
Jeddah Central Project	20.0	0.0	2030
Masar Makkah	4.4	1.7	2030
King Abdullah Financial District	10.5	10.0	2027
King Abdullah Economic City	8.0	4.5	
SDC-Soudah & Rijal Almaa	3.0	0.0	2031
Sub total	**666.7**	**43.4**	
Riyadh Mega Projects			
Mall of Arabia	0.3	0.0	2025
Al Widyan	5.0	0.3	2025
Misk Foundation City	0.8	0.2	2026
Mall of Saudi	4.3	0.0	2026
The Avenues Mall	2.9	1.7	2025
Laysen Valley	1.8	1.8	2025
SEDRA Community	13.0	6.3	2027
Dahiyat Al Fursan	20.0	0.0	2027
Sub total	**48.1**	**10.3**	
Total	**714.8**	**53.8**	

Source: Knight Frank, MEED projects, US Research

Improvement in the execution of Mega and Giga project to aid in the pick of construction activity.

Based on the Saudi Vision 2030, the country is executing various projects with the aim of diversifying and modernizing its economy. Given this, the government introduced various Mega and Giga projects, aimed at developing new cities, increasing tourism, improving the current infrastructure and connectivity, etc. As per the estimates of Knight Frank, the total value of major projects to be undertaken in the Kingdom is c. USD715bn, of which the project commissioned is only USD54bn. Added to this, there are also other major infrastructure projects, including a new rapid bus transit system in Riyadh, new railway lines (Riyadh to Jeddah & Dammam to Jubail), Riyadh metro, a new airport in Riyadh, and Makkah public transport system. As the execution of these projects picks up pace, we expect that the construction segment will be provided with a strong boost. Given that oil prices are expected to be strong in the medium term, we foresee brighter prospects for the construction segment.

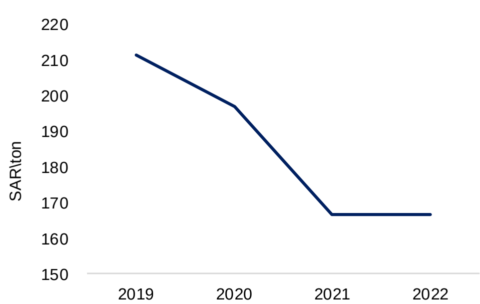
High commodity prices and increasing interest rates impacted construction activity in 2022

Cement sales averaged c.57,000 tons p.a. between 2013 and 2016, peaking at more than 61,000 tons in 2015. Since then, cement sales in the country have not managed to reach these levels. Though the sector's performance had picked up in 2020 and 2021, aided by an improvement in activity, on the back of post-Covid opening up, the cement volumes in 2022 again came under pressure, falling by 1.5% y-o-y. Despite high oil prices, the construction segment in KSA was impacted by high commodity prices, especially steel, aluminum, and other construction materials, and a scenario of increasing interest rates. During 1Q23, cement volumes fell by c.7%, at the back of a higher base and a slightly earlier onset of Ramadan in 2023, vis-à-vis 2022. However, we expect the performance of the industry to improve in 2023, though the recovery is likely to be slow. For the current year, we expect cement volume growth to be between 0-3% and expect it to improve to c.3-6% by 2024.

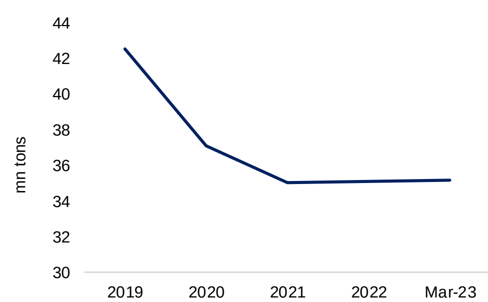
We expect the recovery in cement volumes to be slow and forecast a volume growth of 0-3% for 2023 and 3-6% for 2024.

Cement pricing pressure has eased, though it continues to be a cause of concern

Cement prices have fallen from 2019 and 2020 levels



Cement inventory has fallen, albeit still high



Source: GASTAT; Yamama Cement; US Research

Though prices have recovered in 4Q22, we remain cautious, given the industry's past record and expect the cement prices to average SAR181/ton for 2023 and SAR184/ton for 2024.

In the latter part of 2021 and the first half of 2022, average realization of cement was impacted by high competition, unfavorable demand scenario, and the measures taken by some of the players to gain market share. This resulted in the cement realization falling to below SAR100/ton in some cases in the Central region in 4Q21. However, since then it has improved gradually and has reached c. SAR180-190/ton in the Central region during 4Q22, which was the most impacted by the falling realization. However, with a clinker inventory of 35.1 mn tons or c.7 months of production in 1Q23, we remain cautious about the pricing.

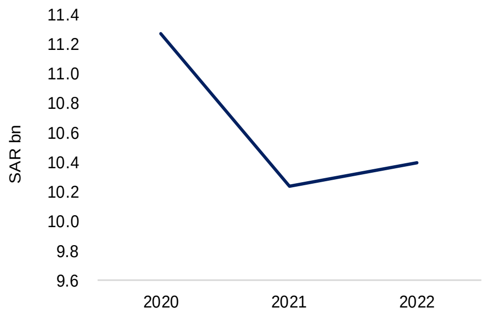
Given our expectation of a recovery in the construction segment, we expect the average realization of cement will continue to receive support from the improving demand scenario. Added to this, we also feel that the supply pressure has eased and the same reverting to late 2021 and early 2022 levels appear to be slim. Though we continue to remain cautious about the extent of upside to the realization, given the historical trend in the industry. Overall, we have forecasted an average cement realization of c. SAR181 per ton for 2023 and SAR184 per ton for 2024.

Despite improvement in revenue, profitability was under pressure in 2022

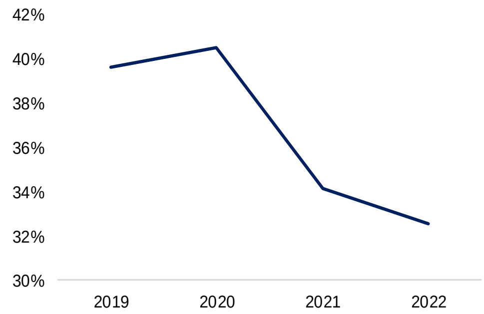
Forecast a revenue growth of 8-12% for 2023 and by 5-8% for 2024.

Revenue of the listed cement companies in the country increased by c.2% y-o-y, despite a 1.5% y-o-y fall in cement volumes. Revenue was aided by an improvement in the cement realization in 4Q22, and by higher clinker exports in some cases. Going forward, we expect cement volumes to recover, though at a slower pace, while we expect the average realization to improve from 2022 levels. Overall, we expect the industry revenue will grow between 8-12% in 2023 and by 5-8% in 2024.

Industry's revenue improve in 2022



Industry's gross margins down in 2022

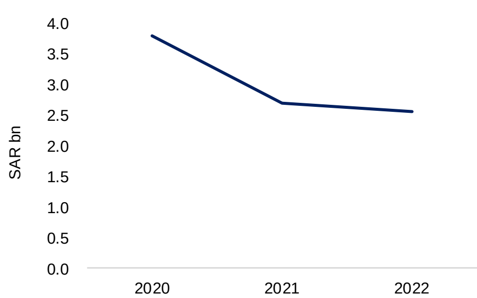


Source: Company Filings; US Research

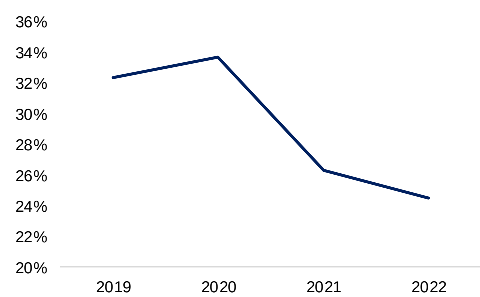
Inflexible pricing and increase in cost put pressure on margins.

Despite higher sales, gross margins fell by c.160bps y-o-y to 32.6% in 2022. Cost of sales increased by c.4% y-o-y, at a rate higher than revenue, driven mainly by an overall increase in the cost of production. This along with the inability of the companies to pass on the increase in cost to customers resulted in pressure on margins. It must be noted that the margins for the companies in 2021 and 2022 have been substantially lower than the levels achieved in 2019 (c.40%) and 2020 (c.41%). Going forward, we expect the margins to improve, as we expect the average cement realization, will be above 2022 levels. Apart from this, cost levels too have more or less stabilized, which provides an overall positive outlook for the companies in the industry. For the companies under our coverage, we expect the gross margins to improve by c.170-190bps for 2023 and by c.130-150bps for 2024.

Industry's operating profit under pressure



Industry's operating margins under pressure in 2022



Source: Company Filings; US Research

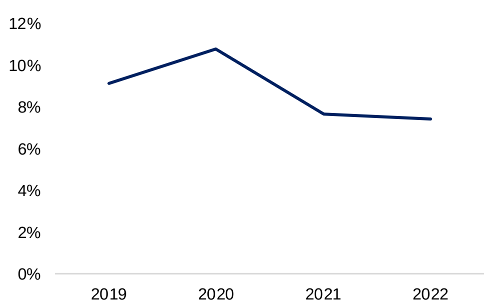
We expect margins to improve gradually…

In line with the fall in gross margins, the operating margins too fell by c.180bps y-o-y to 24.5% in 2022. For the companies under our coverage, we expect the operating margins to improve by c.190-210bps in 2023 and by c.140-160bps in 2024.

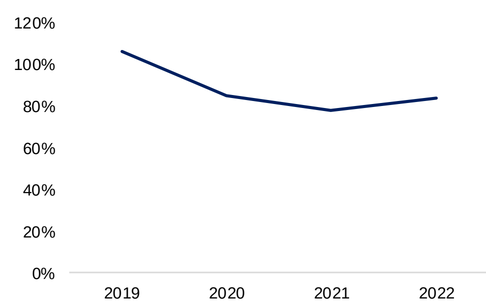
Overall, the profitability of the companies in the industry has come under pressure, in line with pricing and cost pressure. Net income of the companies in the industry fell by 2.8% y-o-y, on the back of a fall in margins. With the margins expected to improve, we also expect the net income levels of the companies under our coverage to grow by 6% to 8% y-o-y for 2023 and by 11% to 13% for 2024.

In the past four years, the industry has averaged an ROE of 9%, with the returns for both 2021 and 2022 falling below the average and 2020 levels. We expect profitability to improve going forward, though the same is likely to lag the levels of 2020. For the companies under our coverage, we expect ROE to improve by c.40 bps for 2023 and by 80 bps for 2024.

Industry ROE falls in the past 2 years



Industry's inventory levels increase



Source: Company Filings; US Research

Improvement in inventory turnover likely to be slow.

Inventory as a % of cost of sales has fallen from 106% in 2019 to 84% in 2022. Despite this fall, the level of inventory continues to remain high. High clinker holding levels have been the main reason for this and we expect the levels to decline further going forward, though at a slower rate.

Low levels of debt provide the companies with financial flexibility.

The leverage of the companies in the industry is low, with a debt-equity ratio of 14% in 2022. Strong cash generation, limited capex requirements, and high cash levels have aided companies in the industry to maintain a strong financial position. Going forward, the debt levels could increase, as some of the companies are planning to replace their existing manufacturing lines with new modern lines, a portion of this is expected to be financed through debt. Despite this, we expect the leverage to remain under control.

KSA Cement Companies valuation table

Companies	CMP SAR	Mcap SAR mn	P/E	Div. Yield
Saudi Cement	57	8,721	21.9x	5.7%
Southern Province Cement	52	7,336	24.4x	2.4%
Yamama Cement	34	6,804	19.1x	3.0%
Qassim Cement	68	6,156	47.2x	3.2%
Yanbu Cement	36	5,702	26.5x	4.1%
Riyadh Cement	32	3,786	19.9x	4.7%
Eastern Province Cement	43	3,664	25.6x	4.7%
Arabian Cement	36	3,595	19.9x	6.1%
City Cement	22	3,069	26.7x	4.1%
Najran Cement	14	2,431	21.4x	3.5%
Northern Cement	12	2,189	19.5x	4.1%
AL Jouf Cement	13	1,407	45.5x	0.0%
Tabuk Cement	16	1,402	66.9x	1.6%
Hail Cement	12	1,196	72.9x	4.1%
Umm Al-Qura Cement	17	952	41.4x	0.0%
Average			**24.9x**	**3.4%**
Median			**25.6x**	**4.1%**

Source: Company Filings; Saudi Exchange; US Research (valuations based on 2022 financials)

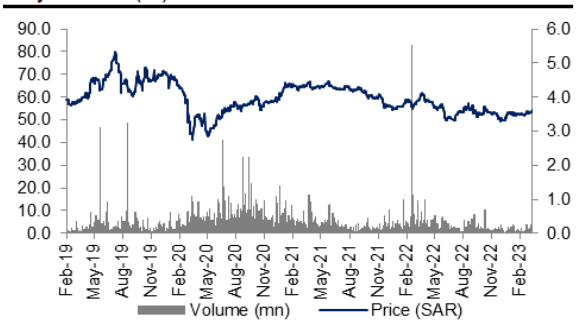
COMPANIES SECTION

Cement Sector

Saudi Cement Company (SCCO)

BUY: 12M TP @ 63

Valuation Summary (TTM)			
Price (SAR)			57.000
PER TTM (x)			21.8
P/Book (x)			3.8
P/Sales (x)			6.1
EV/Sales (x)			5.7
Dividend Yield (%)			6.1
Free Float (%)			90%
Shares O/S (mn)			153
YTD Return (%)			12%
Beta			0.7
(mn)		**SAR**	**USD**
Market Cap		8,721	2,325
Total Assets		8,977	2,394
Price performance (%)	**1M**	**3M**	**12M**
Saudi Cement Co	-1%	9%	3%
Tadawul All Share Index	4%	9%	-11%
Industry Index	4%	9%	-11%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000	10,090	7,792	6,617
Avg Daily Volume (,000)	171	142	124
52 week	**High**	**Low**	**CTL***
Price (SAR)	58.60	48.80	16.8
* CTL is % change in CMP to 52wk low			
Major shareholders			
Al Rajhi Khalid Bin			7%
Vanguard Group Inc/T			1.9%
BlackRock Inc			1.0%
Others			90.3%
Other details			
Exchange			Saudi Arabia
Sector			Building Materials
Index weight (%)			0.4%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	2.98	2.17	2.61
BVPS (SAR)	17.33	15.90	14.99
DPS (SAR)	3.50	1.50	1.50
Payout ratio (%)	117%	69%	57%



SCCO is the largest cement player in the KSA market operating from the Eastern region, with a market share of c.13% of total cement sales volume in 1Q23. Despite an unfavourable market condition, the company has managed to grow its net income by 20% y-o-y in 2022. Strong growth in cement export and higher than average realization has aided the improvement in profitability. Going forward, we expect the company will continue to outperform the industry in terms of both revenue and profitability, as we expect the cement volume growth to be better than industry average. The company is currently quoting at 20x its 2023E EPS and at a dividend yield of c.6%. We feel that the SCCO is attractive at these valuations and initiate our coverage with a BUY at a Target Price of SAR63 per share.

Expect cement volume growth of the company will outperform industry in the medium term: Cement volume of SCCO grew by 1.0% y-o-y for 2022 (-1.5% for the industry) and by c.6% y-o-y for 1Q23 (-7.2% for the industry), outperforming the industry. The growth was aided by a 17.8% y-o-y and 145.4% y-o-y growth in cement exports for 2022 and 1Q23 respectively. We expect that the company will continue to outperform the industry average in the medium term. Going forward we expect the cement volume of the company to grow at a CAGR of c.4% over 2022 to 2025E.

Cement realization recovery has been faster for SCCO: Though the average cement realization for the company came under pressure in 2021 and 2022, in line with the industry, we feel that the recovery for the company has been faster, as we expect that the realization has improved by c.6% y-o-y in 2022. Apart from this, we see that the company's pricing has been at a premium to the industry average, aided by its strong export sales and favorable regional presence. Going forward, we expect that the company will continue to maintain this premium in pricing, and we have assumed a conservative CAGR of c.2% improvement for 2022-25E.

Financial performance to consistently improve in the medium term: Aided by growth in cement volumes and improved pricing scenario, we forecast a revenue growth of c.6% CAGR between 2022 and 2025E for SCCO. Operating margins on the other hand is expected to improve by more than 400 bps over the next three years from the current levels of 28.4%, and we expect net income to grow by a CAGR of c.11% for 2022 and 2025E.

Attractive dividend yield: For 2022, the company had distributed a dividend of SAR3.25 per share, though slightly lower than 2021 levels of SAR3.50 per share, it is trading at an attractive dividend yield of c.6%, compared to the industry average of c.3.4%. We expect that the company will continue to pay strong dividend, given an improvement in the financial performance going forward.

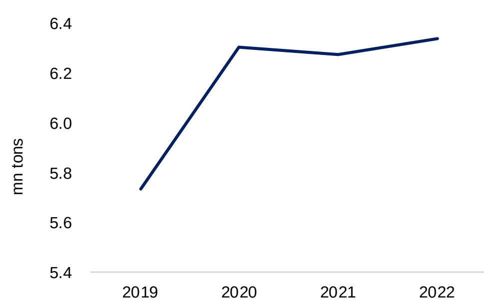
Valuation: We expect cement volume growth and improvement of realization to be better than industry average, aiding in a strong growth in financial performance. This along with a favorable dividend yield makes the stock attractive. We initiate coverage on the company with a Target Price of SAR63 per share and a BUY rating. We have used an equal weighted average of P/E (20x) and DCF (8.5% cost of equity and 2% terminal growth) to value the company.

Volume growth is better than the industry average, and the trend is expected to continue

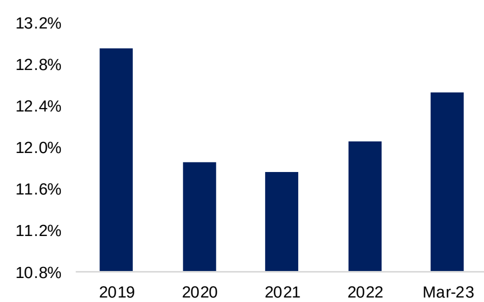
Strong exports have aided the company to outperform its peers in the industry

Cement volume for 2022 grew by 1.0% y-o-y, to 6.3 mn tons, accounting for c.12% of the market, outperforming the industry, which registered a fall in volumes by 1.5% y-o-y for the same period. This trend has broadly continued for 1Q23, with the volumes of SCCO growing by c.6% y-o-y, while the industry performance for the same period was down by c.7%.

Volumes have grown, post a slight drop in 2021



Market share recovering since 2021



Source: Company Filings; Yamama Cement; US Research

Expect the company to continue to perform better than industry

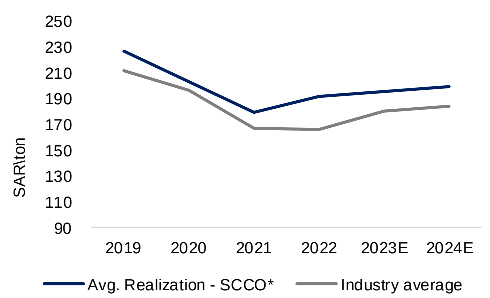
Growth for the company has been driven mainly by an improvement in the cement export volume, which grew by c.18% y-o-y in 2022 and by c.145% y-o-y for 1Q23. Domestic sales, on the other hand, have been closer to the industry performance (-1.9% y-o-y in 2022, corresponding to the industry performance of -2.4%, and -8.8% y-o-y in 1Q23, compared to the industry average of -9.3%). We feel that the company's export sales have been boosted by its existing infrastructure, through its subsidiary in Bahrain and its proximity to the export markets. Going forward we expect this trend to broadly continue, as we anticipate the company to outperform the industry average in 2023 too. Overall, we forecast a volume growth of 4% CAGR for 2022-25E.

SCCO has had a traditional premium in pricing, relative to the industry average

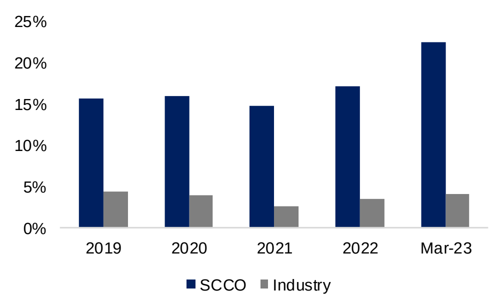
Cement realizations have recovered faster, relative to industry average

In line with the industry trend SCCO too had faced pricing pressure in 2021 and 2022. As per our calculations, the cement realization of the company averaged at c. SAR185 per ton for 2021 and 2022, which was lower than c. SAR200 per ton witnessed in 2020. However, the recovery has been faster for the company, with the 2022 average realization improving by 6.5% y-o-y for the company, compared to a flat performance at the industry level. Added to this the company's average realization has been consistently better than the industry average (as per our SCCO an average premium of c.10% over the industry in the past three years) and has been aided by a relatively higher proportion of exports.

