



## KSA Cement Sector Outlook 2023

# Short Run Headwinds Ahead Before Giga & Mega Projects Kick In

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### Short-term challenges persistent, but the long-term drivers are preparing to revive; recovery expected to start by FY24

The demand drivers in Saudi Arabia's cement sector are undergoing structural changes. The housing construction boom is losing momentum while the value of new mortgages are on the decline amid interest rate hikes and the inflated costs of construction materials. Moreover, new housing subsidy reforms are expected to weigh on the demand for mortgages. On the other hand, the acceleration of PIF and Non-PIF Giga projects in the past few months has been stimulating the demand for cement. Those projects are in different execution stages, and most of their values are not rewarded yet; as a result, the Giga projects and higher CAPEX by the government are expected to stimulate the cement demand in the coming few years. However, the current geographic concentration of the undergoing Giga projects in the Central Region is attracting players from other regions that are experiencing weak demand, hence increasing the competition in the central region. As a result, another phase of pricing pressure in the central region is anticipated, which might drag down the earnings of the companies operating in the area starting from Q2-23 results. Nevertheless, we expect an improvement in prices to be realized fully in FY24, driven by higher constructions momentum in the Giga projects. Consequently, the underlining potential in the Saudi cement sector is estimated to be witnessed over the mid/long run. Our outlook on the overall sector is "Neutral" at current valuations.

**Local sales contracted as a slowdown in mortgages curbed the growth; a high single digit decline of 9.0% is estimated in FY23, and a healthy recovery is expected in FY24:** Local cement sales declined by 6.2%Y/Y in 5M-23, following a slight decline of 2.3%Y/Y in FY22. This decline in 5M-23 sales, so far, is caused by the declining sales of the biggest companies in the sector: Yamama Cement (down 13.7% Y/Y), Southern Cement (down 7.7% Y/Y) and Saudi cement (down 9.7%Y/Y). The slowdown in mortgages impacted cement sales, and the downtrend is likely to continue this year. Accordingly, we forecast a high single digit decline around 9.0% in FY23, followed by a growth around 7.0% in FY24 driven by acceleration in Giga projects.

**Intensifying competition to drag prices in the Central Region; the Western region is affected by discounted exports sales:** Average selling prices (ASP) recovered gradually in the sector through FY22 to reach SAR 193.0 per ton by Q4-22 from SAR 156 per ton in Q1-22. As PIF projects in Riyadh are attracting outer-region players into the region, Thus, we believe that the competition in the central region might evolve into a prices war, and companies could start cutting prices on a larger scale to retain the market share in the region, which will be visible in lower ASPs starting from Q2-23. We expect the current level of inventory in the sector to make price stability fragile. Meanwhile, we anticipate those impacts on prices to ease in FY24, driven mainly by accelerating Giga project construction activities.

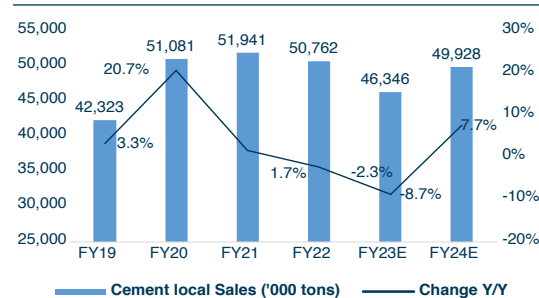
**High cash flow generation to keep dividend yields for FY23 healthy despite the current challenges:** Despite the expected decline in the cement sector dividends, the sector yield is expected to top TASI's yield and most of the sectors in the market. We anticipate a 4.0% average dividend yield to be posted by the companies under AJC's coverage in FY23 (down from 4.60% in FY22), as earnings are estimated to contract in FY23. Yanbu Cement is estimated to post the highest DY of 5.4%, followed by Eastern Cement and Saudi Cement with a DY of 4.9% and 4.7%, respectively. However; we expect a noticeable recovery in earnings by FY24 would increase the payouts ratio, lifting the sector's yield to 5.0%, based on current prices.

**Table 1. Price target and recommendation**

Company Name	Recommendation	TP	Change (%)	EPS FY22	EPS FY23E	EPS FY24E	DPS FY22	DPS FY23E	P/E FY23E
Saudi Cement	Neutral	60.5	2.7%	2.60	2.30	2.70	3.25	2.75	25.6
Yamama Cement	Neutral	33.7	-8.9%	1.76	1.43	1.75	1.00	1.00	25.9
City Cement	Neutral	24.0	-4.0%	0.82	0.78	1.28	0.90	0.90	32.1
Arabian Cement	Neutral	42.7	10.8%	1.81	1.40	1.99	2.20	1.70	27.6
Yanbu Cement	Neutral	38.5	-7.9%	1.37	1.49	1.85	1.50	2.25	28.0
Eastern Cement	Neutral	50.1	6.6%	1.67	2.27	2.42	2.00	2.30	20.7
Southern Cement	Neutral	51.5	-1.9%	2.15	1.78	2.30	1.25	1.50	29.5
Qassim Cement	Neutral	64.6	-11.0%	1.45	1.71	2.63	2.20	2.25	42.5
Riyadh Cement	Neutral	35.1	8.5%	1.58	1.50	1.78	1.50	1.50	21.6

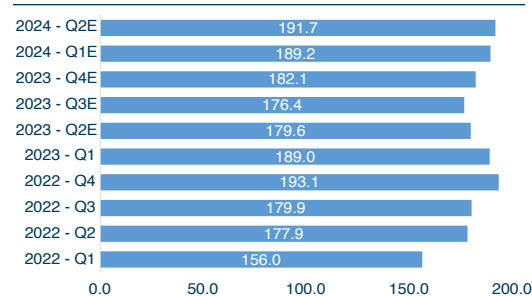
Source: the company's profiles, Bloomberg, AlJazira Capital Research. \*prices as of 14<sup>th</sup> of Jun 2023

### Cement sales in KSA



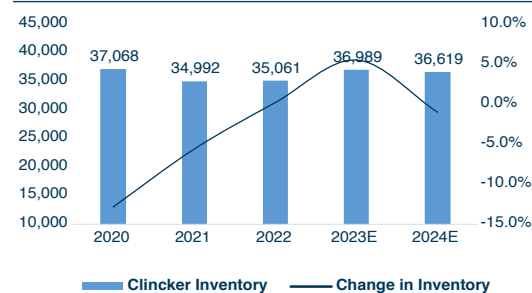
Source: Yamama Cement, Aljazira Capital Research

### Average selling prices (SAR/tonne)



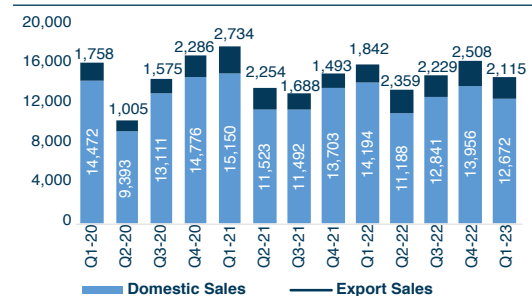
Source: Yamama Cement, Aljazira Capital Research

### Clinker inventory trend and forecast



Source: Yamama Cement, Aljazira Capital Research

### Domestic vs. export sales ('000 tons)



Source: Yamama Cement, Aljazira Capital Research

### Table of contents

<b>Changes in demand drivers transform the dynamics of the Cement Sector</b> .....	4
Housing construction demand is diminishing .....	4
Giga & Mega projects to be the main driver for cement demand .....	4
<b>Central region likely to see prices being slashed again in FY23 amid stiff competition</b> .....	6
Concentration of Giga projects attracting the players from other regions; prices to be under pressure .....	6
Prices cuts in the Central, Western Regions, while the Eastern Region maintains superiority .....	6
<b>Large players are likely to maintain their market shares in FY23</b> .....	7
M&A strategy could be a solution to reduce market share competition and stabilizing the prices .....	7
The sector inventory is piling up, as local cement sales do not cover clinker production .....	7
<b>Rise in COGS for cement companies amid uncertainty of energy subsidy</b> .....	8
<b>Dividend yield beats the market, likely to be stable in FY23</b> .....	8
<b>Company profiles</b> .....	9
Yamama Cement Company .....	9
Southern Province Cement Company .....	11
Saudi Cement Company .....	13
Qassim Cement Company .....	15
Yanbu Cement Company .....	17
Arabian Cement Company .....	19
Riyadh Cement Company .....	21
City Cement Company .....	23
Eastern Province Cement Company .....	25

### Changes in demand drivers transform the dynamics of the cement sector

**Housing construction demand is diminishing amid interest rate hikes, housing subsidy reforms, and the inflated cost of construction materials:** The boom in the housing sector was the main support for the cement sector in the past few years. Mortgage lending gained momentum in the last few years supported by the government's drive to boost home ownership in Saudi Arabia above 65% in 2022, approaching the government target of 70%. New mortgages per month averaged around SAR 12.6bn and SAR 12.7bn in FY20 and FY21, respectively. However, demand from housing construction started to retract as a result of several reasons- mainly being the inflated cost of construction materials, as well as higher real estate prices coupled with higher interest rates that drove new mortgages to decline 21.2% Y/Y in FY22 to SAR 120.3mn. In addition, a reduction in housing subsidies introduced in February 2023 is expected to curb the demand for mortgages in the coming periods. Those factors led new mortgages' value to decline by 41.0% Y/Y in M4-23, compared to the same period a year

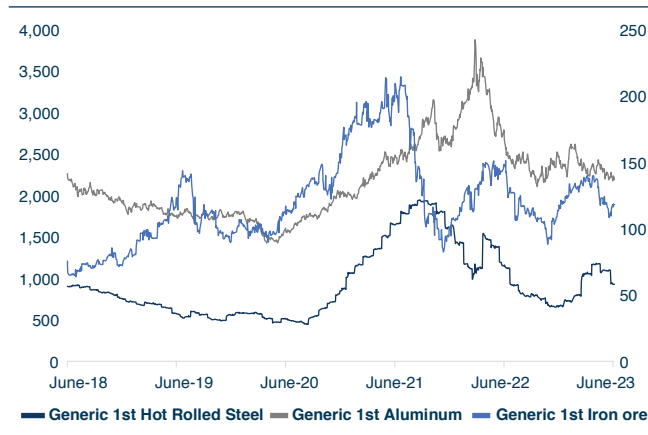
earlier. We believe that housing demand may not be the only key driver for cement sector currently; nevertheless, based on the expectation of a possible interest rate cuts by the end of the year and the current downside trajectory of commodity prices will support the recovery of demand in cement sector starting FY24E.

**Table 2. Mortgages trend**

Year	Mortgage Value in SAR mn	% Change
FY18	27,741	46.6%
FY19	78,963	184.6%
FY20	150,785	91.0%
FY21	152,541	1.2%
FY22	120,275	-21.2%
FY23E	82,800	-31.2%

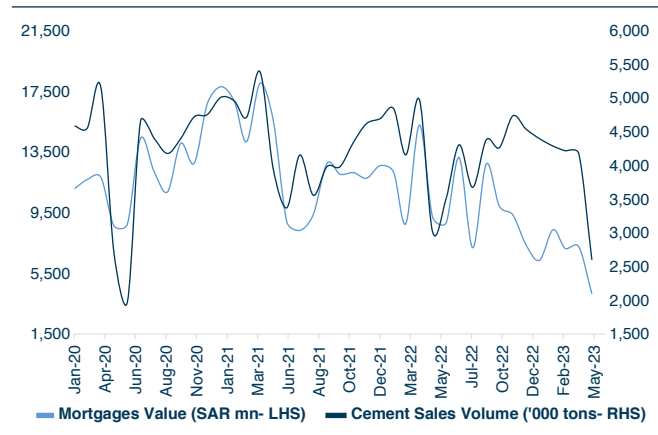
Source: Yamama Cement, Aljazira Capital Research

**Figure 1. Commodity price trends (USD/T)**



Source: Bloomberg, Aljazira Capital Research

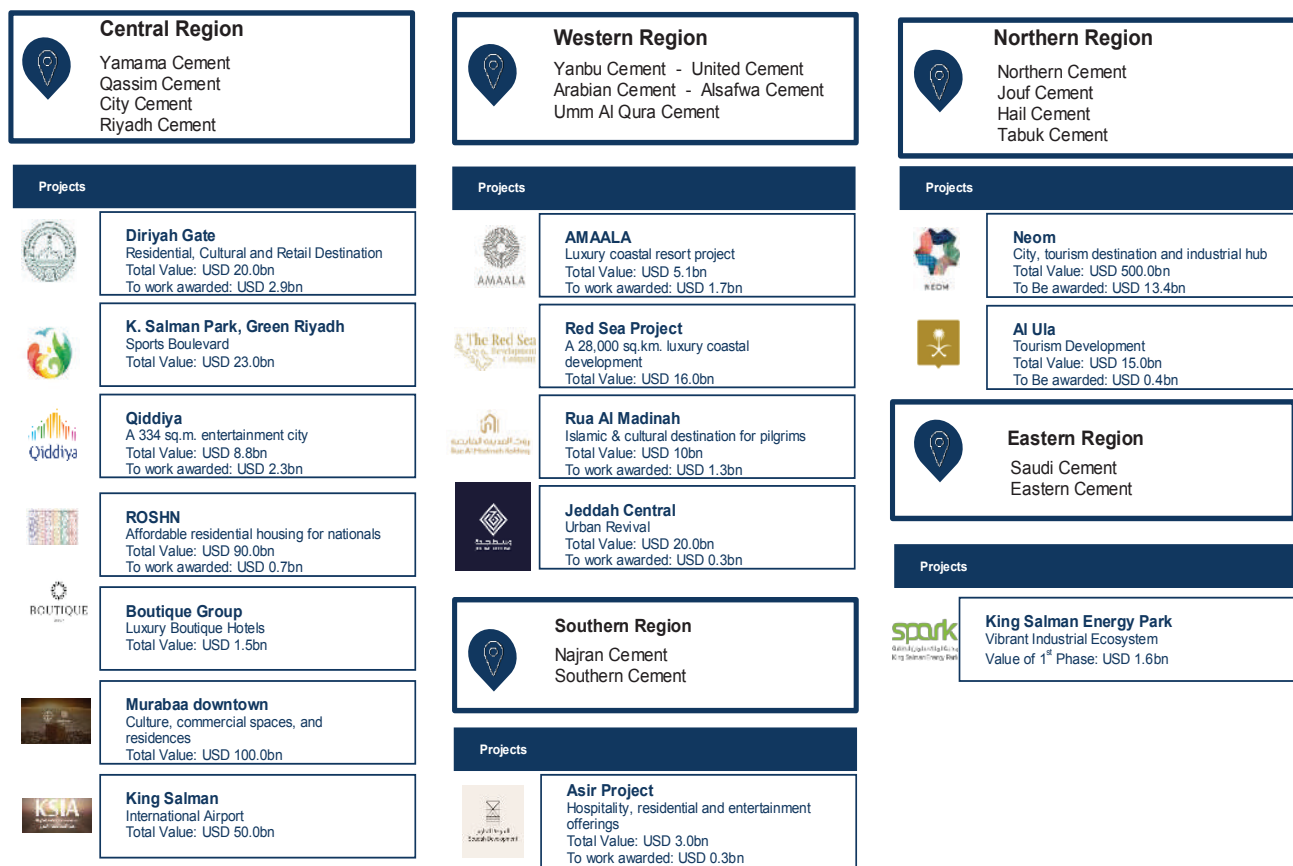
**Figure 2. Mortgage loans vs. cement sales**



Source: SAMA, Yamama Cement, Aljazira Capital Research

**Giga & Mega projects to be the new main driver for cement demand:** The government's capital expenditure (CAPEX) and PIF's Giga projects will prove more significant to the cement sector's potential to boost demand in both the short and long term and offset the impact of dwindling housing construction demand. In FY22, the Saudi government's CAPEX increased by 22.0% to SAR 143.5bn, driven by a jump of 52.0% in oil income. The Ministry of Finance anticipates that government CAPEX will increase by 9.4% more, to SAR 157bn, by the end of FY23. Government CAPEX increased by 75.0% Y/Y in Q1-23, totaling SAR 26.0bn. As part of the Shareek investment plan, which is designed to assist significant Saudi enterprises in increasing the economic output of the kingdom's private sector, Saudi Arabia announced on March 1 that USD 51.0bn would be invested among eight Saudi companies. KSA aims to boost non-oil exports from 16% to 50% of total exports by FY30, while raising the private sector's share of GDP to 65%. Going forward, the PIF and Royal Commissions' Vision 2030 initiatives will be the primary force behind cement demand. Construction contracts worth USD 24.4bn were awarded in FY22, and the total amount awarded was close to USD 46.0bn. This amount is just 5.3% of the USD 867.0bn estimated value of Giga projects. Red Sea, King Salman Park, and Diriyah Gate are more advanced projects that are a source of high demand; while NEOM, which makes up around 57.6% of the overall value (with a value of USD 500.0bn), is still in its early stages. We expect to see the reflection of those projects on cement demand starting from FY23, and to grow higher in FY24.

