

Rating **Neutral**
12- Month Target Price **SAR 52.00**

SAUDI CEMENT COMPANY (SACCO)
4Q2018 First Look

Expected Total Return

Price as on Feb-24, 2019	SAR 56.90
Upside to Target Price	(8.6%)
Expected Dividend Yield	5.7%
Expected Total Return	(2.9%)

Market Data

52 Week H/L	SAR 60.4/35.9
Market Capitalization	SAR 8,706 million
Enterprise Value	SAR 9,358 million
Shares Outstanding	153 million
Free Float	88.6%
12-Month ADTV(000's)	134.9
Bloomberg Code	SACCO AB

1-Year Price Performance



Source: Bloomberg

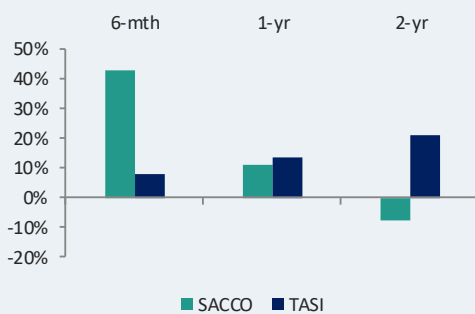


Fig in SAR Mln	RC.Est	Actuals
Revenue	301	304
Operating income	97	124
Net Income	89	125
EPS (SAR)	0.58	0.82

Margins Lead Profitability Growth

Saudi Cement Company's (SACCO) posted strong 4Q2018 results with a net income of SAR 125 million, beating our estimates and market consensus of SAR 89 million. The beat was led by considerably better gross margins at 52% and also helped by marginally higher revenues than expected. While topline was down -5% Y/Y, there was a notable +27% Q/Q increase led by +34% Q/Q rise in local volumetric sales to 1.2 million tons in the fourth quarter. Saudi Cement is one of the few producers which exports good quantities and managed to export 255k tons in the quarter. We tweak our estimates going forward on the back of higher cement demand and better prices in 2019 and beyond. As a result, our target price rises from SAR 50.00 to SAR 52.00. Trading at 19.9x 2019E earnings, a premium to peers, we continue a Neutral stance on the Company.

Sales volume jumps to 1.2 million tons

Saudi Cement reported revenues of SAR 304 million, down -5% Y/Y but up a substantial +27% Q/Q and close to our SAR 301 million forecast. The quarterly revenue jump resulted from a +34% Q/Q growth in local volumetric sales to 1.2 million tons although selling prices were down -5% Q/Q to SAR 247/ton. An increase in exports has also helped as the Company exported 255k tons of cement in 4Q as compared to 198k in 3Q. This is ahead of 49k tons exported by Eastern Cement in 4Q; both of them primarily export to Bahrain. The export market is likely to open up further in the coming quarters. Inventory levels continue to be a concern, although they have dropped from 5.7 million tons in December to 5.5 million tons in January. Saudi Cement has the industry's highest inventory at 13% and represent 122% of LTM sales.

Gross margins expand to 52%

Gross profit has risen by +13% Y/Y and +41% Q/Q to SAR 159 million mainly due to an expansion in gross margins to 52% as compared to 47% last quarter and 44% last year. A decline in cost of sales to SAR 118/ton in 4Q versus SAR 138/ton in 3Q has aided margin growth. Clinker production has been flat Q/Q at 1.8 million tons. However, Saudi Cement has managed to grow market share this quarter to 11.5% as compared to 10.0% in 3Q. Operating expenses were largely in-line at SAR 36 million.

Target price revised to SAR 52

Net profit of SAR 125 million (EPS SAR 0.82), up +18% Y/Y and +66% Q/Q, should boost sentiments at the Tadawul for the short term, especially as it beat market consensus of SAR 89 million. For the full year 2018, net income has dropped by -12% Y/Y to SAR 401 million as 2Q and 3Q experienced profitability pressures. Net margins also improved to 41% in 4Q2018 versus 30% in 3Q and 33% in 4Q2017, flowing from higher gross margins. We have revised upwards our topline and bottomline forecasts for the Company as we expect cement demand to pick up and prices to be better than last year. Resultantly, our target price marginally increases from SAR 50.00 to SAR 52.00. However, trading at a 2019E P/E of 19.9x, we recommend a Neutral as it trades at a premium to peers.

Key Financial Figures

FY Dec31 (SAR Mln)	2017A	2018E	2019E
Revenue	1,185	1,120*	1,198
EBITDA	694	642	691
Net Profit	453	401*	461
EPS (SAR)	2.96	2.62*	2.86
DPS (SAR)	4.00	3.25	3.25

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	11%	11%	12%
ROAE	14%	13%	15%
P/E	19.2x	21.7x	19.9x
P/B	2.7x	2.8x	2.9x
EV/EBITDA	12.9x	14.8x	13.9x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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