Cement Sector

City Cement Company: Remain Cautious

First Cut – City Cement Co.

Revenue under pressure at the back of both lower volume and cement prices: City Cement 4Q23 revenue at SAR100mn was down by 25.5% YoY and was impacted by a 9.0% YoY fall in cement volume to 0.65mn tons, and a 18.2% YoY fall in the cement realization to SAR154/ton. The reported revenue was higher than our expectation of SAR93mn and was attributed to better-than-expected cement realization, even as volume were in line with our estimates. Going forward we expect cement volumes to improve, though the same is likely to be gradual. The company operates in the Central region of Saudi wherein a majority of the country's mega and giga projects are aimed. We expect the execution to accelerate as the deadline of Saudi Vision 2030 closes in. This will be further boosted by the upcoming Expo 2030 to be hosted in Riyadh. However, this is tempered by the competitive nature of the cement industry in the Central region and the position of City Cement as a relatively small player both in Saudi and the region. Given this we expect cement realization will continue to remain under pressure, though the same will recover from the lows of 3Q23, though the upside is likely to be capped.

Profitability comes under pressure at the back of lower revenue: Gross profit fell by 41.9% YoY to SAR34mn and was impacted by lower revenue, which was moderated to a certain extent by lower cost of sales per ton to SAR102/ton (-4.5% YoY). Gross margins fell to 33.7% in 4Q23, compared to 43.2% a year back, though the same was better than our expectation of 24.5%. Operating expenses on the other hand came higher by 1.4% YoY to SAR10mn, as operating profit fell by 50.4% YoY to SAR24mn. Net income at SAR26mn was lower by 46.2% YoY and was impacted by lower cement volume and prices. However, the net income was better than our expectation of SAR15mn, as both revenue and gross margins came better than our expectation

Remain cautious on City Cement: Overall, the operating performance of the company has been weak, though better than our expectation. We continue to remain cautious on the company, though we expect cement volumes will come higher in 2024 vis-à-vis 2023. There could also be some improvement in the cement realization from 3Q23 levels, though the same is unlikely to be better than 2023 average realization of SAR165 per ton. Further, the recent hike in fuel cost will add to the company's woes, though it is yet to announce the financial impact of the same. Based on the announcements of its peers, there could be a likely impact of a 13-14% increase in the cost of sales due to this. Overall, we revise our 2024 estimates and also lower our target price on City Cement to SAR18//sh from SAR20/sh, which gives us a Hold rating on the stock

in SAR mn	4Q23	3Q23	QoQ	4Q22	YoY	4Q23e	VaR	2023	2022	YoY	2024e	YoY
Revenue	100	71	41.1%	134	-25.5%	93	7.1%	356	431	-17.4%	353	-1.1%
Gross profit	34	13	158.9%	58	-41.9%	23	47.2%	110	145	-24.1%	78	-29.3%
Gross margins (%)	33.7%	18.4%		43.2%		24.5%		31.0%	33.7%		22.1%	
Operating profit	24	3	705.4%	48	-50.4%	13	85.1%	73	111	-34.2%	40	-45.1%
Operating margins	24.0%	4.2%		36.1%		13.9%		20.4%	25.7%		11.3%	
Net income	26	4	481.6%	48	-46.2%	15	70.3%	82	115	-28.7%	53	-34.8%
Net margins	25.8%	6.3%		35.6%		16.2%		23.0%	26.7%		15.2%	

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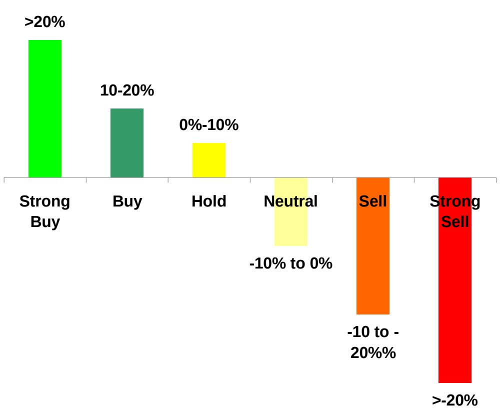
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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