



Eastern cement posted net income of SAR 30.5mn came below our estimates of SAR 36.2mn due to higher than expected COGS. Consequently gross profit of SAR 46.4mn came below our estimates by 13.9%. Cost per tonne stood at SAR 197.5/tonne compared to our forecast of SAR 157.3/tonne. Revenue came at SAR 146.3mn in-line with our expectation of SAR 146.4mn. Dispatches stood at 453KT compared to our forecast of 391KT. Price realization stood at SAR 298.2/tonne, compared to our expectation of SAR 289.3/tonne. We maintain our “Neutral” recommendation on the stock with a revised TP at **SAR 37.1/share**.

- Q2-20 Net profit stood at SAR 30.5mn (EPS; SAR 0.35/share); a decline of 64.2%Q/Q and 4.1%Y/Y. Eastern cement net profit was lower than our estimates and the market consensus estimates of SAR 36.2mn and SAR 37.0mn, respectively. Y/Y decline was attributed to (I) a decline in volumetric sales by 11.5% (II) a decline of 71.5% in concrete sales (III) an increase of 22.1% in Cost per tonne.
- Eastern cement posted sales at SAR 146.3mn, a decline of 37.5%Q/Q and 7.9%Y/Y, in-line with our estimates of SAR 146.4mn. Sales volumes stood at 453KT, above our expectations of 391KT, and 512KT registered in Q2-19. Price realization per tonne stood at SAR 298.2/tonne Vs. SAR 233.5/tonne in Q2-19 (+27.7%Y/Y); partially due to our expectation of change in revenue recognition. Concrete sales stood at SAR 11.2mn in Q2-20, compared to SAR 39.2mn in Q2-19, making a decline of 71.5%Y/Y.
- Gross profit stood at SAR 46.4mn (an increase of 17.5%Y/Y, and a decline of 50.4%Q/Q), came below our estimates of SAR 53.9mn. The Y/Y growth in gross profit was attributed to an increase in margins due to lower concrete sales (low margins) and an increase in cement price per tonne. Based on our calculations, cost per tonne stood at SAR 197.4/tonne above our expectations of SAR 157.3/tonne and SAR 161.7/tonne in Q2-19, which we expect the high increase in cost per tonne is attributed to an accounting adjustment.
- Operating profit stood at SAR 31.3mn, below our estimates of SAR 37.7mn, due to lower than expected gross profit. OPEX, stood at SAR 15.1mn, showed a decline of 5.0%Y/Y.

AJC view: Q2-20 volumetric sales declined 11.5%Y/Y mainly due to COVID-19 precautions, while price realization jumped by 27.7%Y/Y. Clinker inventory witnessed a decline of 15.9%Y/Y to stand at 2.4MT, which is enough to cover 100% of TTM sales volume. We believe, cement sector will face some short-term challenges, that will effect dispatches, however outlook is expected to improve in the mid to long term. We don't expect any price war among players due to the recognized impacts on the companies' financials during the price war era.

We expect the company to generate a strong FCF of SAR 233.2mn, which increases the possibility to maintain DPS at SAR 1.50/share during FY20, given a strong balance sheet and zero debt. Eastern cement is expected to post SAR 216.3mn in net income (2.51 EPS), for FY20, an increase of 19.7%Y/Y. The company is currently trading at TTM PE of 14.1x compared to a forward PE of 14.3x based on FY20 earnings. We maintain our “Neutral” recommendation on the stock with a revised TP at **SAR 37.1/share**.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	158.8	234.0	146.3	-7.9%	-37.5%	-0.1%
Gross Profit	39.5	93.7	46.4	17.5%	-50.4%	-13.9%
Gross Margin	24.9%	40.0%	31.7%	-	-	-
EBIT	23.6	78.0	31.3	32.7%	-59.9%	-17.0%
Net Profit	31.8	85.2	30.5	-4.1%	-64.2%	-15.8%
EPS	0.37	0.99	0.35	-	-	-

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR)	37.1
Upside / (Downside)*	3.25%

Source: Tadawul *prices as of 5th of August 2020

Key Financials

	FY19	FY20E	FY21E
Revenue	728.8	737.4	803.0
Growth %	28.82%	1.18%	8.89%
Net Income	180.7	216.3	220.9
Growth %	159.07%	19.68%	2.14%
EPS	2.10	2.51	2.57

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	30.61%	35.78%	34.30%
Net Margin	24.79%	29.33%	27.51%
P/E	17.1x	14.3x	14.0x
P/B	1.3x	1.2x	1.2x
EV/EBITDA	10.9x	8.9x	8.6x
Dividend Yield	2.08%	4.17%	4.17%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.24
YTD %	-27.8%
52 Week (High)/(Low)	41.80/21.12
Shares Outstanding (mn)	86.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst
Abdulrahman Al-Mashal
 +966 11 2256374
 A.Almashal@Aljaziracapital.com.sa



RESEARCH DIVISION

AGM-Head of Research

Talha Nazar

+966 11 2256250
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115
F.alsuweilmy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions

Ahmad Salman, CFA

+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region

Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

- 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.
- 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.
- 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.
- 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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068