Realization has been above industry average



Proportion of exports to total sales consistently high



Source: Company Filings; Yamama Cement; US Research (Our estimates)*

Recovery in realization to continue, though we remain cautious

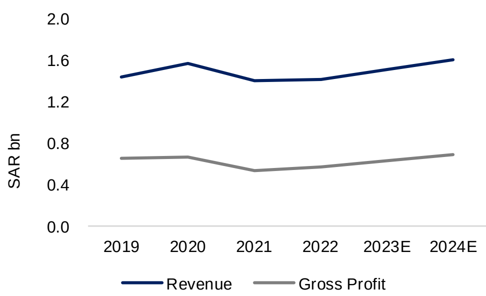
The scenario for the company continues to improve, and as per our calculations, cement average realization increased by c.8% from the average 2022 levels in 4Q22. Going forward we are optimistic about the pricing in the region, though we are cautious about the rate of improvement, and we forecast the average realization to improve at a CAGR of c.2% over 2022 to 2025E.

Financial performance strong in 2022; expected to continue

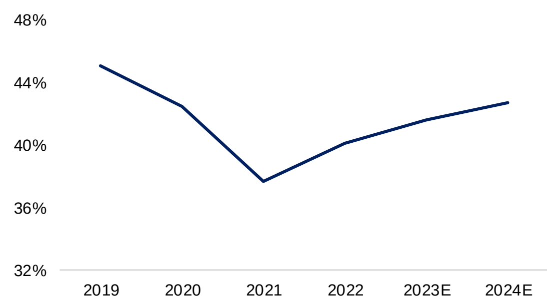
Revenue of SCCO grew marginally by 0.7% y-o-y in 2022 and was aided by higher cement volume and an improvement in the average realization. Revenue from Bahrain grew by 11.5% y-o-y and accounted for c.5% of total revenue. However, revenue growth was moderated by a 36.8% y-o-y fall in clinker revenue, due to a c.50% y-o-y fall in the volume. Going forward, we expect the company's revenue to grow at a CAGR of c.6% between 2022 and 2025E, aided by growth in cement volumes, and a consistent improvement in average realization. We expect the Bahrain operations to remain stable during the period.

Gross margins improved by c.245 bps y-o-y in 2022 to 40.1%, aided by the increase scale of operation. Going forward we expect the margins to consistently increase in the medium term, on the back of improving pricing scenario. We expect gross margins to increase by c.360 bps for the next three years from 2022 levels.

Revenue and profitability to improve



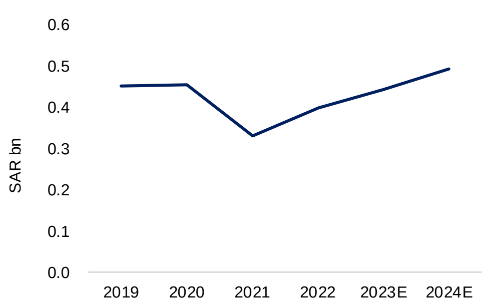
Gross margins are likely to increase



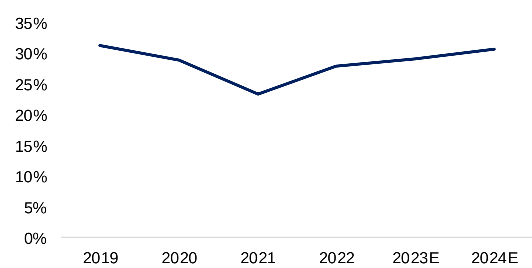
Source: Company Filings; US Research

The net income of SCCO increased by 20% y-o-y in 2022, substantially higher than the revenue growth, on the back of improved margins. Going forward, we expect net income to grow at a CAGR of c.11% between 2022 and 2025E, aided by an improvement in core operations.

Net income will continue to advance



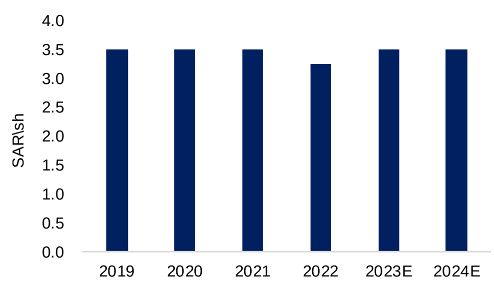
Net margins to grow going forward



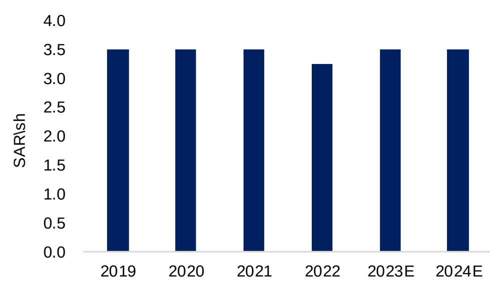
Source: Company Filings; US Research

In 2022, SCCO had distributed a dividend of SAR3.25 per share, giving the company an attractive dividend yield of c.6%, substantially better than the industry average of 3.4%. With no major capex lined up, and given the company's stable financial performance, we expect that the company will continue to pay good dividends, keeping the yields at attractive levels.

Dividend expected to increase to 2021 levels



Yield attractive despite a fall in 2022



Source: Company Filings; US Research

Valuations:

We expect cement volume growth and improvement in realization to be better than the industry average, aiding in a strong growth in financial performance. This along with a favorable dividend yield makes the stock attractive. We have valued the company using an equal weight of DCF (Equity) and P/E methodologies. We have taken a cost of equity of 8.5% and terminal growth of 2% for the DCF and arrived at a value of SAR 65 per share. For P/E, we have used a one year forward P/E of 20x, a discount of c.20% to the industry median (2022), and arrived at a value of SAR61 per share. Overall, we arrive at a weighted average Target Price of SAR63 per share, which gives a BUY rating for the company.

Historically the company has had a strong dividend payout, and we expect this to continue in the medium term, when we expect the financial performance to be strong. We expect a dividend yield of c.6% for the company in the medium term, which is attractive and will provide downside protection to the stock.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
EBITDA	683	726	759	781	806
Less: Finance Cost	-21	-17	-9	-8	-5
Less: Tax	-16	-18	-20	-21	-22
Working capital changes	-57	-53	-47	-36	-37
Less: Capex	-76	-78	-79	-81	-82
Changes in debt	-13	-39	-46	-76	-62
Free Cash Flow to Equity (FCFE)	**500**	**521**	**559**	**559**	**597**
PV of FCFE	**474**	**456**	**451**	**416**	**409**
Sum of PV of FCFE	**2,207**				
Add: Terminal value	7,623				
Sum of FCFE	**9,830**				
Add: Investment and cash	141				
Equity Value	**9,971**				
Number of shares (mn)	153				
Value per share (SAR)	***65***				

Cost of Capital	
Risk Free Rate (Rf)	4.1%
Beta	0.9x
Market risk premium	4.7%
Cost of Equity (Ke)	8.5%
Terminal Growth (Tg)	2.0%

Relative valuation	
2024E EPS (SAR)	3.2
Fair value P/E	20.0x
Value per share (SAR)	***61***

Methodology	Target price/share SAR	Wt	Avg./Sh SAR
DCF	65	50%	33
P/E	61	50%	31
Value per share			**63**
Upside			***11%***

Company Profile

SCCO is one of the largest cement players in KSA and is located in the Eastern region. In 1951, the company was granted a license for a period of 30 years to extract limestone, gypsum, clay, and all the other necessary materials for the manufacture of cement in Al Hassa. The company was later incorporated under a royal decree in 1955 and was registered in the city of Dammam. Post this it obtained a fresh contract for mining for a period of 30 years in 1985.

In 1985, a Saudi Bahraini Company obtained the right of the mining concession for the extraction of limestone, gypsum, and clay. This company was later merged with SCCO in 1990. In the year 2020, all of the above licenses were renewed by the Ministry of Industry and Mineral Resources for a period of 30 years, starting from 2014. This excluded the quarry license for the Aba Hamama area in the Al-Ahsa region, which was renewed for 10 years, commencing from 2020.

SCCO also has a 100% subsidiary, United Cement Company, in the Kingdom of Bahrain, which was incorporated in the year 1989. The main activity of the company included the import, export, and sale of cement. As of 1Q23, the company was the market leader in cement sales with a market share of 13%. During the period, export accounted for 23% of the total volume. In 2022, 90% of the company's revenue came from cement sales, with the balance coming from clinker, while KSA operations accounted for 95% of its revenue, while the balance of 5% came from its operation in Bahrain.

Share Holding Pattern	
Share holders	%
Al-Rajhi Khaled Abdulrahman	6.9%
Vanguard Group Inc	1.9%
Black Rock Inc	1.0%
Al-Khereiji Mohammed Abdulkar	0.7%
Wisdom Tree Inc	0.4%
Others	89.2%

Board of Directors		
S.no	Name	Position
1	Mr. Al-Rajhi Khaled Abdulrahman	Chairman
2	Mr. Al-Khereiji Mohammed Abdulkareem	Vice Chairman
3	Mr. Al-Abdulkarim Khalid Abdul Rahman	Director
4	Mr. Al-Afifi Amin Musa	Director
5	Mr. Al-Olayan Hamad Abdullah	Director
6	Dr. Al-Rajhi Abdulrahman Suleiman	Director
7	Mr. Al-Mohaimeed Mubarak Jaber	Director
8	Mr. Al-Garni Mohammed Ali	Director
9	Mr. Mansour Mohammad Balghonaim	Director
10	Mr. Al-Muhanna Saleh Mohammed	Director
11	Mr. Al-Juffali Hala Walid	Director

Source: Company Filings; Bloomberg US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,442	1,570	1,410	1,420	1,516	1,605	1,683	1,744	1,806
Cost of sales	(792)	(903)	(879)	(851)	(885)	(920)	(948)	(969)	(994)
Gross profit	**650**	**666**	**530**	**569**	**630**	**686**	**735**	**774**	**813**
Operating expenses	(159)	(187)	(186)	(165)	(173)	(180)	(187)	(193)	(199)
Operating profit	**491**	**479**	**344**	**404**	**457**	**505**	**548**	**581**	**613**
Other income	2	10	18	23	23	24	24	24	24
Finance expenses	(26)	(13)	(8)	(16)	(21)	(17)	(9)	(8)	(5)
Earnings before tax	**468**	**476**	**354**	**411**	**460**	**512**	**563**	**598**	**633**
Tax	(16)	(24)	(24)	(12)	(16)	(18)	(20)	(21)	(22)
Net income	**451**	**452**	**330**	**399**	**444**	**494**	**543**	**577**	**610**
Minority interest	0	4	2	0	0	0	0	0	0
Net income post MI	**451**	**456**	**332**	**399**	**444**	**494**	**543**	**577**	**610**

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,533	2,434	2,283	2,138	1,999	1,867	1,742	1,624	1,514
Intangibles	9	19	15	11	8	5	1	0	0
Right-of-use asset	31	28	20	19	11	4	0	0	0
Investment in associates	57	33	37	46	56	65	74	84	93
Investment	0	3	4	3	3	3	3	3	3
Total non-current assets	**2,630**	**2,517**	**2,360**	**2,218**	**2,078**	**1,944**	**1,821**	**1,711**	**1,610**
Inventory	754	632	517	552	589	624	655	678	702
Receivables, Net	369	369	394	380	406	430	451	467	483
Cash & Cash Equivalents	127	125	81	91	70	70	70	70	70
Other current assets	30	36	40	36	36	36	36	36	36
Total current assets	**1,279**	**1,161**	**1,033**	**1,060**	**1,101**	**1,160**	**1,211**	**1,251**	**1,292**
Total assets	**3,909**	**3,678**	**3,392**	**3,278**	**3,179**	**3,104**	**3,032**	**2,962**	**2,902**
Share Capital	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530
Total reserves	1,200	1,122	903	763	671	630	599	602	601
Minority interest	0	25	0	0	0	0	0	0	0
Total equity	**2,730**	**2,677**	**2,433**	**2,293**	**2,201**	**2,160**	**2,129**	**2,132**	**2,131**
Short-term & current debt	595	400	350	325	312	274	228	152	90
Lease liabilities - Current	7	9	9	6	6	6	6	6	6
Payable	61	64	57	134	140	145	149	153	157
Other current liab.	404	414	422	397	397	397	397	397	397
Total current liabilities	**1,067**	**886**	**839**	**862**	**855**	**821**	**780**	**707**	**649**
Long-Term Debt	0	0	0	0	0	0	0	0	0
Long-term lease liabilities	26	22	15	17	17	17	17	17	17
Other non-current liab.	87	92	106	106	106	106	106	106	106
Total non-current liabilities	**112**	**114**	**120**	**123**	**123**	**123**	**123**	**123**	**123**
Total Liabilities	**1,180**	**1,001**	**959**	**985**	**977**	**944**	**903**	**830**	**772**
Equity and liabilities	**3,909**	**3,678**	**3,392**	**3,278**	**3,179**	**3,104**	**3,032**	**2,962**	**2,902**

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	721	811	643	642	603	652	699	731	756
Cash from investments	(135)	(75)	(64)	(75)	(76)	(78)	(79)	(81)	(82)
Cash from financing	(528)	(739)	(622)	(557)	(548)	(574)	(619)	(650)	(674)
Net changes in cash	58	(3)	(43)	10	(21)	0	0	0	0
Closing balance (C/b)	**127**	**125**	**81**	**91**	**70**	**70**	**70**	**70**	**70**

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	3.0	3.0	2.2	2.6	2.9	3.2	3.5	3.8	4.0
BVPS	17.8	17.3	15.9	15.0	14.4	14.1	13.9	13.9	13.9
DPS	3.5	3.5	3.5	3.3	3.5	3.5	3.8	3.8	4.0
FCF/share	3.8	4.8	3.8	3.7	3.4	3.8	4.0	4.2	4.4
Revenue/share	9.4	10.3	9.2	9.3	9.9	10.5	11.0	11.4	11.8
Valuations									
M.Cap (SAR mn)	8,721	8,721	8,721	8,721	8,721	8,721	8,721	8,721	8,721
EV (SAR mn)	9,165	9,016	8,972	8,928	8,927	8,879	8,824	8,738	8,667
P/E	19.3x	19.1x	26.3x	21.9x	19.6x	17.6x	16.1x	15.1x	14.3x
EV/EBITDA	13.0x	12.8x	15.7x	14.1x	13.1x	12.2x	11.6x	11.2x	10.8x
EV/Sales	6.4x	5.7x	6.4x	6.3x	5.9x	5.5x	5.2x	5.0x	4.8x
P/BV	3.2x	3.3x	3.6x	3.8x	4.0x	4.0x	4.1x	4.1x	4.1x
P/S	6.0x	5.6x	6.2x	6.1x	5.8x	5.4x	5.2x	5.0x	4.8x
Div. yield	6.1%	6.1%	6.1%	5.7%	6.1%	6.1%	6.6%	6.6%	7.0%
FCF yield	6.7%	8.4%	6.6%	6.5%	6.0%	6.6%	7.1%	7.5%	7.7%
Liquidity									
Cash Ratio	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Current ratio	1.2x	1.3x	1.2x	1.2x	1.3x	1.4x	1.6x	1.8x	2.0x
Quick ratio	0.5x	0.6x	0.6x	0.6x	0.6x	0.7x	0.7x	0.8x	0.9x
Return ratio									
ROA	11.5%	12.3%	9.7%	12.2%	14.0%	15.9%	17.9%	19.5%	21.0%
ROE	16.5%	17.2%	13.6%	17.4%	20.2%	22.9%	25.5%	27.1%	28.6%
ROCE	12.6%	13.0%	10.1%	12.3%	14.4%	16.3%	18.1%	19.6%	21.1%
Cash cycle									
Inventory turnover	1.1x	1.4x	1.7x	1.5x	1.5x	1.5x	1.4x	1.4x	1.4x
Payables turnover	13.1x	14.1x	15.3x	6.3x	6.3x	6.3x	6.3x	6.3x	6.3x
Receivables turnover	3.9x	4.3x	3.6x	3.7x	3.7x	3.7x	3.7x	3.7x	3.7x
Inventory days	343	252	212	234	240	244	248	252	255
Payable days	28	25	24	57	57	57	57	57	57
Receivables days	92	85	101	96	96	96	96	96	96
Cash Cycle	407	311	289	273	279	284	288	291	294
Profitability ratio									
Gross margins	45.1%	42.5%	37.6%	40.1%	41.6%	42.7%	43.7%	44.4%	45.0%
EBITDA margins	48.9%	44.8%	40.6%	44.7%	45.1%	45.2%	45.1%	44.8%	44.6%
Operating margins	34.1%	30.5%	24.4%	28.4%	30.2%	31.5%	32.5%	33.3%	34.0%
PBT margins	32.5%	30.3%	25.1%	28.9%	30.3%	31.9%	33.4%	34.3%	35.0%
Net margins	31.3%	29.0%	23.5%	28.1%	29.3%	30.8%	32.2%	33.1%	33.8%
Effective tax rate	3.5%	5.0%	6.8%	2.9%	3.5%	3.5%	3.5%	3.5%	3.5%
Leverage									
Total debt (SAR mn)	628	431	374	348	335	296	251	174	112
Net debt (SAR mn)	501	306	292	256	265	226	181	104	42
Debt/Capital	18.7%	13.9%	13.3%	13.2%	13.2%	12.1%	10.5%	7.6%	5.0%
Debt/Total assets	16.1%	11.7%	11.0%	10.6%	10.5%	9.5%	8.3%	5.9%	3.9%
Debt/Equity	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x
Debt/EBITDA	0.9x	0.6x	0.7x	0.5x	0.5x	0.4x	0.3x	0.2x	0.1x
Net debt/EBITDA	0.7x	0.4x	0.5x	0.4x	0.4x	0.3x	0.2x	0.1x	0.1x

Cement Sector

HOLD: 12M TP @ 36

Valuation Summary (TTM)

Price (SAR)		33.600
PER TTM (x)		15.5
P/Book (x)		1.5
P/Sales (x)		6.3
EV/Sales (x)		6.6
Dividend Yield (%)		3.0
Free Float (%)		87%
Shares O/S (mn)		203
YTD Return (%)		24%
Beta		1.0
(mn)	**SAR**	**USD**
Market Cap	6,804	1,814
Total Assets	7,686	2,049

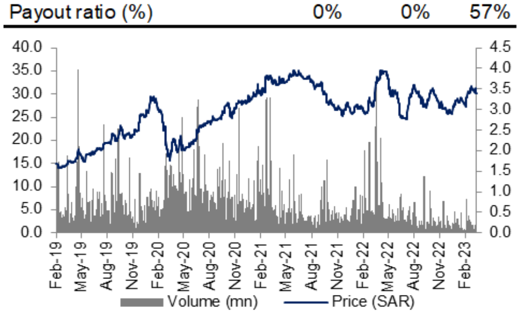
Price performance (%)	**1M**	**3M**	**12M**
Yamama Cement Co	3%	21%	1%
Tadawul All Share Index	4%	9%	-11%
Industry Index	4%	9%	-11%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000	8,487	7,566	6,067
Avg Daily Volume (,000)	257	240	205
52 week	**High**	**Low**	**CTL***
Price (SAR)	33.90	24.48	37.3

* CTL is % change in CMP to 52wk low

Major shareholders	
Al-Saud Sultan Moham	6%
Al-Salem Saleh Abdul	5.3%
Vanguard Group Inc/T	1.9%
Others	86.9%

Other details	
Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.3%

Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	2.00	0.76	1.76
BVPS (SAR)	19.39	21.14	22.97
DPS (SAR)	0.00	0.00	1.00
Payout ratio (%)	0%	0%	57%



Yamama Cement Company (YSCC)

YSCC is the second largest player in the KSA cement market with a market share of c.12% during the period 1Q23 and operates in the Central region. 2022 has been a strong year for the company, despite it being impacted most severely by lower prices for most of the year. It reported a strong volume growth of 33.7% y-o-y, aided by the commencement of its new production line. This along with a recovery of cement realization in 4Q22, aided in a 39% y-o-y growth in revenue and a 132% y-o-y growth in net income. Going forward, we expect the volume growth to taper off in 2023, as we do not expect the levels it achieved in 2022 to be sustainable. However, we expect revenue growth of the company will be supported by an improvement in cement realization in 2023. In 2023 we expect the company will face the full impact of depreciation and finance charges of its new investment, since the commercial production of the same commenced in Nov-22. YSCC had operated the new line for the most part of 2022 under trial production. This is likely to put pressure on the profitability of the company in 2023, with it recovering from 2024. At the current market price, the stock trades at c.22x its 2023E EPS, which in our opinion fully reflects the company's future prospects. Given this, we initiate our coverage on the company with a Hold rating and a Target Price of SAR36 per share.

Expect cement volume to moderate in the medium term: Cement volume of YSCC grew by c.34% y-o-y for 2022, with the monthly sales averaging at c.581k tons, its best performance in the past ten years. The strong performance was boosted by a lower base in 2021, wherein the company had faced production issues due to non-availability of its clinker facility, which was being replaced. However, we do not expect the company to maintain these growth levels and expect the cement volumes to decline by c.8.0% y-o-y for 2023 and recover from 2024 onwards.

Cement realization posts strong recovery: The company was one of the most impacted players in the industry in terms of pricing, as its realization averaged c. SAR145/ton for 2021 and 2022, compared to +SAR200/ton for 2019 and 2020. The realization for the company had fallen to a low of SAR95 per ton in 4Q21 and SAR107 per ton for 1Q22. However, realization has since improved for the company and averaged c. SAR177/ton in 1Q23. Overall, we expect the average cement realization for YSCC to improve by c.20% in 2023, over 2022 levels.