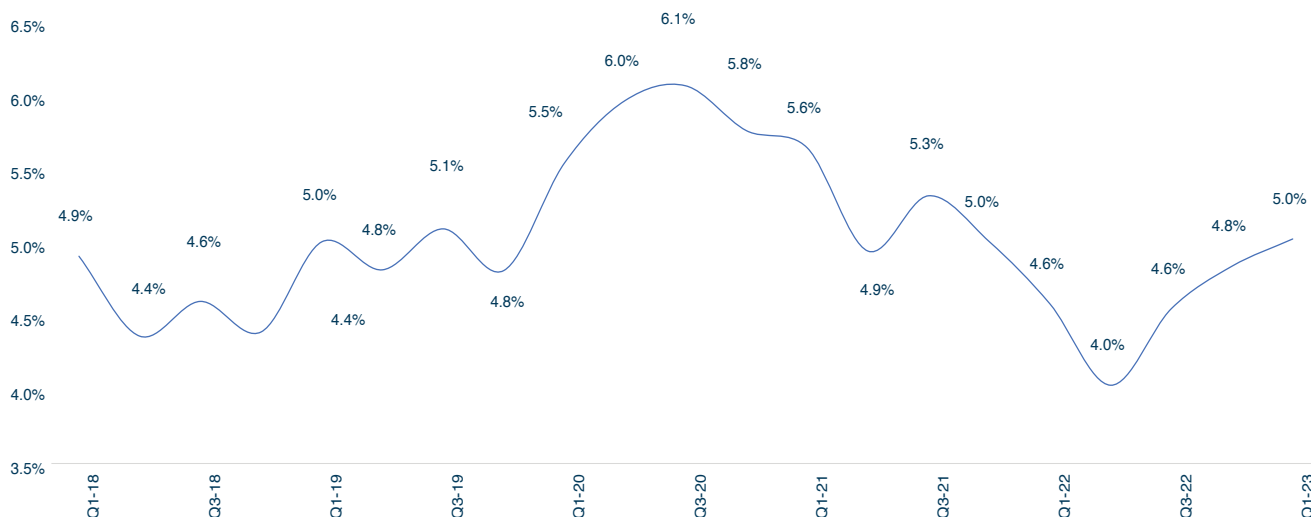
Figure 3. Giga projects by regions and total values



Source: MEED, Aljazira Capital Research

**Construction activities increasing in the past few quarters:** The acceleration in the construction activities in KSA is evident from the increase in the construction sector GDP over the past few quarters. The contribution of the construction sector to GDP has grown from 4.0% in Q2-22 to 5.0% in Q1-23. The sector is expected to continue to experience strong activity levels amid upcoming large infrastructure projects. The higher construction activities would subsequently translate into demand for the cement sector.

Figure 4. Construction activities as a % of GDP



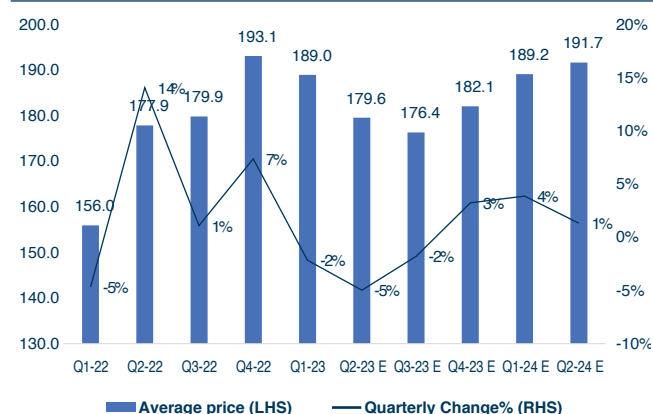
Source: GASTAT, Aljazira Capital Research

### Central region likely to see prices being slashed again in FY23 amid stiff competition

**Accelerated Giga projects in the Central region has attracted the players from other regions; competition might evolve into a prices war:** The cement demand driven by the housing boom was covering all the regions in the Kingdom in FY22 and the prior periods, despite their different population density. However, most of the active Giga projects currently are concentrated in the Central region, which attracted outer-region players to enter the region in order to benefit from the Giga projects boom. Given that the Central region is logistically more feasible and an easy access for most of the companies in the Kingdom, it is attracting most of the outer-region players. Consequently, average selling prices (ASPs) were under pressure in Q1-23, declining to SAR 174.3 per ton, from SAR 186 per ton registered in Q4-22. Moreover, we believe that the competition in the central region might evolve into a price war, and companies could start cutting prices on a larger scale to retain the market share in the region, which will be visible in lower ASPs starting from Q2-23.

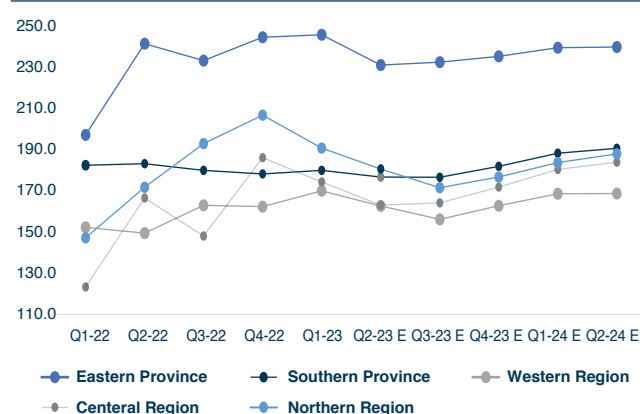
In addition to the competition, most of the Giga projects and projects involving government CAPEX consume bulk cement, which is sold at even higher discounted prices compared to the bagged cement (consumed mostly in housing construction), accordingly we see ASPs in the level of SAR 163.1 per ton in the central region beginning from Q2-23, which will be reflected negatively in the earnings. However, competition is estimated to ease by Q4-23 and to be fully realized in higher prices during FY24, therefore we expect companies under AJC coverage to record a decline of 6.2% in total earnings in FY23, and to improve by 27.1% in FY24 once the market stabilizes and ASPs recover.

**Figure 5. Average selling prices trend (SAR/ton)**



Source: Yamama Cement, Aljazira Capital Research

**Figure 6. Average selling prices by region (SAR/ton)**



Source: Yamama Cement, Aljazira Capital Research

### Prices cuts in the Central Region, discounted exports impacting the Western Region, while the Eastern Region maintains superiority:

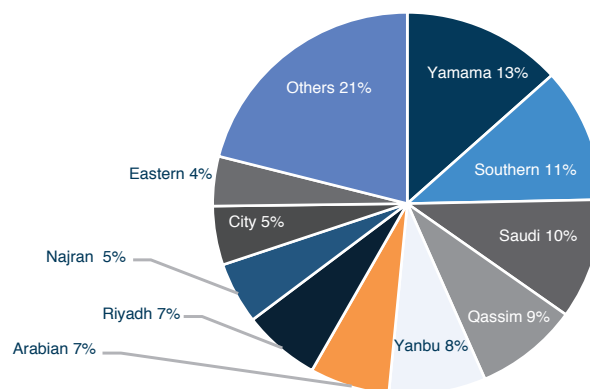
The selling prices of the sector averaged around SAR 189.0/tonne in Q1-23. The Central Region has been under the pressure as competition has been intensifying in FY23, as ASPs stood at SAR 174.3/tonne in the region where Qassim Cement had price realization of SAR 161.0/tonne, one of the lowest in the kingdom. The Central region prices are estimated to be under pressure through FY23 amid price war (we estimate an ASPs of 168.2/tonne through FY23 vs. SAR 186/tonne in Q4-22); we however, we expect competition to ease by Q4-23, and hence improve prices afterwards, reaching to SAR 182/tonne by H1-24. Meanwhile companies in the Western region are estimated to record the lowest prices in the sector during FY23 averaging around SAR162.9/tonne, impacted by their discounted exports and market share competition. The Eastern Region is expected maintain superior prices in the medium run and to average around SAR 236/tonne through FY23. We also expect Southern Cement Company to be under pricing pressure, impacted by discounted exports and its exposure to market share competition as its operations spread to other regions with an estimated ASPs of SAR 175.6/tonne, through FY23, and to improve to SAR 186.7/tonne in H1-24, as competition may ease. Therefore, we expect ASPs for the sector to stand at SAR 181.8/tonne though 2023, up 2.9% from 2022 low base year.



### Large players likely to maintain their market shares in FY23

Southern Cement lost its historical leading position in the sector during FY22 as its market share decreased for two consecutive years, reaching 11.4% by the end of May 2023. Yamama Cement benefited from its new plant location, additional capacity, and the discounted prices as its market share increased to 13.3% of total local sales. Yamama also topped Saudi Cement in market share, as Saudi Cement came third with a market share 10.2%. Northern Cement and AlJouf Cement had the lowest market shares at 1.4% and 2.4%, respectively. All the Northern region companies bottomed the list. Meanwhile, the latest market shares among the big players might be subject to minor changes, driven by any dramatic changes in the selling prices.

Figure 7. TTM Market Shares (May 2023)



Source: Yamama Cement, Aljazira Capital Research

### M&A strategy could be a solution to reduce market share

**competition and stabilizing the prices:** Recent M&A activities in the Saudi cement sector in response to the larger-than-demand production capacities and inventory build-up in the sector. In September 2022, Qassim Cement signed a non-binding MoU to acquire Hail Cement fully. Similarly, City Cement signed a non-binding MoU to acquire Umm Al Qura Cement in November 2022, which was extended for another 6 months in April 2023. If these deals materialize, Qassim Cement will have the second largest market capitalization in the sector, and City Cement will gain access to the Western region. M&A activities in the cement sector are expected to add value, by reducing market share competition and stabilizing prices. However, as the MoUs mentioned above are not binding for its parties, further disclosures and updates are awaited to fully assess their impact on the sector. Overall, consolidation is considered a feasible solution to the challenges facing the cement industry.

### High inventory level a concern for the sector, recording the highest level since December 2020

**The sector inventory is piling up; amid oversupply:** From Jan 2022 up to May 2023, local cement sales consumed only 89.0% of total clinker production, leading the clinker inventory level of the whole sector to increase reaching 37.6MT by the end of May 2023 (enough to cover 9 months of local demand), recording the highest level since December 2020. Meanwhile, the TTM utilization rate of the sector reached 67.0%. The Western region remains the most concentrated region, accounting for 35.0% of the total clinker inventory in the Kingdom, as of May 2023 (Yanbu Cement alone accounts for 14% of total inventory). We believe that this level of inventory is affecting the sector's profitability as it facilitates the competition and price war, as companies in Central region find it logistically unfeasible to export their products.

We forecast a decline of 9% in local cement sales, standing at 46.3Mt in 2023, while the inventory levels to stand around 36.9mt, recording a 5.5% growth from FY22 level. Meanwhile, we expect the companies under AJC's coverage to record a decline of 9.1% in exports by the end of FY23, caused mainly by a decrease in Yanbu cement exports. Saudi Cement Company is estimated to be the leading exporter by the end of FY23; based on the released initial numbers in 5M-2022.

Figure 8. Inventory quarterly trends ('000 tons)

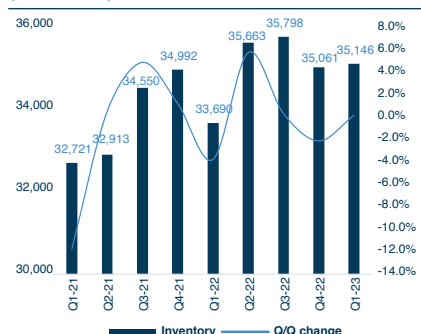


Figure 9. Local cement sales/clinker production

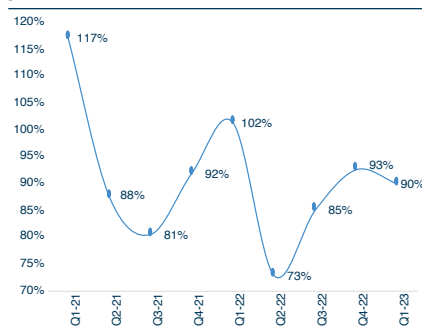
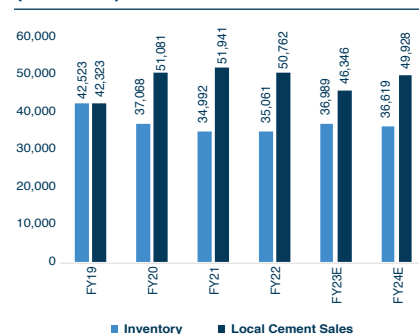


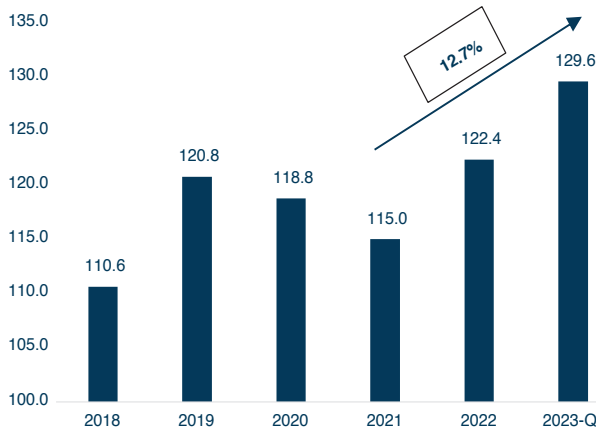
Figure 10. Inventory vs. local cement Sales ('000 tons)



Source: Yamama Cement, Aljazira Capital Research

### Rise in COGS for cement companies amid uncertainty of energy subsidy

Figure 11. Average cost of sales (SAR/ton)



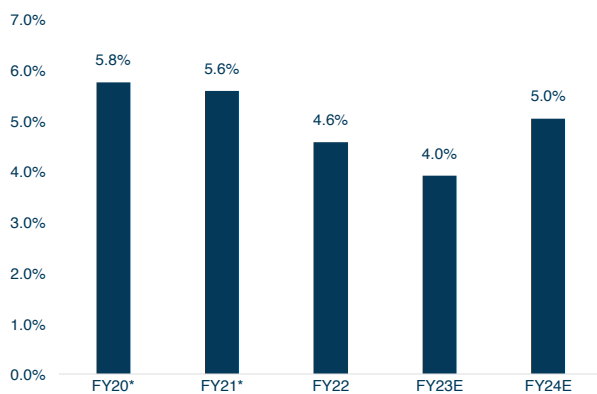
Source: Yamama Cement, Aljazira Capital Research

The cost of sales for cement companies has increased by 12.7% to an average of SAR 129.6 per ton in Q1-23 from SAR 115.0 per ton recorded in FY21. This rise is believed to be sustainable and partially caused by the increase in direct logistical and labor costs, as well as the raw materials. As the method of calculating limestone tariffs on cement companies has changed to be based on clinker production, not cement sales. This change, coupled with the insufficient local sales/production ratio, is expected to add to the cost of production, along with more pressure on margins of cement companies moving forward. Furthermore, one significant component of the cost structure of Saudi Arabia's cement sector is the subsidized Heavy Fuel Oil (HFO 380). This price is significantly lower than international rates. However, any proposed reform by the government, as was done in 2016, could lead to additional pressure on the cost structure of the cement sector.

