

Saudi Cement posted a weak set of results with a net income of SAR 58.7mn, below our estimates of SAR 103.19mn. The deviation from our estimate is mainly due to the lower-than-expected selling price per tonne by 13.5%. Revenue came at SAR 304.9mn, against our estimate of SAR 355.1mn, while realization per tonne stood at SAR 163.7/tonne, below our expectation of SAR 189.3/tonne. Volumetric sales came at 1.86MT, in line with our estimates of 1.88MT. Although the cement outlook is expected to be under pressure in the short run due to the revised building code and labor shortage, strong housing demand and healthy mortgage loan growth are key catalysts for our mid-to-long-term outlook. Accordingly, we maintain our "Neutral" recommendation on the stock with a TP of SAR 58.0/share.

- Saudi Cement posted a net income of SAR 58.7mn in Q3-21 (EPS: SAR 0.38/share) compared to SAR 106.4mn in Q3-20. As a result, net income came lower than our estimate of SAR 103.2mn. The Y/Y decline of 44.8% in net income is mainly attributed to a decline in realization per tonne by 10.9%Y/Y and volumetric sales by 11.5%Y/Y.
- Revenue stood at SAR 304.93mn (a decline of 12.4%Q/Q, 21.2%Y/Y), against our estimates of SAR 355.1mn. During Q3-21, the company registered a decrease of 11.5%Y/Y in volumetric sales, which stood at 1.86MT, in line with our expectations of 1.88MT and 1.92MT in Q2-21. Realization per tonne stood at SAR 163.7/tonne vs. SAR 181.2/tonne in Q2-21 and SAR 183.8/tonne in Q3-20, coming below our estimates of SAR 189.3/tonne.
- Gross profit stood at SAR 109.0mn, below our estimates of SAR 156.8mn due to lower-than-expected gross margin, which stood at 35.8% vs. 39.8% in Q3-20, coming below our estimates of 43.3%. However, the cost per tonne came in line with our expectations at SAR 105.1/tonne and below the average of 107.9/tonne in FY20.
- Operating profit stood at SAR 64.7mn, below our expectation of SAR 109.0mn. OPEX came at SAR 46.3mn, posting a decline of 5.9%Y/Y.

AJC view: Saudi Cement reduced their selling price by 10.9% Y/Y and 9.7% Q/Q in Q3-21. We believe the company offers a discount to maintain its 10.2% market share with the current weak short-term demand. Volumetric sales declined by 11.5%Y/Y to stand at 1.86MT compared to 2.10MT in Q3-20. The cement sector witnessed a decline in dispatches in Q3-21 by 9.9%Y/Y, which we believe is due to the revised building code, which increased the time for approving the commencement construction and labor shortage in the market. However, we remain positive on the sector's mid-to-long-term outlook, driven by solid housing demand backed by mortgage loans growth and government-initiated Giga projects. Mortgage loans started to pick up again to register strong growth in Aug-21 by 32.7%Y/Y. For 10M-21, dispatches stood at 50.0mn tons (including exports) compared to 46.8mn tons in 10M-20, depicting an increase of 6.8%Y/Y. Saudi Cement is expected to post SAR 346.2mn in net income (2.26 EPS) in FY21, a decline of 23.3%Y/Y. We maintain our "Neutral" recommendation on the stock with a TP of SAR 58.0/share.

Results Summary

SARmn (unless specified)	Q3-20	Q2-21	Q3-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	386.8	348.1	304.9	-21.17%	-12.41%	-14.14%
Gross Profit	163.2	138.7	109.1	-33.17%	-21.38%	-29.10%
Gross Margin	42.2%	39.8%	35.8%	-	-	-
EBIT	114.0	92.0	64.7	-43.22%	-29.62%	-40.62%
Net Profit	106.4	86.1	58.7	-44.80%	-31.82%	-43.09%
EPS	0.70	0.56	0.38	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	58.0
Upside / (Downside)*	-2.7%

Source: Tadawul *prices as of 9th of November 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenue	1,441.6	1,569.6	1,421.9
Growth %	28.8%	8.9%	-9.4%
Net Income	451.4	451.6	346.2
Growth %	12.7%	0.0%	-23.3%
EPS	2.95	2.95	2.26

Source: Company reports, AlJazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	45.1%	42.5%	38.8%
Net Margin	31.3%	28.8%	24.3%
P/E (x)	23.8	20.8	26.3
P/B (x)	3.9	3.5	3.4
EV/EBITDA (x)	10.7	9.4	9.1
Dividend Yield	4.6%	5.3%	3.5%

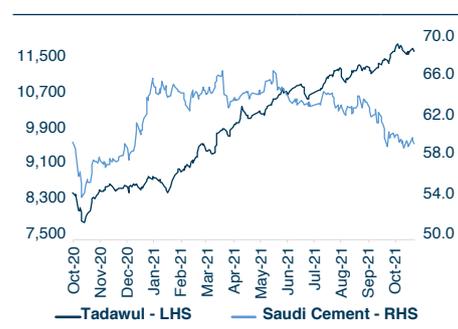
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	9.12
YTD %	-2.44%
52 Week (High)/(Low)	67.20/57.00
Shares Outstanding (mn)	153.00

Source: Company reports, AlJazira Capital

Price Performance



Source: Company reports, 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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