Financial performance in 2023 to come under pressure due to higher depreciation and finance cost: Though we forecast a revenue growth of c.10% y-o-y for 2023, we expect the net income of YSCC to come under pressure and fall by c.13% y-o-y due to higher depreciation and finance charges. 2023 will be the first full year to witness the full impact of the increased depreciation and finance charges from the new facility, which is likely to impact profitability in 2023. Post this we expect the company's net income to grow at a CAGR of 8% between 2023 and 2025E.

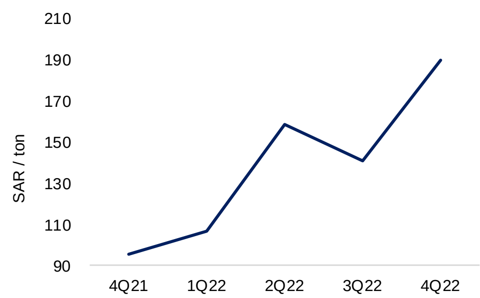
Valuation: We expect the cement volume growth of the company to underperform the industry, while average realizations are expected to improve. Financial performance in 2023 is likely to come under pressure due to higher depreciation and finance charges in 2023E. The company currently trades at a P/E of 22x its 2023E EPS, which fully reflects the company's expected financial performance. We initiate coverage on the company with a Target Price of SAR36 per share and a HOLD rating. We have used an equal weighted average of P/E (20x), and DCF (8.8% cost of equity and 2% terminal growth) to value the company.

Cement realization to improve from the lows of 2021 and 2022

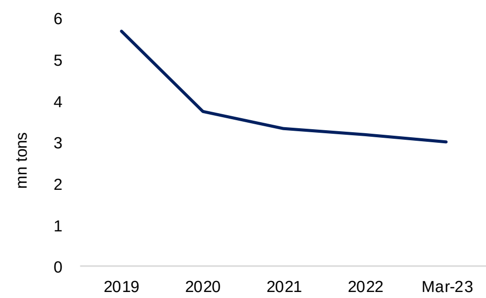
Average realization to improve

The average cement realization of YSCC has been under pressure in 2021 and 2022, with it averaging at c. SAR145 per ton, compared to more than SAR200 per ton in 2019 and 2020. Oversupply in the region and weak demand had driven the realization down for the company. The average realization for YSCC had gone as low as SAR95 per ton in 4Q21 and SAR107 per ton for 1Q22. However, post this it has improved and have reached SAR177 per ton for 1Q23.

Average realization up from 4Q21 levels



Clinker inventory fall, though the levels are still high



Source: Company Filings; US Research

High inventory levels and historical industry performance makes us cautious on the growth in prices

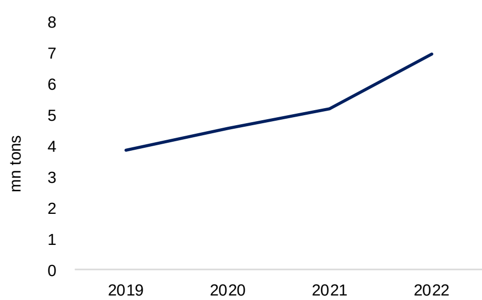
Going forward, we expect that the cement average realization is unlikely to fall to 2021 and 2022 levels, though we continue to remain cautious and do not expect the 4Q22 levels of c. SAR190/ton to sustain. We conservatively forecast an average realization of c. SAR175 per ton for 2023, which is still 20% higher than 2022 average levels, and expect it to improve further from 2024. Moderation in cement supply and an improvement in the cement demand scenario from 2H23 are likely to support cement realization for the company. Clinker inventory levels for the company have also come down substantially from 3.8 mn tons in 2020 to 3.2 mn tons in 2022 and further to 3.0 mn tons as of the end of 1Q23. However, even at the current levels it looks higher, as the company has c.6 months of clinker production.

Cement sales volume growth to slow down

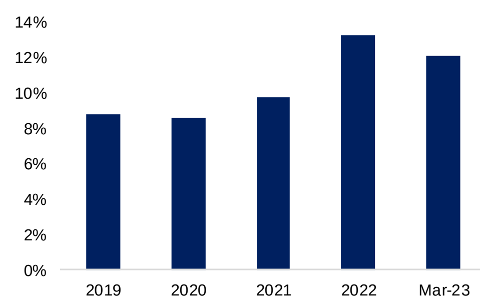
Cement volumes of YSCC grew by 34% y-o-y in 2022 and at a CAGR of >20% between 2019 and 2022

Cement sales volume in 2022 increased by 34% y-o-y and has increased at a CAGR of more than 20% between 2019 and 2022. The main reason for this increase was the lower base in the past few years, owing to the non-availability of the company's complete capacity. The company has replaced its existing facility with a new production line. As a result of this, the company had been sustaining its operations through its clinker inventory, during the construction period. In the latter part of 2021, the company started the pilot operation of its new plant, which aided higher production and sales in 2022.

Cement volumes have consistently grown since 2019



Market share is up over the period



Source: Company Filings; US Research

Company will likely find it difficult to maintain this momentum

In 2022, the company's monthly average of cement sales was 581k tons, its best performance in the past ten years. We do not expect the company to sustain its 2022 performance in 2023. Consequently, we expect the cement volumes of the company to underperform the industry average in 2023.

New project to increase capacity

Shifting of line-7 production line to new facility to increase capacity by 10,000 tpd

The management of YSCC will be shifting its line-7 production, with a capacity of 10,000 tpd of clinker, from its old facility to the new facility, at a total capital outlay of SAR830mn. This shift will increase the total clinker capacity from the existing 20,000 tpd to 30,000 tpd or from the current capacity of c.6 mtpa of clinker to c.9 mtpa. The project is expected to be completed by 2H25 and is expected to be financed through a combination of debt and own funds.

We expect only a marginal impact on the leverage due to the capex

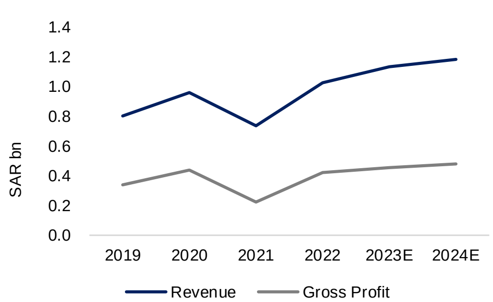
YSCC has relatively higher leverage, compared to the industry, with a debt-equity ratio of c.24% in 2022, compared to the industry average of c.14%. This has been due to the capex undertaken by the company towards setting up a new production line. We expect the leverage will increase marginally by 50 to 70 bps in the next two years due to the capex and fall from thereon. Overall, we feel that the debt levels are likely to be under control, despite the marginal increase.

Expect 2023 financial performance to come under pressure due to higher depreciation and finance charges

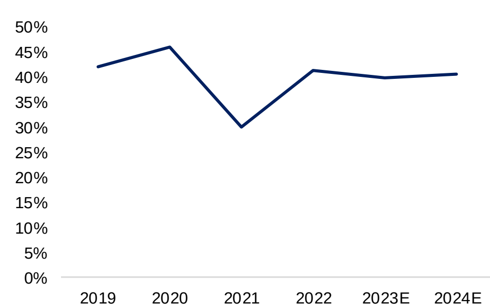
34% growth in volume and 4% improvement in cement realization aided revenue growth in 2022

Revenue of YSCC increased by 39.0% y-o-y in 2022 and was aided by a 34% y-o-y improvement in cement volumes and a 4% y-o-y increase in average realization. Its 2023 performance is likely to be aided by further improvement in cement realization, though volume growth is likely to come under pressure. Overall, we expect the company's revenue to grow at a CAGR of c.6% between 2022 and 2025E.

Revenue to continue to grow



2023 gross margins to come under pressure

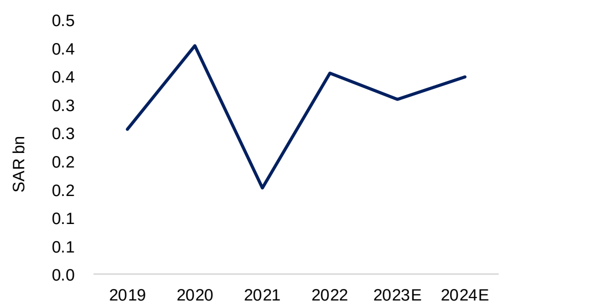


Source: Company Filings; US Research

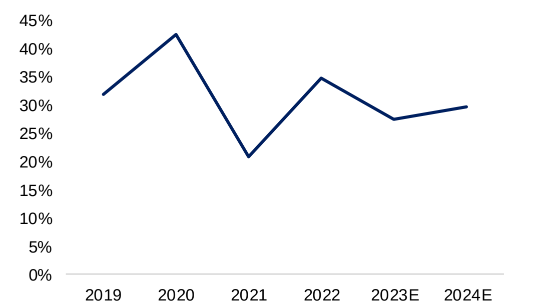
Revenue growth to be aided by improved pricing in 2023

Improvement in cement realization, especially in 4Q22, and higher volumes aided in the company's gross margins improving to 41.4% in 2022, compared to 30.0% in 2021. Going forward we expect the margins of the company to come under pressure in 2023, due to higher depreciation. It has to be noted that the company started commercial production of its facility only in November 2022, as a result of which the depreciation and finance costs were accounted only for two months during the year, though revenue was booked even during the trial production. Overall, we expect gross margins to fall by c.160 bps for 2023, over 2022 levels.

Net income to come under pressure in 2023



Net margins to come under pressure



Source: Company Filings; US Research

Higher depreciation and interest cost to put pressure on 2023 net income

In line with the improvement in revenue and gross margins, operating profits increased by more than 2.0x to SAR333mn in 2022, while net income in 2022 more than doubled vis-à-vis 2021 levels to SAR356mn. However, we expect the company's net income in 2023 will come under pressure, due to higher depreciation and finance cost during the period and fall by c.13% y-o-y in 2023.

Dividend payment of YSCC lags industry peers

After a gap of three years, YSCC had distributed a dividend of SAR1.0 per share for 2022; in 2019 the company had declared a dividend of SAR0.5 per share. At the current market price, the company has a dividend yield of c.3%, lower than the industry average of c.3.4%. The company has prioritized debt servicing and capex over dividends, and we expect this conservative financial policy of the company to continue in the medium term. Given that the company has another capex lined up, we expect the dividend payment will continue to lag the industry average in the medium term, though we expect it to improve from the current levels, albeit gradually.

Valuations:

We expect the cement volume growth of the company to underperform the industry, while average realization is expected to improve. Financial performance in 2023 is likely to come under pressure due to higher depreciation and finance charges in 2023E. The company currently trades at a P/E of 22x its 2023E EPS, which fully reflects the company's expected financial performance. We have valued the company using an equal weight of DCF (Equity) and P/E methodologies. We have taken a cost of equity of 8.8% and terminal growth of 2% for the DCF and have arrived at a value of SAR 38 per share. For P/E, we have used one year forward P/E of 20x, a discount of c.20% to the industry median (2022 EPS) and arrived at a value of SAR33 per share. Overall, we arrive at a weighted average Target Price of SAR36 per share, which gives us a HOLD rating for the company.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
EBITDA	532	559	589	615	639
Less: Finance Cost	(44)	(34)	(30)	(30)	(24)
Less: Tax	(19)	(22)	(22)	(24)	(26)
Working capital changes	(12)	(7)	(5)	(7)	(7)
Less: Capex	(305)	(306)	(307)	(32)	(33)
Changes in debt	29	48	13	(234)	(261)
Free Cash Flow to Equity (FCFE)	**181**	**237**	**237**	**288**	**287**
PV of FCFE	**172**	**207**	**190**	**212**	**195**
Sum of PV of FCFE	**975**				
Add: Terminal value	5,883				
Sum of FCFE	**6,858**				
Add: Investment and cash	895				
Equity Value	**7,754**				
Value per share (SAR)	***38***				

Cost of Capital	
Rf	4.1%
Beta	1.0x
Market risk premium	4.7%
Ke	8.8%
Tg	2.0%

Relative valuation	
2024E EPS (SAR)	1.7
Fair value P/E	20.0x
Value per share (SAR)	***33***

Methodology	Tp/Sh SAR	Wt	Avg./Sh SAR
DCF	38	50%	19
P/E	33	50%	16
Value per share			**36**
Upside			***7%***

Company Profile

YSCC is one of the largest cement players in the country and is located in the Central region of KSA. The company was established in 1956 and it currently operates with a capacity to manufacture 20,000 tpd of clinker. In 2015, YSCC entered into an agreement with Germany's ThyssenKrupp Industrial Solutions to build a new production line with a capacity to produce 20,000 tpd of clinker, at a total cost of SAR4.7bn. The new capacity was at a new location and would replace its existing capacity in the South of Riyadh. The commercial production of the new plant commenced in November 2022.

Post the completion of the new plant, the company had planned to sell its production line 6 at the old plant with a capacity to produce 3,000 tpd clinker. The line has been fully depreciated in the books of YSCC. The old production lines 1 to 5, with a capacity of 5,600 tpd of clinker have already been dismantled and sold in 2022.

The company has also entered into an agreement with China's Sinoma Overseas Development Co. Ltd to transfer its production line 7 from its old facility to the new one at a cost of SAR830mn. The project is expected to commence during 1Q23 and is likely to be completed by 2H25. Post the transfer, the company's clinker capacity will increase by 10,000 tpd from the existing 20,000 tpd, taking the annual capacity from c.6.0 mtpa to c.9 mtpa.

As of 1Q23, the company was the second largest player in KSA with a market share of 12%. During 2022 and in 1Q23, 100% of its revenue was from within KSA. Also, 100% of its revenue in 2022 was from cement, and it did not export any clinker during the period.

Share Holding Pattern	
Share holders	%
Mr. Al Saud Sultan Mohamed	5.9%
Mr. Al Salem Saleh Abdulaziz Mohamm	5.3%
Vanguard Group Inc	1.9%
Black Rock Inc	1.2%
Dimensional Fund Advisor	0.7%
Others	84.9%

Board of Directors		
S.no	Name	Position
1	Prince Turki bin Muhammed bin Abdulaziz bin Turki	Chairman
2	Prince Naif bin Sultan bin Muhammed bin Saud Al-Kabeer	Deputy Chairman
3	Fahad bin Thunayan Al-Thunayan	Director
4	Abdullah bin Abdulrahman Al-Obeikan	Director
5	Faisal bin Sulaiman Al-Rajhi	Director
6	Abdullah bin Muhammed Al-Bahouth	Director
7	Nizar bin Abdulaziz Al-Tuwaijri	Director
8	Muhammed bin Ibrahim	Director

Source: Company filings; Bloomberg; US Securities

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	802	956	736	1,023	1,129	1,180	1,228	1,278	1,329
Cost of sales	(465)	(516)	(515)	(599)	(680)	(700)	(743)	(761)	(781)
Gross profit	**337**	**440**	**220**	**423**	**449**	**481**	**485**	**516**	**548**
Operating expenses	(68)	(69)	(64)	(90)	(91)	(91)	(90)	(89)	(91)
Operating profit	**269**	**371**	**157**	**333**	**358**	**390**	**395**	**427**	**457**
Other income	17	47	15	51	16	16	16	16	16
Finance expenses	0	0	0	(7)	(44)	(34)	(30)	(30)	(24)
Earnings before tax	**286**	**419**	**172**	**378**	**329**	**371**	**382**	**413**	**449**
Tax	(30)	(13)	(19)	(22)	(19)	(22)	(22)	(24)	(26)
Net income	**256**	**406**	**154**	**356**	**310**	**350**	**360**	**389**	**423**

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E (incl. WIP)	4,045	4,493	4,823	4,989	5,120	5,257	5,371	5,216	5,067
Intangibles	1	6	10	9	9	9	9	9	9
Investment in associates	33	33	37	46	46	46	46	46	46
Investment	398	324	519	548	548	548	548	548	548
Others	4	3	3	5	5	5	5	5	5
Total non-current assets	**4,481**	**4,859**	**5,393**	**5,597**	**5,728**	**5,865**	**5,980**	**5,824**	**5,675**
Inventory	613	392	283	267	303	312	331	339	348
Receivables, Net	248	212	121	174	192	200	209	217	226
Cash & Cash Equivalents	74	72	74	76	70	70	70	70	70
Investments	128	36	32	225	225	225	225	225	225
Other current assets	29	25	20	12	12	12	12	12	12
Total current assets	**1,090**	**736**	**530**	**754**	**802**	**819**	**846**	**863**	**881**
Total assets	**5,571**	**5,594**	**5,923**	**6,351**	**6,530**	**6,685**	**6,826**	**6,687**	**6,556**
Share Capital	2,025	2,025	2,025	2,025	2,025	2,025	2,025	2,025	2,025
Total reserves	1,615	1,902	2,255	2,626	2,734	2,831	2,937	3,023	3,142
Total Equity	**3,640**	**3,927**	**4,280**	**4,651**	**4,759**	**4,856**	**4,962**	**5,048**	**5,167**
Short-term & current debt	79	0	0	263	338	338	89	0	0
Lease liabilities - Current	1	1	1	3	3	3	3	3	3
Payable	65	112	186	314	356	367	389	399	409
Other current liab.	113	138	163	160	160	160	160	160	160
Total current liabilities	**258**	**252**	**351**	**739**	**857**	**867**	**641**	**561**	**572**
Long-Term Debt	1,572	1,308	1,178	840	794	842	1,104	958	698
Long-term lease liabilities	3	1	1	3	3	3	3	3	3
Other non-current liab.	98	105	112	117	117	117	117	117	117
Total non-current liabilities	**1,672**	**1,415**	**1,292**	**960**	**914**	**962**	**1,223**	**1,078**	**818**
Total Liabilities	**1,931**	**1,667**	**1,643**	**1,700**	**1,771**	**1,829**	**1,864**	**1,640**	**1,390**
Equity and liabilities	**5,571**	**5,594**	**5,923**	**6,351**	**6,530**	**6,685**	**6,826**	**6,687**	**6,556**

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	381	709	470	518	472	512	548	570	598
Cash from investments	(413)	(269)	(336)	(441)	(305)	(306)	(307)	(32)	(33)
Cash from financing	(12)	(441)	(131)	(76)	(173)	(205)	(241)	(538)	(564)
Net changes in cash	(44)	(2)	2	2	(6)	0	0	0	0
C/b	**74**	**72**	**74**	**76**	**70**	**70**	**70**	**70**	**70**

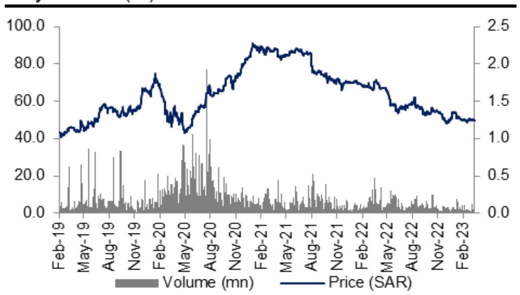
Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	1.3	2.0	0.8	1.8	1.5	1.7	1.8	1.9	2.1
BVPS	18.0	19.4	21.1	23.0	23.5	24.0	24.5	24.9	25.5
DPS	0.5	0.0	0.0	1.0	1.0	1.3	1.3	1.5	1.5
FCF/share	(0.2)	2.2	0.7	0.4	0.8	1.0	1.2	2.7	2.8
Revenue/share	4.0	4.7	3.6	5.1	5.6	5.8	6.1	6.3	6.6
Valuations									
M.Cap (SAR mn)	6,804	6,804	6,804	6,804	6,804	6,804	6,804	6,804	6,804
EV (SAR mn)	7,827	7,651	7,322	7,017	7,052	7,100	7,113	6,878	6,618
P/E	26.5x	16.8x	44.3x	19.1x	21.9x	19.4x	18.9x	17.5x	16.1x
EV/EBITDA	17.0x	20.2x	44.3x	19.0x	13.3x	12.7x	12.1x	11.2x	10.4x
EV/Sales	9.8x	8.0x	10.0x	6.9x	6.2x	6.0x	5.8x	5.4x	5.0x
P/BV	1.9x	1.7x	1.6x	1.5x	1.4x	1.4x	1.4x	1.3x	1.3x
P/S	8.5x	7.1x	9.2x	6.7x	6.0x	5.8x	5.5x	5.3x	5.1x
Div. yield	1.5%	0.0%	0.0%	3.0%	3.0%	3.7%	3.7%	4.5%	4.5%
FCF yield	-0.5%	6.5%	2.0%	1.1%	2.5%	3.0%	3.5%	7.9%	8.3%
Liquidity									
Cash Ratio	0.3x	0.3x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Current ratio	4.2x	2.9x	1.5x	1.0x	0.9x	0.9x	1.3x	1.5x	1.5x
Quick ratio	1.9x	1.4x	0.7x	0.7x	0.6x	0.6x	0.8x	0.9x	0.9x
Return ratio									
ROA	4.6%	7.2%	2.6%	5.6%	4.8%	5.2%	5.3%	5.8%	6.4%
ROE	7.0%	10.3%	3.6%	7.6%	6.5%	7.2%	7.2%	7.7%	8.2%
ROCE	4.8%	6.6%	2.6%	5.2%	5.5%	5.8%	5.8%	6.4%	7.0%
Cash cycle									
Inventory turnover	0.8x	1.3x	1.8x	2.2x	2.2x	2.2x	2.2x	2.2x	2.2x
Payables turnover	7.1x	4.6x	2.8x	1.9x	1.9x	1.9x	1.9x	1.9x	1.9x
Receivables turnover	3.2x	4.5x	6.1x	5.9x	5.9x	5.9x	5.9x	5.9x	5.9x
Inventory days	474	274	197	160	160	160	160	160	160
Payable days	50	78	130	189	189	189	189	189	189
Receivables days	111	80	59	61	61	61	61	61	61
Cash Cycle	535	275	127	33	33	33	33	33	33
Profitability ratio									
Gross margins	42.0%	46.0%	30.0%	41.4%	39.8%	40.7%	39.5%	40.4%	41.2%
EBITDA margins	57.4%	39.6%	22.4%	36.1%	47.1%	47.3%	47.9%	48.1%	48.1%
Operating margins	33.6%	38.8%	21.3%	32.6%	31.7%	33.0%	32.2%	33.4%	34.4%
PBT margins	35.7%	43.8%	23.4%	36.9%	29.2%	31.5%	31.1%	32.4%	33.8%
Net margins	32.0%	42.4%	20.9%	34.8%	27.5%	29.6%	29.3%	30.5%	31.8%
Effective tax rate	10.5%	3.1%	10.7%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%
Leverage									
Total debt (SAR mn)	1,655	1,311	1,181	1,109	1,138	1,185	1,198	964	703
Net debt (SAR mn)	1,581	1,239	1,107	1,033	1,068	1,115	1,128	894	633
Debt/Capital	31.3%	25.0%	21.6%	19.2%	19.3%	19.6%	19.4%	16.0%	12.0%
Debt/Total assets	29.7%	23.4%	19.9%	17.5%	17.4%	17.7%	17.6%	14.4%	10.7%
Debt/Equity	0.5x	0.3x	0.3x	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x
Debt/EBITDA	3.6x	3.5x	7.1x	3.0x	2.1x	2.1x	2.0x	1.6x	1.1x
Net debt/EBITDA	3.4x	3.3x	6.7x	2.8x	2.0x	2.0x	1.9x	1.5x	1.0x