### Dividend yield beats the market, likely to decline in FY23 as earnings contract

Dividends of the cement companies under AJC's coverage yielded 4.6% in FY22, compared to TASI's yield of 2.7%. Yamama Cement resumed its dividends distribution in FY22 as it completed its new factory project, with a DPS of SAR 1 and a DY of 3.7%. The payout ratio for the companies under AJC's coverage declined in FY22 to 103.0% compared to 114.3% in FY21, as most of them recorded a decline in their EPS in FY22. We expect DPS to decrease in FY23, with an average yield of 4.0% compared to a yield of 4.6% in FY22. Yanbu Cement is estimated to top the sector's in FY23 with a DPS of SAR 2.25; yielding 5.40% on the stock. Followed by Eastern Cement and Saudi Cement with a DPS of 2.30 SAR (yielding 4.90%), and a DPS of SAR 2.75 (yielding 4.7%); respectively. Yamama Cement and Southern Cement are estimated to bottom the list, with a DY of 2.7% and 2.9%, respectively. Moving forward, a recovery of 24.0% in DPS is estimated during FY24 as earnings pick up, leading to a DY of 5.0%, based on current prices.

Figure 12. Dividend yield of companies under AJC's Coverage



Source: Aljazira Capital Research\* - excluding Yamama Cement

Figure 13. DPS per company (SAR)

	2022	2023E	2023E DY (%)	2024E
Yanbu Cement	1.50	2.25	5.4%	2.30
Eastern Cement	2.00	2.30	4.9%	2.40
Saudi Cement	3.25	2.75	4.7%	3.20
Riyadh Cement	1.50	1.50	4.6%	1.80
Arabian Cement	2.20	1.70	4.4%	2.00
City Cement	0.90	0.90	3.6%	1.50
Qassim Cement	2.20	2.25	3.1%	3.00
Southern Cement	1.25	1.50	2.9%	2.30
Yamama Cement	1.00	1.00	2.7%	1.50

Source: the company's reports, Aljazira Capital Research \*prices as of 14<sup>th</sup> of Jun 2023

### Key downside risks to KSA cement sector valuation

- Delay in implementation of mega projects may result in lower-than-expected demand and thus lower earnings
- Impact of global inflationary pressure on domestic economy and consumer spending may ultimately affect housing demand
- Decline in oil prices and its negative impact on capital spending by government and private entities would result in lower-than-expected demand from infra projects

### Key upside risks to KSA cement sector valuation

- Stronger-than-expected recovery sales volume would help boost the sector top line as well as earnings
- Faster recovery in selling prices driven by a very strong demand would result in better margins due to higher realization rates
- Better-than-expected execution rate for mega projects may accelerate the demand for cement from these projects



### Yamama Cement Company

**Expected to maintain leadership position; prices may be weighed down by competition for a short period**

Yamama Cement held a leading market share of 13.3% as of May 2023. The company being the largest player and strategically located in the Central Region holds logistical advantage to gain from expected demand from ongoing and upcoming projects in the region. However, as other players are also entering the region, we see competition rising in near term starting Q2-23. This will reflect on Yamama's ASPs, as the company is likely to try mainlining its market share and take a toll on prices. However, we expect prices recover by the end of FY23 when demand starts picking up. Yamama's ASP for FY23 is forecasted at SAR 169.6 per ton (up 15.7%, as the company offered heavy discounts in FY22). With easing of price war, ASPs are expected to improve to SAR 181.9 per ton in FY24. Yamama's sales are estimated to stand at 5.6mt (down 20.0% Y/Y) in FY23.

Thus, we forecast FY23 revenue at SAR 946.8mn (-7.4% Y/Y) and an 8.5% growth in FY24 to reach SAR 1,027.5mn. Yamama is expected to incur higher depreciation costs as the new factory is now fully operated. Therefore, we estimate a decline of 18.5% net profit in FY23, and a recovery of 22.4% in FY24. Yamama's DPS is expected to remain steady at SAR 1.0 in FY23 (DY = 2.7%), as it needs to support its financials. In FY24, a DPS of SAR 1.50 is estimated, reflecting a yield of 4.1%. The stock is currently trading at 18.2x compared to a forward P/E of 25.8x based on FY23 earnings and at 21.1x based on FY24 earnings.

**Valuation:** We value Yamama Cement assigning 50% weight to DCF (2.5% terminal growth rate and 8.6% average WACC), 25% weight to P/E valuation method with a multiple of 17.0x based on FY24 estimates, and 25% weight to EV/EBITDA valuation method with a multiple of 12.0x, based on FY24 estimates. We update our TP to **SAR 33.7 per share** and maintain our "Neutral" recommendation.

#### Yamama Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	735.8	1,022.7	946.8	1,027.5
Growth %	-23.0%	39.0%	-7.4%	8.5%
Gross Profit	220.4	423.2	419.9	483.4
Gross Margin %	30.0%	41.4%	44.3%	47.0%
EBITDA	163.0	366.0	503.4	559.7
EBITDA Margin %	22.2%	35.8%	53.2%	54.5%
Net Profit	153.7	355.8	290.0	355.1
Net Margin %	20.9%	34.8%	30.6%	34.6%
EPS	0.76	1.76	1.43	1.75
DPS	0.00	1.00	1.00	1.50
ROA	2.6%	5.6%	4.6%	5.8%
ROE	3.6%	7.6%	6.1%	7.4%
PE (x)	34.3	17.8	25.8	21.1
PB (x)	1.2	1.4	1.6	1.6
EV/EBITDA	39.1	20.1	16.4	14.4

Source: Company report, Aljazira Capital

<b>Recommendation</b>	<b>Neutral</b>
<b>Target Price (SAR)</b>	<b>33.7</b>
<b>Upside / (Downside)*</b>	<b>-8.9%</b>

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	736	1,023	947	1,028
Growth %	-23.0%	39.0%	-7.4%	8.5%
Net Income	154	356	290	355
Growth %	-62.1%	131.5%	-18.5%	22.4%
EPS	0.8	1.8	1.4	1.8

Source: Company reports, Aljazira Capital

#### Key Market Data

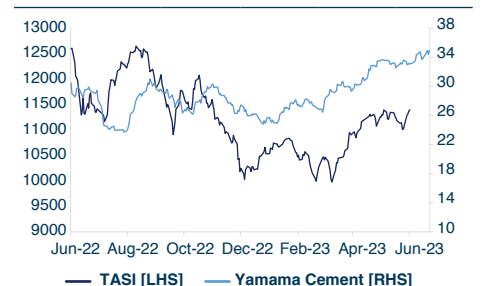
Market Cap (bn)	7.3
YTD%	33.0%
52 week (High)/(Low)	37.0/24.5
Share Outstanding (mn)	202.5

Source: Company reports, Aljazira Capital

#### Ownership Structure

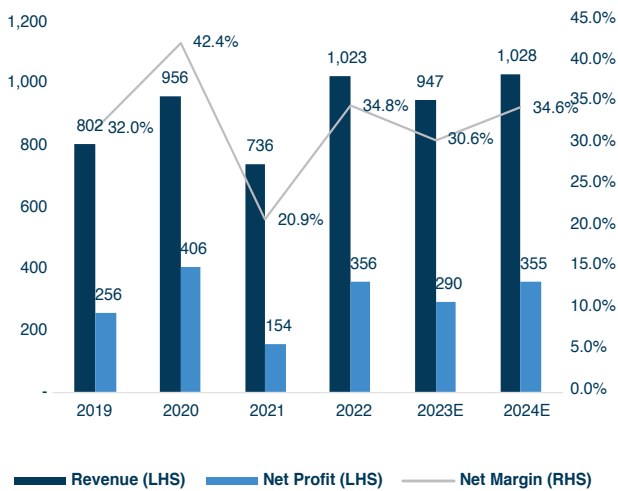
Name	Shares (mn)	Holding
Prince Sultan M. S. Al Saud	12.01	5.93%
Saleh Abdulaziz Mohammed Al-Salem	10.69	5.28%
Foreigners	12.8	6.33%
<b>Public</b>	<b>167</b>	<b>82.46%</b>

#### Price Performance



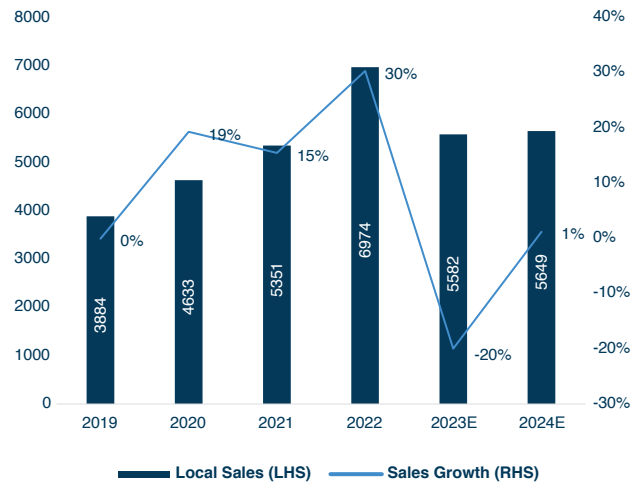
Source: Tadawul, Aljazira Capital

Figure 14. Yamama Cement earnings (SAR mn)



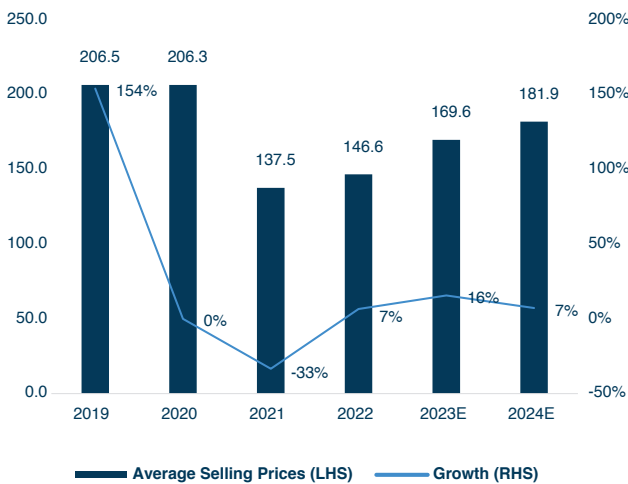
Source: Company's reports, Aljazira Capital Research

Figure 15. Yamama Cement sales Trend ('000 tonnes)



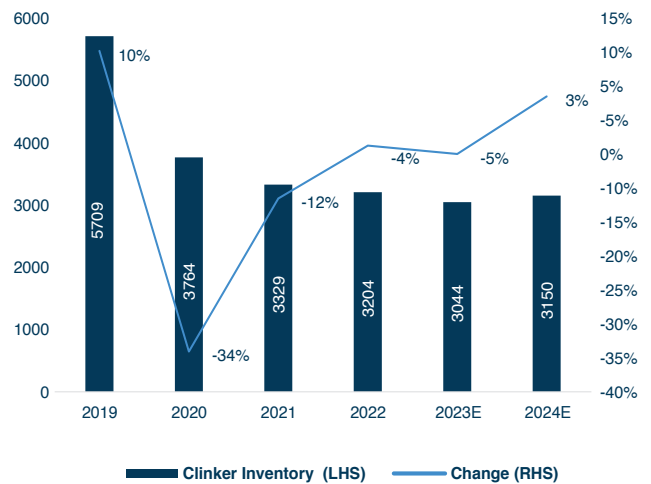
Source: Aljazira Capital Research, Yamama Cement

Figure 16. Yamama Cement average selling prices trend (SAR/tonne)



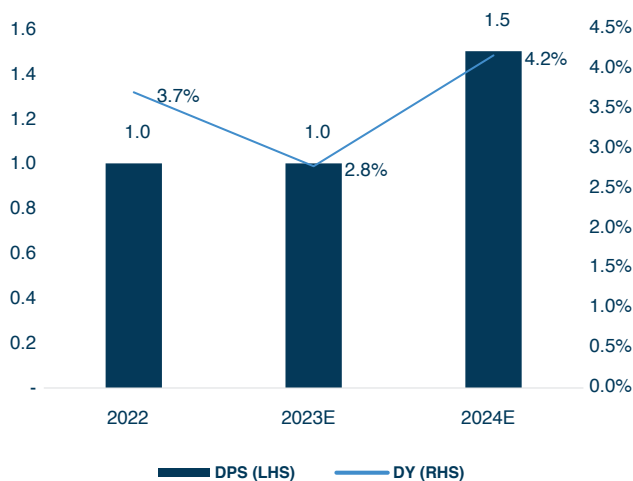
Source: Company's reports, Aljazira Capital Research

Figure 17. Yamama Cement inventory levels ('000 tonnes)



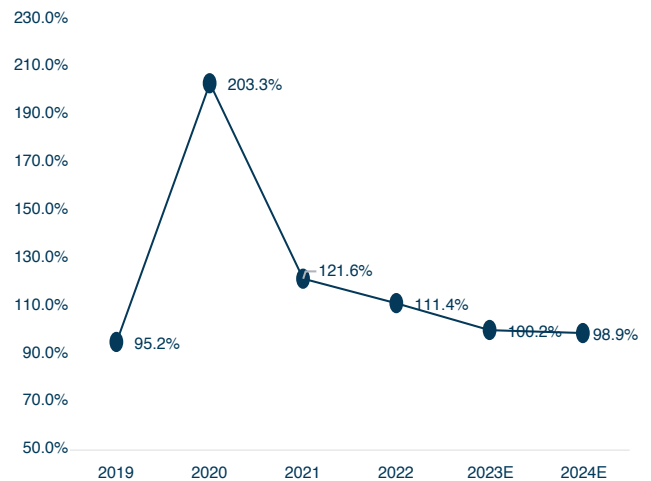
Source: Aljazira Capital Research, Yamama Cement

Figure 18. Yamama Cement dividends



Source: Company's reports, Aljazira Capital Research

Figure 19. Yamama Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement

### Southern Province Cement Company

**Impacted by muted demand in south; expansion outside the region will be the key to future growth**

Southern Cement is the second largest cement company in KSA by market share. The company is currently facing a decline in demand due to lower housing construction in Southern Region. Thus, it is penetrating Central and Western Region which are expected to generate strong demand in future. This will help the company retain its market share and find market to its large production capacity. We believe the company will benefit more from the Giga projects in the Western Region due to a better access it has to the region. However, the competition with existing players in these two regions will put pressure on ASPs. Hence, we expect Southern Cement's ASP to fall 2.6% in FY23 to SAR 175.8 per ton but increase to SAR 186.9 per ton in FY24 once the competition eases with rise in demand. Domestic sales are estimated to decline 7.7% to 5.4mt in FY23 and grow 5.7% to 5.7mt in FY24.

We forecast Southern Cement's revenue, affected by lower demand and prices, to fall 5.7% Y/Y to SAR 1,153.1mn in FY23 and post a growth of 2.2% in FY24. Earnings will be under pressure in FY23 due to the pressure of competition and the high contribution of exports to the revenue (around 18.3%). Net profit would decline 17.1% in FY23, before registering a growth of 29.3% in FY24. We estimate a higher payout ratio in FY23 leading to SAR 1.50 DPS, as the new production lines CAPEX will be financed partially by loans, yielding 2.9% on the stock. The stock is currently trading at 31.2x compared to a forward P/E of 29.5x based on FY23 earnings and at 22.7x based on FY24 earnings.

**Valuation:** We value Southern Cement assigning 50% weight to DCF (2.5% terminal growth rate and 7.96% average WACC), 25% weight to P/E valuation method with a multiple of 16.0x based on FY24 estimates, and 25% weight to EV/EBITDA valuation method with a multiple of 11.0x, based on FY24 estimates. We update our TP to **SAR 51.5 per share** and maintain our "Neutral" recommendation.

