

City Cement beats estimates on higher than expected volumetric sales. Net income came at 36.2mn, 7.8% above our expectation of 33.6mn. Revenue came at 108.9mn, 9.2% above our estimates. Sales volume stood at 536KT, compared to our expectations of 464KT. Selling price stood at SAR 203.1/tonne, below our estimates of SAR 214.9/tonne. We updated our recommendation to **“Neutral”** on the stock with a TP at **SAR 16.9/share**.

- City cement posted net income of SAR 36.2mn in Q2-20 (EPS; SAR 0.19/share); compared to SAR 32.3mn in Q2-19; above our estimates of SAR 33.6mn. The Y/Y strong growth of 12.2% is mainly attributed to improved GP margin by 228 bps, which stood at 41.4% in Q2-20 compared to 39.1% in Q2-19. The deviation of Q2-20 earnings from our estimates is mainly ascribed to higher than expected volumetric sales, resulting in higher revenue.
- Revenue stood at SAR 108.9mn (+0.7%Y/Y, -48.7%Q/Q), above our estimates of SAR 99.7mn due to higher than expected volumetric sales. During Q2-20, the company registered a decline of 32.5%Q/Q and 3.6%Y/Y in volumetric sales which stood at 536KT. Average price realization/tonne stood at SAR 203.1/tonne, below our estimates of SAR 214.9/tonne and SAR 214.5/tonne in Q1-20.
- Gross profit stood at SAR 45.0mn (an increase of 6.6%Y/Y), above our estimates of SAR 43.7mn, due to higher than expected revenue. Cost per tonne stood at SAR 119.1/tonne compared to an average of SAR 115.1/tonne in FY9. We expect cost per tonne to average at SAR 114.8/tonne For FY20.
- Operating profit stood at SAR 36.3mn, above our estimates of SAR 34.5mn due to higher than expected GP margin. OPEX came at SAR 8.7mn, showing a decline of 3.9%Y/Y and 14.2%Q/Q, compared to our estimates of SAR 9.1mn.

AJC view: City cement dispatches for the first two months in the quarter showed a sharp decline by 34.3%Y/Y due to lockdown. However, during June-20 dispatches increased by 50.0%Y/Y due to pre-purchases before VAT increase from 5% to 15%. 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 6M-20, total sector dispatches stood at 26.6MT (including exports) compared to 24.1MT in 6M-19, depicting an increase of 10.4%Y/Y. City cement is expected to post SAR 206.8mn in net income (1.09 EPS), for FY20, recording an increase of 14.3%Y/Y supported by increase in selling prices. The company is currently trading at TTM PE of 15.1x compared to a forward PE of 15.6x based on FY20 earnings. The company is expected to pay attractive dividend of SAR 0.70/share (4.1% D/Y), owing to its strong balance sheet and zero debt. We updated our recommendation to **“Neutral”** on the stock with a TP at **SAR 16.9/share**.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	108.1	170.3	108.9	0.7%	-36.1%	9.2%
Gross Profit	42.2	80.4	45.0	6.6%	-44.0%	3.1%
<i>Gross Margin</i>	<i>39.1%</i>	<i>47.2%</i>	<i>41.4%</i>	-	-	-
EBIT	33.2	70.3	36.3	9.5%	-48.3%	5.2%
Net Profit	32.3	70.5	36.2	12.2%	-48.7%	7.8%
EPS	0.17	0.37	0.19	-	-	-

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

Neutral

Target Price (SAR)	16.9
Upside / (Downside)*	-0.8%

Source: Tadawul *prices as of 10th of August 2020

Key Financials

	FY19	FY20E	FY21E
Revenue	531.4	559.6	588.0
Growth %	54.1%	5.3%	5.1%
Net Income	180.9	206.8	214.1
Growth %	63.1%	14.3%	3.5%
EPS	0.96	1.09	1.13

Source: Company reports, AlJazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	41.6%	44.8%	44.2%
Net Margin	34.1%	37.0%	36.4%
P/E	18.7x	15.6x	15.1x
P/B	1.5x	1.4x	1.3x
EV/EBITDA	12.1x	9.7x	9.0x
Dividend Yield	0.0%	4.1%	4.7%

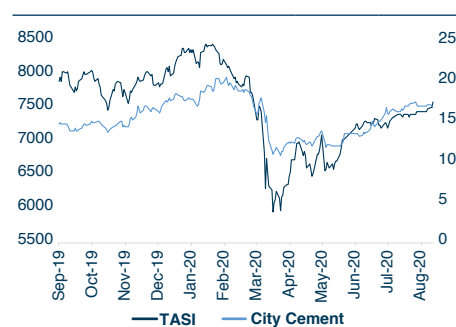
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	3.20
YTD %	-4.80%
52 Week (High)/(Low)	20.98/10.58
Shares Outstanding (mn)	189.20

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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