INVESTMENT RESEARCH | Saudi Arabia

Cement Sector

HOLD: 12M TP @ 54

Valuation Summary (TTM)			
Price (SAR)			52.400
PER TTM (x)			24.7
P/Book (x)			2.3
P/Sales (x)			6.0
EV/Sales (x)			5.8
Dividend Yield (%)			1.9
Free Float (%)			60%
Shares O/S (mn)			140
YTD Return (%)			3%
Beta			0.6
(mn)		**SAR**	**USD**
Market Cap		7,336	1,956
Total Assets		7,269	1,938
Price performance (%)	**1M**	**3M**	**12M**
Southern Province Cement	-2%	5%	-19%
Tadawul All Share Index	4%	9%	-11%
Industry Index	4%	9%	-11%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000	7,722	4,309	3,435
Avg Daily Volume (,000)	126	83	67
52 week	**High**	**Low**	**CTL***
Price (SAR)	65.70	47.60	10.1
* CTL is % change in CMP to 52wk low			
Major shareholders			
Public Investment Fu			37%
Vanguard Group Inc/T			1.9%
BlackRock Inc			0.9%
Others			59.7%
Other details			
Exchange			Saudi Arabia
Sector			Building Materials
Index weight (%)			0.2%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	4.35	3.07	2.15
BVPS (SAR)	23.43	22.76	22.90
DPS (SAR)	4.75	2.50	1.50
Payout ratio (%)	109%	81%	70%



Southern Province Cement Co. (SPCC)

SPCC is the third largest cement company in KSA with a market share of 11% of sales volume in 1Q23 and is present in the Southern region. The company's volume growth has been lagging industry performance in 2022 and we expect this trend to continue in 2023. As per our calculation, the average realization of domestic cement was at c. SAR190/ton, a premium to the average industry realization of c. SAR170/ton for 2022. We expect the company will maintain higher realization, vis-à-vis the industry average in the medium term. Overall, we expect financial performance will recover in 2023, with the net income expected to grow at a CAGR c.10% between 2022 and 2025E. SPCC's investment to replace its existing production line in Jazan with a new production line is likely to result in lower dividend in the near term, though we expect the project will have a long-term positive impact on the margins of the company through reduction in cost of production. However, we have not considered these for our estimates since the cost and timelines of the project is not yet clear. The company is currently trading at 23x its 2023E EPS and at these levels we feel that most of the positives have been discounted. We initiate our coverage in the company with a Hold rating and a Target Price of SAR54 per share.

Volume growth to underperform industry in 2023: Cement volume of SPCC fell by 12.5% y-o-y for 2022 (-1.5% for the industry) and by 11.1% y-o-y for 1Q23 (-7.2% for the industry), underperforming the industry averages. We expect this trend to continue in 2023 and recover from 2024 onwards. Going forward we expect the cement volume of the company to remain flat in 2023, vis-à-vis 2022 levels. Overall, we expect cement volumes of the company will grow at a CAGR of c.1% between 2022 and 2025E.

Cement realization is likely to be higher than industry average: As per our calculation the average domestic cement realization for the company for 2022 was at SAR190/ton, which was substantially higher than the industry average of c. SAR170/ton. Going forward, we expect the company to maintain a premium over the industry average in the medium term. We also expect cement prices to improve at a CAGR of c.2% between 2022-25E.

Financial performance likely to improve: Aided by a stable recovery in domestic cement pricing scenario, and higher clinker sales, we forecast a revenue CAGR of c.4% between 2022 and 2025E. Operating margins on the other hand is expected to improve by more than 600 bps over the next three years, and we expect net income to grow at a CAGR of c.10% for 2022 to 2025E period.

Dividend to remain low in the near term: SPCC's dividend yield of c.2.4%, is lower than the industry average of c.3.4%. We expect this trend to continue, as the company's plans to replace its plant in Jazan will entail high capex and cash outflow. However, we expect the project is likely to have a positive impact on the margins post completion, through lower cost of production.

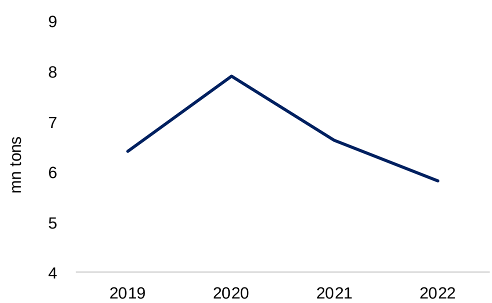
Valuation: We forecast the volume growth of the company will underperform industry average, though cement realization is likely to be better than industry average. We also expect dividend payments will be lower than the previous year levels due to the ongoing capex. The company currently trades at a P/E of 23x its 2023E EPS, which fully reflects the company's expected financial performance. We initiate coverage on SPCC with a Target Price of SAR54 per share and a HOLD rating. We have used an equal weighted average of P/E (20x), and DCF (8.6% cost of equity and 2% terminal growth to value the company.

Cement sales volume was under pressure in 2022, likely to remain muted in 2023 as well

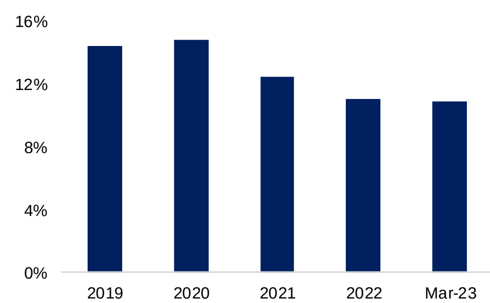
Cement volumes underperform industry average

Cement sales volume in 2022 fell by 12.5% y-o-y (-1.5% industry average) and has fallen at a CAGR of c.3% between 2019 and 2022 (industry average of c.+6% for the same period). This has continued in the current year, with its 1Q23 volumes falling by c.11% y-o-y, compared to the industry average fall of c.7% for the same period. This has resulted in the company's market share dropping gradually from 15% in 2020, to 11% in 2022 and 1Q23.

Cement volumes under pressure



Market share has fallen



Source: Company Filings; Yamama Cement; US Research

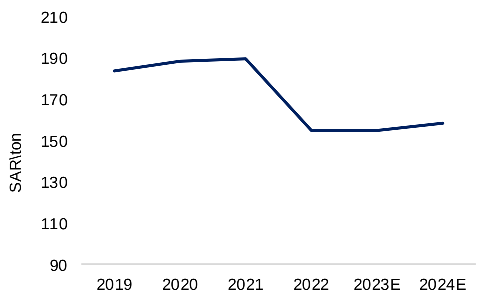
SPCC likely to underperform the industry in 2023

Going forward we expect this trend to continue, as the volume growth of the company is likely to underperform the industry average. We expect cement volumes to grow at a modest CAGR of 1% over 2022-25E.

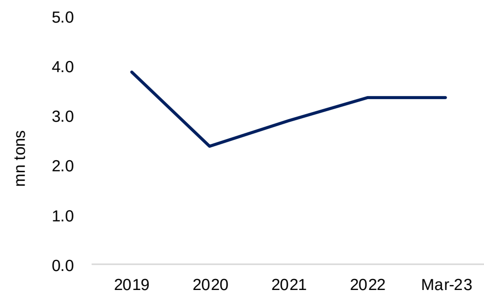
Blended realization under pressure due to increased contribution from clinker revenue, even as cement average realizations were better than the industry average

The blended realization of SPCC (including clinker) at SAR155per in 2022, was substantially lower than SAR190per ton in 2021 and was driven mainly by a nearly 5x increase in the clinker (carries a lower realization viz-a-viz cement) sales volume. As per our calculations, the domestic cement realization of the company in 2022 was at c. SAR190/ton, substantially higher than the industry average (c. SAR170/ton).

Blended realization falls due to higher clinker sales



Clinker inventory increases



Source: Company Filings; Yamama Cement; US Research

Company likely to maintain its premium in cement realization

Going forward, we expect the company's realization will continue to be at a premium over the industry average. Clinker revenue is likely to grow in 2023, which will keep the blended realization under check, though it is likely to improve gradually. We expect the average cement realization of the company to grow at a CAGR of 2% for the next three years, while the blended realization is expected to grow at a CAGR of 1.5% for the same period.

SPCC to replace its existing production line in Jazan

Low level of debt provides financial flexibility to undertake the project, though dividend could come down in the near term

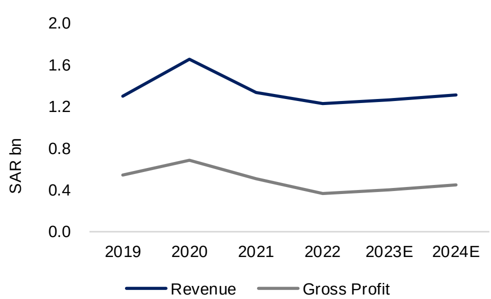
SPCC is looking to replace its existing production line in Jazan with a new production line of 10,000 tons per day. As per company filings, it has a clinker capacity of 1.5 mtpa in Jazan. Currently, the company is in the process of awarding the necessary contract to begin the project. The cost of the project and the timelines of the same have not been clarified, and therefore we have not incorporated it in our estimates. Given that the current debt-equity ratio of the company is just 8%, it provides the financial flexibility to manage the capex. However, it could impact the dividend distributed by the company in the near term. We expect a positive impact on the financials of the company in the long run, as we expect that there will be a reduction in the cost of production post the investment.

Revenue growth lag industry performance, due to lower volumes

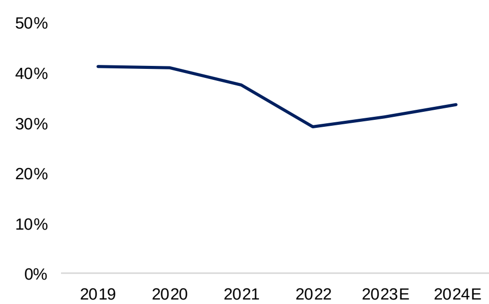
Financial performance under pressure in 2022, likely to recover

Revenue of SPCC fell by 8.7% y-o-y, to SAR1.2bn and was impacted by a 12.5% y-o-y fall in cement volumes. However, revenue to a certain extent was supported by a more than 5x increase in the clinker volume. Going forward, we expect cement volumes to remain flat in 2023, before a recovery in 2024. However, we expect the average realization will continue to be at a premium to the industry. Overall, we expect revenue to grow at a CAGR of c.4% for the next three years.

Revenue and profitability to recover



Gross margins to go up

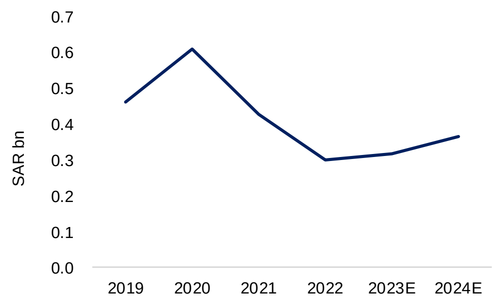


Source: Company Filings; US Research

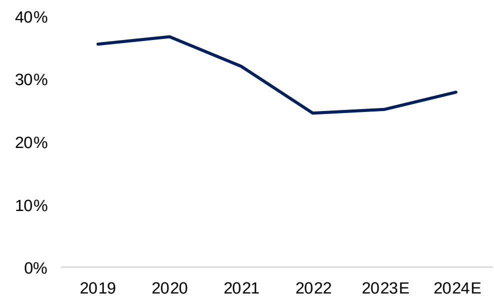
Increase in the proportion of clinker to sales impacts margins

Gross margins fell to 29.2% in 2022, compared to 37.7% in 2021, as a result of lower cement volume. We also expect that higher clinker sales could have had an impact on the margins of the company. Going forward, we expect gross margins to gradually improve. It is not clear whether the old plant in Jazan will be in operation when the modernization of the plant commences. However, it has to be noted that the company has c.6 months of clinker inventory, and sufficient capacity in its Bisha (clinker capacity of 2.7 mtpa c.80% utilization in 2022) and Tahama (clinker capacity of 4.5 mtpa and c.78% utilization in 2022) to compensate any loss of production of the Jazan plant. In 2022, the production from the Jazan plant was 1.4mn tons of clinker. However, this could have a negative impact on the gross margins of the company in the medium term. Though we also feel that post the modernization, there could be substantial cost savings, through lower cost of production of the modernized plant. Currently, however, we have not taken into account the impact of these for our estimates.

Net income under pressure, but expected to recover



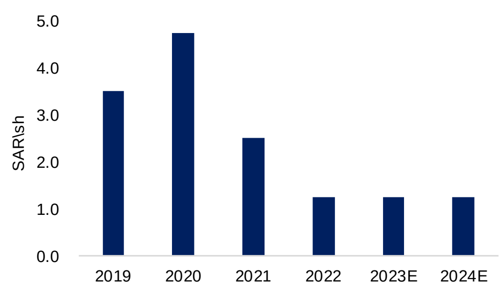
Net margins to increase



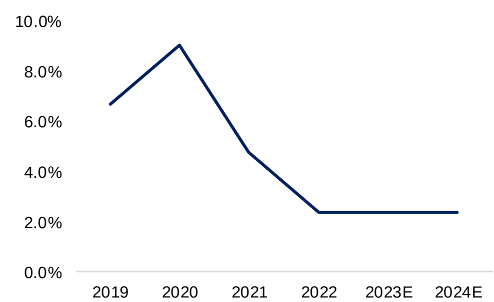
Source: Company Filings; US Research

Operating profits fell by 33.6% y-o-y to SAR294mn and were impacted by lower margins. Overall, net income fell by c.30% y-o-y to SAR301 mn and was impacted by a fall in revenue and lower margins. Going forward, aided by an improvement in gross margins, we expect net income growth to recover to a CAGR of c.10% in the next three years.

Dividend to come under pressure due to upcoming capex



Dividend yield to fall



Source: Company Filings; US Research

Dividend to come under pressure due to ongoing capex

For 2022, SPCC had distributed a dividend of SAR1.25 per share, substantially lower than SAR2.5 per share in 2021 and was also lower than the historical averages. Given the ongoing capex plan of the company, we expect dividend levels will be depressed for the next two to three years, before recovering to the 2021 levels of SAR2.50 per share. The recovery in dividend payment will depend on the amount of capex that will be invested and the amount of debt that will be incurred to finance the same.

Valuations:

We expect the volume growth of the company will underperform the industry average, though cement realization is likely to be better than industry average. We also expect dividend payments to be lower than the previous levels for the next three years due to ongoing capex. The company currently trades at a P/E of 23x its 2023E EPS, which fully reflects the company's expected financial performance. For valuations, we have used equal weighted average of DCF (Equity) and P/E methodologies. We have taken a cost of equity of 8.6% and terminal growth of 2% for DCF and have arrived at a value of SAR 58 per share. For P/E, we have used a forward P/E of 20x, a discount of c.20% to the industry median (2022) and arrived at a value of SAR50 per share. Overall, we arrive at a Target Price SAR54 per share, which gives a HOLD rating to the company.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
EBITDA	531	567	591	616	641
Less: Finance Cost	(10)	(7)	(4)	(3)	0
Less: Tax	(12)	(13)	(15)	(16)	(17)
Working capital changes	(3)	(4)	(15)	(17)	(18)
Less: Capex	(50)	(52)	(54)	(57)	(59)
Changes in debt	(33)	(48)	(60)	(113)	0
Free Cash Flow to Equity (FCFE)	**423**	**443**	**443**	**411**	**547**
PV of FCFE	**401**	**387**	**356**	**304**	**373**
Sum of PV of FCFE	**1,821**				
Add: Terminal value	5,957				
Sum of FCFE	**7,778**				
Add: Investment and cash	320				
Equity Value	**8,098**				
Value per share (SAR)	***58***				

Cost of Capital	
Rf	4.1%
Beta	1.0x
Market risk premium	4.7%
Ke	8.6%
Tg	2.0%

Relative valuation	
2024E EPS (SAR)	2.6
Fair value P/E	20.0x
Value per share (SAR)	***50***

Methodology	Tp/Sh SAR	Wt	Avg./Sh SAR
DCF	58	50%	29
P/E	50	50%	25
Value per share			**54**
Upside			***3%***

Company Profile

SPCC is one of the largest cement players in the region and is located in the Southern region of KSA. It operates through capacities in three locations, Tahama, Bisha, and Jazan with a designed capacity of 4.5 mtpa, 2.7 mtpa, and 1.5 mtpa respectively to manufacture clinker.

In 2021, the board of directors of SPCC approved the construction of a new production line with a clinker capacity of 10,000 tpd in Jazan, to replace the existing line. In May 2022, the company announced that it has decided to construct a new production line with a capacity of 5,000 tpd, with the infrastructure for an additional production capacity of 5,000 tpd.

In March 2023, the company announced that it has completed the study of the offers made to it by various contractors to undertake the project in Jazan and that work is underway to draft and appoint the contractor.

As of 1Q23, the company was the third largest player in KSA with a market share of 11%. During 2022, c.10% of its revenue was from export sales, mainly to Yemen, with the balance c.90% coming from within KSA. In 2022, 46% of the company’s domestic revenue came from Asir, 39% from Jazan, 10% from Mecca, and 5% from Najran. Apart from this the company also had negligible revenue contributions from Al Baha and Riyadh. The company also exported 1.0 mn tons of clinker in 2022, and 0.3 mn tons in 1Q23.