#### Southern Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	1,339.4	1,222.4	1,153.1	1,178.3
Growth %	-19.0%	-8.7%	-5.7%	2.2%
Gross Profit	505.4	357.3	323.4	393.2
Gross Margin %	37.7%	29.2%	28.0%	33.4%
EBITDA	648.5	506.9	459.5	429.4
EBITDA Margin %	48.4%	41.5%	39.9%	44.9%
Net Profit	429.2	300.7	249.4	324.1
Net Margin %	32.0%	24.6%	21.6%	27.4%
EPS	3.07	2.15	1.78	2.30
DPS	2.50	1.25	1.50	2.30
ROA	10.7%	7.8%	6.5%	8.7%
ROE	13.5%	9.4%	7.7%	10.0%
PE (x)	22.9	23.7	29.5	22.7
PB (x)	3.1	2.2	2.3	2.3
EV/EBITDA	14.8	14.0	15.5	13.2

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	51.5
Upside / (Downside)*	-1.9%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	1,339	1,222	1,153	1,178
Growth %	-19.0%	-8.7%	-5.7%	2.2%
Net Income	429	301	249	322
Growth %	-29.6%	-29.9%	-17.1%	29.3%
EPS	3.1	2.1	1.8	2.3

Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (bn)	7.4
YTD%	2.0%
52 week (High)/(Low)	62.4/47.6
Share Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

#### Ownership Structure

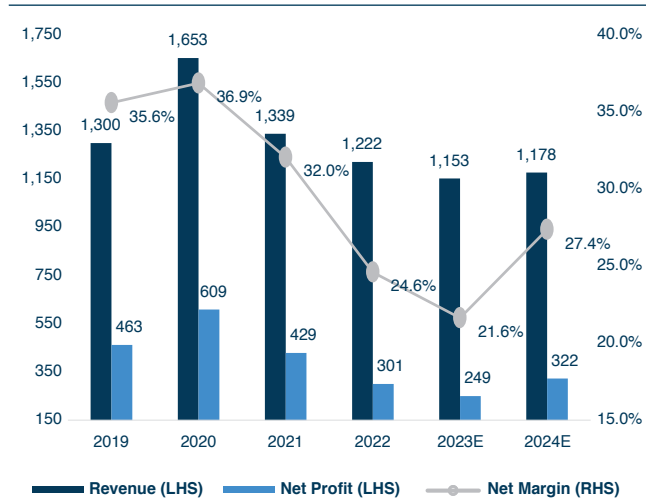
Name	Shares (mn)	Holding
PIF	52.4	37.43%
Foreigners	6.85	4.89%
<b>Public</b>	<b>80.75</b>	<b>57.68%</b>

#### Price Performance



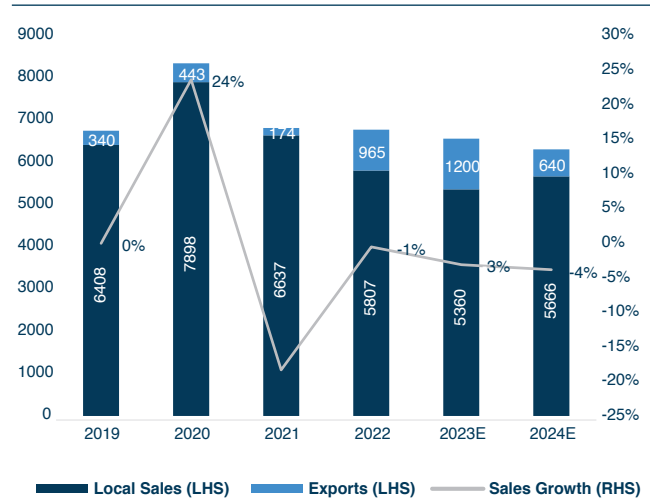
Source: Tadawul, Aljazira Capital

Figure 20. Southern Cement earnings (SAR mn)



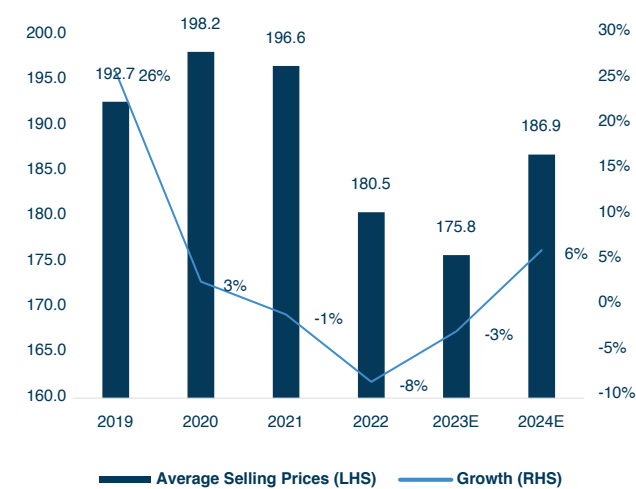
Source: Company's reports, Aljazira Capital Research

Figure 21. Southern Cement sales trend ('000 tonnes)



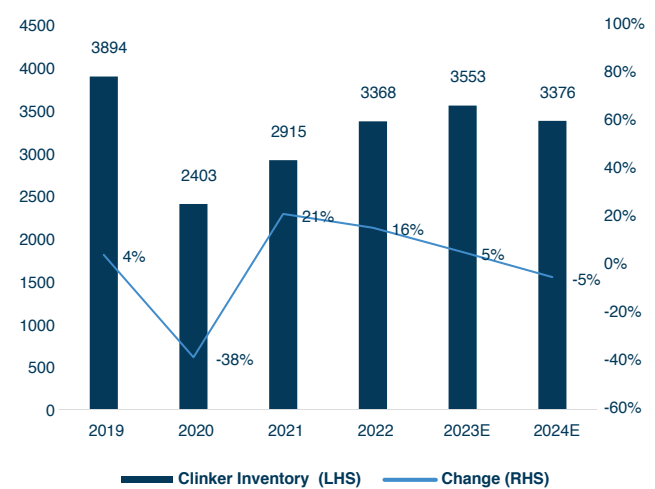
Source: Aljazira Capital Research, Yamama Cement

Figure 22. Southern Cement average selling prices trend (SAR/tonne)



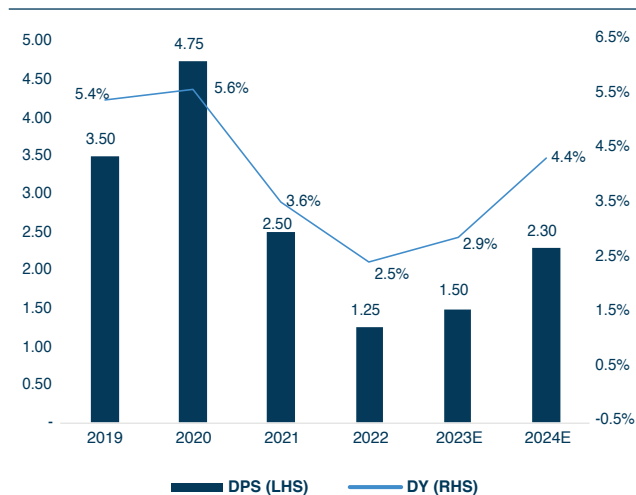
Source: Company's reports, Aljazira Capital Research

Figure 23. Southern Cement Inventory levels ('000 tonnes)



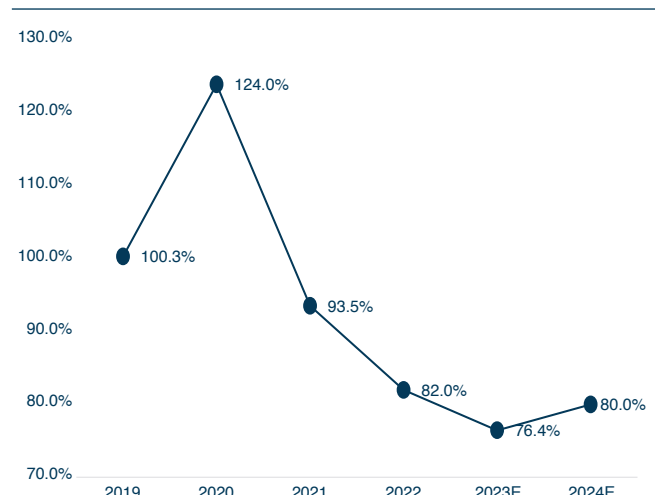
Source: Aljazira Capital Research, Yamama Cement

Figure 24. Southern Cement dividends



Source: Company's reports, Aljazira Capital Research

Figure 25. Southern Cement Local Sales/Clinker Production



Source: Aljazira Capital Research, Yamama Cement

### Saudi Cement Company

#### A leading player across two regions

We expect the company to benefit from commercial construction activities in the eastern region coupled with demand from Aramco's vast fields developments like Jafurah. Thus, compensating for the declining in demand from housing construction. Additionally, we expect the company to benefit from its existing in the Central Region and; where the accelerated Giga projects constructions like King Salman Park and Diriyah gate stimulate the demand. We expect Saudi Cement's sales and prices to be affected by the prices war in Riyadh. Local sales volumes are estimated to drop by 8.0% in FY23 standing at 4.8mt, followed by a recovery in FY24 with growth of 8.1% to 5.2mt. We expect ASPs to stand at SAR 187.5 in FY23 and improve to SAR 198.9 in FY24, driven by less market competition and less contribution from discounted export sales.

Accordingly, we estimate a revenue of SAR 1.35bn in FY23 (down 4.8%Y/Y) with a net income of SAR 353mn (down 11.5%Y/Y), and recovery in FY24 to post revenues of SAR 1.45bn (up 7.1%Y/Y) and a net income of SAR 417mn (up 18.1%Y/Y). Saudi Cement dividends are expected to be one of the top in the sector in FY23 with a DPS of SAR 2.75, yielding 4.7% on the stock, and a DPS of SAR 3.20 in FY24, yielding 5.4% on the stock. The stock is currently trading at 20.0x compared to a forward P/E of 25.5x based on FY23 earnings, and of 21.6x based on FY24 earnings.

**Valuation:** We value Saudi Cement assigning 50% weight to DCF (2.5% terminal growth rate and 8.5% average WACC), 25% weight to P/E valuation method with a multiple of 18.0x based on FY24 estimates, and 25% weight to DY valuation method with a yield of 4.5% based on FY24 estimate. We update our TP to **SAR 60.5** and maintain our "Neutral" recommendation.

#### Saudi Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	1,410	1,420	1,351	1,447
Growth %	-10.2%	0.7%	-4.8%	7.1%
Gross Profit	530.4	568.9	544.7	624.7
Gross Margin %	37.6%	40.1%	40.3%	43.2%
EBITDA	560.4	624.0	589.4	656.6
EBITDA Margin %	39.8%	43.9%	43.6%	45.4%
Net Profit	330.4	398.8	353.0	417.0
Net Margin %	23.4%	28.1%	26.1%	28.8%
EPS	2.16	2.61	2.31	2.73
DPS	3.50	3.25	2.75	3.20
ROA	9.7%	12.2%	11.2%	13.6%
ROE	13.6%	17.4%	15.8%	15.7%
PE (x)	25.4	19.6	25.5	21.6
PB (x)	3.4	3.4	4.0	4.2
EV/EBITDA	15.54	13.10	16.02	13.49

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	60.5
Upside / (Downside)*	2.7%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	1,410	1,420	1,351	1,447
Growth %	-10.2%	0.7%	-4.8%	7.1%
Net Income	330	399	353	417
Growth %	-26.8%	20.7%	-11.5%	18.1%
EPS	2.2	2.6	2.3	2.7

Source: Company reports, Aljazira Capital

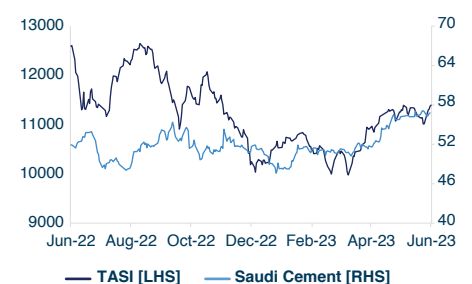
#### Key Market Data

Market Cap (bn)	9.0
YTD%	14.7%
52 week (High)/(Low)	60.1/48.8
Share Outstanding (mn)	153.0

#### Ownership Structure

Name	Shares (mn)	Holding
Khaled Al Rajhi	10.51	6.87 %
Foreigners	9.72	6.35 %
<b>Public</b>	<b>132.8</b>	<b>86.8%</b>

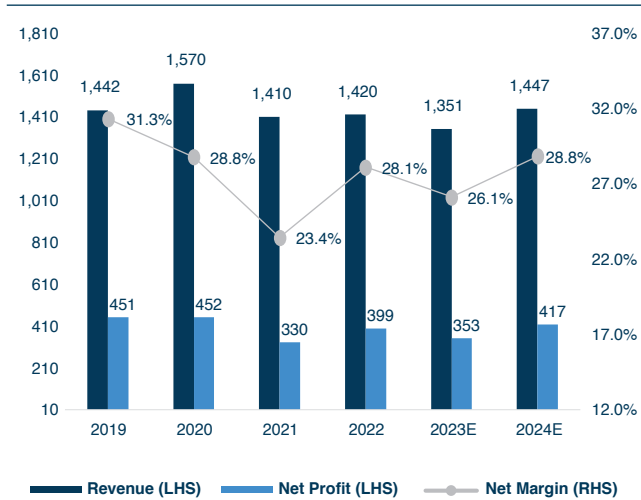
#### Price Performance



Source: Tadawul, Aljazira Capital

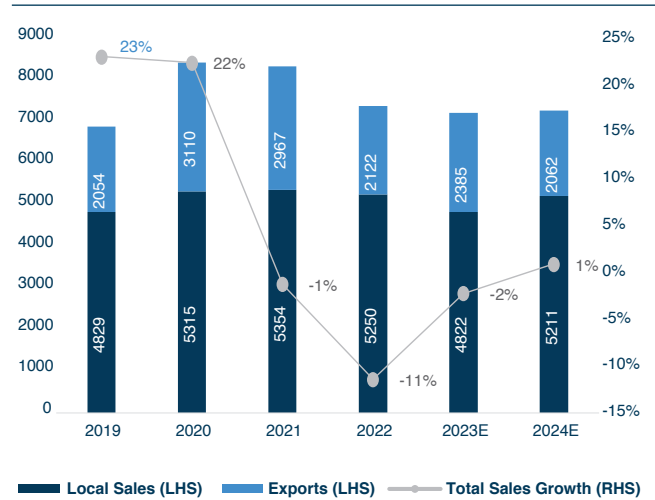


Figure 26. Saudi Cement earnings (SAR mn)



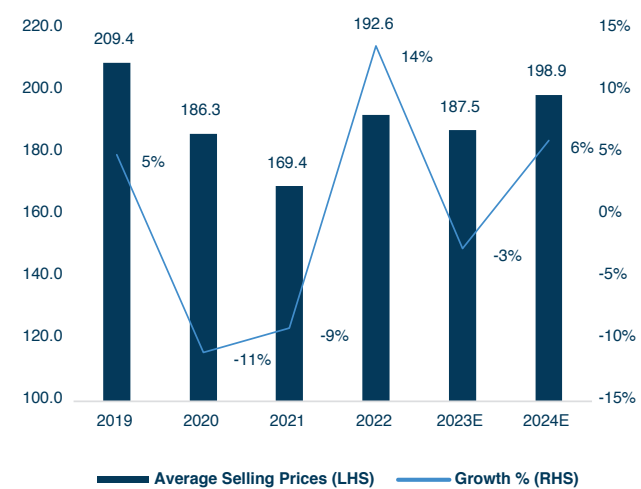
Source: Company's reports, Aljazira Capital Research

Figure 27. Saudi Cement sales trend ('000 tonnes)



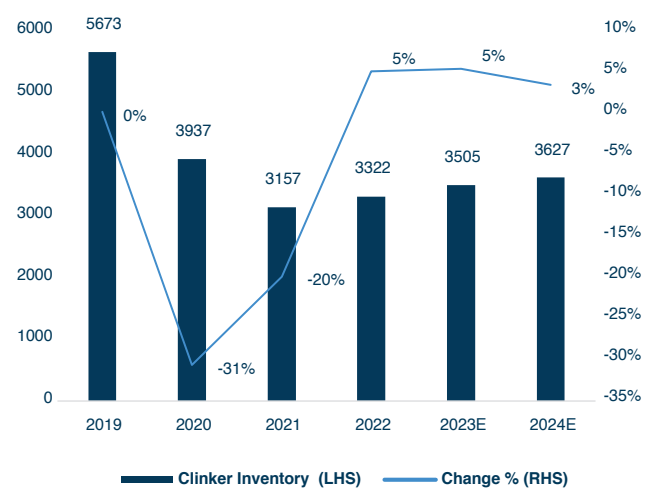
Source: Aljazira Capital Research, Yamama Cement

Figure 28. Saudi Cement average selling prices trend (SAR/tonne)



