



US\$1.661bn Market cap	51% Free float	US\$2.691mn Avg. daily volume
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Target price **80.00** 15.6% over current
 Current price **69.20** as at 01/11/2020

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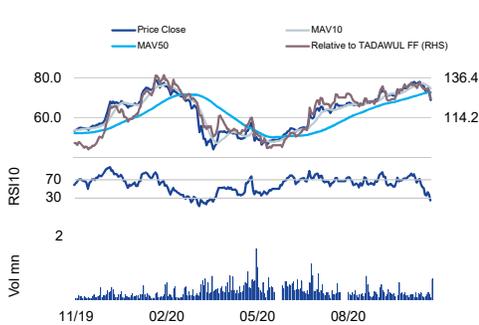
Existing rating

Underweight	Neutral	Overweight
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Qassim Cement

Strong volume boost profitability; TP increased to SAR 80

Performance



Earnings

(SARmn)	2019A	2020E	2021E
Revenue	792	868	920
Revenue growth	86%	10%	6%
Gross profit	499	554	596
Gross margin	63%	64%	65%
EBITDA	452	507	548
EBITDA margin	57%	58%	60%
Net profit	361	431	446
Net margin	46%	50%	48%
EPS	4.01	4.78	4.95
DPS	3.45	4.00	4.50
Payout ratio	86%	84%	91%
EV/EBITDA	12.1x	10.6x	9.7x
P/E	17.3x	14.5x	14.0x
RoE	20%	23%	24%

Source: Company data, Al Rajhi Capital

Qassim Cement (QACCO) registered revenue of SAR232mn, a y-o-y growth of 21.8% and, was higher than our estimate of SAR248mn by 6.5%. Growth in sales was supported by a 31.4% y-o-y growth in volume, though the same was moderated to a certain extent by a fall in average realization. Cement sales volume for Q3 20 came in at 1.2mn tons, 11.5% lower than our estimate. Gross profits and operating income increased by 25.3% y-o-y and 26.5% y-o-y respectively. Growth in gross profit and operating profits were aided by higher volumes and the resultant improvement in operating leverage. For the nine months, Saudi Cement registered a volume growth of 35.6% y-o-y. Growth was aided by strong momentum in real estate activities in the local market. Going forward, we expect this trend to continue, though growth rates for 2021 will be tempered by the higher base in 2020. Average realizations are likely to come under pressure, given the competitive nature of the local market. We increase our target price to SAR80/share from the earlier target price of SAR75/share and have maintained our rating at “Overweight”.

Q3 results: Total volume sold during the quarter was at 1.2mn tons in 3Q20, compared to 0.85mn tons in 2Q20 and 0.9mn tons a year back. Aided by higher volumes, gross margins improved to 52.1% in 3Q20, corresponding to 50.7% a year back, though it was lower than 54.3% in 2Q20. Net margins at 47.5% in 3Q20, was marginally higher compared to 47.4% a year back, though was lower than 51.0% in 2Q20.

Figure 1 Qassim Cement: Summary of Q3 2020 results

(SAR mn)	Q3 2020	Q3 2019	Q2 2020	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	232	190	167	22%	38%	248
Gross Profit	121	96	91	25%	33%	138
Gross Margin	52%	51%	54%	NA	NA	56%
Operating Profit	112	88	82	27%	35%	121
Net Profit	110	90	85	22%	29%	122

Source: Company data, Al Rajhi Capital

Valuation and risks: QACCO have recommended a dividend of SAR112.5 million or SAR1.25 per share for Q3 2020. This takes the total dividend to SAR 3.25 per share for nine months. We estimate the company to pay SAR4 per share as dividend for 2020 (SAR3.45 in 2019), a dividend yield of 5.8%. As on 30-Jun-2020, QACCO had SAR807 million in cash and short-term investments or close to SAR9 per share. Given this and the expected strong financial performance of the company, we expect dividend pay-out to improve going forward. For our estimates, we expect input and energy prices to remain flat. We value the company based on an equal mix of DCF and relative valuation. The DCF target price is based on a 2.0% terminal growth and WACC of 10.7% and comes to SAR75/share. P/E is based on a multiple of 17.5x and comes to SAR85/share. Overall, we have increased our target price for the company to SAR80 per share, an upside of 15.6%, which implies an “Overweight” rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the government’s infrastructure spending.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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