

2Q20 Results Update

October 15, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	56.1
Target Price (SAR)	53.0
Upside/Downside (%)	(5.5%)

As of September 09, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.6
52-Wk High (SAR)	73.3
52-Wk Low (SAR)	41.0
Total Outstanding Shares (in mn)	153.0
Free Float (%)	91.4%

SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.1%)	(10.4%)
6m	14.5%	(13.4%)
12m	(8.6%)	(8.9%)

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	6.92 %
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 09, 2020

Lower sales volume hurts 2Q20 bottom line

Saudi Cement Co. (SCC)'s net profit (attributable to equity holders) fell 20.6% YoY to SAR 73.3mn in 2Q20 due to a diminished topline attributed to the 14.5% YoY decline in sales volume during the period. Cement dispatches for the quarter deteriorated to 1.166 million tons against 1.364 million tons in 2Q19 and 1.792 million tons in 1Q20. The company reported a 16.8% YoY decline in operating income to SAR 82.9mn due to a rise in selling and distribution costs. Higher zakat expenses and a decreased share of profits from associates, combined with the above-mentioned factors, weighed on SCC's bottom line during 2Q20.

Despite the headwinds posed by the COVID-19 pandemic in the first half of the year, SCC remained resilient against the slowdown in the business environment and declining economic activity. The company's top line scaled up 2.6% YoY to SAR 747.8mn in 1H20, whereas its bottom line dipped marginally low during the period to SAR 224.2mn. Aggregate sales of the 17 Saudi cement companies fell 28.8% YoY in April and 19.7% YoY in May, primarily impacted by subdued demand in the domestic market due to the lockdowns. A delay in project completion and in commencing new construction and real estate projects due to the lockdown further subdued cement demand during the first half of 2Q20. However, aggregate sales went up during June–August, indicating some rebound in domestic cement demand. Expectations of lower oil prices and reduced government spending may provide headwinds to the sector, going forward. Therefore, in view of the factors mentioned above, we maintain our "Neutral" rating on this stock.

- SCC's revenue fell 12.2% YoY to SAR 297.5mn in 2Q20, primarily due to a 14.5% YoY decline in sales volumes. Revenue was down 34.0% QoQ from SAR 450.4mn in 1Q20.
- Gross profit (down 11.8% YoY to SAR 123.7mn) declined at a slower pace than the top line as cost of sales improved 12.4% YoY to SAR 173.8mn during the period. Consequently, gross profit margin improved to 41.6% in 2Q20 from 41.4% in 2Q19.
- EBITDA fell 8.6% YoY to SAR 140.0mn in 2Q20. However, EBITDA margin for the quarter expanded to 47.1% as against 45.2% in 2Q19.
- Operating income plunged 16.8% YoY to SAR 82.9mn in 2Q20 as the 32.1% decline in general and administrative expenses was offset by a 43.4% rise in selling and distribution costs. Consequently, operating profit margin contracted to 27.9% in 2Q20 from 29.4% in 2Q19.
- In addition to the factors mentioned above, the share of losses from associated companies and higher zakat charges in 2Q20 resulted in a 20.6% YoY decline in net profit (attributable to equity holders) to SAR 73.3mn. Net profit margin for the period stood at 24.6% against 27.3% in 2Q19 and 32.6% in 1Q20.
- On June 10, SCC's Board of Directors recommended a SAR 1.5 per share cash dividend for 1H20, amounting to SAR 229.5mn.

Valuation: We revise our target price to a fair value of SAR 53.0 per share and rate the stock as "Neutral."

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	297.5	338.6	(12.2%)	1,373.3	1,441.6	(4.7%)
Gross Profit (SAR mn)	123.7	140.3	(11.8%)	596.8	649.8	(8.2%)
EBITDA (SAR mn)	140.0	153.1	(8.6%)	633.3	704.7	(10.1%)
Net Profit (SAR mn)	73.3	92.3	(20.6%)	395.1	451.4	(12.5%)
EPS Basic (SAR)	0.5	0.6	(20.6%)	2.6	3.0	(12.5%)
Gross Margin (%)	41.6%	41.4%	0.1%	43.5%	45.1%	(1.6%)
EBITDA Margin (%)	47.1%	45.2%	1.9%	46.1%	48.9%	(2.8%)
Net Profit Margin (%)	24.6%	27.3%	(2.6%)	28.8%	31.3%	(2.5%)

Source: Company Financials, FALCOM Research

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FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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