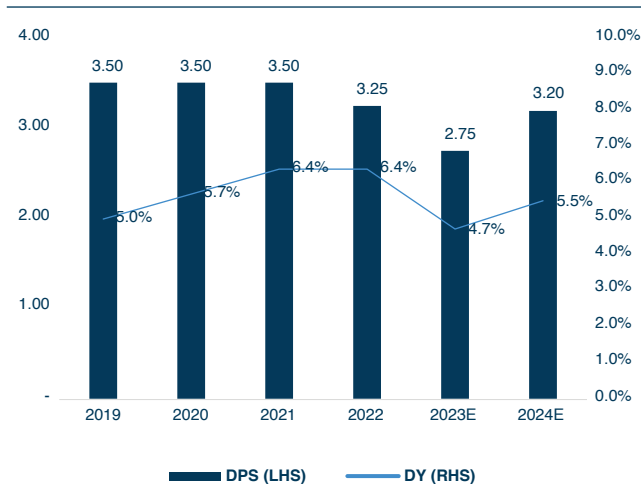
Source: Company's reports, Aljazira Capital Research

Figure 29. Saudi Cement inventory levels ('000 tonnes)



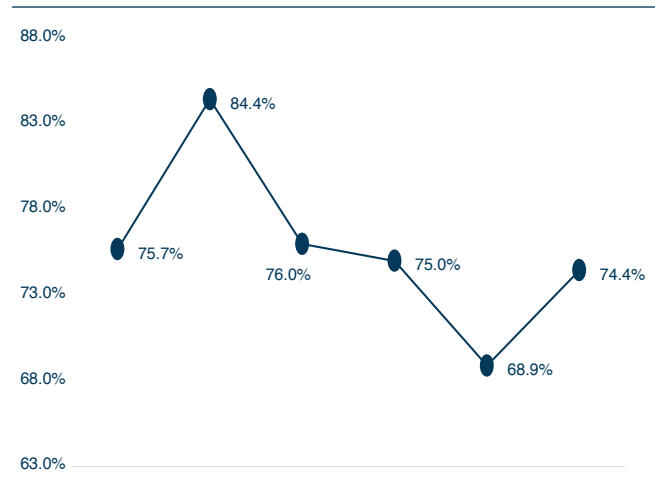
Source: Aljazira Capital Research, Yamama Cement

Figure 30. Saudi Cement dividends



Source: Company's reports, Aljazira Capital Research

Figure 31. Saudi Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement

### Qassim Cement Company

#### Acquisition to increase market share, earnings growth in FY23E despite price war

Accelerated pace of GIGA projects in the central region create potential opportunities for Qassim Cement. However, we anticipate that the Central Region's market share competition will restrain firm's expansion in FY23. We forecast an ASP of SAR 166.3 in FY23 (up 7.2% year over year), supplemented with a 13.0% reduction in volumetric sales, amid contracting demand for housing sector and high competition for GIGA project constructions, posting a net income of SAR 156.0mn (up 18.7% Y/Y from FY22 low base) and an EPS of 1.72. Qassim Cement and Hail Cement are now in negotiations for the latter to be completely acquired. If implemented, the new entity's market value would exceed SAR 7.7bn, and it would hold the second-largest market share in the industry (around 11.8%).

Accordingly, we estimate a revenue of SAR 632.3mn in FY23 (down 6.8%Y/Y) however an increase in the net income to SAR 153.4mn (up 17.6%Y/Y) versus an increase in FY24 revenues of SAR 767.9mn (up 21.4%Y/Y) and a surge of 54.1% Y/Y in net income to SAR 236.4mn. Qassim cement is expected to pay a DPS of SAR 2.25, yielding 3.1% on the stock, and a DPS of SAR 3.0 in FY24, yielding 4.1% on the stock. The stock is currently trading at 42.2x compared to a forward P/E of 42.5x based on FY23 earnings, and of 27.6x based on FY24 earnings.

**Valuation:** We remain optimistic for the company in the long run and estimate a recovery in earnings by 54.1% in FY24 amid better demand and prices. We expect the company to continue being one of the Blue chips of the sector. We value Qassim Cement assigning 50% weight to DCF (2.5% terminal growth rate and 8.61% average WACC), 25% weight to P/E valuation method with a multiple of 17.0x based on FY24 estimates, and 25% weight to DY valuation method with a yield of 4.5% based on FY24 estimate. We update our TP to **SAR 64.6** with a "Neutral" recommendation.

#### Qassim Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	723	678	632	768
Growth %	-19.5%	-6.1%	-6.8%	21.4%
Gross Profit	286	188	203	297
Gross Margin %	39.56%	27.78%	32.16%	38.67%
EBITDA	358	233	238	321
EBITDA Margin %	49.57%	34.34%	37.66%	41.8%
Net Profit	292	131	153	236
Net Margin %	40.4%	19.2%	24.3%	30.8%
EPS	3.24	1.45	1.71	2.63
DPS	3.50	2.20	2.25	3.0
ROA	14.4%	6.8%	8.0%	12.7%
ROE	16.8%	7.8%	9.4%	14.9%
PE (x)	23.3	42.1	42.5	27.6
PB (x)	3.9	3.3	4.0	4.1
EV/EBITDA	15.0	21.0	23.3	17.4

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	64.6
Upside / (Downside)*	-11.0%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	723	678	632	768
Growth %	-19.55%	-6.13%	-6.80%	21.45%
Net Income	292	131	153	236
Growth %	-30.5%	-55.3%	17.6%	54.1%
EPS	3.2	1.5	1.7	2.6

Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (bn)	6.5
YTD%	17.8%
52 week (High)/(Low)	54.7/79.4
Share Outstanding (mn)	90.0

Source: Company reports, Aljazira Capital

#### Ownership Structure

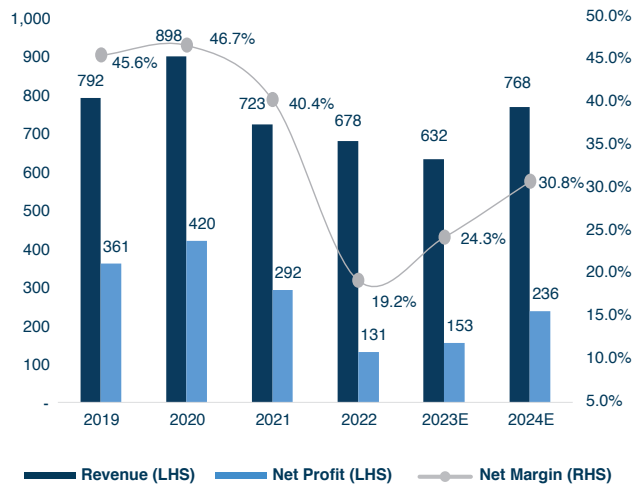
Name	Shares (mn)	Holding
PIF	21.02	23.35%
Foreigners	4.32	4.8%
<b>Public</b>	<b>64.7</b>	<b>71.85%</b>

#### Price Performance



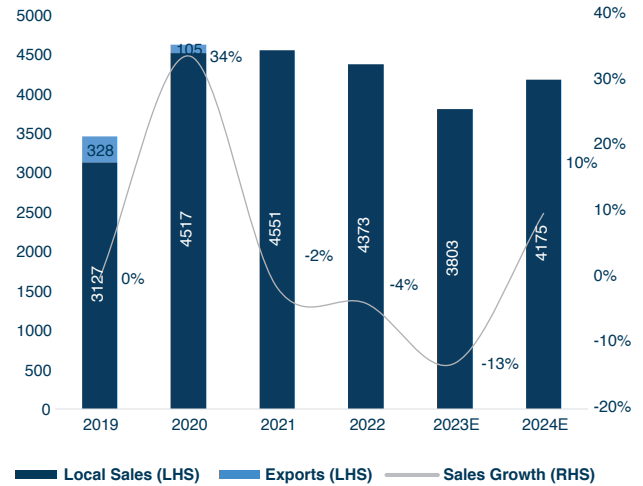
Source: Tadawul, Aljazira Capital

Figure 32. Qassim Cement earnings (SAR mn)



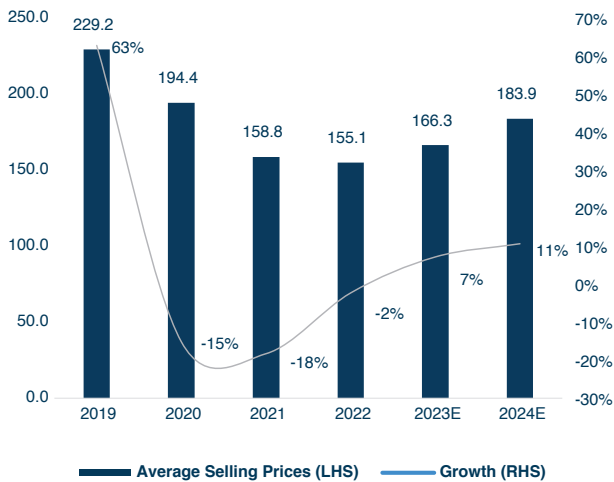
Source: Company reports, Aljazira Capital Research

Figure 33. Qassim Cement sales trend ('000 tonnes)



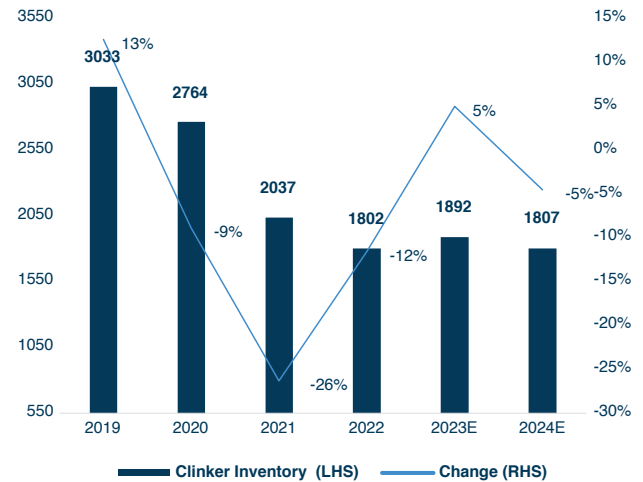
Source: Aljazira Capital Research, Yamama Cement

Figure 34. Qassim Cement average selling prices trend (SAR/tonne)



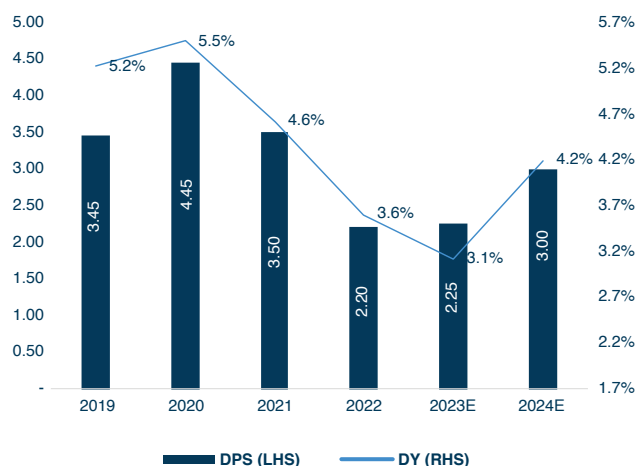
Source: Company's reports, Aljazira Capital Research

Figure 35. Qassim Cement inventory levels ('000 tonnes)



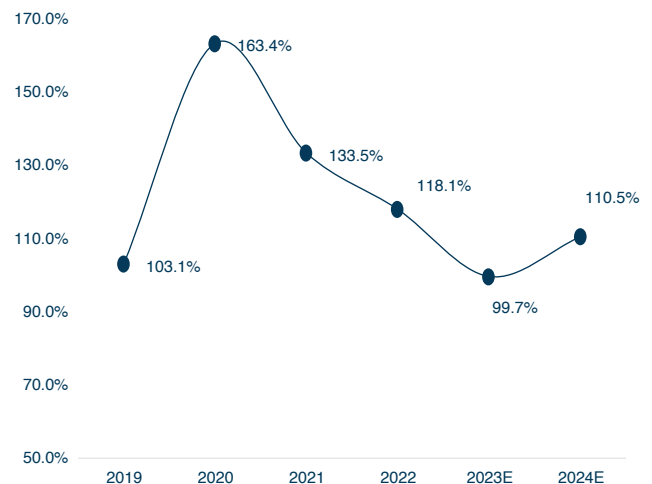
Source: Aljazira Capital Research, Yamama Cement

Figure 36. Qassim Cement dividends



Source: Company report, Aljazira Capital

Figure 37. Qassim Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement

### Yanbu Cement Company

#### Lower exports volume to support the GP margin

Demand slowdown is estimated to reflect on a 15.4% reduction in local volumetric sales for Yanbu cement, but an increase of 9.3% in net profit due to margin improvement. We predict more stable prices of local sales than the Central region, but the realization per tonne is still to be affected the the company's discounted exports. Total sales volumes are expected to drop by 23.2% Y/Y standing at 5.3mt in FY23, followed by a softer decline in FY24E of 7.8% Y/Y to 4.6MT due to expected decline in export sales. However, we anticipate further acceleration on western GIGA projects constructions like AMAALA, Red Sea Project, Rua Al Madinah and Jeddah Central to meet demand beginning in FY24. We estimate higher ASP in FY23 to partially compensate for the decline in demand. We estimate ASP of total sales to be around SAR 160.4 (up 12.2%Y/Y), resulting in an increase of 9.3% in net income in FY23 and by 23.7% in FY24.

Accordingly, we estimate a revenue of SAR 844.7mn in FY23 (down 13.9%Y/Y) however a rise in the net income to SAR 235.3mn (up 9.3%Y/Y) with a subtle recovery in FY24 to post revenues of SAR 860.3mn (up 1.9%Y/Y) and a net income of SAR 291.1mn (up 23.7%Y/Y). Yanbu cement DPS is expected at SAR 2.25, yielding 5.4% on the stock, and a DPS of SAR 2.30 in FY24, yielding 5.5% on the stock. The stock is currently trading at 28.9x compared to a forward P/E of 27.0x based on FY23 earnings and of 21.8x based on FY24 earnings.

**Valuation:** In FY23, Yanbu cement earnings are anticipated to improve, primarily due to higher ASP. The average local price is anticipated to be around SAR 189.7 (up 8.7%Y/Y). As Giga developments in the western region will boost demand, we remain optimistic about the company's medium and long-term prospects. We predict a DPS of SAR 2.25 in FY23, returning 5.4% on the stock, the highest in the sector. We allocate 50% of the weight in valuing Yanbu Cement to DCF (2.5% terminal growth rate and 8.6% average WACC), 25% of the weight in valuing it using the P/E valuation technique with a multiple of 17.0x, and 25% of the weight in valuing it using the EV/EBITDA valuation method with a multiple of 12.0x, all based on FY24 forecasts. We update our TP to **SAR 38.5** and maintain our **"Neutral"** recommendation.

