



MEGA PROJECTS TO SUPPORT DEMAND AS OF Q4 2020F

We expect the Saudi cement sector to enter a growth phase in 2020f. However, growth in domestic sales will be limited to 5-10% yoy in 2020f, as demand from Mega Projects is expected to begin gradually as of Q4 20. We expect selling price pressures in 2020f driven by smaller players. We downgrade Yanbu and Southern Cement to Neutral. We remain Underweight on Saudi Cement based on valuation. However, clarity on Mega Projects going forward may lead to changes in our forecasts and valuations.

This is an extract of our published report, the full version of which can be found on the Alahlicapital.com website

- Domestic sales to enter growth phase in 2020f; Mega Project demand expected to pick-up as of Q4 20:** Domestic cement sales quantities are expected to be flat in 2019f and grow by 5-10% in 2020f. This growth will be primarily driven by the current growth from the private sector and Ministry of Housing initiatives, which led to bagged cement to reaching 55% of total sales vs the historical average of 40%. Based on discussions with players across the supply chain, we e Mega Project demand to begin as of Q4 20. We still believe key beneficiaries will be players in the West and North West areas, however the extent of demand growth remains unclear at present.
- Cement selling prices may be at risk in 2020f:** Selling prices are expected to stand at SAR200/ton in 2019f, 30% higher than 2018 levels of SAR153/ton. Given the limited growth prospects in 2019f and most of 2020f, we forecast a 5% correction in selling prices in 2020f to SAR190/ton. We believe this will be driven by smaller players, specifically in the Northern region where regional demand and export prospects remain muted in 2020f.
- Strong exports levels expected to continue in 2020f:** Clinker exports increased to 4.9mn tons ytd as of October 2019. We expected clinker exports of 5.5mn tons in 2019f (3.2mn in 2018) and 6.0mn tons in 2020f. We believe companies sold at FoB prices of c.US\$26-28/ton in 2019f. However, clinker selling prices may be at risk as current regional export prices have declined to as low as US\$22/ton in countries such as Egypt. Over the longer term, we believe companies benefiting from Mega Projects will reduce exports.
- Downgrade Yanbu Cement and Southern Cement to Neutral:** We downgrade Yanbu and Southern Cement to Neutral. We remain Underweight on Saudi Cement. Covered companies rallied significantly ytd and currently reflect fair valuations in our view. However, we note that clarity on Mega Projects going forward could lead to changes in our forecasts and valuations.

Exhibit 1: Saudi Cement companies – Valuation matrix *

	Price Rating	Current Price		Upside/Downside	Stock perf (%)		PE Implied (x)		EV/EV/ton (\$)		DY (%)	
		Target	Price		QTD	YTD	'20	'20	'20	'20	'20	'20
Yanbu Cement	N	43.9	39.2	11.9%	13.1	63.3	24.3	27.2	12.6	249	3.8	
Southern Cement	N	66.6	64.0	4.1%	12.1	73.7	23.0	24.0	14.8	193	3.9	
Arabian Cement	N	40.2	38.1	5.7%	11.9	69.9	21.0	22.2	10.9	146	4.3	
Yamama Cement	N	28.8	25.6	12.9%	10.1	100.2	23.2	26.2	11.2	211	2.0	
Qassim Cement	N	73.7	65.3	12.9%	22.7	94.3	20.6	23.3	16.7	376	4.9	
Eastern Cement	N	39.1	34.3	14.2%	1.2	65.3	19.6	22.4	10.7	221	4.4	
Saudi Cement	UW	61.6	70.1	(12.2)%	(1.5)	44.4	31.4	27.6	17.7	357	3.2	

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Source: NCBC Research, Bloomberg, N: Neutral, UW: Underweight, OW: Overweight, * Prices as of 8th December 2019.

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