

Saudi Cement Company

Q1 2018

Recommendation Neutral

Fair Value (SAR) 51.00

Price as of May 3, 2018 51.10

Expected Return -0.2%

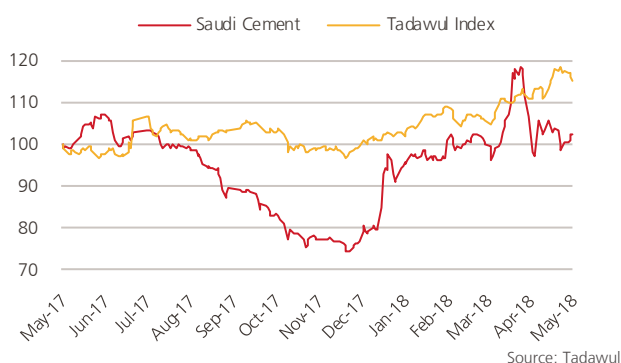
Company Data

Tadawul Symbol	3030.SE
52 Week High (SAR)	60.40
52 Week Low (SAR)	37.20
YTD Change	6.8%
3-Month Average Volume (Thousand Shares)	207
Market Cap. (SAR Million)	7,803
Market Cap. (USD Million)	2,081
Outstanding Shares (Million Shares)	153

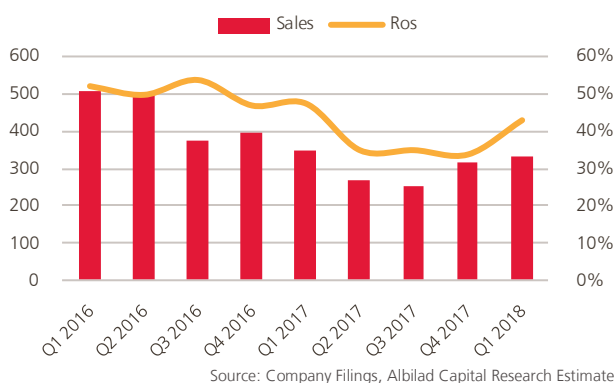
Major Shareholders (> 5%)

Khalid Abdulrahman Saleh Al Rajhi	8.02%
Public Pension Agency	5.62%
General Organization for Social Insurance	5.22%

52-week Stock Price Movement



Quarterly Sales (SAR mn) and ROS



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Saudi Cement Company announced its Q1 2018 interim results revealing a bottom line of SAR 142.2 million compared to SAR 164.7 million in Q1 2017 slumping 14% YoY, while climbing 32% QoQ from SAR 107.5 million in the previous quarter. This resulted in a net profit margin of 43.0% in Q1 2018 compared with 47.6% in Q1 2017 and 33.7% for the previous quarter.

Total revenues amounted to SAR 330.5 million in Q1 2018 compared to SAR 346.4 million in Q1 2017 shrinking 4.6%, while growing 3.7% from SAR 318.5 million in the previous quarter. Furthermore, the company sold 1.45 million tons of cement in Q1 2018 compared to 1.47 million tons in Q1 2017 sliding 1.4% YoY, however soaring 10.4% QoQ from 1.31 million tons in Q4 2017.

The YoY decline in first-quarter net profit was triggered by the dip in selling dispatches and the increase in cost of sales per ton, as result of reducing production, in addition to lower share in net results of associated companies and the drop in other income.

In comparison with the previous quarter, the jump in net profit was attributed to the growth selling dispatches and the drop in cost of sales per ton driven by increasing production, in addition to lower general and administrative expenses as well as higher share in net results of associated companies.

Gross profit concluded Q1 2018 at SAR 169 million versus SAR 191 million in Q1 2017 sliding 11% YoY, while surging 20% QoQ from SAR 141 million. Moreover, operating profit dwindled 12% YoY achieving SAR 148 million compared with SAR 168 million in Q1 2017, however soaring 32% QoQ from SAR 112 million. Therefore, the operating profit margin shrank to 44.9% compared to 48.6% for Q1 2017, nonetheless the margin leapt from 33.7% in the previous quarter.