#### Yanbu Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	934	981	845	860
Growth %	-0.63%	5.05%	-13.91%	1.85%
Gross Profit	224	285	302	357
Gross Margin %	23.94%	29.02%	35.79%	41.51%
EBITDA	366	399	431	491
EBITDA Margin %	39.15%	40.68%	51.04%	57.10%
Net Profit	160	215	235	291
Net Margin %	17.08%	21.95%	27.86%	33.83%
EPS	1.01	1.37	1.49	1.85
DPS	2.25	1.50	2.25	2.30
ROA	4.7%	6.4%	7.1%	9.2%
ROE	5.6%	7.8%	8.6%	10.8%
PE (x)	35.7	30.6	27.0	21.8
PB (x)	2.0	2.4	2.3	2.3
EV/EBITDA	15.9	16.7	14.2	12.5

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	38.5
Upside / (Downside)*	-7.9%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	934	981	845	860
Growth %	-0.63%	5.05%	-13.91%	1.85%
Net Income	160	215	235	291
Growth %	-43.22%	35.00%	9.25%	23.68%
EPS	1.01	1.37	1.49	1.85

Source: Company reports, Aljazira Capital

#### Key Market Data

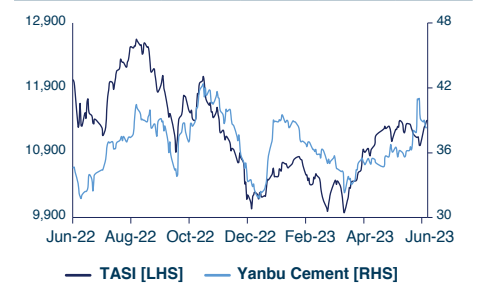
Market Cap (bn)	6.3
YTD%	13.0%
52 week (High)/(Low)	31.8/42.4
Share Outstanding (mn)	157.5

Source: Company reports, Aljazira Capital

#### Ownership Structure

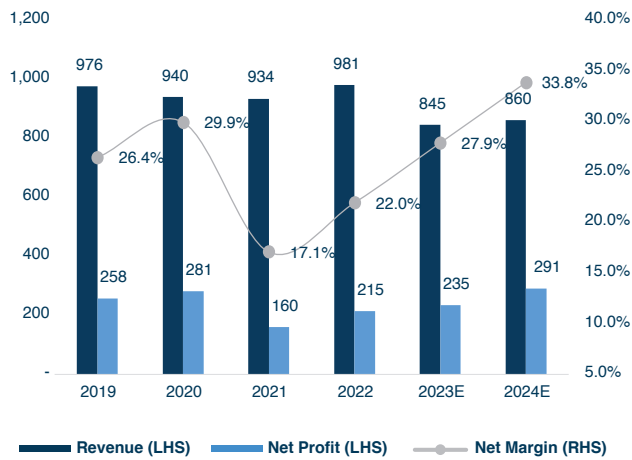
Name	Shares (mn)	Holding
PIF	15.75	10.0%
Al Rajhi Ekhwan Group Company	8.1	5.2%
Foreigners	9.43	5.99%
<b>Public</b>	<b>124.1</b>	<b>78.8%</b>

#### Price Performance



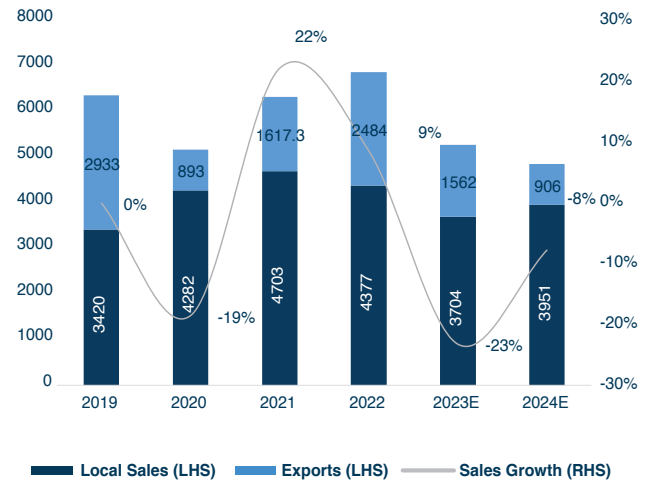
Source: Tadawul, Aljazira Capital

Figure 38. Yanbu Cement earnings (SAR mn)



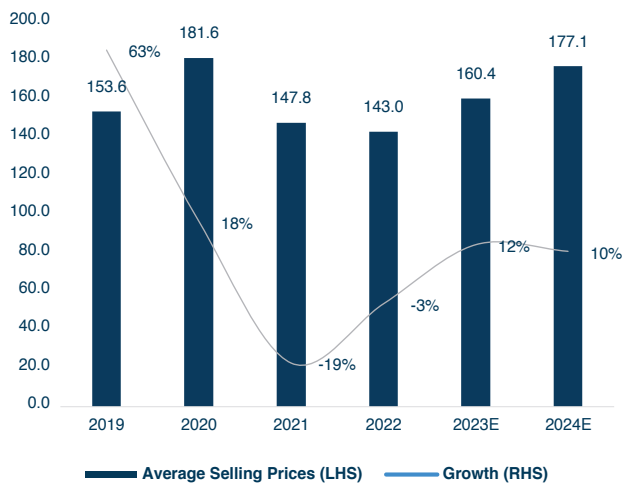
Source: Company reports, Aljazira Capital Research

Figure 39. Yanbu Cement sales trend ('000 tonnes)



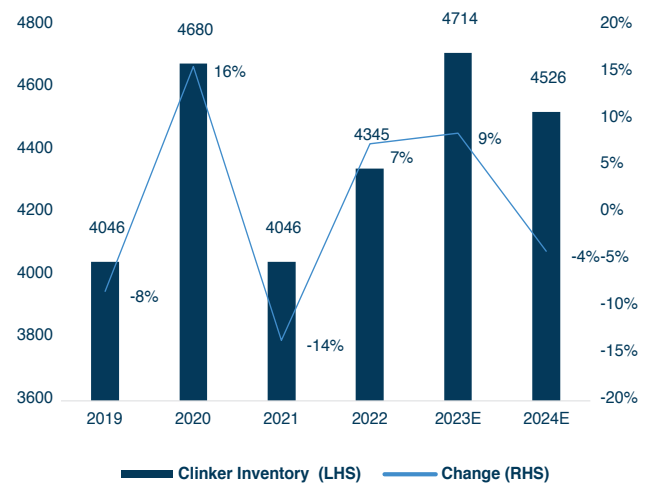
Source: Aljazira Capital Research, Yamama Cement

Figure 40. Yanbu Cement average selling prices trend (SAR/tonne)



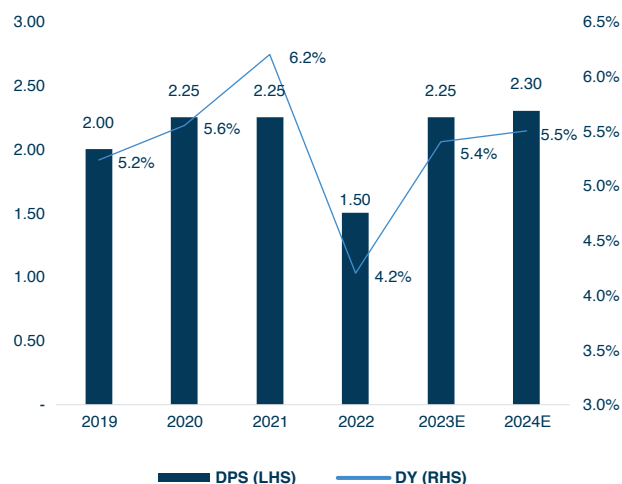
Source: Company report, Aljazira Capital

Figure 41. Yanbu Cement inventory levels ('000 tonnes)



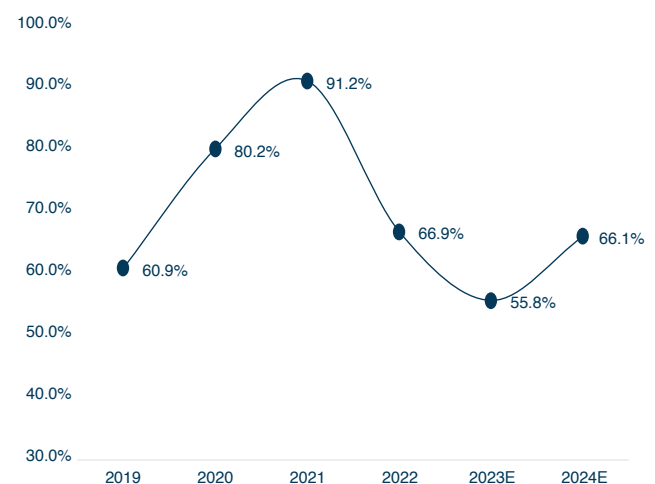
Source: Aljazira Capital Research, Yamama Cement

Figure 42. Yanbu Cement dividends



Source: Company report, Aljazira Capital

Figure 43. Yanbu Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement



### Arabian Cement Company

#### Western region projects to be key growth driver

Giga projects in the Western Region are yet to gain pace. Arabian Cement is expected to benefit when these projects are accelerated. Until then the company may witness subdued demand. Hence, we expect domestic sales to drop 9.5% Y/Y to 3.0mt in FY23 but jump 11.5% in FY24 to 3.3mt. Qutrana Cement operations in Jordan is facing weak demand in an oversupplied market, and therefore not expected to add value to Arabian Cement in the medium run. The contribution of discounted exports is likely to decrease further, thus, supporting the ASPs. However, we believe that Western Region might experience the ripple effect of price war in the central region. Hence, a modest 1.5% increase in ASP to SAR 162 per ton is expected in FY23 and prices are forecasted to average at SAR 167 per ton in FY24. Cost per ton expected to average around SAR 148.0 (up 8.3% Y/Y) due to higher production cost driven by higher fuel prices in Jordan.

Arabian Cement's revenue is estimated to decrease by 10.7% in FY23, leading to net profit of SAR 139.5mn with a decline of 22.9%. In FY24, improved demand, higher ASPs, and lower costs per ton would translate into an 8.3% increase in revenue and a 42.4% growth in net profit. We estimate a DPS of SAR 1.70 in FY23, yielding 4.4% on the stock. FY24 DPS is expected at SAR 2.0, implying a yield of 5.2% at the current price. The stock is currently trading at 20.5x compared to a forward P/E of 27.6x based on FY23 earnings and at 19.4x based on FY24 earnings.

**Valuation:** We value Arabian Cement assigning 50% weight to DCF (2.5% terminal growth rate and 8.6% average WACC), 25% weight to P/E valuation method with a multiple of 14.0x based on FY24 estimates, and 25% weight to EV/EBITDA valuation method with a multiple of 9.5x, based on FY24 estimates. We change our TP to **SAR 42.7** and update our recommendation to **"Neutral"**.

#### Arabian Cement's Key Financial Performance

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	1,033.2	970.9	867.2	938.9
Growth %	18.5%	-6.0%	-10.7%	8.3%
Gross Profit	308.9	274.6	237.5	309.9
Gross Margin %	29.9%	28.3%	27.4%	33.0%
EBITDA	335.7	336.6	301.5	364.5
EBITDA Margin %	32.5%	34.7%	34.8%	38.8%
Net Profit	161.5	181.0	139.5	198.7
Net Margin %	15.6%	18.6%	16.1%	21.2%
EPS	1.62	1.81	1.40	1.99
DPS	2.75	2.20	1.70	2.00
ROA	4.7%	5.5%	4.4%	6.3%
ROE	5.7%	6.6%	5.2%	7.4%
PE (x)	23.4	21.0	27.6	19.4
PB (x)	1.3	1.4	1.4	1.4
EV/EBITDA	11.7	11.2	13.2	10.7

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	42.7
Upside / (Downside)*	10.8%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	1,033	971	867	939
Growth %	18.5%	-6.0%	-10.7%	8.3%
Net Income	162	181	140	199
Growth %	-12.7%	12.1%	-22.9%	42.4%
EPS	1.6	1.8	1.4	2.0

Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (bn)	3.9
YTD%	13.7%
52 week (High)/(Low)	40.3/31.0
Share Outstanding (mn)	100.0

Source: Company reports, Aljazira Capital

#### Ownership Structure

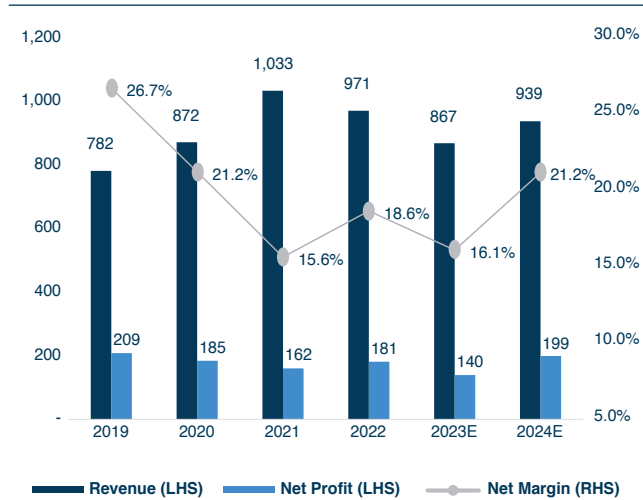
Name	Shares (mn)	Holding
A.A.S for Investment Co.	6.67	6.7%
Foreigners	6.85	6.6%
<b>Public</b>	<b>84.7</b>	<b>84.7%</b>

#### Price Performance



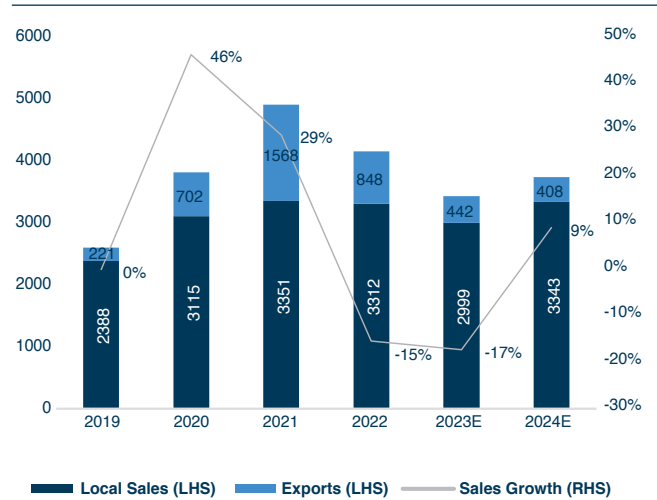
Source: Tadawul, Aljazira Capital

Figure 44. Arabian Cement earnings (SAR mn)



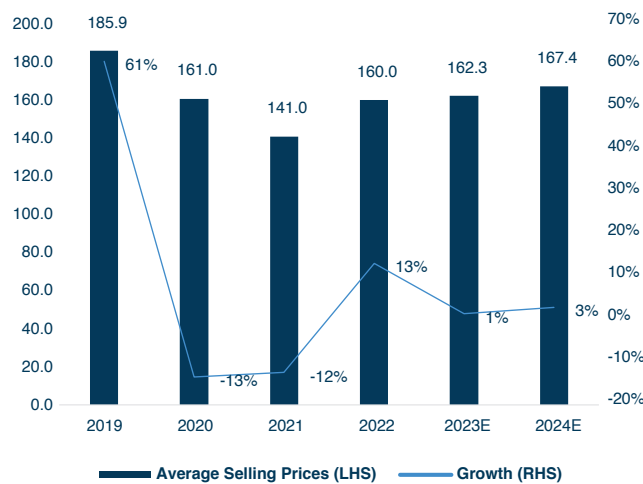
Source: Company reports, Aljazira Capital Research

Figure 45. Arabian Cement sales trend ('000 tonnes)



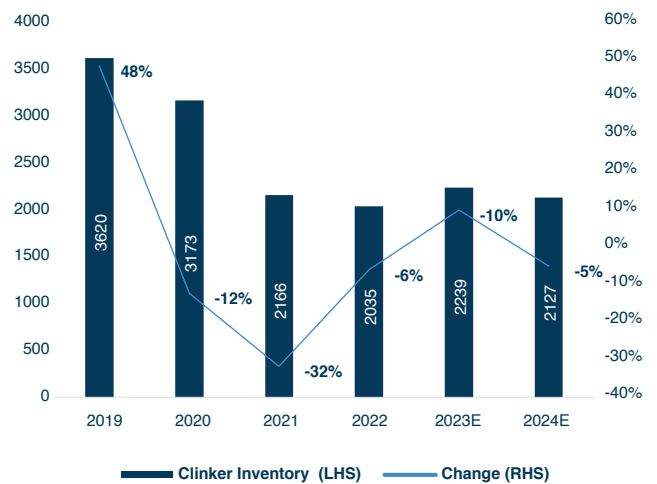
Source: Aljazira Capital Research, Yamama Cement

Figure 46. Arabian Cement average selling prices trend (SAR/tonne)



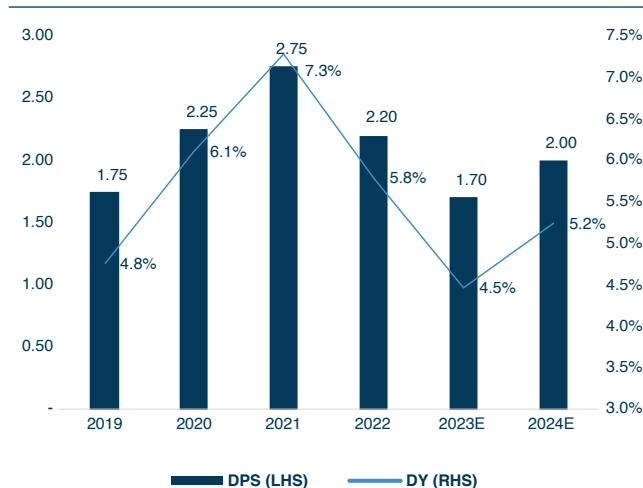
Source: Company report, Aljazira Capital

Figure 47. Arabian Cement inventory levels ('000 tonnes)



Source: Aljazira Capital Research, Yamama Cement

Figure 48. Arabian Cement dividends



Source: Company report, Aljazira Capital

Figure 49. Arabian Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement

### Riyadh Cement Company

**Market share growth, but earnings under pressure amid expected price pressure for 2023.**

By the end of May 23, Riyadh Cement had a TTM market share of 6.6%, supported by an increase 24.0%Y/Y in volumetric sales during the previous five months. Although we anticipate revenues to increase by 2.5% in FY23, we expect net income to decrease by 2.0% as a result of the price war that is reducing revenues. We anticipate an ASPs of SAR 156.5/tonene in FY23, which will steadily increase from FY24 and result in a 14.6% increase in net income. We anticipate that white cement sales, which have no price cap and excellent margins, will be able to strengthen Riyadh Cement's top line. During FY23, we anticipate a 7.0% reduction in white cement sales, which will represent 20.3% of all sales. We anticipate a constant GP margin of 37.4% in FY23 despite the low selling prices of grey cement.