Share Holding Pattern	
Share holders	**%**
PIF	37.4%
Vanguard Group Inc	1.9%
Black Rock Inc	0.9%
Dimensional Fund Advisor	0.2%
Al Nabit Mohammed Bin Nasser Abdullah	0.2%
Others	59.4%

Board of Directors		
S.no	**Name**	**Position**
1	Dr. Hamad bin Sulaiman Al-Bazai	Chairman
2	Mr. Mohammed bin Nasser Al-Nabit	Deputy Chairman
3	Eng. Ahmed Ali Al-Lohaidan	Director
4	Mr. Mansour bin Abdulaziz Al-Saghayer	Director
5	Dr. Abdullah bin Nasser AbuThnain	Director
6	Mr. Jaser bin Abdullah Al-Jaser	Director
7	Eng. Ahmed bin Saeed Al-Ghamdi	Director
8	Eng. Thamer bin Mohammed Al-muhid	Director
9	Mr. Saad bin Abdulaziz Al-Karoud	Director

Source: Company filings; Bloomberg; US Securities

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,300	1,653	1,339	1,222	1,261	1,311	1,362	1,416	1,472
Cost of sales	(763)	(974)	(834)	(865)	(866)	(868)	(885)	(903)	(923)
Gross profit	**538**	**679**	**505**	**357**	**395**	**443**	**478**	**513**	**549**
Operating expenses	(54)	(50)	(62)	(63)	(65)	(66)	(68)	(69)	(71)
Operating profit	**483**	**628**	**443**	**294**	**330**	**377**	**410**	**444**	**478**
Other income	7	13	12	9	9	9	9	9	9
Finance expenses	(20)	(15)	(9)	(10)	(10)	(7)	(4)	(3)	0
Earnings before tax	**470**	**627**	**446**	**293**	**329**	**379**	**415**	**450**	**487**
Tax	(8)	(17)	(17)	8	(12)	(13)	(15)	(16)	(17)
Net income	**463**	**609**	**429**	**301**	**317**	**366**	**400**	**434**	**470**

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	3,098	2,965	2,821	2,756	2,606	2,468	2,342	2,226	2,122
Investment	0	0	0	0	277	553	830	830	830
Others	5	5	5	5	5	5	5	5	5
Total non-current assets	**3,103**	**2,971**	**2,826**	**2,762**	**2,888**	**3,026**	**3,177**	**3,062**	**2,957**
Inventory	708	547	573	669	670	672	684	699	714
Receivables, Net	36	41	51	78	81	84	87	90	94
Cash & Cash Equivalents	325	543	504	320	300	300	300	370	541
Other current assets	28	43	51	42	42	42	42	42	42
Total current assets	**1,097**	**1,174**	**1,178**	**1,110**	**1,093**	**1,098**	**1,114**	**1,202**	**1,392**
Total assets	**4,200**	**4,144**	**4,005**	**3,872**	**3,981**	**4,124**	**4,291**	**4,263**	**4,349**
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Total reserves	1,906	1,880	1,786	1,806	1,948	2,139	2,364	2,448	2,533
Total Equity	**3,306**	**3,280**	**3,186**	**3,206**	**3,348**	**3,539**	**3,764**	**3,848**	**3,933**
Short-term & current debt	60	70	75	80	132	172	113	0	0
Payable	39	43	53	48	48	48	49	50	52
Other current liab.	287	307	319	245	245	245	245	245	245
Total current liabilities	**386**	**420**	**447**	**373**	**425**	**466**	**407**	**295**	**297**
Long-Term Debt	398	328	253	173	88	0	0	0	0
Other non-current liab.	110	117	118	120	120	120	120	120	120
Total non-current liabilities	**508**	**445**	**371**	**293**	**208**	**120**	**120**	**120**	**120**
Total Liabilities	**894**	**865**	**818**	**666**	**633**	**585**	**527**	**415**	**416**
Equity and liabilities	**4,200**	**4,144**	**4,005**	**3,872**	**3,981**	**4,124**	**4,291**	**4,263**	**4,349**

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	647	958	611	320	515	552	566	589	615
Cash from investments	(46)	(47)	(58)	(148)	(327)	(329)	(331)	(57)	(59)
Cash from financing	(366)	(693)	(592)	(356)	(208)	(223)	(235)	(463)	(385)
Net changes in cash	235	218	(39)	(183)	(20)	0	0	70	171
C/b	**325**	**543**	**504**	**320**	**300**	**300**	**300**	**370**	**541**

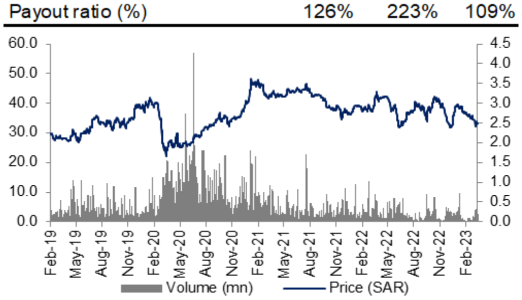
Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	3.3	4.4	3.1	2.1	2.3	2.6	2.9	3.1	3.4
BVPS	23.6	23.4	22.8	22.9	23.9	25.3	26.9	27.5	28.1
DPS	3.5	4.8	2.5	1.3	1.3	1.3	1.3	2.5	2.8
FCF/share	4.3	6.5	4.0	1.2	1.3	1.6	1.7	3.8	4.0
Revenue/share	9.3	11.8	9.6	8.7	9.0	9.4	9.7	10.1	10.5
Valuations									
M.Cap (SAR mn)	7,336	7,336	7,336	7,336	7,336	7,336	7,336	7,336	7,336
EV (SAR mn)	7,470	7,192	7,161	7,269	6,980	6,655	6,319	6,136	5,965
P/E	15.9x	12.0x	17.1x	24.4x	23.1x	20.1x	18.3x	16.9x	15.6x
EV/EBITDA	11.0x	8.7x	11.0x	14.3x	13.1x	11.7x	10.7x	10.0x	9.3x
EV/Sales	5.7x	4.4x	5.3x	5.9x	5.5x	5.1x	4.6x	4.3x	4.1x
P/BV	2.2x	2.2x	2.3x	2.3x	2.2x	2.1x	1.9x	1.9x	1.9x
P/S	5.6x	4.4x	5.5x	6.0x	5.8x	5.6x	5.4x	5.2x	5.0x
Div. yield	6.7%	9.1%	4.8%	2.4%	2.4%	2.4%	2.4%	4.8%	5.2%
FCF yield	8.2%	12.4%	7.5%	2.3%	2.6%	3.0%	3.2%	7.3%	7.6%
Liquidity									
Cash Ratio	0.8x	1.3x	1.1x	0.9x	0.7x	0.6x	0.7x	1.3x	1.8x
Current ratio	2.8x	2.8x	2.6x	3.0x	2.6x	2.4x	2.7x	4.1x	4.7x
Quick ratio	1.0x	1.5x	1.4x	1.2x	1.0x	0.9x	1.1x	1.7x	2.3x
Return ratio									
ROA	11.0%	14.7%	10.7%	7.8%	8.0%	8.9%	9.3%	10.2%	10.8%
ROE	14.0%	18.6%	13.5%	9.4%	9.5%	10.3%	10.6%	11.3%	11.9%
ROCE	11.5%	15.2%	11.1%	7.6%	8.3%	9.1%	9.6%	10.4%	11.0%
Cash cycle									
Inventory turnover	1.1x	1.8x	1.5x	1.3x	1.3x	1.3x	1.3x	1.3x	1.3x
Payables turnover	19.5x	22.6x	15.6x	17.9x	17.9x	17.9x	17.9x	17.9x	17.9x
Receivables turnover	36.6x	40.3x	26.4x	15.6x	15.6x	15.6x	15.6x	15.6x	15.6x
Inventory days	334	202	248	279	279	279	279	279	279
Payable days	18	16	23	20	20	20	20	20	20
Receivables days	10	9	14	23	23	23	23	23	23
Cash Cycle	326	195	238	281	281	281	281	281	281
Profitability ratio									
Gross margins	41.3%	41.1%	37.7%	29.2%	31.3%	33.8%	35.1%	36.2%	37.3%
EBITDA margins	52.2%	50.2%	48.4%	41.5%	42.1%	43.3%	43.4%	43.5%	43.6%
Operating margins	37.2%	38.0%	33.1%	24.1%	26.2%	28.7%	30.1%	31.3%	32.5%
PBT margins	36.2%	37.9%	33.3%	23.9%	26.1%	28.9%	30.4%	31.8%	33.1%
Net margins	35.6%	36.9%	32.0%	24.6%	25.2%	27.9%	29.4%	30.7%	31.9%
Effective tax rate	1.6%	2.7%	3.8%	-2.8%	3.5%	3.5%	3.5%	3.5%	3.5%
Leverage									
Total debt (SAR mn)	458	398	328	253	220	172	113	0	0
Net debt (SAR mn)	134	(144)	(175)	(67)	(80)	(128)	(187)	(370)	(541)
Debt/Capital	12.2%	10.8%	9.3%	7.3%	6.2%	4.6%	2.9%	0.0%	0.0%
Debt/Total assets	10.9%	9.6%	8.2%	6.5%	5.5%	4.2%	2.6%	0.0%	0.0%
Debt/Equity	0.1x	0.1x	0.1x	0.1x	0.1x	0.0x	0.0x	0.0x	0.0x
Debt/EBITDA	0.7x	0.5x	0.5x	0.5x	0.4x	0.3x	0.2x	0.0x	0.0x
Net debt/EBITDA	0.2x	-0.2x	-0.3x	-0.1x	-0.2x	-0.2x	-0.3x	-0.6x	-0.8x

INVESTMENT RESEARCH | Saudi Arabia

Cement Sector

HOLD: 12M TP @ 37

Valuation Summary (TTM)			
Price (SAR)			36.200
PER TTM (x)			26.5
P/Book (x)			2.1
P/Sales (x)			5.8
EV/Sales (x)			5.8
Dividend Yield (%)			4.1
Free Float (%)			83%
Shares O/S (mn)			158
YTD Return (%)			1%
Beta			0.9
(mn)		**SAR**	**USD**
Market Cap		5,702	1,520
Total Assets		5,751	1,533
Price performance (%)	**1M**	**3M**	**12M**
Yanbu Cement Co	4%	0%	-13%
Tadawul All Share Index	4%	9%	-11%
Industry Index	4%	9%	-11%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000)	5,222	4,808	4,933
Avg Daily Volume (,000)	156	138	139
52 week	**High**	**Low**	**CTL***
Price (SAR)	42.85	31.25	15.8
* CTL is % change in CMP to 52wk low			
Major shareholders			
Public Investment Fu			10%
AL RAJHI BROTHERS GR			5.2%
Vanguard Group Inc/T			1.9%
Others			82.9%
Other details			
Exchange			Saudi Arabia
Sector			Building Materials
Index weight (%)			0.3%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	1.78	1.01	1.37
BVPS (SAR)	19.03	17.74	17.58
DPS (SAR)	2.25	2.25	1.50
Payout ratio (%)	126%	223%	109%



Yanbu Cement Co. (YCC)

YCC is the fifth largest player in the KSA market with a market share of c.7% of total cement sales volume in 1Q23 and is present in the Western region. Cement volume growth of the company has lagged the industry performance in 2022 and 1Q23 and we expect this trend to largely continue in 2023 as well. The company's 2022 revenue was supported by higher clinker exports. We do not expect the clinker sales to remain at the levels of 2022, though the same will continue to remain significant (clinker sales to total revenue will average c.17% for the next three years, compared to an average of c.13% in the past three years). Realization of YCC is expected to be either in line or slightly better than the industry average. The company is currently trading at 24x its 2023E EPS and at this level we feel that the price fully discounts the positives. We initiate coverage on YCC with a HOLD rating and a Target Price of SAR37 per share.

Cement volume growth to recover, though likely to underperform industry average: Cement volume of YCC fell by 7.6% y-o-y for 2022 (-1.5% for the industry) and 25.9% y-o-y for 1Q23 (-7.2% for the industry), underperforming the industry. However, clinker exports improved by 56.7% y-o-y in 2022, as the company became the largest clinker exporter in KSA in 2022. We expect cement volumes to recover, though the growth rates are likely to be lower than the industry average. While we do not expect that the company will maintain 2022 clinker sales in 2023, the same will continue to be significant. Going forward we expect the cement volume of the company to grow at a CAGR of c.2% between 2022 and 2025E.

Cement realization recovery to be in line with industry average: Though the average cement realization for the company came under pressure in 2021 and 2022, in line with the industry, we estimate that the recovery for the company has been slightly faster. Going forward, we expect that the company's realization will either be in line or slightly higher than the industry average and we expect the same to improve at a CAGR of 2.5% between 2022 and 2025E.

Financial performance to consistently improve in the medium term: We forecast revenue to grow at a CAGR of c.1.5% for the next three years for YCC. While we expect cement revenue will be positively aided by improvement in the realization, 2023 revenue could be impacted by lower clinker sales. Operating margins on the other hand is expected to improve by c.650 bps over the next three years, from 23.8% in 2022, and we expect net income to grow at a CAGR of c.11% between 2022 and 2025E.

Attractive dividend payment to continue: For 2022, the company had distributed a dividend of SAR1.5 per share, though substantially lower than 2021 levels of SAR2.25 per share, it had a dividend yield of c.4%, compared to the industry average of c.3.4%. We expect that the dividend payment is likely to improve, in line with the improvement in the company's financial performance, with the yield getting close to 2021 levels by 2023.

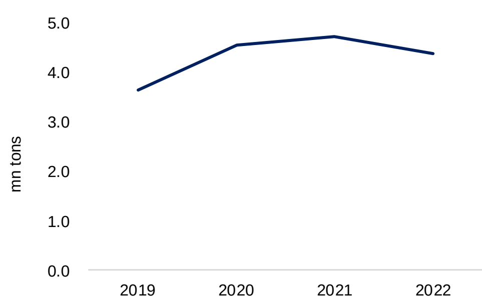
Valuation: We expect cement volume performance to lag the industry performance, while cement realization is likely to improve in line or slightly better than the industry average. We expect the company will continue to have an attractive dividend yield. The company currently trades at a P/E of 24x its 2023E EPS, which fully reflects the company's expected financial performance. We initiate coverage on YCC with a Target Price of SAR37 per share and a HOLD rating. We have used an equal weight of P/E (20x), and DCF (8.6% cost of equity and 2% terminal growth) to value the company.

Cement sales volume underperforms the industry average, a trend likely to continue in the near term

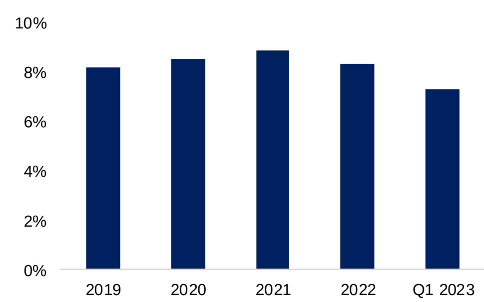
Overall industry scenario and shutdown of production lines for maintenance impacted cement volume

Cement sales volume in 2022 fell by 7.6% y-o-y for YCC, underperforming the industry trend (-1.5% y-o-y). Apart from the general competitive industry scenario, the fall was also due to the shutdown of some of its production lines for maintenance during the year. The trend of lower volumes has continued in the current year with 1Q23 sales volume falling by 26% y-o-y (-7% industry). Clinker volumes on the other hand increased by 57% y-o-y, accounting for c.30% of the market in 2022, becoming the largest player in the Kingdom.

Cement volumes down



Market share falls decreases in line with the volume



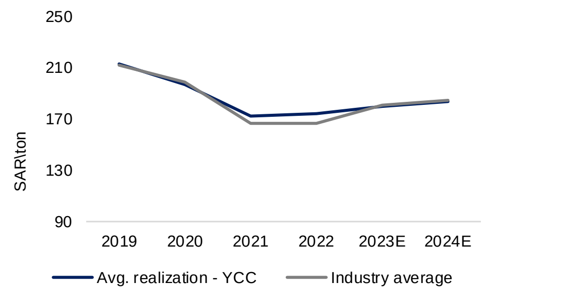
Source: Company Filings; Yamama Cement; US Research

While we expect the growth in cement volumes to recover, the overall performance of YCC in 2023 is likely to underperform the industry. Though we do not expect the company to maintain its clinker sales at 2022 levels, the same is likely to be higher than past historical averages, given that the company is currently maintaining c.9 months of clinker production as inventory. Overall, we expect cement volumes of YCC to grow at a CAGR of 1.5% between 2022-25E.

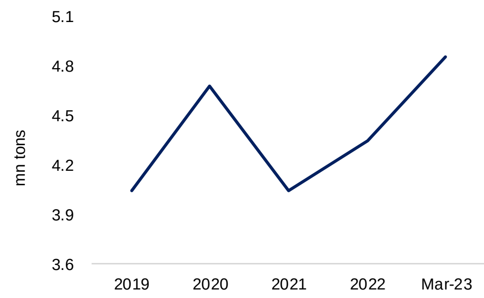
Average realization was under pressure, though the same has recovered

The average cement realization of YCC in 2022 was at SAR174 per ton and the same had recovered from the levels of SAR150 per ton in 4Q21 and SAR161 per ton in 1Q22. YCC's realization has in general been better than the industry average in the past two years, though the same was lower than the company's 2019 levels.

Realization to be in line or slightly higher than industry



YCC's clinker inventory increases



Source: Company Filings; Yamama Cement; US Research

The company has managed to maintain a better than industry realization, though lower than its own historical performance.

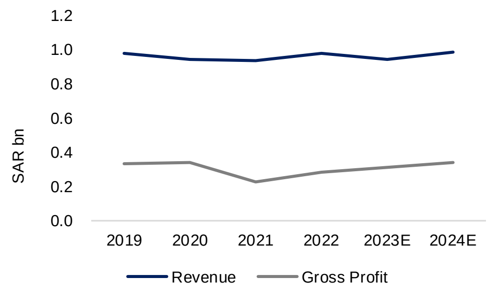
Going forward, we expect the cement realization of YCC to be either in line with or slightly better than the industry average in 2023 and 2024. Though the clinker inventory levels of the company have been increasing in the past few years, this concern is mitigated to a certain extent by the increasing traction on the company's clinker sales, which we expect will be higher than the historical averages. Overall, we expect cement average realization to increase at a CAGR of 2.5% for the next three years.

Financial performance is strong, aided by higher clinker sales in 2022; profitability to remain strong in 2023 and 2024

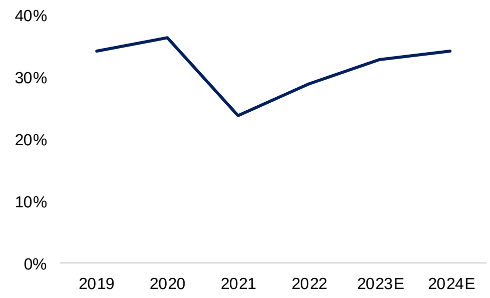
Higher clinker sales make up for lower cement volume in 2022

Revenue of YCC increased 5.0% y-o-y, to SAR981mn despite a 7.6% y-o-y fall in cement volumes, with the performance being aided by a more than 80% y-o-y growth in clinker sales. Clinker volume increased by 56.7% y-o-y, while clinker average realizations increased by 16.6% y-o-y, aiding in a strong performance. The proportion of clinker sales to total revenue increased to 22% in 2022, compared to 13% in 2021. Going forward, we expect the revenue of YCC to grow at a CAGR of c.2% for 2022-25E, though we expect the 2023 revenue to be slightly lower than 2022, due to lower clinker sales.

Revenue to come under pressure in 2023



Gross margins to improve

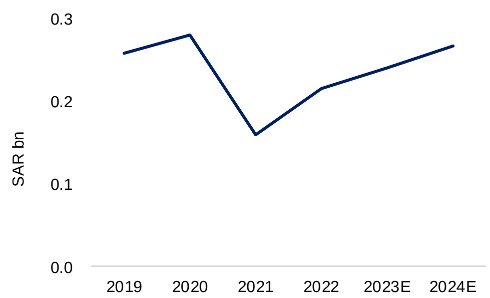


Source: Company Filings; US Research

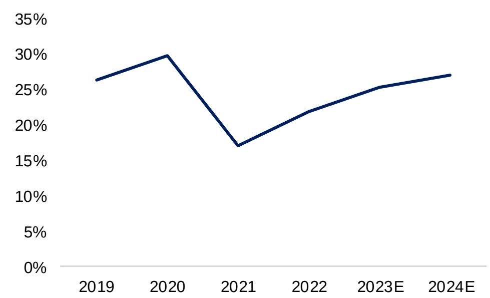
Improved cost efficiency aids in profitability growth

Gross margins improved to 29.0% in 2022, compared to 23.9% in the previous year, and were aided by lower cash cost of sales per ton (adjusting for clinker sales). Gross margins of YCC had fallen significantly from the average gross margins of c.35% during the 2019 and 2020 period and were impacted by inflexible pricing in the past two years. Going forward, we expect gross margins to improve in the medium term and achieve 2019 levels in the next couple of years, aided by improved pricing scenario and efficiency.

Net income to continue to increase



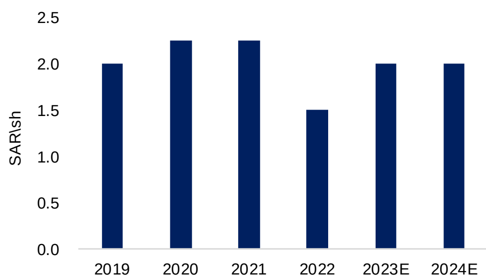
Net margins to advance



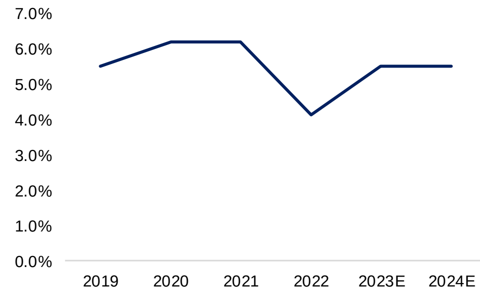
Source: Company Filings; US Research

Operating profits increased by 32.8% y-o-y, while net income grew by 35.0% y-o-y in 2022, aided by higher clinker sales and improved efficiency. Going forward, we expect this momentum to continue, as we forecast net income to grow at a CAGR of c.10% for the next three years.

Dividends to recover



Yields to get closer to 2020 levels



Source: Company Filings; US Research

Improving margins and the resultant growth in net income to aid in dividend improvement

In 2022, YCC distributed a dividend of SAR1.5 per share, lower than the SAR2.25 per share the board had recommended in 2020 and 2021. We expect the dividend payout to improve from these levels in the medium term to close to the 2019 and 2020 levels.

