Qassim Cement

Cement – Industrial
QACCO AB: Saudi Arabia
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Research Department
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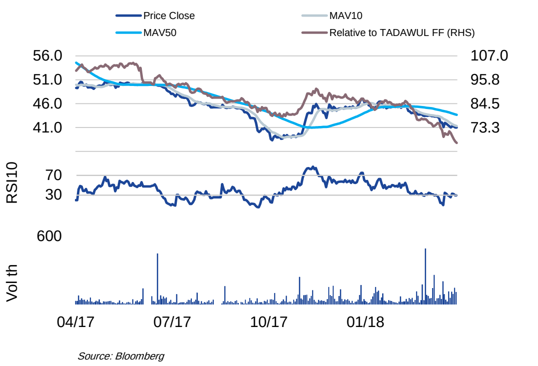
Target price	33.50	5% below current
Current price	35.10	as at 31/7/2018

Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

Period End (SAR)	2017A	2018E	2019E
Revenue (mn)	626	479	486
Revenue Growth	-26.5%	-23.5%	1.7%
EBITDA	314	223	233
EBITDA Growth	-34.0%	-29.0%	4.5%
EPS	2.9	2.02	1.95
EPS Growth	-38.9%	-30.5%	-3.2%

Source: Company data, Al Rajhi Capital

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Q2: Below estimates as prices dropped

Qassim's bottom-line of SAR 18.4mn (-65.5% y-o-y, -67.9%q-o-q) was lower than our estimate of SAR39mn as well as consensus estimate of SAR42mn. Revenue fell 34.8% y-o-y to SAR 88mn, due to a drop of 18% y-o-y (-22% q-o-q) in the average sales price which reached SAR126 per ton and 20% decline in volumes. The company's earnings was supported by higher other income as well as drop in Zakat expenses. Going forward, we forecast Qassim's sales to increase next quarter due to the end of seasonality factors. Current modest demand, high inventories and stiff competition in the sector have led the company to offer large discounts on the sale price. We do not believe prices will witness improvements next quarter. Post Q2 results and release of total cement market numbers, we have changed our estimates on the total expected volume and prices in the short and medium term, thereby lowering our TP to SAR33.5/share and maintain our Neutral rating.

Revenue: Q2 revenue came in at SAR88mn (-34.8% y-o-y), lower than our estimate of SAR106mn. During the quarter, the company sold 701k tons (-20% y-o-y, vs. sector average of -15%).

Profitability: Qassim Cement reported a gross profit of SAR22mn in Q2 compared to our estimate of SAR 43mn. The cost per ton increased to SAR94.2 (SAR 89 in Q2 2017) which is due to lower volume which led to lower economies of scale.

Valuation and Conclusion: The trend of cement sales in the first half in 2018 gives an indication about short term demand and prices, which we believe is unlikely to pick up. Thereby we have revised our estimates on the total expected volume and prices in the short and medium run. Overall we lowered our TP on Qassim Cement to SAR33.5/share(10.5% WACC ,1% terminal growth and 15.9 PE) and maintain our Neutral rating.

Figure 1 Qassim Cement: Summary of Q2 2018 results

(SAR mn)	Q2 2017	Q1 2018	Q2 2018	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	135	148	88	-34.8%	-40%	106
Gross Profit	56	63	22	-61.0%	-65%	43
Gross Margin	42%	42%	25%	NA	NA	41%
Operating Profit	49	55	16	-68.1%	-71%	37
Net Profit	53	57	18	-65.5%	-68%	39

Source: Company data, Al Rajhi Capital

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