We estimate a revenue of SAR 613.2mn in FY23 (up 2.5%Y/Y) however a decline in the net income to SAR 186.1mn (down 2.0%Y/Y) with a further increase in FY24 revenues of SAR 639.1mn (up 4.2%Y/Y) and a surge of 14.6% Y/Y in net income to SAR 213.3mn. Riyadh cement dividends in FY23 are expected with a DPS of SAR 1.5, yielding 4.6% on the stock, and a DPS of SAR 1.8 in FY24, yielding 5.6% on the stock. The stock is currently trading at 20.2x compared to a forward P/E of 20.6x based on FY23 earnings, and of 18.2x based on FY24 earnings.

**Valuation:** We expect Riyadh Cement to benefit from its access to Giga projects near Riyadh and its healthy market share in region, once the price war eases. We remain positive for the company in the long run and estimate recovery in FY24 earnings (net income up 18.7% Y/Y) amid better demand and prices. We value Riyadh Cement assigning 50% weight to DCF (2.5% terminal growth rate and 8.6% average WACC), 25% weight to P/E valuation method with a multiple of 16.0x based on FY24 estimates, and 25% weight to EV/EBITDA valuation method with a multiple of 12.0x based on FY24 estimate. We update our TP to **SAR 35.1** and maintain our **"Neutral"** recommendation on the stock.

#### Riyadh Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	671	598	613	639
Growth %	13.7%	-10.9%	2.5%	4.2%
Gross Profit	266.6	231.5	229.4	254.6
Gross Margin %	39.7%	38.7%	37.4%	39.8%
EBITDA	326.2	298.3	292.7	315.2
EBITDA Margin %	48.62%	49.89%	47.75%	49.32%
Net Profit	213.7	189.8	186.1	213.3
Net Margin %	31.8%	31.7%	30.4%	33.4%
EPS	1.78	1.58	1.55	1.80
DPS	1.75	1.50	1.50	1.80
ROA	11.3%	10.0%	9.8%	11.2%
ROE	12.9%	11.3%	10.7%	12.7%
PE (x)	18.5	21.1	20.6	18.2
PB (x)	2.4	2.4	2.3	2.3
EV/EBITDA	12.0	13.1	12.5	11.4

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	35.1
Upside / (Downside)*	8.5%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	671.1	598.0	613.2	639.1
Growth %	13.7%	-10.9%	2.5%	4.2%
Net Income	213.7	189.8	186.1	213.3
Growth %	-2.8%	-11.2%	-2.0%	14.6%
EPS	1.78	1.58	1.55	1.78

Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (bn)	3.8
YTD%	0.0%
52 week (High)/(Low)	27.9/34.4
Share Outstanding (mn)	120.0

Source: Company reports, Aljazira Capital

#### Ownership Structure

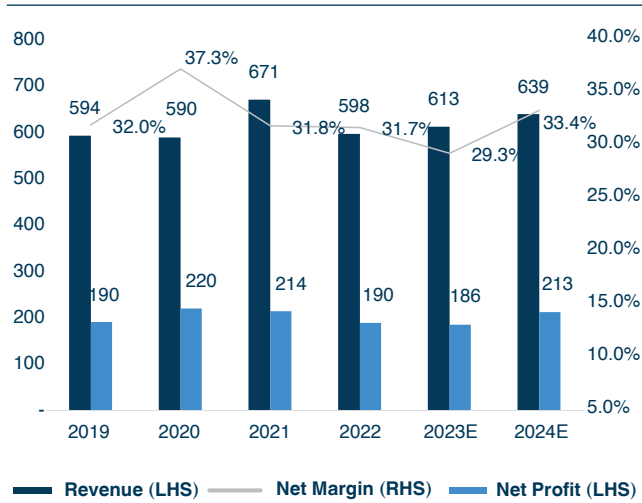
Name	Shares (mn)	Holding
Rashid and Development Company Limited	27.85	23.21%
Prince Sultan Salman Abdulaziz Al Saud	9.73	8.11%
Prince Mohammed bin Fahad bin Abdulaziz Al Saud	7.32	6.1%
Foreigners	0.8	0.7%
<b>Public</b>	<b>74.26</b>	<b>61.88%</b>

#### Price Performance



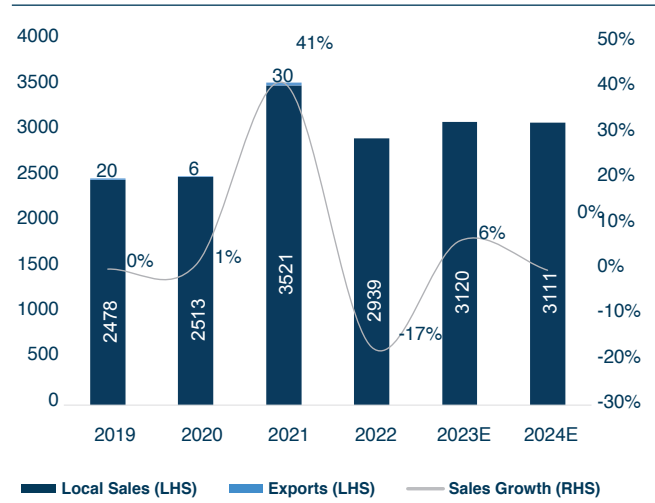
Source: Tadawul, Aljazira Capital

Figure 50. Riyadh Cement Earnings (SAR mn)



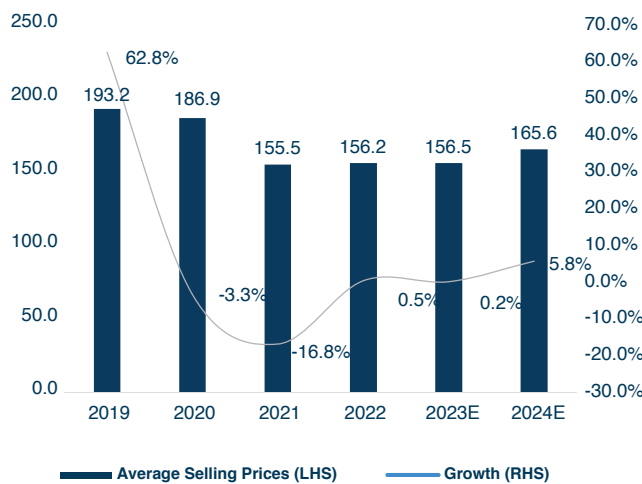
Source: Company reports, Aljazira Capital Research

Figure 51. Riyadh Cement Sales Trend ('000 tonnes)



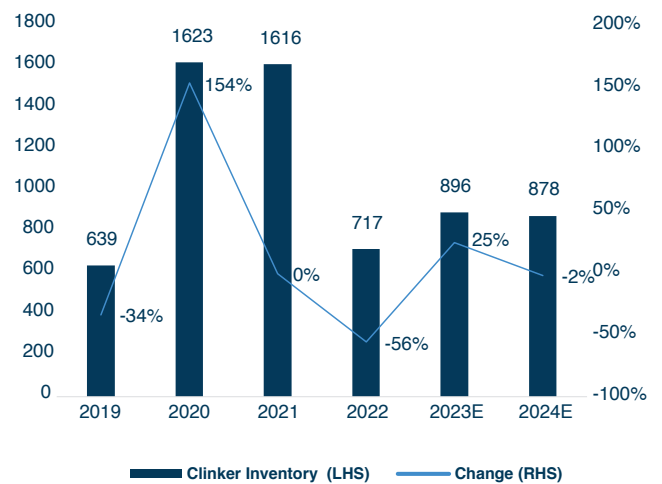
Source: Aljazira Capital Research, Yamama Cement

Figure 52. Riyadh Cement average selling prices trend (SAR/tonne)



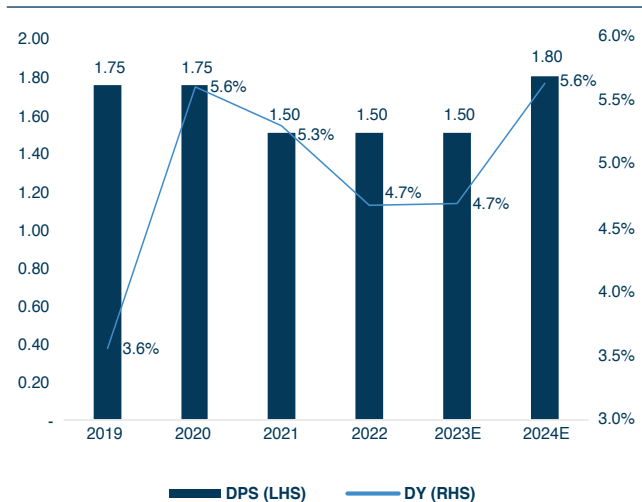
Source: Company report, Aljazira Capital

Figure 53. Riyadh Cement inventory levels ('000 tonnes)



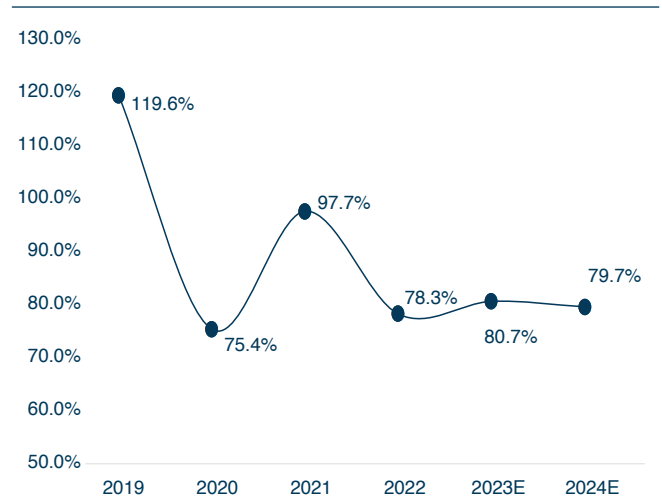
Source: Aljazira Capital Research, Yamama Cement

Figure 54. Riyadh Cement Dividends



Source: Company report, Aljazira Capital

Figure 55. Riyadh Cement Local Sales/Clinker Production



Source: Aljazira Capital Research, Yamama Cement

### City Cement Company

Geographical presence close to Giga projects an advantage, some headwinds in the near term

City Cement operates in the Central Region which can be seen as an epicentre of upcoming cement demand in the Kingdom. The company is expected to benefit from projects such as King Salman Park, Qiddiya and Diriyah gate among others. Moreover, proposed acquisition of Umm Al Qura Cement, if materialized, would add value to the company as it will provide access to the Western region, another center of upcoming Giga projects. However, we see some headwinds for the company in the near term due to the current slowdown in demand; before the demand from Giga projects picks up to a certain level and some pricing pressure due to rising competition. We forecast City Cement's local sales to drop by 15.6% Y/Y in FY23 to 2.2mt and then bounce back to 2.7mt (+18.5%) in FY24. The company's ASPs is estimated at SAR 173.3 per ton in FY23 and SAR 187.1 per ton in FY24.

Accordingly, we estimate a revenue of SAR 389.1mn (down 9.8%Y/Y) with a net income of SAR 109.0mn (down 5.2%Y/Y) in FY23, followed by a strong performance in FY24 to register revenues of SAR 497.7mn (up 27.9%Y/Y) and a net income of SAR 178.8mn (up 64.0%Y/Y). City Cement's DPS is expected at SAR 0.90 in FY23, yielding 3.6% on the stock, and a DPS of SAR 1.50 in FY24, yielding 5.9% on the stock. The stock is currently trading at 28.2x compared to a forward P/E of 32.1x based on FY23 earnings and at 19.6x based on FY24 earnings.

**Valuation:** We value City Cement assigning 50% weight to DCF (2.5% terminal growth rate and 9.6% average WACC), 25% weight to P/E valuation method with a multiple of 15.0x based on FY24 estimates, and 25% weight to EV/EBITDA valuation method with a multiple of 10.5x, based on FY24 estimates. We update our TP to **SAR 24.0** per share and maintain our **"Neutral"** recommendation.

#### City Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	496.7	431.4	389.1	497.7
Growth %	-13.3%	-13.2%	-9.8%	27.9%
Gross Profit	207.9	145.4	135.6	210.2
Gross Margin %	41.8%	33.7%	34.9%	42.2%
EBITDA	257.2	199.7	189.4	258.3
EBITDA Margin %	51.8%	46.3%	48.7%	51.9%
Net Profit	160.3	115.0	109.0	178.8
Net Margin %	32.3%	26.7%	28.0%	35.9%
EPS	1.14	0.82	0.78	1.28
DPS	1.25	0.90	0.90	1.50
ROA	8.2%	5.9%	5.6%	9.0%
ROE	8.8%	6.3%	6.0%	9.6%
PE (x)	19.7	24.3	32.1	19.6
PB (x)	1.7	1.5	1.9	1.9
EV/EBITDA	12.0	13.8	17.9	12.8

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	24.0
Upside / (Downside)*	-4.0%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	496.7	431.4	389.1	497.7
Growth %	-13.3%	-13.2%	-9.8%	27.9%
Net Income	160.3	115.0	109.0	178.8
Growth %	-27.3%	-28.2%	-5.2%	64.0%
EPS	1.1	0.8	0.8	1.3

Source: Company reports, Aljazira Capital

#### Key Market Data

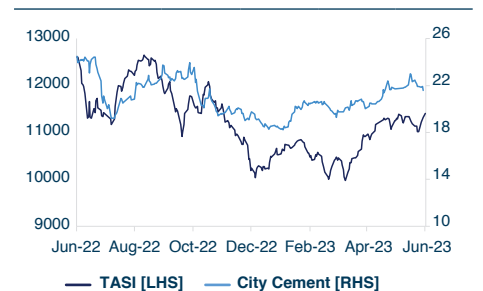
Market Cap (bn)	3.3
YTD%	18.5%
52 week (High)/(Low)	25.0/18.6
Share Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

#### Ownership Structure

Name	Shares (mn)	Holding
Al Abdullatif Group Holding Co.	34.34	24.53 %
Foreigners	9.30	6.61 %
<b>Public</b>	<b>96.40</b>	<b>68.86%</b>

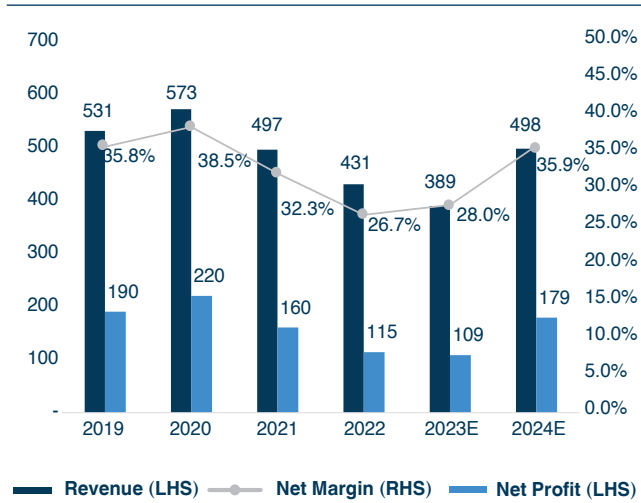
#### Price Performance



Source: Tadawul, Aljazira Capital

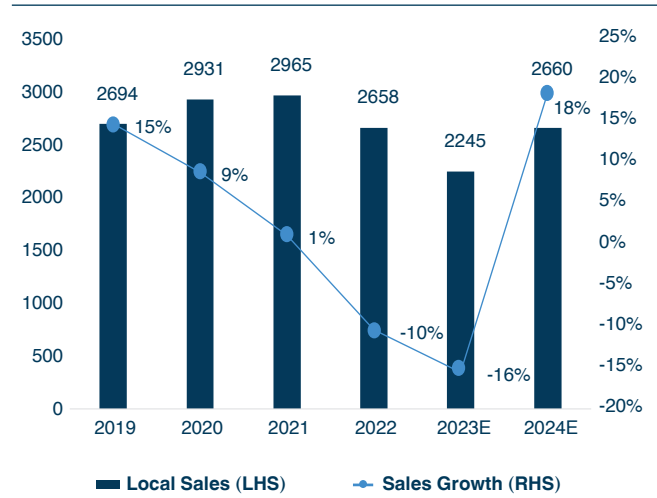


Figure 56. City Cement earnings (SAR mn)



