

ARABIAN CEMENT



EVENT FLASH

Steep discounts lead to first loss since 2009

Arabian Cement reported a net loss of SR6.1mn in 1Q18. This compares to the NCBC and consensus estimates of SR65mn and SR83mn, respectively. We believe the earnings disappointment is mainly attributed to steep discounting by Arabian Cement, due to the high competition and gross margin contraction. We believe selling prices in Saudi may have been as low as SR110/ton vs SR182/ton in 1Q17. Arabian Cement trades at a 2018E P/E of 16.0x vs covered peers average of 18.7x.

- **NCBC View on Results:** Arabian Cement reported a net loss of SR6.1mn in 1Q18 vs a net profit of SR100.7mn in 1Q17. This is significantly below the NCBC and consensus estimates of a net profit of SR65mn and SR83mn, respectively. We believe the disappointment came from 1) steep discounting, 2) gross margins contraction and 3) relatively higher than expected Opex.
- Total sales quantity of Arabian Cement in Saudi stood at 1.04mn tons in 1Q18, coming broadly in-line with the NCBC estimates. Sales quantities declined by -7.0% YoY (+18.3% QoQ) vs industry at -12.7% YoY (-0.6% QoQ) during 1Q18. Assuming sales of SR85mn in Jordan (flat QoQ), we believe selling prices in Saudi were as low as SR110/ton (-40.0% YoY, -41.0% QoQ). This is lower than our estimates of SR130/ton and SR187/ton in 4Q17. The Western region witnessed high competition since Umm Al Qura and United Cement began operating in 2H16, leading to high discounts and a continuous volatility in selling prices. We believe selling price levels at other cement companies in the Western region also declined on a QoQ basis.
- The company reported its lower 1Q gross margin on record, contracting from 41.8% in 1Q17 to 6.4% in 1Q18. This compares to our estimates of 34.9%. We believe the contraction in margins is due to higher price discounts offered and a higher contribution from the higher cost Jordanian operations.. We expect an average gross margin of 34.8% till 2021E.
- Opex stood at SR19mn, coming higher than our estimates and 1Q17 levels of SR16mn. As a result of the sales weakness, Opex-to-sale increased to 9.5% vs 5.5% in 1Q17. We believe the increase in Opex came primarily as a result the expat levy.
- We are Neutral on the stock with a PT of SR36.7. Prices volatility going forward due to competition is key risk. However, new prospects for export markets and the potential demand from new mega projects are key catalysts. The stock trades at a 2018E P/E of 16.0x vs covered peers average of 18.7x.

1Q18 Results Summary

SR mn	1Q18A	1Q17A	% YoY	1Q18E	%Var^	% QoQ
Revenues	200	272	(26.6)%	220	(9.0)%	(19.5)%
Gross income	12.8	113.9	(88.8)%	76.7	(83.3)%	(89.9)%
Gross margin (%)	6.4%	41.8%	(3,544)bps	34.9%	(2,853)bps	(4,483)bps
EBIT	(6.1)	98.8	NM	61.2	NM	NM
EBIT Margin (%)	(3.1)%	36.3%	NM	27.9%	NM	NM
Net income	(6.1)	100.7	NM	65.4	NM	NM
Net Margin (%)	(3.1)%	37.0%	NM	29.8%	NM	NM
EPS (SR)	(0.06)	1.01	NM	0.65	NM	NM

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts; **Restated

NEUTRAL

Target price (SR)	36.7
Current price (SR)	33.0
Upside/Downside (%)	11.3

STOCK DETAILS

M52-week range H/L (SR)	36/32
Market cap (\$mn)	880
Shares outstanding (mn)	100
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(7.4)	(5.4)	(8.7)
Rel. to market	(13.7)	(16.6)	(28.3)

Avg daily turnover (mn)	SR	US\$
3M	8.0	2.1
12M	6.1	1.6

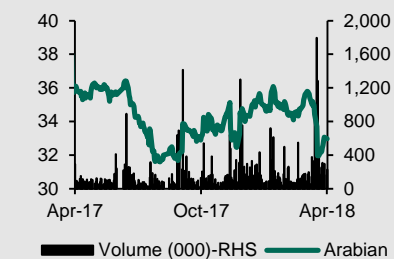
Reuters code	3010.SE
Bloomberg code	ARCCO AB
www.arabiancement.com	

VALUATION MULTIPLES

	17A	18E	19E
Reported P/E (x)	12.5	16.2	15.5
P/B (x)	1.1	1.1	1.1
EV/EBITDA (x)	8.4	8.0	7.9
Div Yield (%)	12.1	7.6	7.6

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Mohamed Tomalieh +966 12 690 7635
m.tomalieh@ncbc.com

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware of, and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at King Saud Road, NCB Regional Building P.O. Box 22216, 11495 Riyadh, Kingdom of Saudi Arabia.