



US\$2.762bn Market cap 85% Free float US\$3.9754mr Avg. daily volume

Target price 57.00 -16.1% below current
Current price 67.90 as at 04/11/2019

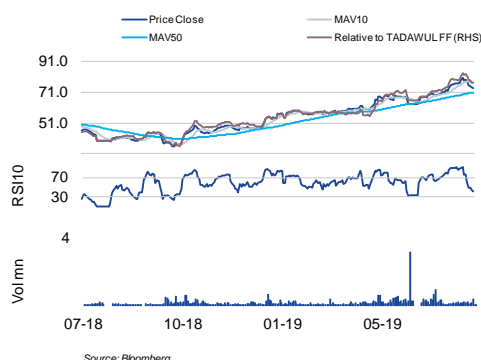
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2018	2019e	2020e
Revenue	1,120	1,393	1,422
Revenue growth	-5.5%	24.5%	2.1%
Gross profit	538	620	711
Gross margin	48.1%	44.5%	50.0%
EBITDA	618	662	749
EBITDA margin	55.2%	47.5%	52.7%
Net profit	401	415	502
Net margin	35.8%	29.8%	35.3%
EPS	2.6	2.7	3.3
P/E	18.5x	25.1x	20.8x
EV/EBITDA	12.9x	16.6x	14.4x
RoE	14.4%	15.3%	19.1%

Source: Company data, Al Rajhi Capital

Saudi Cement

Q3: Lower exports and realization

Saudi Cement topline came in at SAR310mn below our estimates (-9% miss) and previous quarter level (-8% q-o-q), however it was significantly higher on a y-o-y basis (+29% y-o-y) which was mostly an effect of low base (in Q3 2018 the cement market had all time low prices). The main reason for miss was lower than expected exports and realization as prices decreased ~5% q-o-q and were higher only by ~13% y-o-y. Since the company's revenue decreased on a q-o-q basis and exports came in lower than expectation (357k of export; -14% y-o-y and -17% q-o-q), the company is targeting to acquire higher local market share which it aims to achieve by maintaining lower prices compared to competition. We have observed a price increase of only +13% y-o-y for Saudi Cement vs. ~86% y-o-y for peers, which is a substantial gap. The company strategy of targeting higher market share seems to be successful as the company was able to increase its market share by 120 bps y-o-y to 11.3% of the local market making it the second largest player vs. third largest in 3Q18. Cost per ton came slightly higher (+40% y-o-y) than expected and it has been increasing since start of the year due to lower production levels to reduce inventory. However, on q-o-q basis the production cost came ~10% lower signalling that the company might be on track to lowering production costs to normal levels. We revise our TP to SAR57/sh. (earlier SAR59/sh.). Although, the stock offers an attractive dividend yield of 4.8%, we believe the upside is capped as the stock has rallied 40% YTD. We remain Underweight on the stock. Despite higher growth, even at our 2021 EPS, the company trades at around 18x P/E.

Q3 results: Revenue increased 29% y-o-y to SAR310mn (below our estimate of SAR342mn); owing to 13% y-o-y increase in prices (~5% q-o-q) and lower export sales volume of -14% y-o-y. Domestic cement sales volume increased 24% y-o-y. Gross profit grew to SAR132mn (+17% y-o-y, -6% q-o-q) on the back of higher realized prices, implying gross margin of 43% (Q3 2018:47%). Operating costs have increased significantly by 20% y-o-y mainly due to higher exportation and transportation costs.

Figure 1 Saudi Cement: Summary of Q3 2019 results

	Q3 2019	Q2 2019	Q3 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	310	339	240	29%	-8%	342
Gross Profit	132	140	113	17%	-6%	164
Gross Margin	43%	41%	47%			48%
Operating Profit	93	100	81	15%	-7%	125
Net Profit	83	92	75	10%	-10%	117

Source: Company data, Al Rajhi Capital

Valuation and risks: In Q3, lower export and realization undermined the overall sales. Despite the growth of sold quantities the excess inventory increased significantly to 5.6mn tons (+9% q-o-q, 122% of 12m sales). Furthermore, the company was able to increase its local market share in Q3 to 11.3% (Q3 18: 10.1%). We value the company based on an equal mix of DCF and relative valuation (forward P/E of 17.7x). The company currently trades at a forward P/E of 20.8x slightly higher than peers average of 20.5x. **The key downside risks** are further decline in exports and increase in production costs. **The key upside risks** are higher than expected market share and higher than forecasted pick up in government's infrastructure spending.



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"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.

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