

Saudi cement beats our estimates on higher than expected volumetric sales. Net income came at SAR 74.5mn, 11.7% above our expectation of SAR 66.7mn. Revenue came at SAR 297.5mn, 17.4% above our estimates. Sales volume stood at 1.5MT, compared to our expectations of 1.3MT. Selling price stood at SAR 195.2/tonne, in-line with our estimates of SAR 197.1/tonne. **“Neutral”** recommendation on the stock with a TP of **SAR 49.5/share**.

- Saudi cement recorded net income of SAR 74.5mn in Q2-20 (EPS; 0.49/share); (a decline of 19.3%Y/Y and 49.5%Q/Q). Net income came above our estimates and the market consensus estimates of SAR 66.7mn and SAR 67.4mn, respectively. The Y/Y decline is mainly attributed to a decline in selling price and volumetric sales. The deviation of Q2-20 earnings from our estimates is mainly ascribed to higher than expected volumetric sales.
- Sales stood at SAR 297.5mn (a decline of 12.2%Y/Y and 34.0%Q/Q), above our estimates of SAR 253.3mn. During Q2-20, Saudi cement registered 2.1%Y/Y decline in volumetric sales which stood at 1.5MT; above our estimates of 1.3MT. Average price realization/tonne stood at SAR 195.2/tonne, compared to our estimate of SAR 197.1/tonne and SAR 217.6/tonne in Q2-19.
- Gross profit stood at SAR 123.7mn (a decline of 11.8%Y/Y and 39.0%Q/Q); above our estimates of SAR 113.9mn on the back of higher than expected revenue. Cost per tonne came at SAR 114.0/tonne compared to our estimate of SAR 108/tonne and an average of SAR 115.09/tonne in FY19.
- Operating profit was realized at SAR 82.9mn, where OPEX stood at SAR 40.8 showing an increase of 0.4%Y/Y, lower than our estimates of SAR 41.4mn.

AJC view: Saudi cement lost some of its market share in Q2-20 which stood at 10.4%, compared to 13.2% in Q2-19; moreover, realization per tonne stood at SAR 195.2 in Q2-20, compared to SAR 217.6 in Q2-19. Therefore, net income declined by 19.3%Y/Y. Going forward, we expect selling price to improve and average around SAR 197.0/tonne in FY20 and SAR 200.2/tonne in FY21. The company has an inventory of 5.6MT, which could be enough to cover more than 72% of the total sales volume during 12TTM. 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. For 7M-20, total sector dispatches stood at 31.4MT (including exports) compared to 28.1MT in 7M-19, depicting an increase of 11.7%Y/Y. Saudi cement is expected to post SAR 389.3mn in net income (2.54 EPS), for FY20, recording a decline of 13.8%Y/Y. The company is currently trading at TTM PE of 19.1x compared to a forward PE of 22.0x based on our forecasted FY20 earnings. **“Neutral”** recommendation on the stock with a TP at **SAR 49.5/share**.

Results Summary

SARmn	Q2-19	Q1-20	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	338.6	450.4	297.5	-12.14%	-33.95%	17.44%
Gross Profit	140.3	202.8	123.7	-11.83%	-39.00%	8.58%
<i>Gross Margin</i>	<i>41.4%</i>	<i>45.0%</i>	<i>41.6%</i>	-	-	-
EBIT	99.7	157.8	82.9	-16.85%	-47.47%	14.38%
Net Profit	92.3	147.6	74.5	-19.28%	-49.53%	11.74%
EPS	0.60	0.96	0.49	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR) **49.5**

Upside / (Downside)* **-3.4%**

Source: Tadawul *prices as of 24th of August 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenue	1,441.6	1,353.6	1,289.1
Growth %	28.8%	-6.1%	-4.8%
Net Income	451.4	389.3	378.6
Growth %	12.7%	-13.8%	-2.8%
EPS	2.95	2.54	2.47

Source: Company reports, AlJazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	45.1%	43.5%	44.3%
Net Margin	31.3%	28.8%	29.4%
P/E	23.8x	22.0x	22.7x
P/B	3.9x	3.2x	3.2x
EV/EBITDA (x)	10.7x	8.6x	8.6x
Dividend Yield	4.6%	5.0%	4.9%

Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	8.51
YTD %	-19.97%
52 Week (High)/(Low)	73.30/41.00
Shares Outstanding (mn)	153.00

Source: Company reports, AlJazira Capital

Price Performance



Source: Tadawul, AlJazira Capital

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- 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.

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