



Eastern Cement posted a net income of SAR 43.0mn, above AJC and market estimates of SAR 25.9mn and SAR 28.3mn, respectively. The deviation from our estimate is mainly due to higher-than-expected realization per tonne and precast concrete revenues. Revenue came at SAR 195.8mn, against our estimate of SAR 143.8mn. Sales volume stood at 477KT, in-line with our expectation of 476KT. Selling price stood at SAR 283.7/tonne, higher than our estimate of SAR 232.1/tonne. COGS stood at SAR 132.0mn with an expected cost per tonne to stand at SAR 158.8, compared to our GOGS estimates of SAR 101.3mn and cost per tonne of SAR 147.6. We maintain our “Neutral” recommendation on the stock with a TP of SAR 46.5/share.

- Q2-22 net profit stood at SAR 43.0mn (EPS: SAR 0.50/share), a decline of 30.5%Y/Y and an increase of 48.3%Q/Q. Eastern Cement’s net profit was higher than our and market consensus estimates of SAR 25.9mn and SAR 28.3mn, respectively. On a Q/Q basis, increase in net income was mainly attributed to higher-than-expected selling prices and precast concrete revenues.
- Eastern Cement posted sales at SAR 195.8mn, a decline of 7.8%Y/Y and an increase of 21.8%Q/Q, compared our estimates of SAR 143.8mn. Sales volumes stood at 477KT, in-line with our expectations of 476KT and lower than the 675KT registered in Q2-21. Price realization per tonne stood at SAR 283.7/tonne Vs. SAR 264.3/tonne in Q2-21. Concrete sales stood at SAR 60.5mn in Q2-22, above our estimates of SAR 33.3mn and from the SAR 34.0mn recorded in Q2-21.
- Gross profit at SAR 63.0mn (a decrease of 20.8%Y/Y, while an increase of 38.7%Q/Q), came above our estimates of SAR 42.5mn. The Y/Y decline in gross profit was attributed to lower volumetric sales and higher cost per tonne. Based on our calculations, cost per ton expected to stand at SAR 158.8/tonne above our expectations of SAR 147.7/tonne and SAR 148.2/tonne in Q2-21.
- Operating profit stood at SAR 43.6mn, above our estimates of SAR 29.8mn, due to higher than expected revenue. OPEX of SAR 20.2mn, showed an increase of 22.0%Y/Y.

AJC view: We believe Eastern Cement’s price realization increased 7.3%Y/Y and 24.7%Q/Q, due to the company benefitting from recovery prices in the sector. In addition, the company recorded the highest precast concrete sales since the Q2-17 at SAR 60.5mn (an increase of 77.8%Y/Y and 76.6%Q/Q). Revenues generated during the period from three major customers of the company’s cement segment represented 54.0% of the company’s total revenue. The company’s sales YTD showed a decrease of 27.8% Y/Y, which led to a loss in the market share to 4.3% in Q2-22 from 5.8% in Q2-21. We expect the company to generate a strong FCF of SAR 339.1mn, which increases the possibility of a high DPS at SAR 2.0/share during FY22, given a strong balance sheet and zero debt. Eastern Cement is expected to post SAR 169.1mn in net income (1.97 EPS), for FY22, a decrease of 15.8%Y/Y. The company is currently trading at TTM PE of 26.6x compared to a forward PE of 21.9x based on FY23 earnings estimate. We maintain our “Neutral” recommendation on the stock with a TP of SAR 46.5/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	212.4	160.7	195.8	-7.8%	21.8%	36.2%
Gross Profit	80.6	46.0	63.8	-20.8%	38.7%	50.2%
Gross Margin	37.9%	28.6%	32.6%	-	-	-
EBIT	64.0	31.6	43.6	-31.9%	38.2%	46.4%
Net Profit	61.9	29.0	43.0	-30.5%	48.3%	66.2%
EPS	0.72	0.34	0.50	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR)	46.5
Upside / (Downside)*	2.2%

Source: Tadawul *prices as of 11th of August 2022

Key Financials

	FY21	FY22E	FY23E
Revenue	757.7	714.7	726.5
Growth %	2.1%	-5.7%	1.7%
Net Income	200.9	169.1	188.0
Growth %	-7.5%	-15.8%	11.1%
EPS	2.34	1.97	2.19

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22E	FY23E
Gross Margin	35.5%	34.1%	36.5%
Net Margin	26.5%	23.7%	25.9%
P/E (x)	20.5	24.4	21.9
P/B (x)	1.7	1.7	1.7
EV/EBITDA (x)	12.1	12.8	11.7
Dividend Yield	5.2%	4.2%	4.2%

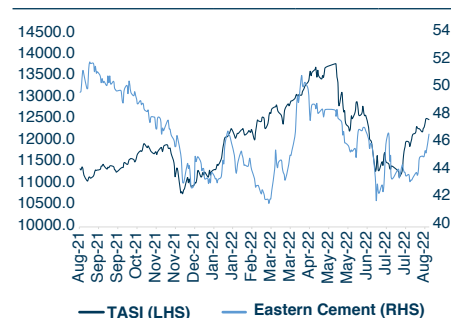
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	4.0
YTD %	3.3%
52 Week (High)/(Low)	52.3/41.6
Shares Outstanding (mn)	86.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RATING
TERMINOLOGY

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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