الراجحي المالية
Al Rajhi Capital

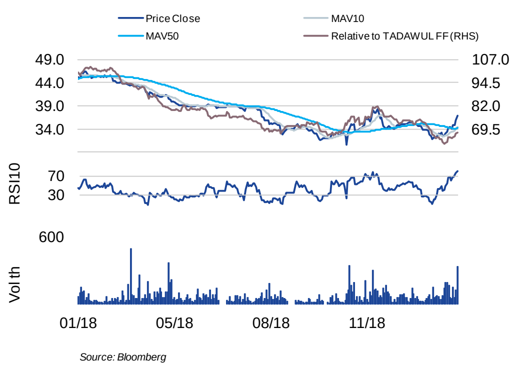
US$1.296bn	85%	US$1.463mn
Market cap	Free float	Avg. daily volume

Target price	69.00	+27.8% above current
Current price	54.00	as at 05/11/2019

Existing rating

Underweight | Neutral | **Overweight**

Performance



Earnings

(SARmn)	2018	2019e	2020e
Revenue	426	688	738
Revenue growth	-32.0%	61.7%	7.2%
Gross profit	140	354	424
Gross margin	33.0%	51.5%	57.5%
EBITDA	183	389	457
EBITDA margin	43.0%	56.6%	62.0%
Net profit	121	316	383
Net margin	28.4%	45.9%	51.9%
EPS	1.3	3.5	4.3
P/E	25.0x	15.4x	12.7x
EV/EBITDA	12.5x	10.5x	9.0x
RoE	7.4%	18.5%	22.1%

Source: Company data, Al Rajhi Capital

Research Department
Abdulmalik Alsalem
Tel +966 11 836 5465, AlsalemA@alrajhi-capital.com

Qassim Cement

Q3: Strong Earnings beat on sharp jump in avg. sales prices and market share gains

Qassim Cement reported a strong set of results with Q3 earnings coming at SAR90mn (+28% q-o-q), above our and consensus estimates of SAR81mn and SAR82mn respectively. The earnings beat was mainly driven by higher quantities sold and higher average selling prices resulting in a top line growth of 156% compared to last year (Q3 2018 had all time lowest selling prices). Furthermore, the bottom line growth was supported by q-o-q decline in production costs (due to higher quantities produced) and higher interest and investments income offset partially by a SAR2mn increase in operating costs. Despite higher selling prices, the company was able to penetrate further in the market as it was able to increase their local market share to 7.8% (7.4% in Q3 2018). The company has exported 149k tonnes of cement in Q3 relieving some pressure of their 3.1mn tons of inventory. Going forward we expect the company in the coming future to benefit from higher selling prices, higher sales quantities through regained market share, in addition to production cost savings on back of economics of scales, governmental initiatives of fixed energy prices and expat levy waiver. Incorporating the above catalysts in our forecast we revise our TP upward to SAR69/share (SAR49/sh. Earlier) and our dividend forecast to SAR1.9/sh. and SAR3.25/sh. for 2H19e and FY19e respectively (SAR1.5/sh and SAR2.85/sh. earlier) implying a DY19e of 6%. Therefore, we adjust our rating for the stock to "Overweight".

Q3 results: Q3 revenue came in at SAR190mn (+156% y-o-y; +23% q-o-q), above our estimate of SAR184mn, primarily on account of higher-than-expected average cement sales prices (+198% y-o-y as per our estimates) and ~7% higher than the peers averages selling prices. During the quarter, the company quantities sold locally has grown by a strong rate of 17% y-o-y (vs. the market 10% y-o-y) at 787k tons of cement, in addition to 149k of exports (no exports in Q3 2018). As a result, the company's market share increased to 7.8% in Q3 (from 7.3% and 7.4% in Q2 2019 and Q3 2018 respectively). Gross margins have expanded significantly to 50.7% due to higher selling prices and slight decline of 7% q-o-q in production costs per ton.

Figure 1 Qassim Cement: Summary of Q3 2019 results

(SAR mn)	Q3 2018	Q2 2019	Q3 2019	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	74	155	190	156%	23%	184
Gross Profit	10	76	96	909%	27%	88
Gross Margin	12.8%	48.9%	50.7%	NA	NA	48.0%
Operating profit	3	68	88	2581%	29%	7
Net Profit	6	70	90	1487%	28%	81

Source: Company data, Al Rajhi Capital

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Valuation and risks: We expect the company to clock healthy rates and also maintain high selling prices due to multiple factors:

- Ability to maintain premium prices helped likely by locational advantages as we have seen in the previous two quarters. As noted above, the company had managed to expand its market share despite higher selling prices and lower discounts.
- Relatively low inventory compared to the market (106% of 12m sales vs. the market Avg. of 111%).
- Strong cash and short-term investments of SAR768mn (as of June 19, Approx. SAR8.5/sh) which would aid the company's bottom line in terms of investment and interest income (contributed to ~10% of the earnings in 2019 9M). The company has no significant capex in addition to excess production capacity of ~36%.
- The company's good control of production costs as the production cost per ton has declined by 7% q-o-q in Q3 and 5% q-o-q in Q2 2019 on the back of higher production efficiency as the company penetrates further in the market. This might decrease further on back of government's recent initiatives (expat levy wavier and energy prices fixing).

Incorporating factors above we expect the company to increase FY19e and FY20e dividends to SAR3.25/sh and SAR4/sh respectively (SAR1.75/sh of FY18), implying a dividend yield of 6.0% for FY19e higher than the market and peers dividend yield of 3.8% and 3.7% respectively.

We value the company based on an equal mix of DCF and relative valuation (forward P/E of 16.6x). The company currently trades at a FY20e P/E of 12.8x vs. Saudi cement peers at 20.5x. **The downward key risks** are lower than expected market demand and lower than forecasted selling prices. **The key upward risks** are higher than anticipated cement selling prices , higher than forecasted government's infrastructure spending pick up and higher than expected benefits of governmental subsidies.

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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"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.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 836 5465
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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