Valuations:

We expect cement volume performance to lag the industry performance, while cement realization is likely to improve in line or slightly better than the industry average. We expect the company will continue to have an attractive dividend yield. We value the company using equal weighted DCF (Equity) and P/E methodologies. We have taken a cost of equity of 8.6% and terminal growth of 2% for DCF and have arrived at a value of SAR 41 per share. For P/E, we have used a forward P/E of 20x, a discount of c.20% to the industry median (2022) and arrived at a value of SAR32 per share. Overall, we arrive at a weighted average Target Price of SAR37 per share, which gives us a HOLD rating for the company.

The company is currently trading at a dividend yield of c.4%, which is better than the industry average of c.3.4%, though lower than its historical average. With the financial performance expected to improve, we also expect the yield of the company to improve to c.5.5%, which will provide some downside protection to the stock.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
EBITDA	416	436	454	477	501
Less: Finance Cost	(7)	(5)	(4)	(3)	(2)
Less: Tax	(18)	(20)	(21)	(24)	(26)
Working capital changes	53	(17)	(17)	(19)	(20)
Less: Capex	(33)	(35)	(36)	(38)	(39)
Changes in debt	(28)	(30)	(29)	(28)	(7)
Free Cash Flow to Equity (FCFE)	**384**	**329**	**347**	**366**	**407**
PV of FCFE	**364**	**288**	**279**	**271**	**277**
Sum of PV of FCFE	**1,479**				
Add: Terminal value	4,828				
Sum of FCFE	**6,307**				
Add: Investment and cash	122				
Equity Value	**6,429**				
Value per share (SAR)	***41***				

Cost of Capital	
Rf	4.1%
Beta	1.0x
Market risk premium	4.7%
Ke	8.6%
Tg	2.0%

Relative valuation	
2024E EPS (SAR)	1.7
Fair value P/E	20.0x
Value per share (SAR)	***32***

Methodology	Tp/Sh SAR	Wt	Avg./Sh SAR
DCF	41	50%	20
P/E	32	50%	16
Value per share			**37**
Upside			***2%***

Company Profile

YCC is the fifth largest player in KSA and was established as a Saudi joint stock company based on a Royal Decree dated 22-Feb-1977 in Yanbu city. It operates in the Western region with a total capacity of more than 7mtpa of clinker. Its manufacturing facilities are located at Ras Baridi, on the coast of the Red Sea, 70 KM northwest of the Port of Yanbu. Its corporate office is located in Jeddah.

YCC commenced its operations in 1979, by commissioning two long dry process kilns (lines 1 & 2) of 1,500 tpd clinker each. This was followed by the commissioning of a third long dry process kiln (line 3) with a capacity of 1,000 tpd clinker in 1982. In 1997, it expanded its capacity by commissioning a 7,000 tpd kiln (Line 4), which was increased to 8,500 tpd in 2005. The company further expanded its capacity by another 10,000 tpd kiln (Line 5), in 2011, and 2016 it implemented performance management initiatives. Currently, lines 4 and 5 have capacities of 9,000 tpd and 12,000 tpd respectively.

The company also has a subsidiary, Yanbu Saudi Kuwaiti Paper Products Company, in which YCC has an ownership of 100%.

As of 1Q23, the company was the fifth largest player in KSA with a market share of 7%. During 2022, 78% of revenue was from cement and the balance 22% was from clinker. Clinker's revenue was entirely from export, while cement sales were almost entirely from the domestic market.

Share Holding Pattern	
Share holders	**%**
PIF	10.0%
Al Rajhi Brothers Group	5.2%
Vanguard Group Inc	1.9%
Black Rock Inc	1.2%
Dimensional Fund Advisor	0.4%
Others	81.4%

Board of Directors		
S.no	**Name**	**Position**
1	Mr. Fahd bin Sulaiman Al Rajhi	Chairman
2	Mr. Mohamed bin Abdullah ElKhereiji	Vice Chairman
3	Mr. Fahd bin Saleh Al Ajlan	Director
4	Mr. Ibrahim bin Hamad Al Rashed	Director
5	Mr. Ali Bin Abdullah Al Ayed	Director
6	Eng. Riyad bin Abdulrahman Aba Alkhail	Director
7	Mr. Basel Bin Munea AlFraihi	Director
8	Mr. Turki bin Musaed Al Mubarak	Director
9	Mr. Abdulaziz Bin Sulaiman Al-Rajhi	Director
10	Mr. Salah bin Abdulrahman Al Huzami	Director

Source: Company filings; Bloomberg; US Securities

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	976	940	934	981	945	988	1,028	1,073	1,121
Cost of sales	(641)	(598)	(710)	(696)	(635)	(649)	(662)	(676)	(692)
Gross profit	**335**	**342**	**224**	**285**	**310**	**339**	**366**	**397**	**430**
Operating expenses	(54)	(41)	(48)	(51)	(52)	(53)	(54)	(56)	(57)
Operating profit	**281**	**301**	**176**	**233**	**258**	**286**	**312**	**342**	**372**
Other income	4	7	3	6	6	6	6	6	6
Finance expenses	(8)	(5)	(3)	(8)	(7)	(5)	(4)	(3)	(2)
Earnings before tax	**277**	**302**	**175**	**231**	**258**	**287**	**314**	**345**	**377**
Tax	(19)	(19)	(13)	(15)	(18)	(20)	(21)	(24)	(26)
Net income	**258**	**283**	**162**	**215**	**240**	**268**	**292**	**321**	**351**
Minority interest	0	(2)	(2)	0	0	0	0	0	0
Net income post MI	**258**	**281**	**160**	**215**	**240**	**268**	**292**	**321**	**351**

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,759	2,631	2,529	2,398	2,274	2,159	2,053	1,956	1,866
Intangibles	3	4	3	2	1	0	0	0	0
Others	0	0	54	33	33	33	33	33	33
Total non-current assets	**2,762**	**2,635**	**2,586**	**2,433**	**2,308**	**2,193**	**2,087**	**1,989**	**1,900**
Inventory	564	671	541	595	543	554	565	578	591
Receivables, Net	170	162	166	157	151	158	164	172	180
Cash & Cash Equivalents	177	137	61	101	176	196	195	213	233
Investments	0	0	0	21	21	21	21	21	21
Other current assets	18	24	38	42	42	42	42	42	42
Total current assets	**928**	**994**	**807**	**916**	**934**	**972**	**988**	**1,026**	**1,067**
Total assets	**3,691**	**3,629**	**3,393**	**3,349**	**3,242**	**3,165**	**3,075**	**3,015**	**2,966**
Share Capital	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575
Total reserves	1,697	1,422	1,220	1,194	1,119	1,071	1,009	976	933
Minority interest	30	32	32	0	0	0	0	0	0
Total Equity	**3,302**	**3,029**	**2,827**	**2,769**	**2,694**	**2,646**	**2,584**	**2,551**	**2,508**
Short-term & current debt	52	52	197	74	30	29	28	7	4
Payable	32	60	22	52	48	49	50	51	52
Other current liab.	168	380	178	262	262	262	262	262	262
Total current liabilities	**253**	**492**	**396**	**388**	**340**	**339**	**339**	**320**	**317**
Long-Term Debt	65	26	80	92	107	78	50	43	40
Long-term lease liabilities	6	6	6	5	5	5	5	5	5
Other non-current liab.	65	77	84	96	96	96	96	96	96
Total non-current liabilities	**136**	**109**	**170**	**193**	**209**	**180**	**152**	**145**	**141**
Total Liabilities	**389**	**601**	**566**	**581**	**548**	**519**	**491**	**464**	**458**
Equity and liabilities	**3,691**	**3,629**	**3,393**	**3,349**	**3,242**	**3,165**	**3,075**	**3,015**	**2,966**

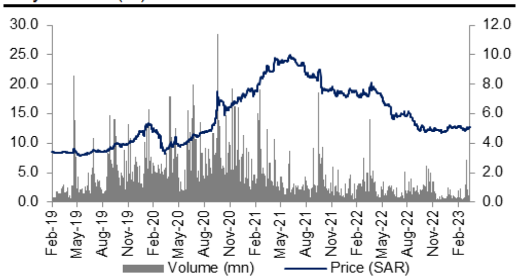
Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	494	419	377	477	451	400	418	438	460
Cash from investments	(61)	(67)	(101)	(88)	(33)	(35)	(36)	(38)	(39)
Cash from financing	(308)	(392)	(353)	(349)	(343)	(345)	(383)	(382)	(401)
Net changes in cash	125	(40)	(76)	40	75	20	(1)	18	19
C/b	**177**	**137**	**61**	**101**	**176**	**196**	**195**	**213**	**233**

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	1.6	1.8	1.0	1.4	1.5	1.7	1.9	2.0	2.2
BVPS	20.8	19.0	17.7	17.6	17.1	16.8	16.4	16.2	15.9
DPS	2.0	2.3	2.3	1.5	2.0	2.0	2.3	2.3	2.5
FCF/share	2.8	2.2	1.8	2.5	2.7	2.3	2.4	2.5	2.7
Revenue/share	6.2	6.0	5.9	6.2	6.0	6.3	6.5	6.8	7.1
Valuations									
M.Cap (SAR mn)	5,702	5,702	5,702	5,702	5,702	5,702	5,702	5,702	5,702
EV (SAR mn)	5,678	5,681	5,956	5,750	5,647	5,596	5,569	5,523	5,496
P/E	22.1x	20.3x	35.7x	26.5x	23.7x	21.3x	19.5x	17.7x	16.3x
EV/EBITDA	11.9x	11.5x	16.2x	14.4x	13.6x	12.8x	12.3x	11.6x	11.0x
EV/Sales	5.8x	6.0x	6.4x	5.9x	6.0x	5.7x	5.4x	5.1x	4.9x
P/BV	1.7x	1.9x	2.0x	2.1x	2.1x	2.2x	2.2x	2.2x	2.3x
P/S	5.8x	6.1x	6.1x	5.8x	6.0x	5.8x	5.5x	5.3x	5.1x
Div. yield	5.5%	6.2%	6.2%	4.1%	5.5%	5.5%	6.2%	6.2%	6.9%
FCF yield	7.6%	6.2%	4.8%	6.8%	7.3%	6.4%	6.7%	7.0%	7.4%
Liquidity									
Cash Ratio	0.7x	0.3x	0.2x	0.3x	0.5x	0.6x	0.6x	0.7x	0.7x
Current ratio	3.7x	2.0x	2.0x	2.4x	2.7x	2.9x	2.9x	3.2x	3.4x
Quick ratio	1.4x	0.7x	0.7x	0.8x	1.2x	1.2x	1.2x	1.4x	1.5x
Return ratio									
ROA	7.0%	7.8%	4.8%	6.4%	7.4%	8.5%	9.5%	10.7%	11.8%
ROE	7.9%	9.4%	5.7%	7.8%	8.9%	10.1%	11.3%	12.6%	14.0%
ROCE	7.6%	8.3%	5.2%	7.0%	8.0%	9.0%	10.1%	11.3%	12.5%
Cash cycle									
Inventory turnover	1.1x	0.9x	1.3x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x
Payables turnover	19.9x	9.9x	32.9x	13.3x	13.3x	13.3x	13.3x	13.3x	13.3x
Receivables turnover	5.7x	5.8x	5.6x	6.2x	6.2x	6.2x	6.2x	6.2x	6.2x
Inventory days	317	404	274	308	308	308	308	308	308
Payable days	18	36	11	27	27	27	27	27	27
Receivables days	63	62	64	58	58	58	58	58	58
Cash Cycle	361	430	328	338	338	338	338	338	338
Profitability ratio									
Gross margins	34.3%	36.4%	23.9%	29.0%	32.8%	34.3%	35.6%	37.0%	38.3%
EBITDA margins	48.7%	52.6%	39.4%	40.8%	44.0%	44.2%	44.2%	44.4%	44.7%
Operating margins	28.8%	32.0%	18.8%	23.8%	27.3%	29.0%	30.3%	31.8%	33.2%
PBT margins	28.4%	32.1%	18.8%	23.5%	27.3%	29.1%	30.5%	32.1%	33.6%
Net margins	26.4%	29.9%	17.1%	22.0%	25.4%	27.1%	28.5%	29.9%	31.3%
Effective tax rate	6.9%	6.2%	7.6%	6.7%	6.8%	6.8%	6.8%	6.8%	6.8%
Leverage									
Total debt (SAR mn)	123	84	282	171	143	113	84	56	49
Net debt (SAR mn)	(54)	(53)	222	70	(33)	(84)	(112)	(158)	(184)
Debt/Capital	3.6%	2.7%	9.1%	5.8%	5.0%	4.1%	3.1%	2.1%	1.9%
Debt/Total assets	3.3%	2.3%	8.3%	5.1%	4.4%	3.6%	2.7%	1.9%	1.6%
Debt/Equity	0.0x	0.0x	0.1x	0.1x	0.1x	0.0x	0.0x	0.0x	0.0x
Debt/EBITDA	0.3x	0.2x	0.8x	0.4x	0.3x	0.3x	0.2x	0.1x	0.1x
Net debt/EBITDA	-0.1x	-0.1x	0.6x	0.2x	-0.1x	-0.2x	-0.2x	-0.3x	-0.4x

Cement Sector

BUY: 12M TP @ 16

Valuation Summary (TTM)			
Price (SAR)			14.300
PER TTM (x)			21.3
P/Book (x)			1.2
P/Sales (x)			4.5
EV/Sales (x)			4.3
Dividend Yield (%)			3.5
Free Float (%)			88%
Shares O/S (mn)			170
YTD Return (%)			19%
Beta			0.8
(mn)		**SAR**	**USD**
Market Cap		2,431	648
Total Assets		2,677	714
Price performance (%)	**1M**	**3M**	**12M**
Najran Cement Co	-3%	12%	-19%
Tadawul All Share Index	4%	9%	-11%
Industry Index	4%	9%	-11%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000)	20,212	12,374	8,059
Avg Daily Volume (,000)	1,249	895	600
52 week	**High**	**Low**	**CTL***
Price (SAR)	17.98	11.80	21.2
* CTL is % change in CMP to 52wk low			
Major shareholders			
Al Barrak Khaled Moh			9%
Vanguard Group Inc/T			1.9%
Dimensional Fund Adv			0.8%
Others			88.1%
Other details			
Exchange			Saudi Arabia
Sector			Building Materials
Index weight (%)			0.1%
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	1.18	0.97	0.67
BVPS (SAR)	12.09	11.56	11.73
DPS (SAR)	0.75	0.75	0.25
Payout ratio (%)	64%	77%	37%



Najran Cement (NCC)

NCC is the eighth largest player in the KSA market with a market share of c.6% of total cement sales volume in 1Q23, with a presence in the Southern region. Cement volume growth of the company has mostly outperformed the industry historically. Its relatively small size, and its foray into other regions (excluding South) has had a positive impact on the company's revenue. The company's average realization has been at a premium to the industry in the past, though the gap has been closing recently. We expect the company's exposure to regions other than South to be the main reason for the falling premium. We forecast cement realization to improve in the next three years and will continue to be at a premium to the industry, albeit at levels lower than its historical levels. The company is currently trading at 17x its 2023E EPS and we feel that it is attractive at these levels. We initiate coverage on the stock with a BUY rating and a Target Price of SAR16 per share.

Cement volume growth likely to outperform industry average: Cement volume of NCC increased by 1.9% y-o-y for 2022 (-1.5% for the industry) but fell by 2.3% y-o-y for 1Q23 (-7.2% for the industry), outperforming the industry averages. We expect this trend to broadly continue, given its relatively small size and its foray into other regions. Going forward we expect the cement volume of the company to grow at a CAGR of c.4% for the next three years.

Cement realization to recover, though it will lag its historical levels: Though the average cement realization for the company was higher than the industry average, the prices have lagged its historical average. Apart from the general industry trend of lower demand and increased competition, we believe that the lower prices were also due to the company's foray into other regions in the country. Going forward, we expect that the company's realization will continue to remain better than the industry average, though at a lower level compared to its past trend. We expect cement realization for the company will improve at a CAGR of c.2% for 2022-25E.

Financial performance to improve in the medium term: We forecast the revenue of NCC to grow at a CAGR of c.7% for the next three years and will be aided by a recovery in both volume and cement prices. Operating margins on the other hand is expected to improve by more than c.450 bps over the next three years from 24.0% in 2022, and we expect net income to grow at a CAGR of c.17% over 2022-25E.

Attractive dividend to continue: For 2022, the company distributed a DPS of SAR0.5 per share, substantially lower than 2021 levels of SAR1.0 per share and 2020 levels of SAR1.5 per share. At current levels it had a dividend yield of 3.5%, close to the industry average of c.3.4%. We expect that the dividend payout to improve, in line with the improvement in the company's financial performance and reach 2021 levels by 2024.

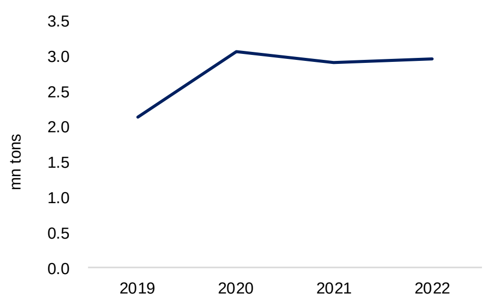
Valuation: We expect cement volume growth of the company will outperform the industry, while cement realization is expected to recover, though the same is unlikely to reach historical levels. We also expect the dividend yield to improve, making the stock attractive. The company currently trades at a P/E of 17x its 2023E EPS, which we feel provides attractive upside to the stock. We initiate coverage on NCC with a Target Price of SAR16 per share and a BUY rating. We have used an equally weighted P/E (20x) and DCF (8.8% cost of equity and 2% terminal growth) to value the company.

Cement sales growth better than industry average

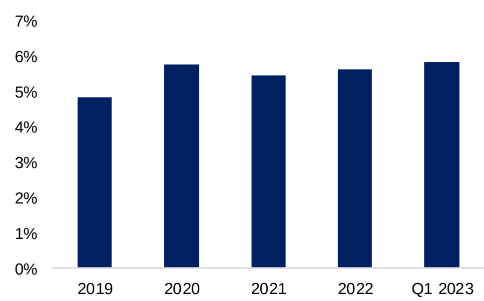
Cement sales volume grows marginally in 2022, likely to continue to outperform the industry

The cement volume of NCC increased by 1.9% y-o-y, outperforming the industry performance, where volumes fell by 1.5%. For 1Q23, the cement volume of the company fell by c.2%, compared to a fall of c.7% in the industry. The company has mostly outperformed industry performance, with a 5-year (2017-22) CAGR of 11%, compared to the industry growth of 2% for the same period. Since 2018 the company has been consistently growing its volumes, except for 2021. The market share of the company is relatively small at c.5.8% in 1Q23 and has improved from the levels of 5.5% in 2021.

Cement volumes improves in 2022



Market share increases



Source: Company Filings; Yamama Cement; US Research

Given the relatively smaller size of the company, we feel it has strong potential to grow

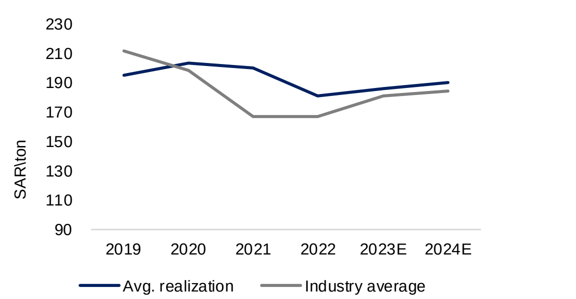
With a clinker capacity of c.5 mtpa, we feel that the company has sufficient capacity to maintain this level of performance. Given this, we expect the company's volume growth to perform better than the industry average in the medium term. We expect the cement volume of NCC to grow at a CAGR of c.4% for the next three years, outperforming the industry's performance.

Cement average realizations are lower than historical levels; expect a recovery in average realizations, though the same is likely to lag previous levels

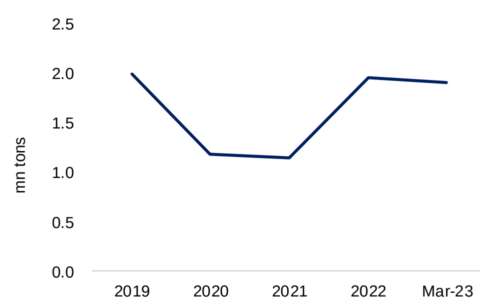
NCC realization better than industry average, though lower than its historical levels

The average realization of NCC fell by 9.6% y-o-y in 2022 to SAR181 per ton and was also lower than the historical averages of c. SAR200 per ton between 2019 and 2020. Though the average realization of NCC continues to be better than the industry average, the relative fall, vis-à-vis its performance in the past is likely to be attributed to the steps taken by the company to enter newer regions in the Kingdom to grow its volume. This is apart from the general industry trend of high competition, which has put pressure on the average realization of companies across the board in the industry.

