

Rating **Neutral**
 12- Month Target Price **SAR 56.00**

SAUDI CEMENT COMPANY (SACCO)

1Q2019 First Look

Expected Total Return

Price as on May-6, 2019	SAR 67.00
Upside to Target Price	(16.4%)
Expected Dividend Yield	4.5%
Expected Total Return	(11.9%)

Market Data

52 Week H/L	SAR 69/35.9
Market Capitalization	SAR 10,251 mln
Enterprise Value	SAR 10,801 mln
Shares Outstanding	153 mln
Free Float	88.6%
12-Month ADTV('000's)	111.6
Bloomberg Code	SACCO AB

1-Year Price Performance

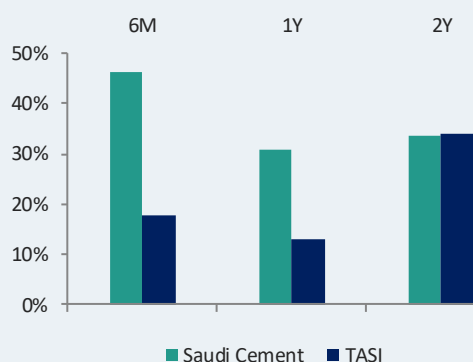


Fig in SAR Mln	RC.Est	Actuals
Revenue	310	390
Operating income	125	141
Net Income	121	132
EPS (SAR)	0.79	0.87

Expenses Constrain Profits

Saudi Cement Company's (SACCO) reported 1Q2019 financials with a net profit of SAR 132 million (-7% Y/Y, +6% Q/Q), ahead of our forecast and market's expectations of SAR 121 million and SAR 127 million respectively. Saudi Cement posted decent profits on the back of an increase in average realization (although the increase in selling prices was not as steep as some of its peers) while clinker exports of 406k tons helped grow volumes. Profits were constrained by an unexpected increase in selling & distribution expenses, admin expenses and decrease in income from associates. The stock is trading at a 2019E P/E of 22.7x, a premium to peers as well as the market. We have revised our estimates upwards going forward in line with our view of better industry prospects. Resultantly, our target price also rises from SAR 52.00 to SAR 56.00. However, we maintain our Neutral recommendation.

Lower market share

Revenues of SAR 390 million came-in higher than our SAR 310 million estimate, increasing by +18% Y/Y and +29% Q/Q primarily led by clinker exports of 406k tons as domestic sales volume was down by a minor -3% Q/Q to 1.19 million tons coupled with a slight improvement in average realization. Saudi Cement has the second highest market share but it declined from 11.5% in 4Q2018 to 11.2% this quarter on lower domestic sales. SACCO still has one of highest clinker inventory levels in the sector, currently standing at 5.3 million tons (similar to Yamama) and representing 122% of LTM sales. However, it is encouraging that it has managed to reduce inventories by more than 300k tons since December 2018, we believe due to clinker exports.

Gross margins decline

Gross profit increased by +7% Y/Y and +14% Q/Q to SAR 181 million and higher than our estimate of SAR 158 million, impacted by a +30% Y/Y surge in COGS. Gross margins contracted to 46% in this quarter versus 51% last year and 52% in the previous quarter. Quarterly decline in margins is contrary to what we have seen at some of its peers.

Operating expenses shoot up

One surprising element of the result has been the surge in operating expenses to SAR 40 million, +23% Q/Q and almost doubling Y/Y. Operating margins of 36% in 1Q were lower than 45% in 1Q2018. Operating profit of SAR 141 million declined by -5% Y/Y but increased by +14% Q/Q.

Maintain Neutral

SACCO's net income for the quarter reached SAR 132 million (-7% Y/Y, +6% Q/Q), above our estimate and market consensus of SAR 121 million and SAR 127 million respectively. We have adjusted upwards our forecasts for the Company based on our view of better prospects going forward. Our target price rises to SAR 56.00 from SAR 52.00. However, trading at 22.7x 2019E P/E, at a premium to peers and the market, we continue with a Neutral recommendation.

Key Financial Figures

FY Dec31 (SAR Mln)	2018A	2019E	2020E
Revenue	1,120	1,209	1,270
EBITDA	642	695	489
Net Profit	401	445	470
EPS (SAR)	2.62	2.91	3.07
DPS (SAR)	3.25	3.00	3.00

Key Financial Ratios

FY Dec31	2018A	2019E	2020E
ROAA	9.5%	10.5%	10.7%
ROAE	12.6%	13.9%	14.2%
P/E	25.2x	22.7x	21.5x
P/B	3.2x	3.2x	3.1x
EV/EBITDA	16.1x	14.9x	14.3x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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