



Arabian Cement came below estimates due to lower than expected realization per tonne. Net income came at SAR 53.3mn, below our expectation of SAR 95.0mn. Revenue stood at SAR 290.8mn, lower than our estimate of SAR 331.7mn. Average selling price stood at SAR 139.9/tonne, compared to our estimate of SAR 179.0/tonne. Whereas cost per tonne stood at SAR 110.2/tonne, against our expectations of SAR 124.4/tonne. We maintain our **"Overweight"** recommendation on the stock with a revised TP at **SAR 47.0/share**.

- Arabian cement net income stood at 53.3mn in Q4-20 compared to SAR 73.6mn in Q4-19 and SAR 78.9mn in Q3-20. Net income came below our estimates and the market consensus estimates of SAR 95.0mn and SAR 88.5mn, respectively. The Y/Y decline in net income is mainly attributed to a one off reversal of SAR 51.9 mn (reversal on asset write-back) in Q4-19.
- Revenue stood at SAR 290.8mn, below estimate of SAR 331.7mn, showing an increase of 23.9%Y/Y, as a result of an increase in sales volume. During Q4-20, the company registered an increase of 76.6%Y/Y in volumetric sales to stand at 1.52MT vs. 860KT in Q4-19, higher than our estimates of 1.36MT. The average price realization/tonne stood at SAR 139.9/tonne, as compared to our estimates of SAR 179.0/tonne and SAR 177.3/tonne in Q3-20 showing a decline of 21.1%Q/Q.
- Gross profit stood at SAR 97.0mn (an increase of 0.9%Q/Q, and a decline of 5.6%Y/Y), under our estimates of SAR 133.0mn, due to lower than expected realization per tonne. Cost per tonne stood at SAR 110.2/tonne compared to an average of SAR 131.2/tonne in FY19. We believe, the strong decline in cost per tonne is one off.
- Operating profit stood at SAR 69.4mn, below our estimate of SAR 111.1mn. Where OPEX stood at SAR 27.5mn, showing an increase of 51.8%Y/Y.

AJC view: Selling prices significantly declined by 21.9%Y/Y. the decline in realisation per tonne has continued for two quarters, which is due to observing the impact of VAT and its increase of export sales. Whereas dispatches increased by 76.6%Y/Y due to higher local and the increase of its market share. Arabian Cement has an inventory of 2.94MT by end of Feb-21 indicating a decline of 21.6%Y/Y, which can be enough to cover more than 70% of the total sales volume during TTM. We believe, cement sector will show a short-term decline in net income due to selling price discount. However, we are optimistic on the sector for the long-term with the increase in mortgage loans by 83.2%Y/Y in FY20, and the future demand on cement form Giga projects. For 2M-21, total sector dispatches stood at 11.67MT (including exports) compared to 10.31MT in 2M-20, depicting an increase of 13.2%Y/Y, where Arabian cement has acquired a market share of 9.9% from the total sales in 2M-21 compared to a market share of 5.4% for the same period last year.

Arabian cement is expected to post SAR 241.5mn in net income (2.42 EPS) for FY21, an increase of 30.6%Y/Y, supported by the increase of its market share. The company is currently trading at TTM PE of 22.0x compared to a forward PE of 16.9x based on FY21 earnings. We expect the company to generate a strong FCF of SAR 348.9mn, which increases the possibility of high DPS of SAR 2.20/share during FY21, resulted in a D/Y of 5.4%. We maintain our **"Overweight"** recommendation on the stock with a revised TP at **SAR 47.0/share**.

Results Summary

SARmn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	234.7	237.0	290.8	23.9%	22.7%	-12.3%
Gross Profit	96.1	102.7	97.0	0.9%	-5.6%	-27.1%
Gross Margin	41.0%	43.3%	33.3%	-	-	-
EBIT	129.9	89.4	69.4	-46.5%	-22.4%	-37.5%
Net Profit	73.6	78.9	53.3	-27.6%	-32.4%	-43.9%
EPS	0.74	0.79	0.53	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR)	47.0
Upside / (Downside)*	15.33%

Source: Tadawul *prices as of 14th of March 2021

Key Financials

(in SAR mn, unless specified)	FY19	FY20	FY21E
Revenue	782.0	871.9	1,108.1
Growth %	30.2%	11.5%	27.1%
Net Income	208.7	184.9	241.5
Growth %	NM	-11.4%	30.6%
EPS	2.09	1.85	2.42

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	40.4%	34.7%	32.8%
Net Margin	26.7%	21.2%	21.8%
P/E (x)	17.63	19.93	16.87
P/B (x)	1.24	1.23	1.35
EV/EBITDA (x)	8.8	10.3	9.3
Dividend Yield	4.8%	5.4%	5.4%

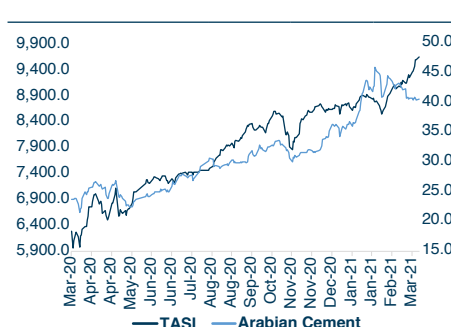
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	4.10
YTD %	10.58%
52 Week (High)/(Low)	46.30/21.20
Shares Outstanding (mn)	100.0

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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