# Saudi Cement Co.

## Result Flash Note Q3-19

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Saudi cement posted a net income of SAR 83.0mn, missing AJC and market expectations of SAR 108.4mn and SAR 104.1mn, respectively. The deviation is mainly attributed to an increase in cost per tonne, which came at SAR 128.1/tonne compared to our expectations of 114.0/tonne. Revenue declined by 8.4% Q/Q to SAR 310.1mn, below our estimation of SAR 321.1mn due to a decline in volumetric sales. "**Underweight**" recommendation on the stock with a TP of **SAR 56.50/share**.

- Saudi cement recorded net income of SAR 83.0mn in Q3-19 (EPS; 0.54/share); indicating an increase of 10.1%Y/Y and a decline of 10.1%Q/Q. The Y/Y increase is mainly attributed to improved selling price and volumetric sales. The deviation of Q3-19 earnings from our estimates is mainly ascribed to higher than expected cost per tonne and lower than expected volumetric sales.
- Sales stood at SAR 310.1mn (an increase of 29.5%Y/Y and a decline of 8.4%Q/Q), below our estimates of SAR 321.1mn. During Q3-19, Saudi cement registered 4.4%Y/Y increase in volumetric sales at 1.39MT; below our estimates of 1.46MT. Average price realization/tonne stood at SAR 222.8/tonne, above our estimates of SAR 219.8/tonne. Selling prices is expected to stabilize high as cement producer are expected to keep prices rational after recognizing losses during previous year.
- Gross profit stood at SAR 131.8mn (an increase of 16.5%Y/Y and a decline of 6.1%Q/Q); below our estimates of SAR 154.6mn on the back of higher than expected cost per tonne, which came at SAR 128.1/tonne compared to an average of SAR 104.0/ tonne in FY18.
- Operating profit was realized at SAR 92.8mn, where OPEX stood at SAR 39.0 showing an increase of 12.0%Y/Y, lower than our estimates of SAR 40.6mn.

**AJC view:** Saudi cement earnings were below our expectations; attributed to higher than expected COGS. The cost per tonne sustained its high level for two quarters, and we expect the cost per tonne to stay at current levels, as the company tries to gain market share in Riyadh, carrying additional transportation cost. The company has an inventory of 5.6MT, which would be enough to cover more than 90% of the total sales volume during TTM. Saudi cement selling price has increased to reach SAR 222.8/tonne making an increase of 24.0%Y/Y, which we believe the price is going to continue at the same high level in FY19. We believe, cement sector is continuing the recovery from its downtrend due to producer's concentration on selling prices and an increase in both local & export sales. Saudi cement is expected to post SAR 461.2mn in net income (3.01 EPS), for FY19, recording an increase of 15.1%Y/Y. The company is currently trading at TTM PE of 24.1x compared to a forward PE of 19.5x based on our forecasted FY20 earnings. "**Underweight**" recommendation on the stock with a TP at **SAR 56.50/share**, due to unjustified increase in the stock price.

### Results Summary

| SARmn | Q3-18 | Q2-19 | Q3-19 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|---|---|---|---|---|---|---|
| **Revenue** | **239.6** | **338.6** | **310.1** | 29.4% | -8.4% | -3.4% |
| Gross Profit | 113.1 | 140.3 | 131.8 | 16.5% | -6.1% | -14.7% |
| *Gross Margin* | *47.2%* | *41.4%* | *42.5%* | - | - | - |
| EBIT | 80.6 | 99.7 | 92.8 | 15.1% | -6.9% | -18.6% |
| **Net Profit** | **75.4** | **92.3** | **83** | 10.1% | -10.1% | -21.2% |
| EPS | 0.49 | 0.60 | 0.54 | - | - | - |

Source: Company Reports, AlJazira Capital

## Underweight

| | |
|---|---|
| **Target Price (SAR)** | **56.50** |
| **Upside / (Downside)*** | **-18.1%** |

Source: Tadawul *prices as of 29rd of October 2019

### Key Financials

| SARmn (unless specified) | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|
| Revenue | 1,184.5 | 1,119.6 | 1,460.8 | 1,598.7 |
| Growth % | -33.4% | -5.5% | 30.5% | 9.4% |
| Net Income | 453.4 | 400.5 | 461.2 | 536.6 |
| Growth % | -49.7% | -11.7% | 15.1% | 16.4% |
| EPS | 2.96 | 2.62 | 3.01 | 3.51 |

Source: Company reports, Aljazira Capital

### Key Ratios

| | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|
| Gross Margin | 48.0% | 48.1% | 44.7% | 45.8% |
| Net Margin | 38.3% | 35.8% | 31.6% | 33.6% |
| P/E | 16.00x | 18.55x | 22.63x | 19.45x |
| P/B | 2.52x | 2.68x | 3.77x | 3.77x |
| EV/EBITDA (x) | 16.3x | 18.9x | 21.5x | 18.2x |
| Dividend Yield | 8.4% | 5.1% | 5.1% | 6.6% |

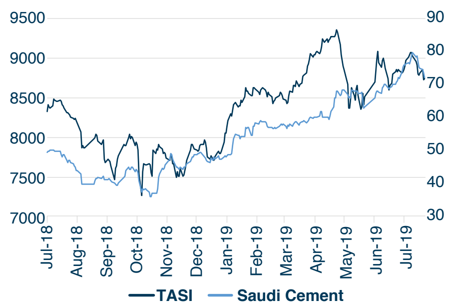
Source: Company reports, Aljazira Capital

### Key Market Data

| | |
|---|---|
| Market Cap (bn) | 10.33 |
| YTD % | 40.47% |
| 52 Week (High )/(Low) | 79.90/39.00 |
| Shares Outstanding (mn) | 153.00 |

Source: Company reports, Aljazira Capital

### Price Performance




Source: Tadawul, Aljazira Capital

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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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