Total market sales in Q1 2018 tumbled 12.7% YoY reaching 11.91 million tons compared with 13.64 million tons in Q1 2017. The figure shrank slightly by 0.6% from 11.98 million tons in the previous quarter. Meanwhile, clinker inventory reached the highest level recording 35.7 million tons by the end of March 2018.

Net profit for Q1 2018 surpassed our estimate of SAR 120 million and analysts' consensus of SAR 126 million; we believe the deviation stemmed from the significant increase in the cost per ton in the first quarter to SAR 76 per ton versus SAR 96 in the previous quarter. Meanwhile, the average selling prices in the first quarter tumbled to SAR 228 per ton compared to SAR 242 in Q4 2017, while the prices improved from SAR 224 in Q1 2017. It is worth to mention that Saudi Cement has high average selling prices compared with other companies in the sector. As stated in our previous report, we believe that the company will face a difficulty to maintain high selling prices, especially in light of high levels of clinker stocks coupled with weak demand in the local market and the slowdown in main neighboring economies, despite the expected benefit of the cancellation of the export tariffs given the company's proximity to Saudi borders. As a result, we maintained our valuation of Saudi Cement at SAR 51 per share; after reviewing future estimates for the company's performance in the coming years factoring in the gradual removal of subsidies on energy products, which will significantly impact profitability margins going forward.

FY - Ending December	2015A	2016A	2017A	2018E
EV/EBITDA	6.61	7.13	12.11	12.53
EV/Sales	4.27	4.64	6.97	6.89
P/E	8.38	8.74	17.37	17.67
Dividend Yield	11.7%	10.7%	7.8%	7.8%
P/BV	2.42	2.47	2.74	2.91
P/Revenue	4.08	4.43	6.65	6.57
Revenue Growth	-4.6%	-8.0%	-33.4%	1.2%
EPS (SAR)	6.15	5.89	2.96	2.91

Source: Company Filings, Albilad Capital Research Estimates

Income Statement (SAR mn)	2014A	2015A	2016A	2017A	2018E
Sales	2,024.6	1,932.4	1,778.1	1,184.5	1,198.7
COGS	590.3	577.1	521.5	407.5	442.6
SG&A	105.6	106.3	98.5	95.3	97.4
EBITDA	1,328.7	1,249.1	1,158.2	681.8	658.7
EBITDA Margin	65.6%	64.6%	65.1%	57.6%	55.0%
Depreciation and amortization	205.2	219.3	226.1	208.3	194.8
EBIT	1,123.4	1,029.8	932.1	473.5	464.0
Net interest income	(15.2)	(12.1)	(16.9)	(12.9)	(12.7)
Others	2.8	(53.3)	9.3	4.4	5.9
Pre-Tax and Zakat Income	1,111.0	964.4	924.5	465.0	457.2
Tax and Zakat	36.9	24.2	23.5	11.5	11.4
Net Income	1,074.1	940.2	901.0	453.4	445.8
ROS	53.1%	48.7%	50.7%	38.3%	37.2%
Balance Sheet (SAR mn)					
Cash and marketable securities	298.3	383.0	183.8	119.9	112.9
Accounts Receivables	216.7	226.9	259.4	237.3	240.1
Inventory	668.5	754.9	723.1	741.5	729.1
Others	63.4	51.4	40.1	37.5	38.8
Total ST Assets	1,246.9	1,416.2	1,206.5	1,136.1	1,121.0
Net Fixed Assets	3,109.4	2,876.4	2,734.6	2,557.4	2,409.3
Projects Under Implementation	64.1	138.1	160.1	182.4	171.2
Others	86.9	82.8	60.1	59.8	59.2
Total LT Assets	3,260.4	3,097.4	2,954.8	2,799.6	2,639.8
Total Assets	4,507.3	4,513.6	4,161.2	3,935.8	3,760.8
Short term debt and CPLTD	735.0	750.0	400.0	550.0	550.0
Accounts Payable	51.9	90.8	104.0	91.7	94.0
Accrued Expenses	110.6	120.4	132.7	107.6	106.9
Others	209.1	205.2	247.5	229.7	217.6
Total ST Liabilities	1,106.6	1,166.5	884.2	979.0	968.5
Total Long Term Debt	150.0	0.0	0.0	0.0	0.0
Other Non-Current Liabilities	91.4	91.3	87.5	78.9	81.5
Equity	3,159.3	3,255.8	3,189.6	2,877.9	2,710.8
Total Liabilities and Equity	4,507.3	4,513.6	4,161.2	3,935.8	3,760.8