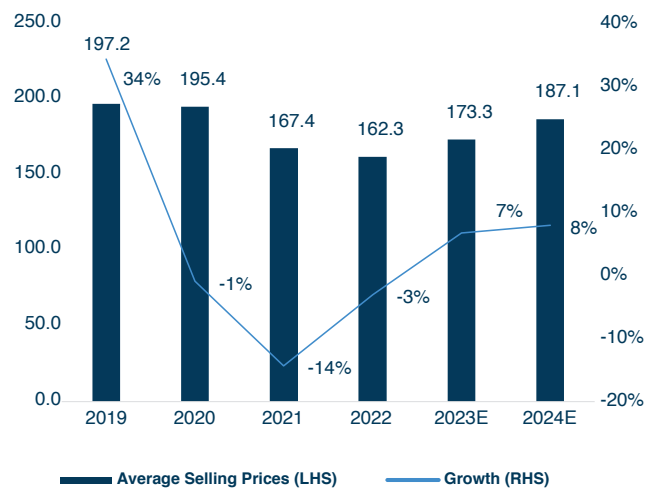
Source: Company reports, Aljazira Capital Research

Figure 57. City Cement sales trend ('000 tonnes)



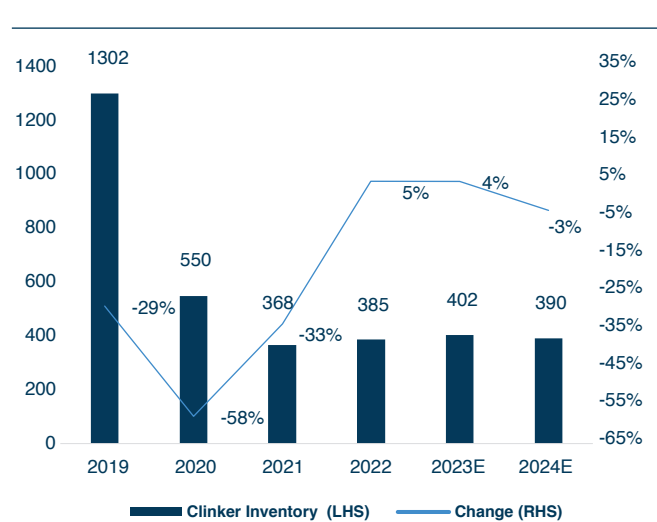
Source: Aljazira Capital Research, Yamama Cement

Figure 58. City Cement average selling prices trend (SAR/tonne)



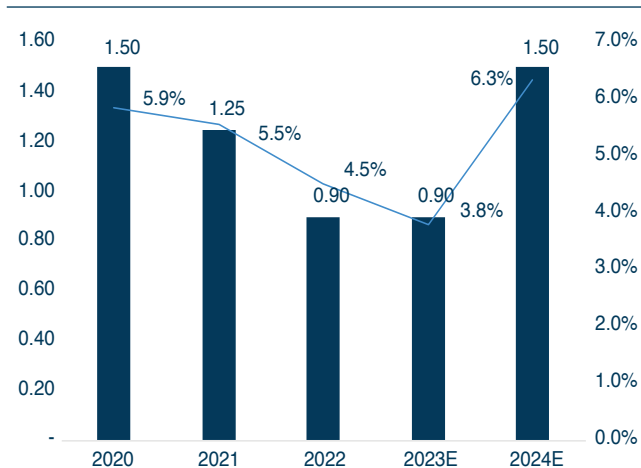
Source: Company report, Aljazira Capital

Figure 59. City Cement inventory levels ('000 tonnes)



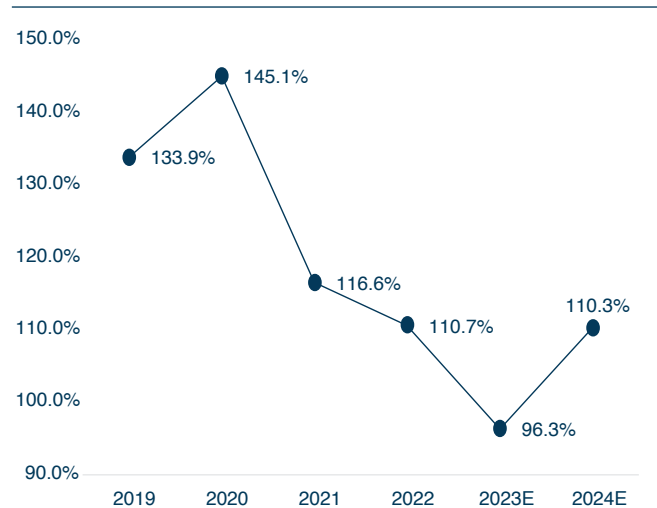
Source: Aljazira Capital Research, Yamama Cement

Figure 60. City Cement dividends



Source: Company report, Aljazira Capital

Figure 61. City Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement

### Eastern Province Cement Company

#### A resilient demand and immunity to price war to drive growth

Eastern Cement enjoys a stable market in the Eastern Region. The cement demand in this region is supported by Aramco's constructions and some of the government industrial projects. Moreover, the competition in the region is low as the higher transportation costs acts as a barrier to outside players to enter the region. Given the company's foothold in the region and demand drivers in place the company's local sales is expected to grow by 6.6% in FY23 standing around 2.1mt, followed by a growth of 5.7% in FY24 leading to sales of 2.2mt. In addition, we estimate considerable contribution of precast sales (22.6% of total sales). Due to the low level of competition in the region the company's ASP is estimated to grow 6.0% Y/Y to SAR 281.0 per ton in FY23; the highest in the sector, and keep stability throughout FY24.

Accordingly, we estimate a revenue of SAR 836.0mn, in FY23 (up 6.6%Y/Y) with a net income of SAR 195.4mn (up 36.3%Y/Y), followed by a further improvement in FY24 to post revenues of SAR 859.1mn (up 2.8%Y/Y) and a net income of SAR 208.4mn (up 6.7%Y/Y). Eastern Cement's DPS is expected at SAR 2.30, yielding 4.9% on the stock, and a DPS of SAR 2.4 in FY24, yielding 5.1% on the stock. The stock is currently trading at 22.6x compared to a forward P/E of 20.8x based on FY23 earnings and at 19.5x based on FY24 earnings.

**Valuation:** We value Eastern Cement assigning 50% weight to DCF (2.5% terminal growth rate and 8.8% average WACC), 25% weight to P/E valuation method with a multiple of 14.0x based on FY24 estimates, and 25% weight to DY valuation method with a yield of 4.5% based on FY24 estimate. We update our TP to **SAR 50.1 per share** and maintain our "Neutral" recommendation.

#### Eastern Cement's Key Financial Data

Amount in SARmn, unless otherwise specified	2021	2022	2023E	2024E
Revenue	757.7	784.2	836.0	859.1
Growth %	2.1%	3.5%	6.6%	2.8%
Gross Profit	261.0	247.7	295.1	312.8
Gross Margin %	34.4%	31.6%	35.3%	36.4%
EBITDA	306.4	281.5	319.9	332.0
EBITDA Margin %	40.4%	35.9%	38.3%	38.6%
Net Profit	192.8	143.3	195.4	208.4
Net Margin %	25.5%	18.3%	23.4%	24.3%
EPS	2.24	1.67	2.27	2.42
DPS	2.50	2.00	2.30	2.40
ROA	6.9%	5.0%	7.1%	7.5%
ROE	8.0%	6.1%	8.3%	8.8%
PE (x)	19.6	24.2	20.8	19.5
PB (x)	1.6	1.5	1.7	1.7
EV/EBITDA	11.3	12.3	12.8	12.2

Source: Company report, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	50.1
Upside / (Downside)*	6.6%

Source: Tadawul \*prices as of 14<sup>th</sup> of Jun 2023

#### Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	757.7	784.2	836.0	859.1
Growth %	2.1%	3.5%	6.6%	2.8%
Net Income	192.8	143.3	195.4	208.4
Growth %	-11.2%	-25.7%	36.3%	6.7%
EPS	2.2	1.7	2.3	2.4

Source: Company reports, Aljazira Capital

#### Key Market Data

Market Cap (bn)	4.1
YTD%	16.8%
52 week (High)/(Low)	47.9/38.2
Share Outstanding (mn)	86.0

Source: Company reports, Aljazira Capital

#### Ownership Structure

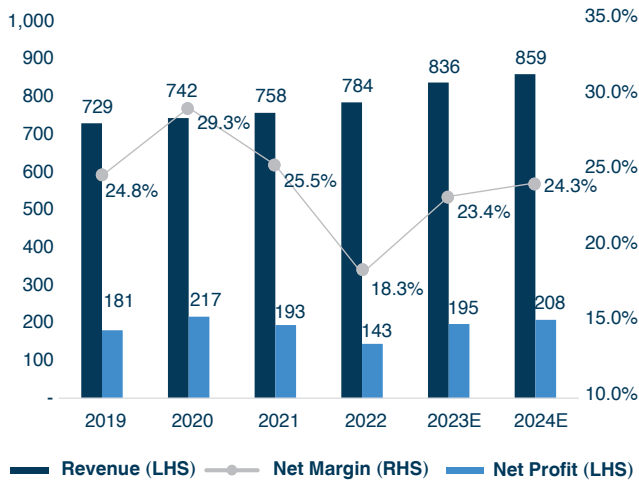
Name	Shares (mn)	Holding
Prince Mohammed bin Fahad Al Saud	14.81	17.22 %
PIF	8.6	10.0 %
Foreigners	4.8	5.57%
<b>Public</b>	<b>57.8</b>	<b>67.21%</b>

#### Price Performance



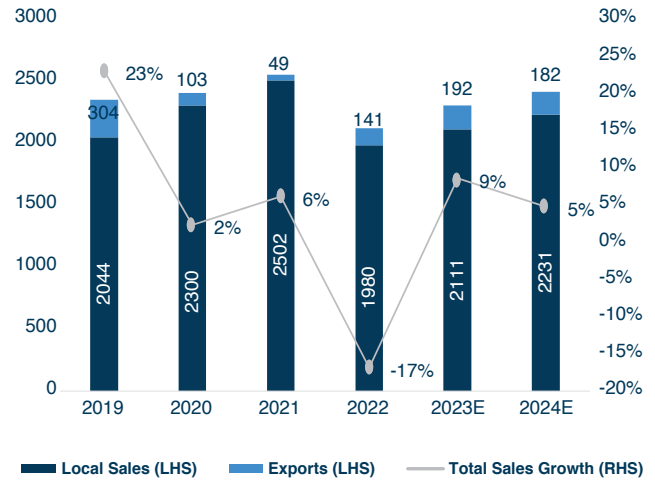
Source: Tadawul, Aljazira Capital

Figure 62. Eastern Cement earnings (SAR mn)



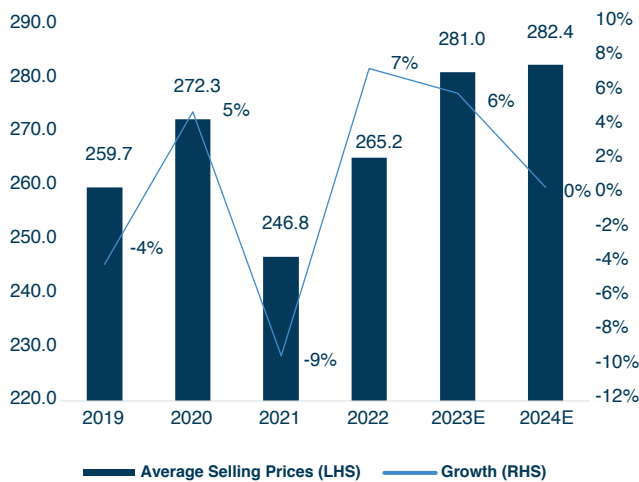
Source: Company reports, Aljazira Capital Research

Figure 63. Eastern Cement sales trend ('000 tonnes)



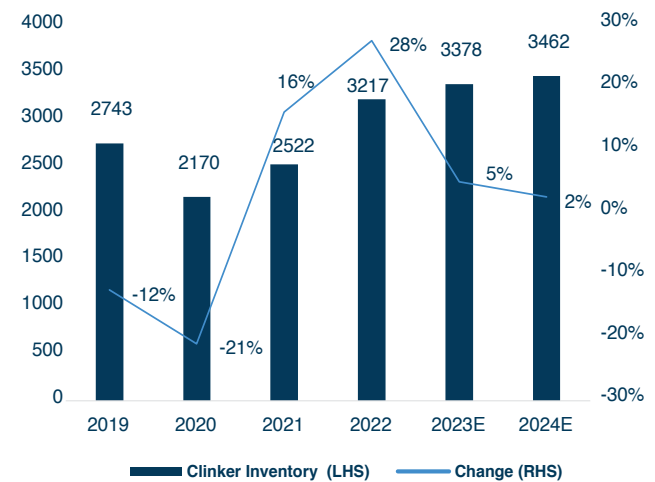
Source: Aljazira Capital Research, Yamama Cement

Figure 64. Eastern Cement average selling prices trend (SAR/tonne)



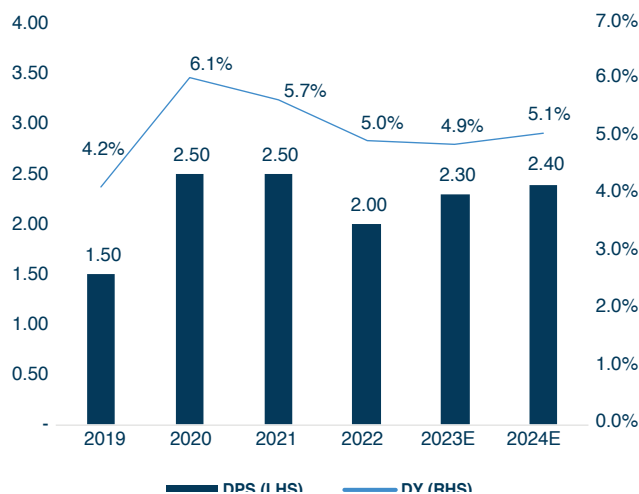
Source: Company report, Aljazira Capital

Figure 65. Eastern Cement inventory levels ('000 tonnes)



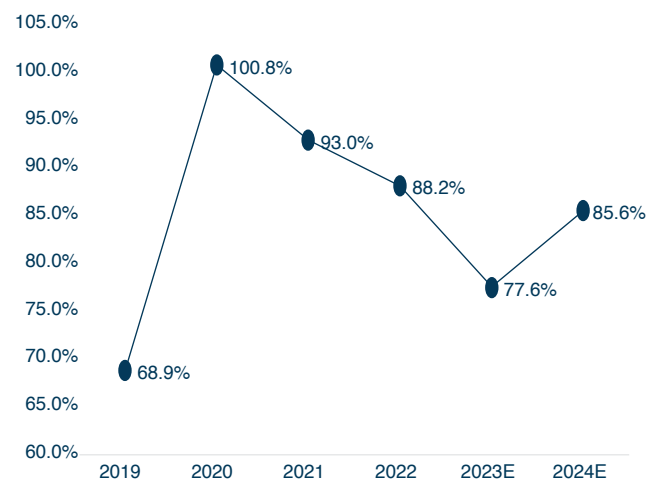
Source: Aljazira Capital Research, Yamama Cement

Figure 66. Eastern Cement dividends



Source: Company report, Aljazira Capital

Figure 67. Eastern Cement local sales/clinker production



Source: Aljazira Capital Research, Yamama Cement



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RATING  
TERMINOLOGY

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

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