

City cement posted a weak set of results with a net income of SAR 38.0mn, below our estimates of SAR 55.8mn. The deviation from our estimate is mainly due to a lower-than-expected selling price by 17.0%. Revenue came at SAR 111.6mn, against our estimates of SAR 143.6mn, where realization per tonne stood at SAR 161.2/tonne, significantly below our expectation of SAR 194.3/tonne. Volumetric sales came at 739KT, below our estimates of 692KT. Although the cement outlook is expected to be under pressure in the short run due to the revised building code and labor shortage, strong housing demand and healthy mortgage loan growth is key catalyst for our mid-to-long-term outlook. Accordingly, we maintain our “Neutral” recommendation on the stock with a TP of SAR 26.3/share.

- City Cement posted a net income of SAR 38.0mn in Q3-21 (EPS: SAR 0.27/share); compared to SAR 51.1mn in Q3-20. As a result, net income came lower than our estimate of SAR 55.8mn. The Y/Y decline of 25.5% in net income is mainly attributed to a decline in realization per tonne by 16.2%.
- Revenue stood at SAR 111.6mn (a decline of 6.9%Q/Q, 20.6%Y/Y), against our estimates of SAR 143.6mn. During Q3-21, the company registered a decrease of 16.2%Y/Y and 15.4%Q/Q in average price realization, which stood at SAR 161.2/tonne, below our expectations of SAR 194.3/tonne and SAR 190.5/tonne in Q2-21. In addition, volumetric sales stood at 692KT vs. 629KT in Q2-21 and 731KT in Q3-20, coming below our estimates of 739KT.
- Gross profit stood at SAR 47.2mn, below our estimates of SAR 65.1mn due to lower-than-expected gross margin and weak selling prices. Cost per tonne came below our expectations at SAR 93.0/tonne and below-average of 107.7/tonne in FY20.
- Operating profit stood at SAR 39.1mn, below our expectation of SAR 56.3mn. OPEX came at SAR 8.2mn, posting a decline of 7.9%Y/Y.

AJC view: Q3-21 price realization slumped by 16.2%Y/Y, as we believe City Cement is offering a discount to gain a market share with the current weak short-term demand. The company increased its market share from 5.5% in Q2-21 to 6.0% in Q3-21. Thus, we expect the weak selling prices to continue in the short run. The cement sector witnessed a decline in dispatches in Q3-21 by 9.9%Y/Y, which we believe is due to the revised building code, which has resulted in a long time for approving the commencement of construction and labor shortage in the market. However, we remain positive on the sector’s mid-to-long-term outlook, driven by solid housing demand backed by mortgage loans growth and government-initiated Giga projects. As mortgage loans started to pick up again to register strong growth in Aug-21 by 32.7%Y/Y. For 9M-21, dispatches stood at 45.15mn tons (including exports) compared to 41.32mn tons in 9M-20, depicting an increase of 9.3%Y/Y. City cement is expected to post SAR 209.0mn in net income (1.49 EPS) in FY21, a decline of 5.2%Y/Y. We maintain our “Neutral” recommendation on the stock with a TP of SAR 26.3/share.

Results Summary

SARmn	Q3-20	Q2-21	Q3-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	140.6	119.8	111.6	-20.6%	-6.9%	-22.3%
Gross Profit	60.5	57.7	47.2	-21.9%	-18.1%	-27.4%
Gross Margin	43.0%	48.2%	42.3%	-	-	-
EBIT	51.6	50.4	39.1	-24.4%	-22.5%	-30.6%
Net Profit	51.1	49.7	38.0	-25.5%	-23.5%	-31.8%
EPS	0.37	0.36	0.27	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	26.3
Upside / (Downside)*	9.6%

Source: Tadawul *prices as of 31st of October 2021

Key Financials

(in SAR mn, unless specified)	FY19	FY20	FY21E
Revenue	531.4	572.7	561.6
Growth %	54.1%	7.8%	-1.9%
Net Income	190.1	220.5	209.0
Growth %	71.3%	16.0%	-5.2%
EPS	1.00	1.57	1.49

Source: Company reports, AlJazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	43.5%	44.9%	44.0%
Net Margin	35.8%	38.5%	37.2%
P/E (x)	17.8	16.3	16.1
P/B (x)	1.5	1.9	1.8
EV/EBITDA (x)	12.0	11.6	11.2
Dividend Yield	2.2%	3.9%	5.0%

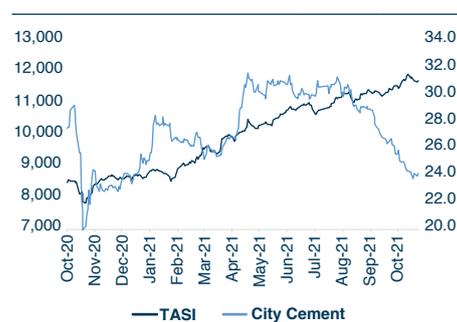
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	3.36
YTD %	-6.25%
52 Week (High)/(Low)	31.80/20.20
Shares Outstanding (mn)	140.00

Source: Company reports, AlJazira Capital

Price Performance



Source: Tadawul, AlJazira Capital

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RESEARCH DIVISION

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1. **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.
2. **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.
3. **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.
4. **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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