Source: Company Filings, Albilad Capital Research Estimates

Presentation of financial statements may differ from the company's presentation. However, there is no impact on the final results.

* The financial statements for the period 2016 - 2018 are presented according to IFRS.

Cement and Clinker Summary by the End of Q1 2018

Figure in thousand ton	Q1 2018	Q1 2017	YoY	Q4 2017	QoQ
Sector Production					
Cement	11,996	13,693	(12%)	11,933	1%
Clinker	11,109	12,870	(14%)	11,815	(6%)
Sector Dispatches					
Cement	11,910	13,643	(13%)	11,982	(1%)
Clinker	130	2	-	-	-
Sector Inventory					
Cement	1,184	1,239	(4%)	1,092	8%
Clinker	35,739	28,999	23%	35,626	0.3%
Cement Production / Company					
Yamama Cement	747	1,242	(40%)	837	(11%)
Saudi Cement	1,533	1,455	5%	1,267	21%
Eastern Cement	572	618	(7%)	660	(13%)
Qassim Cement	933	1,068	(13%)	1,054	(11%)
Yanbu Cement	1,439	1,645	(13%)	1,288	12%
Arabian Cement	1,035	1,122	(8%)	881	17%
Southern Cement	1,322	1,518	(13%)	1,481	(11%)
Tabuk Cement	352	337	4%	305	15%
Riyadh Cement	510	868	(41%)	573	(11%)
Najran Cement	498	568	(12%)	501	(1%)
City Cement	722	1,031	(30%)	859	(16%)
Northern Cement	351	305	15%	308	14%
Jouf Cement	348	434	(20%)	346	1%
Safwa Cement	465	478	(3%)	448	4%
Hail Cement	335	266	26%	325	3%
Umm Al-Qura Cement	366	302	21%	352	4%
United Cement	468	436	7%	448	4%
Cement Dispatches / Company					
Yamama Cement	746	1,242	(40%)	865	(14%)
Saudi Cement	1,450	1,471	(1%)	1,314	10%
Eastern Cement	579	614	(6%)	651	(11%)
Qassim Cement	923	1,073	(14%)	1,045	(12%)
Yanbu Cement	1,489	1,592	(6%)	1,258	18%
Arabian Cement	1,035	1,113	(7%)	875	18%
Southern Cement	1,312	1,527	(14%)	1,489	(12%)
Tabuk Cement	357	343	4%	314	14%
Riyadh Cement	510	862	(41%)	581	(12%)
Najran Cement	479	566	(15%)	503	(5%)
City Cement	722	1,051	(31%)	865	(17%)
Northern Cement	348	323	8%	306	14%
Aljouf Cement	341	409	(17%)	332	3%
Safwa Cement	467	485	(4%)	445	5%
Hail Cement	328	263	25%	325	1%
Umm Al-Qura Cement	363	303	20%	359	1%
United Cement	461	406	14%	455	1%

Source: Yamama Cement Statistics, Albilad Capital Research

Albilad Capital Rating Methodology

Al-Bilad Capital 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: waiting for more analysis, waiting for detailed financials, waiting for more data to be updated, major change in company's performance, change in market conditions or any other reason from Albilad Capital Research.

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