Realization to be better than industry average



Clinker inventory increases



Source: Company Filings; Yamama Cement; US Research

Cement realization to improve, though unlikely to reach 2020 or 2021 levels in the near term

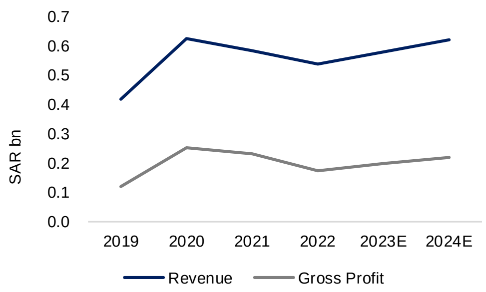
Going forward we expect the average cement realization will continue to improve and we have forecasted it to grow at a CAGR of c.2% for 2022-25E. However, we do not expect this to reach the levels of SAR200 per ton achieved by it in 2020 and 2021 in the medium term.

Financial performance under pressure in 2022; expected to recover

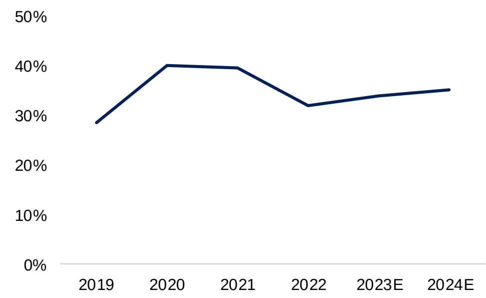
Revenue to register steady growth in the medium term, aided by improved scenario

Revenue of NCC fell by 7.9% y-o-y, to SAR536mn driven mainly by a fall in average cement realization, even as the improvement in cement volumes restricted the fall to a certain extent. However, the realization has shown signs of recovery and reached SAR186 per ton in 4Q22, corresponding to the 2022 full year average of SAR181 per ton. Going forward, we expect the revenue of the company to grow at a CAGR of c.7% for the next three years, aided by steady growth in cement volume and realizations.

Revenue and profitability to trend up



Gross margins to advance

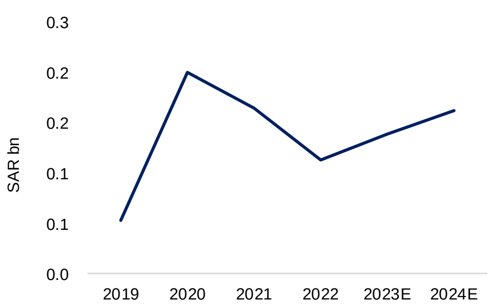


Source: Company Filings; US Research

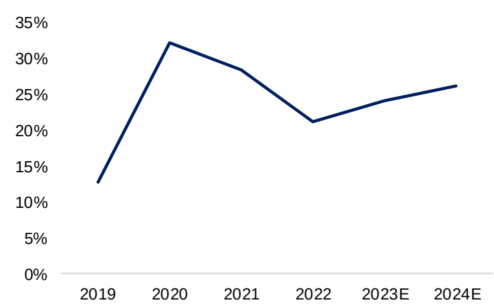
Profitability to improve with improvement in pricing

Gross margins fell to 32.1% in 2022, compared to 39.6% in 2021, and were impacted by lower cement realizations and a general increase in production costs. We expect the gross margins to improve steadily in the medium term, aided by an improvement in cement average realizations and a stabilizing cost environment.

Net income to improve



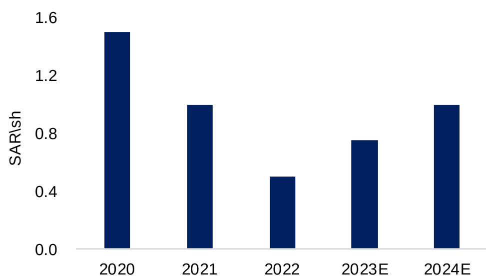
Net margins to recover



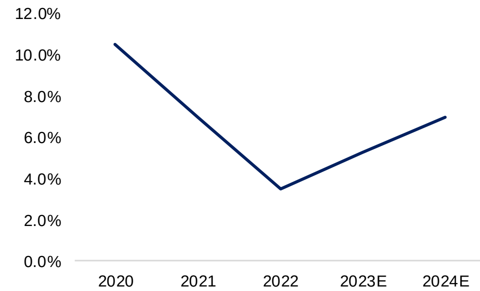
Source: Company Filings; US Research

Operating profit fell by 29.1% y-o-y, while net income fell by 31.3% y-o-y and was impacted by lower revenue and a fall in gross margins. Going forward we expect net income growth at a CAGR of c.17%, for 2022-25E aided by growth in revenue and an improvement in margins.

NCC's dividend to recover gradually to 2021 levels



NCC's yield attractive



Source: Company Filings; US Research

Rising profitability to lead to increase in DPS going forward

In 2022, NCC distributed a dividend of SAR0.50 per share. The dividend of the company has been declining in the past two years (SAR1.5 per share in 2020, and SAR1.0 per share in 2021) due to pressure on profitability. With profitability expected to improve, we also expect the dividend payment to increase gradually and reach 2021 levels by 2024.

Valuations:

We expect the cement volume growth of the company will outperform the industry, while cement realizations are expected to recover, though the same is unlikely to reach historical levels. We also expect the dividend yield to improve, making the stock attractive. The company currently trades at a P/E of 17x its 2023E EPS, which we feel provides attractive upside to the stock.

We have valued the company using equally weighted DCF (Equity) and P/E methodologies. We have taken a cost of equity of 8.8% and terminal growth of 2% for the DCF and arrived at a value of SAR 16 per share. For P/E, we have used a one year forward P/E of 20x, a discount of c.20% to the industry median (2022), and arrived at a value of SAR16 per share. Overall, we arrive at a weighted average Target Price of SAR16 per share, which gives a BUY rating to the company.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
EBITDA	224	242	257	268	279
Less: Finance Cost	(11)	(7)	(5)	(4)	(3)
Less: Tax	(5)	(6)	(7)	(7)	(7)
Working capital changes	22	22	8	(10)	(10)
Less: Capex	(29)	(31)	(33)	(34)	(35)
Changes in debt	(43)	(43)	(43)	(43)	(43)
Free Cash Flow to Equity (FCFE)	**157**	**177**	**177**	**170**	**180**
PV of FCFE	**149**	**154**	**141**	**125**	**122**
Sum of PV of FCFE	**691**				
Add: Terminal value	2,013				
Sum of FCFE	**2,704**				
Add: Investment and cash	39				
Equity value	**2,744**				
Value per share (SAR)	***16***				

Cost of Capital	
Rf	4.1%
Beta	1.0x
Market risk premium	4.7%
Ke	8.8%
Tg	2.0%

Relative valuation	
2023E EPS (SAR)	0.8
Fair value P/E	20.0x
Value per share (SAR)	***16***

Methodology	Tp/Sh SAR	Wt	Avg./Sh SAR
DCF	16	50%	8
P/E	16	50%	8
Value per share			**16**
Upside			***12%***

Company Profile

NCC is the eighth largest player in KSA and was established as a Saudi joint stock company on 9-Oct-2005 and was granted an industrial license on 17 May 2016, it operates in the Southern region. The company has two plants, the main plant in Sultana, 240 km northeast of Najran city, and a separate grinding unit at Aakfah, 70 km west of Najran.

In August 2007, the company commissioned line 1 with a capacity to produce 6,000 tpd of clinker. In July 2008, line 2 was commissioned with a capacity of 3,000 tpd of clinker. Further in July 2013, it increased its clinker capacity by commissioning line 3 with a capacity of 6,500 tpd. Overall, the company operates with a capacity of 15,500 tpd of clinker or c.5mtpa of clinker production capacity annually.

As of 1Q23, the company was the eighth largest player in KSA with a market share of 6%. During 2022, 90% of revenue was from domestic, with the balance 10% coming from exports. On the other hand, its entire sales were from the sale of cement.

Share Holding Pattern	
Share holders	**%**
Al Barrak Khaled Mohamed Abdullah	9.2%
Vanguard Group Inc	1.9%
Dimensional Fund Advisor	0.8%
Black Rock Inc	0.4%
State Street Corp	0.1%
Others	87.6%

Board of Directors		
S.no	**Name**	**Position**
1	Mr. Waleed Abdulrahman Abdullah Al Mousa	Chairman
2	Mr. Waleed Abdulrahman Abdullah Al Mousa	Vice Chairman
3	Mr. Abdulsalam bin Abdullah Aldraibi	Director
4	Mr. Waleed bin Ahmed bin Mohammed Bamar	Director
5	Mr. Ali bin Hussein bin Berman Al Yami	Director
6	Mr. Majed bin Ali bin Hussain bin Musallam	Director
7	Dr. Ahmed bin Siraj bin Abdulrahman Khogeer	Director
8	Mr. Abdulhadi bin Hadi Mohammed Al Dohan	Director
9	Mr. Ziyad bin Ibrahim bin Abdullah Aljared	Director

Source: Company filings; Bloomberg; US Securities

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	416	623	582	536	579	620	655	682	709
Cost of sales	(297)	(373)	(351)	(364)	(382)	(403)	(420)	(433)	(446)
Gross profit	**119**	**250**	**230**	**172**	**197**	**218**	**235**	**249**	**263**
Operating expenses	(34)	(45)	(49)	(43)	(45)	(46)	(47)	(48)	(50)
Operating profit	**85**	**205**	**181**	**128**	**153**	**172**	**188**	**200**	**213**
Other income	2	1	(2)	3	3	3	3	3	4
Finance expenses	(27)	(16)	(8)	(11)	(11)	(7)	(5)	(4)	(3)
Earnings before tax	**60**	**191**	**171**	**120**	**145**	**168**	**186**	**200**	**214**
Tax	(6)	10	(5)	(7)	(5)	(6)	(7)	(7)	(7)
Net income	**54**	**201**	**166**	**114**	**140**	**162**	**180**	**193**	**206**

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,085	1,984	1,963	1,936	1,894	1,855	1,819	1,786	1,755
Intangibles	4	4	4	4	4	4	4	4	4
Total non-current assets	**2,089**	**1,988**	**1,967**	**1,941**	**1,898**	**1,859**	**1,823**	**1,790**	**1,759**
Inventory	323	282	269	366	344	322	315	325	335
Receivables, Net	33	30	28	29	31	33	35	36	38
Cash & Cash Equivalents	22	172	82	39	73	83	93	71	51
Other current assets	20	47	43	50	50	50	50	50	50
Total current assets	**398**	**531**	**422**	**483**	**497**	**488**	**492**	**482**	**473**
Total assets	**2,487**	**2,519**	**2,390**	**2,424**	**2,395**	**2,347**	**2,316**	**2,272**	**2,233**
Share Capital	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Total reserves	284	356	266	293	305	298	308	305	307
Total Equity	**1,984**	**2,056**	**1,966**	**1,993**	**2,005**	**1,998**	**2,008**	**2,005**	**2,007**
Short-term & current debt	371	52	52	44	43	43	43	43	43
Payable	26	45	45	46	49	51	54	55	57
Other current liab.	41	48	57	58	58	58	58	58	58
Total current liabilities	**438**	**145**	**154**	**149**	**150**	**153**	**155**	**157**	**159**
Long-Term Debt	30	279	228	236	194	151	108	65	22
Long-term lease liabilities	6	6	6	5	5	5	5	5	5
Other non-current liab.	29	33	37	40	40	40	40	40	40
Total non-current liabilities	**66**	**318**	**270**	**281**	**239**	**196**	**153**	**110**	**67**
Total Liabilities	**504**	**463**	**424**	**430**	**390**	**349**	**308**	**267**	**225**
Equity and liabilities	**2,487**	**2,519**	**2,390**	**2,424**	**2,395**	**2,347**	**2,316**	**2,272**	**2,233**

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	185	359	270	93	233	254	256	251	262
Cash from investments	(21)	(11)	(53)	(50)	(29)	(31)	(33)	(34)	(35)
Cash from financing	(153)	(199)	(307)	(85)	(171)	(213)	(213)	(239)	(247)
Net changes in cash	10	149	(89)	(43)	33	10	10	(22)	(20)
C/b	**22**	**172**	**82**	**39**	**73**	**83**	**93**	**71**	**51**

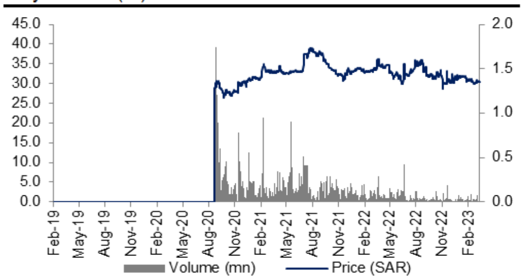
Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	0.3	1.2	1.0	0.7	0.8	1.0	1.1	1.1	1.2
BVPS	11.7	12.1	11.6	11.7	11.8	11.8	11.8	11.8	11.8
DPS	0.0	1.5	1.0	0.5	0.8	1.0	1.0	1.2	1.2
FCF/share	1.0	2.0	1.3	0.3	1.2	1.3	1.3	1.3	1.3
Revenue/share	2.4	3.7	3.4	3.2	3.4	3.6	3.9	4.0	4.2
Valuations									
M.Cap (SAR mn)	2,431	2,431	2,431	2,431	2,431	2,431	2,431	2,431	2,431
EV (SAR mn)	2,817	2,596	2,634	2,677	2,601	2,548	2,494	2,473	2,450
P/E	45.4x	12.1x	14.7x	21.4x	17.4x	15.0x	13.5x	12.6x	11.8x
EV/EBITDA	17.3x	9.2x	10.3x	13.2x	11.6x	10.5x	9.7x	9.2x	8.8x
EV/Sales	6.8x	4.2x	4.5x	5.0x	4.5x	4.1x	3.8x	3.6x	3.5x
P/BV	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x
P/S	5.8x	3.9x	4.2x	4.5x	4.2x	3.9x	3.7x	3.6x	3.4x
Div. yield	0.0%	10.5%	7.0%	3.5%	5.2%	7.0%	7.0%	8.0%	8.4%
FCF yield	6.7%	14.3%	8.9%	1.8%	8.4%	9.2%	9.2%	8.9%	9.3%
Liquidity									
Cash Ratio	0.1x	1.2x	0.5x	0.3x	0.5x	0.5x	0.6x	0.5x	0.3x
Current ratio	0.9x	3.7x	2.7x	3.2x	3.3x	3.2x	3.2x	3.1x	3.0x
Quick ratio	0.2x	1.7x	1.0x	0.8x	1.0x	1.1x	1.1x	1.0x	0.9x
Return ratio									
ROA	2.2%	8.0%	6.9%	4.7%	5.8%	6.9%	7.8%	8.5%	9.2%
ROE	2.7%	9.8%	8.4%	5.7%	7.0%	8.1%	9.0%	9.6%	10.3%
ROCE	3.4%	8.1%	7.6%	5.3%	6.4%	7.3%	8.1%	8.8%	9.5%
Cash cycle									
Inventory turnover	0.9x	1.3x	1.3x	1.0x	1.1x	1.3x	1.3x	1.3x	1.3x
Payables turnover	11.4x	8.3x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x
Receivables turnover	12.4x	20.5x	20.6x	18.7x	18.7x	18.7x	18.7x	18.7x	18.7x
Inventory days	391	272	276	362	324	288	270	270	270
Payable days	32	43	46	46	46	46	46	46	46
Receivables days	29	18	17	19	19	19	19	19	19
Cash Cycle	389	246	248	335	297	261	243	243	243
Profitability ratio									
Gross margins	28.6%	40.1%	39.6%	32.1%	34.1%	35.1%	35.9%	36.5%	37.0%
EBITDA margins	39.1%	45.2%	43.8%	37.8%	38.7%	39.0%	39.2%	39.3%	39.4%
Operating margins	20.5%	32.9%	31.1%	24.0%	26.4%	27.7%	28.7%	29.4%	30.0%
PBT margins	14.3%	30.6%	29.4%	22.5%	25.0%	27.1%	28.5%	29.3%	30.1%
Net margins	12.9%	32.2%	28.5%	21.2%	24.1%	26.1%	27.5%	28.3%	29.1%
Effective tax rate	10.3%	-5.4%	3.2%	5.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Leverage									
Total debt (SAR mn)	408	337	285	286	243	200	156	113	70
Net debt (SAR mn)	386	165	203	246	170	117	63	42	19
Debt/Capital	17.1%	14.1%	12.7%	12.5%	10.8%	9.1%	7.2%	5.3%	3.4%
Debt/Total assets	16.4%	13.4%	11.9%	11.8%	10.1%	8.5%	6.8%	5.0%	3.1%
Debt/Equity	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.0x
Debt/EBITDA	2.5x	1.2x	1.1x	1.4x	1.1x	0.8x	0.6x	0.4x	0.3x
Net debt/EBITDA	2.4x	0.6x	0.8x	1.2x	0.8x	0.5x	0.2x	0.2x	0.1x

INVESTMENT RESEARCH | Saudi Arabia

Cement Sector

BUY: 12M TP @ 36

Valuation Summary (TTM)			
Price (SAR)			32.250
PER TTM (x)			19.9
P/Book (x)			2.3
P/Sales (x)			6.4
EV/Sales (x)			6.2
Dividend Yield (%)			4.7
Free Float (%)			63%
Shares O/S (mn)			120
YTD Return (%)			1%
Beta			0.7
(mn)		**SAR**	**USD**
Market Cap		3,870	1,032
Total Assets		3,784	1,009
Price performance (%)	**1M**	**3M**	**12M**
Riyadh Cement Co	-2%	5%	-2%
Tadawul All Share Index	4%	9%	-11%
Industry Index	4%	9%	-11%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (SAR ,000)	653	585	643
Avg Daily Volume (,000)	20	19	21
52 week	**High**	**Low**	**CTL***
Price (SAR)	37.10	28.60	12.8
* CTL is % change in CMP to 52wk low			
Major shareholders			
RASHID DEVELOPMENT C			23%
Al Saud Sultan Bin S			8.1%
Al Braikan Abdullah			6.1%
Others			62.6%
Other details			
Exchange			Saudi Arabia
Sector			Building Materials
Index weight (%)			NA
Key ratios	**2020**	**2021**	**2022**
EPS (SAR)	1.83	1.78	1.58
BVPS (SAR)	14.14	13.85	13.96
DPS (SAR)	1.75	0.75	0.75
Payout ratio (%)	96%	42%	47%



Riyadh Cement Co. (RCC)

RCC is the sixth largest cement player in the KSA market with a market share of c.7% of total cement sales volume in 1Q23, with a presence in the Central region. Historically, the performance of RCC has not been in line with the industry performance and have shown divergence. In terms of growth in cement volume sold, it underperformed the industry in 2022, though its performance in 1Q23 has been better than the industry average. Given a relatively low base we expect the company's cement volume growth to recover in 2023. We expect the average realization to lag industry average, though it is likely to be in line with the regional (Central) average. The company is currently quoting at c.17x it 2023E EPS and at a dividend yield of c.5%. At these valuations, we feel that there is a potential upside in the stock and initiate coverage on the company with a BUY rating at a Target Price of SAR36 per share.

Cement volume growth likely to recover: Cement volume of RCC fell by 15.7% y-o-y for 2022 (-1.5% for the industry) but increased by 20.0% y-o-y for 1Q23 (-7.2% for the industry). Historically the performance of RCC has been divergent from both the industry and regional performance. However, we expect cement volumes to recover in 2023, as it is coming of a lower base; we expect the cement volumes of the company to grow at a CAGR of c.2% for the next three years.

Cement realizations to recover, in line with its regional peers: Though the cement realization for the company was lower than the industry levels, it has been in line with the regional average for the past couple of years. We expect this trend will continue in the medium term and we have forecasted the cement prices to improve at a CAGR of c.5% during 2022-25E.

Financial performance to improve aided by an increase in price and volume: We forecast the revenue of RCC to grow at a CAGR of c.6% for the next three years aided by a recovery in both volume and cement prices. Operating margins on the other hand is expected to improve by more than c.400 bps from 33.2% in 2022 over the next three years, and we expect net income to grow at a CAGR of c.11% for the same period.

Attractive dividend payment to continue: For 2022, the company had distributed a dividend of SAR1.5 per share, though lower than 2021 and 2020 levels of SAR1.75 per share, it continued to be attractive. The dividend yield at c.5% was better than the industry average of c.3.4%. We expect the dividend payment to improve to 2021 levels by 2023E, in line with the improvement in the company's financial performance.

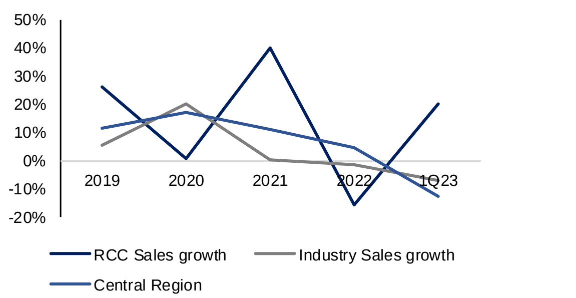
Valuation: We expect the cement volume growth of the company will outperform industry average, while cement realizations are expected to recover in line with its regional peers. The company is also quoting at an attractive dividend yield, which is likely to improve in 2023. The company currently trades at a P/E of 17x its 2023E EPS, which we feel provides an attractive upside to the stock. We initiate coverage on RCC with a Target Price of SAR36 per share and a BUY rating. We have used equally weighted P/E (18x), and DCF (8.8% cost of equity and 2% terminal growth) to value the company.

