



US\$0.997bn Market cap
71% Free float
US\$4.688mn Avg. daily volume

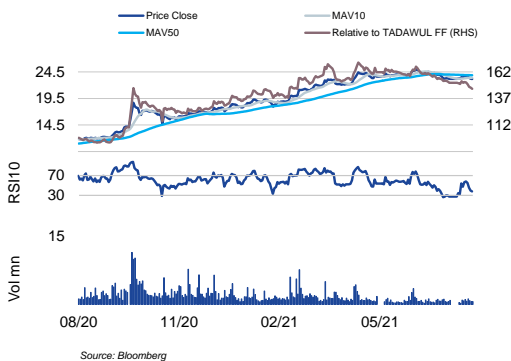
Target price **25.00** 13.6% over current
 Current price **22.00** as at 10/8/2021

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Performance



Earnings

(SARmn)	2020	2021E	2022E
Revenue	623	655	710
Revenue growth	50%	5%	8%
Gross profit	250	251	284
Gross margin	40%	38%	40%
EBITDA	285	287	315
EBITDA margin	46%	44%	44%
Net profit	204	192	223
Net margin	33%	29%	31%
EPS	1.20	1.13	1.31
DPS	1.50	1.50	1.50
Payout ratio	125%	133%	115%
EV/EBITDA	13.7x	13.0x	11.8x
P/E	18.3x	19.5x	16.8x
RoE	9.9%	9.6%	11.4%

Source: Company data, Al Rajhi Capital

Najran Cement

Financial performance misses estimates; TP reduced to SAR 25/sh

Najran registered revenue of SAR132mn, a y-o-y growth of 8.3% and was higher than our estimate of SAR130mn. Increase in sales was attributed to a 10.7% y-o-y improvement in cement volumes. Cement sales volume for 2Q21 came in at 0.652mn tons, and was slightly higher than our estimate of 0.642mn tons. Gross profit and operating income fell by 7.3% y-o-y and 13.2% y-o-y respectively and were impacted by increase in cost of sales per ton and higher operating expenses, due to a general increase in cost levels. Cement volume in the industry grew by 21.3% y-o-y, at the back of lower base in Q2 2020, due to Covid restrictions, while Southern region volume fell by 5.1% y-o-y. However, Najran Cement underperformed the industry, though its performance was better than the regional average. Going forward, we expect pressure on volumes to continue, though the same is likely to improve by Q4 2021. We reduce our target price to SAR25/share from the earlier target price of SAR27/share, but maintain our rating at “Overweight”.

Q2 results: Total volume sold during the quarter came at 0.65mn tons in 2Q21, compared to 0.91mn tons in 1Q21 and 0.59mn tons a year back. Despite the increase in volume sold, margins came under pressure at the back of an increase in cost of sales per volume sold. Gross margins fell to 35.5% in 2Q21, compared to 41.4% a year back and 40.9% in the previous quarter. Net income to a certain extent was aided by lower finance cost and higher income from investment. Net margins at 24.9% in 2Q21 was lower than the margins a year back at 27.1%, and 32.9% in 1Q21.

Figure 1 Najran Cement: Summary of Q2 2021 results

(SARmn)	Q2 2021	Q2 2020	Q1 2021	% chg y-o-y	% chg q-oq	ARC Estimates
Revenue	132	121	184	8%	-29%	130
Gross Profit	47	50	75	-7%	-38%	52
Gross Margin	35%	41%	41%	NA	NA	40%
Operating Profit	35	40	64	-13%	-45%	41
Net Profit	33	33	61	-1%	-46%	37

Source: Company data, Al Rajhi Capital

Valuation and risks: For our estimates, we expect input and energy prices to remain flat. We value the company based on a 40% weight each to DCF and relative valuation and a 20% weight to the dividend capitalization method. The DCF target price is based on a 2.0% terminal growth and WACC of 10% and comes to SAR24/share. P/E is based on a multiple of 21.0x and comes to SAR24/share. The dividend capitalization is based on a fair value dividend yield of 5% and comes to SAR29 per share. Overall, we have reduced our target price for the company to SAR25 per share, an upside of 13.6%, which implies an “Overweight” rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risk is higher than expected pick-up in the government’s infrastructure spending.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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