RCC volume growth has been historically a mixed bag

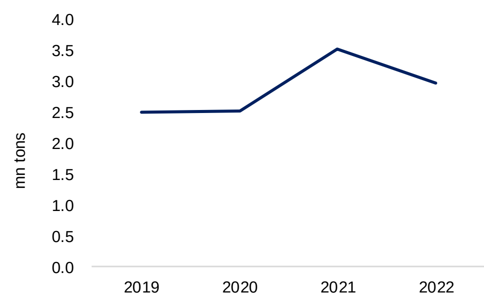
Sales growth has been historically volatile

RCC's performance in the past has been substantially volatile. Its performance has also not been correlated with either the industry or its regional performance. In the past five years, the sales volume of the company increased by a CAGR of 1%, underperforming both the industry (2%) and the Central Region (3%) for the same period. In 2022, the company's sales volume fell 15.7% y-o-y, while the industry volume fell by 1.5% y-o-y. However, for 1Q23, the company reported an increase of 20% y-o-y in sales volume, while the industry volume fell by 7% y-o-y. In 2022, the company sold an average of 247k tons a month, compared to 290k tons in 1Q23, which is close to the 2021 run rate. The company also has a segment selling white cement and the volume of white cement has been growing steadily, registering a growth of 11.5% (including white clinker) y-o-y for 2022.

Volume divergent from both industry and the region



Sales volume down in 2022

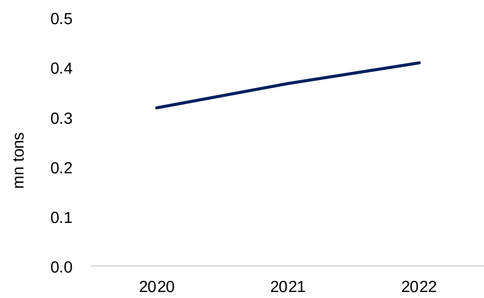


Source: Company Filings; Yamama Cement; US Research

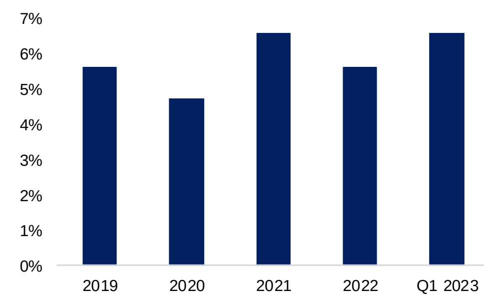
Sales growth to recover, at the back of lower base

We expect the demand for white cement to be stable, and the overall performance of the company will be determined primarily by the performance of its grey cement segment. Going forward, we expect the cement volume of RCC to grow at a CAGR of 2% for the next three years.

White cement volume consistently up



Grey cement market share recovers in 1Q23



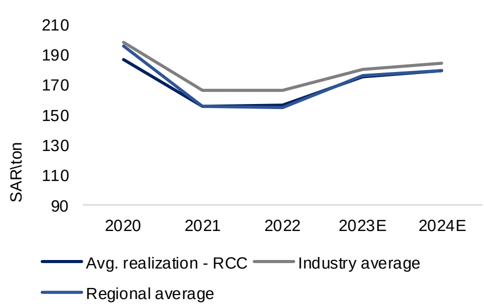
Source: Company Filings; Yamama Cement; US Research

Realization has largely tracked regional peers, though H2 2022 realization was better than peers

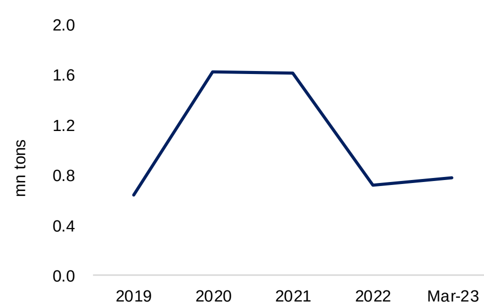
Cement realization is historically in line with regional peers; expected to recover

Cement average realization increased marginally by 0.5% y-o-y in 2022 and was in line with the regional average, though lower than the industry average. The cement realizations have shown signs of recovery, with the same improving to SAR169 per ton in 2H22, compared to the average 2022 realization SAR156 per ton; this was better than the 2H22 regional average of c. SAR165 per ton. White cement average realizations on the other hand fell by 2.7% y-o-y in 2022 to SAR326/ton (including white clinker sales). White cement is a value-added product and is priced at a premium. However, its use is restricted, and therefore the market for the product is relatively low.

Realization to be in line with regional avg.



Clinker inventory falls



Source: Company Filings; Yamama Cement; US Research

Expect cement realization to improve, though increase could be capped

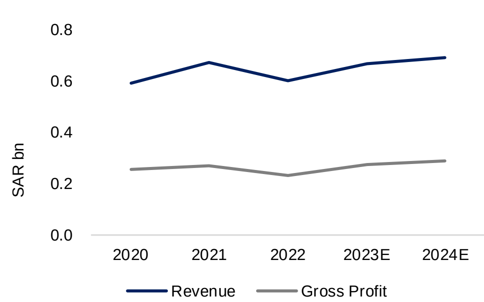
Going forward we expect grey cement's average realizations to recover from 2022 levels, though our forecast is conservative on the extent of improvement in the region, given the historical price competition. We have forecasted the average cement average realizations for RCC to improve at a CAGR of c.5% for 2022-25E.

Financial performance to recover in 2023

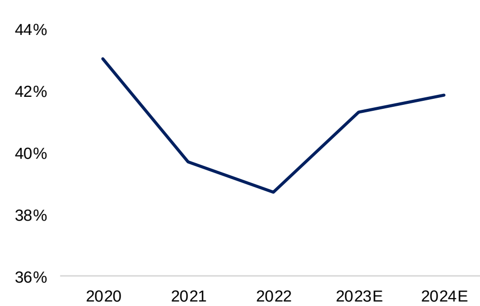
Revenue and profitability growth to be driven by improvement in grey cement performance

Revenue of RCC fell by 10.9% y-o-y to SAR598mn and was driven mainly by a 15.3% y-o-y fall in grey cement revenue, at the back of lower volume. White cement revenue on the other hand increased by 8.6%, supporting the overall revenue to a certain extent. White cement has contributed between 18-22% of revenue in the past three years. While its revenue growth has been steady (CAGR of 6% between 2020 and 2022), the proportion to total revenue has been largely driven by the movement of grey cement sales. Going forward we expect the revenue growth of RCC to be c.6% CAGR between 2022 and 2025E, with 2023 revenue being driven by both a recovery in volume and average realizations of grey cement. White cement sales on the other hand are expected to remain stable.

Revenue and profitability to recover



Gross margins to increase

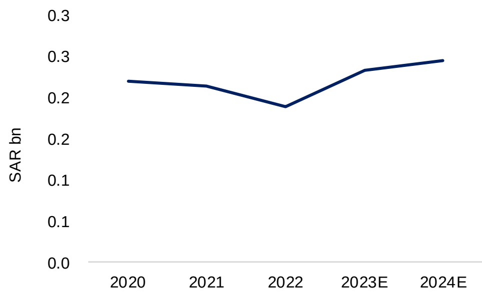


Source: Company Filings; US Research

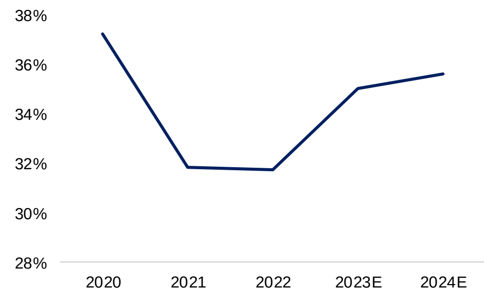
Gross margins fell by 100 bps to 38.7% in 2022, at the back of lower cement volume and an inflexible grey cement pricing scenario. Going forward we expect margins to improve, aided by higher sales growth and improved pricing flexibility.

Operating income fell by 13.3% y-o-y, while net income fell by 11.2% y-o-y in line with the lower revenue and a fall in margins. Going forward we expect net income to recover and grow at a CAGR of c.11% 2022-25E, aided by an improvement in both revenue and margins.

Net income to increase



Net margins to go up

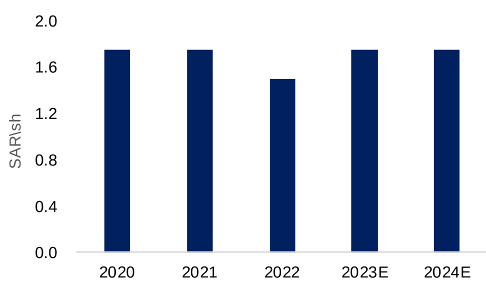


Source: Company Filings; US Research

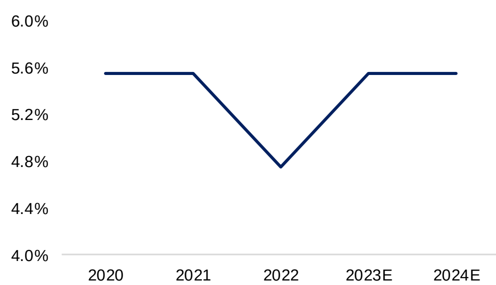
Expect dividend to revert back to 2021 levels

For 2022, RCC had paid a dividend of SAR1.50 per share, compared to SAR1.75 per share in 2021 and 2020. We expect the DPS to improve to 2021 and 2020 levels in 2023, as the performance of the company improves.

Dividend to get back to 2021 levels



Yield to get back to 2021 levels



Source: Company Filings; US Research

Valuations:

We expect the cement volume growth of the company will outperform the industry average, while cement realizations are expected to recover in line with its regional peers. The company is also quoting at an attractive dividend yield, which is likely to improve in 2023. The company currently trades at a P/E of 17x its 2023E EPS, which we feel provides an attractive upside to the stock.

We value the company using weighted average of DCF (Equity) and P/E methodologies. We have taken a cost of equity of 8.8% and terminal growth of 2% for the DCF and arrived at a value of SAR 36 per share. For P/E, we have used a one-year forward P/E of 18x, a discount to the other coverage companies to account for the volatility in its performance and arrive at a value of SAR35 per share. Overall, we arrive at a weighted average Target Price of SAR36 per share, which gives a BUY rating to the company.

Discounted Cash Flow (SAR mn)	2023E	2024E	2025E	2026E	2027E
EBITDA	335	343	352	362	373
Less: Finance Cost	(3)	(3)	(3)	(3)	(3)
Less: Tax	(8)	(9)	(9)	(10)	(10)
Working capital changes	(42)	(15)	(14)	(15)	(16)
Less: Capex	(43)	(45)	(46)	(48)	(49)
Changes in debt	0	0	0	0	0
Free Cash Flow to Equity (FCFE)	**238**	**272**	**280**	**286**	**294**
PV of FCFE	**225**	**237**	**224**	**210**	**199**
Sum of PV of FCFE	**1,095**				
Add: Terminal value	3,125				
Sum of FCFE	**4,220**				
Add: Investment and cash	90				
Equity value	**4,309**				
Value per share (SAR)	***36***				

Cost of Capital	
Rf	4.1%
Beta	1.0x
Market risk premium	4.7%
Ke	8.8%
Tg	2.0%

Relative valuation	
2023E EPS (SAR)	1.9
Fair value P/E	18.0x
Value per share (SAR)	***35***

Methodology	Tp/Sh SAR	Wt	Avg./Sh SAR
DCF	36	50%	18
P/E	35	50%	18
Value per share			**36**
Upside			***12%***

Company Profile

RCC is the sixth largest player in KSA and was established as a Saudi joint stock company on 1 July 1997 and is listed in the KSA parallel market, Nomu. The company is primarily engaged in the selling of grey and white cement. RCC operated earlier in the name of Saudi White Cement, which was changed to Riyadh Cement by 1Q21, to reflect its core operations.

The company was established as the first white cement production plant in the Kingdom. Commercial production commenced in 2001 with a capacity of 230k tons of clinker annually, which was later increased to an annual capacity of 32k tons. In 2005, the company established a second line with a capacity to produce 1.7mtpa of grey clinker, with production beginning in 2007. The company established a third line in 2007 to produce grey cement with a capacity of 1.7mtpa and commenced commercial production in 2010. The total production capacity of line 2 and line 3 reached 3.4mtpa of grey clinker annually. The company has converted one of its facilities to a dual facility, which can cater to the requirement of both grey and white cement, which resulted in the increase of the white cement by 1mtpa.

In 2022, the board of the company approved the movement of the company from NOMU to the main market and is currently undertaking the required process for the same.

As of 1Q23, the company was the sixth largest player in KSA with a market share of 7%. In 2022, 78% of its revenue was from grey cement, with the balance 22% from white cement. 99% of the company's 2022 revenue came from the local market, KSA, with 1% coming from Bahrain. It also had a minor presence in Jordon, Oman, and Kuwait.

Share Holding Pattern	
Share holders	**%**
Mr. Rashid Development Company	23.2%
Al Saud Sultan Bin Salman Bin Abdulaziz	8.1%
Al Barikan Abdullah Bin Faisal Bin Abdulaz	6.1%
Al Muthem Khalid Abdullah Abdul Aziz	2.2%
Aqeel Nasser Fadel Mehzar Bin	2.2%
Others	58.2%

Board of Directors		
S.no	**Name**	**Position**
1	Mr. Salah bin Rashed Al Rashed	Chairman
2	Eng. Khalid bin Abdullah Al Melhem	Deputy Chairman
3	Mr. Fahd bin Hizam Al Nabit	Director
4	Dr. Nasser bin Fadl Aqeel	Director
5	Mr. Abdullah Ateeq Al Fawaz	Director
6	Mr. Mohammed Khalifa Al Melhem	Director
7	Eng. Shoeil Jarallah Al Ayed	Director

Source: Company filings; Bloomberg; US Securities

Income Statement (SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	590	671	598	666	689	710	733	757
Cost of sales	(336)	(405)	(366)	(391)	(400)	(409)	(419)	(429)
Gross profit	**254**	**267**	**232**	**275**	**288**	**301**	**314**	**328**
Operating expenses	(23)	(37)	(33)	(34)	(35)	(35)	(36)	(37)
Operating profit	**231**	**229**	**199**	**242**	**254**	**265**	**278**	**291**
Other income	(3)	4	3	3	3	3	3	3
Finance expenses	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)
Earnings before tax	**226**	**232**	**199**	**242**	**254**	**266**	**278**	**292**
Tax	(6)	(18)	(10)	(8)	(9)	(9)	(10)	(10)
Net income post MI	**220**	**214**	**190**	**234**	**245**	**257**	**269**	**282**

Balance Sheet (SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	1,408	1,335	1,287	1,238	1,193	1,153	1,117	1,085
Right to use assets	3	2	2	1	1	1	0	0
Total non-current assets	**1,411**	**1,337**	**1,289**	**1,239**	**1,194**	**1,154**	**1,117**	**1,085**
Inventory	297	288	297	316	324	331	339	347
Receivables, Net	145	226	216	240	248	256	264	273
Cash & Cash Equivalents	20	36	90	121	186	229	249	247
Other current assets	33	0	0	0	0	0	0	0
Total current assets	**494**	**550**	**602**	**677**	**759**	**817**	**852**	**867**
Total assets	**1,905**	**1,888**	**1,891**	**1,917**	**1,953**	**1,970**	**1,970**	**1,952**
Share Capital	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total reserves	497	462	475	499	534	551	549	531
Total Equity	**1,697**	**1,662**	**1,675**	**1,699**	**1,734**	**1,751**	**1,749**	**1,731**
Lease liabilities - Current	1	2	2	2	2	2	2	2
Payable	31	35	30	32	33	34	34	35
Other current liab.	139	154	151	151	151	151	151	151
Total current liabilities	**171**	**191**	**183**	**185**	**186**	**186**	**187**	**188**
Long-term lease liabilities	3	2	2	2	2	2	2	2
Other non-current liab.	35	33	31	31	31	31	31	31
Total non-current liabilities	**37**	**35**	**33**	**33**	**33**	**33**	**33**	**33**
Total Liabilities	**208**	**226**	**216**	**218**	**219**	**219**	**220**	**221**
Equity and liabilities	**1,905**	**1,888**	**1,891**	**1,917**	**1,953**	**1,970**	**1,970**	**1,952**

Cash Flows (SAR mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	294	270	298	284	320	329	337	347
Cash from investments	(29)	(28)	(48)	(43)	(45)	(46)	(48)	(49)
Cash from financing	(275)	(226)	(195)	(210)	(210)	(240)	(270)	(300)
Net changes in cash	(10)	16	54	31	65	43	20	(3)
C/b	**20**	**36**	**90**	**121**	**186**	**229**	**249**	**247**

Ratios	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)								
EPS	1.8	1.8	1.6	1.9	2.0	2.1	2.2	2.3
BVPS	14.1	13.9	14.0	14.2	14.5	14.6	14.6	14.4
DPS	1.8	1.8	1.5	1.8	1.8	2.0	2.3	2.5
FCF/share	2.2	2.0	2.1	2.0	2.3	2.4	2.4	2.5
Revenue/share	4.9	5.6	5.0	5.6	5.7	5.9	6.1	6.3
Valuations								
M.Cap (SAR mn)	3,870	3,870	3,870	3,870	3,870	3,870	3,870	3,870
EV (SAR mn)	3,854	3,838	3,784	3,753	3,687	3,644	3,624	3,627
P/E	17.6x	18.1x	20.4x	16.6x	15.8x	15.1x	14.4x	13.7x
EV/EBITDA	11.6x	11.9x	12.8x	11.2x	10.7x	10.4x	10.0x	9.7x
EV/Sales	6.5x	5.7x	6.3x	5.6x	5.4x	5.1x	4.9x	4.8x
P/BV	2.3x	2.3x	2.3x	2.3x	2.2x	2.2x	2.2x	2.2x
P/S	6.6x	5.8x	6.5x	5.8x	5.6x	5.5x	5.3x	5.1x
Div. yield	5.4%	5.4%	4.7%	5.4%	5.4%	6.2%	7.0%	7.8%
FCF yield	6.9%	6.3%	6.4%	6.2%	7.1%	7.3%	7.5%	7.7%
Liquidity								
Cash Ratio	0.1x	0.2x	0.5x	0.7x	1.0x	1.2x	1.3x	1.3x
Current ratio	2.9x	2.9x	3.3x	3.7x	4.1x	4.4x	4.6x	4.6x
Quick ratio	1.2x	1.4x	1.7x	2.0x	2.3x	2.6x	2.7x	2.8x
Return ratio								
ROA	11.5%	11.3%	10.0%	12.2%	12.6%	13.0%	13.6%	14.4%
ROE	13.0%	12.9%	11.3%	13.8%	14.1%	14.7%	15.4%	16.3%
ROCE	12.1%	12.1%	10.5%	12.6%	13.0%	13.5%	14.1%	14.9%
Cash cycle								
Inventory turnover	1.1x	1.4x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x
Payables turnover	10.7x	11.7x	12.2x	12.2x	12.2x	12.2x	12.2x	12.2x
Receivables turnover	4.1x	3.0x	2.8x	2.8x	2.8x	2.8x	2.8x	2.8x
Inventory days	318	257	291	291	291	291	291	291
Payable days	34	31	29	29	29	29	29	29
Receivables days	88	121	130	130	130	130	130	130
Cash Cycle	372	347	392	392	392	392	392	392
Profitability ratio								
Gross margins	43.0%	39.7%	38.7%	41.3%	41.9%	42.3%	42.8%	43.3%
EBITDA margins	56.5%	48.1%	49.4%	50.2%	49.9%	49.6%	49.4%	49.2%
Operating margins	39.2%	34.1%	33.2%	36.2%	36.8%	37.4%	37.9%	38.4%
PBT margins	38.2%	34.5%	33.3%	36.3%	36.9%	37.5%	38.0%	38.5%
Net margins	37.3%	31.8%	31.7%	35.1%	35.6%	36.1%	36.6%	37.2%
Effective tax rate	2.6%	7.8%	4.8%	3.5%	3.5%	3.5%	3.5%	3.5%
Leverage								
Total debt (SAR mn)	4	4	4	4	4	4	4	4
Net debt (SAR mn)	(16)	(32)	(86)	(117)	(183)	(226)	(246)	(243)
Debt/Capital	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Debt/Total assets	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Debt/Equity	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Debt/EBITDA	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Net debt/EBITDA	0.0x	-0.1x	-0.3x	-0.4x	-0.5x	-0.6x	-0.7x	-0.7x

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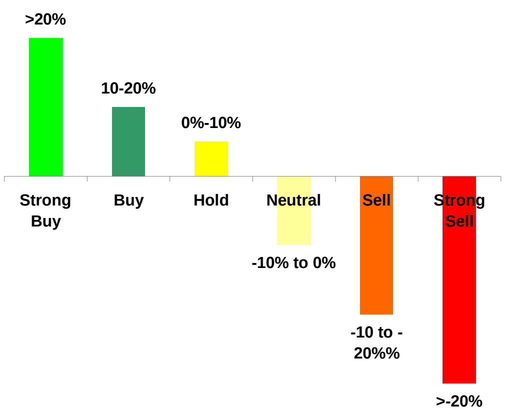
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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