

## Cement Sector

## Arabian Cement Co.

**Maintain BUY: 12M TP @ 36**

### Valuation Summary (TTM)

Price (SAR)	32.050
PER TTM (x)	22.6
P/Book (x)	1.3
P/Sales (x)	3.6
EV/Sales (x)	3.9
EV/EBITDA (x)	11.3
Dividend Yield (%)	6.5
Free Float (%)	90%
Shares O/S (mn)	100
YTD Return (%)	-4%
Beta	1.0

(mn)	SAR	USD
Market Cap	3,205	855
EV	3,350	893

Price performance (%)	1M	3M	12M
Arabian Cement Co	0%	-12%	-12%
Tadawul All Share Index	2%	-7%	-4%
Industry Index	2%	-7%	-4%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	3,149	3,650	5,321
Avg Daily Volume (,000)	98	110	148

52 week	High	Low	CTL*
Price (SAR)	39.90	30.65	4.6

\* CTL is % change in CMP to 52wk low

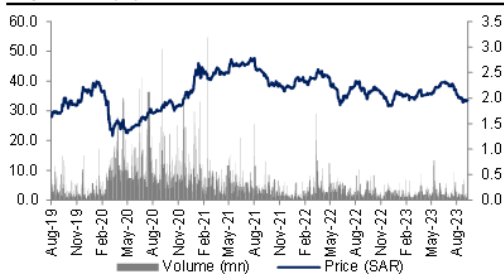
### Major shareholders

AIN SEIN INV CO	7%
Vanguard Group Inc/T	1.9%
BlackRock Inc	1.2%
Others	89.6%

### Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.2%

Key ratios	2020	2021	2022
EPS (SAR)	1.85	1.62	1.81
BVPS (SAR)	28.73	27.50	26.35
DPS (SAR)	2.25	2.75	2.20
Payout ratio (%)	122%	170%	122%

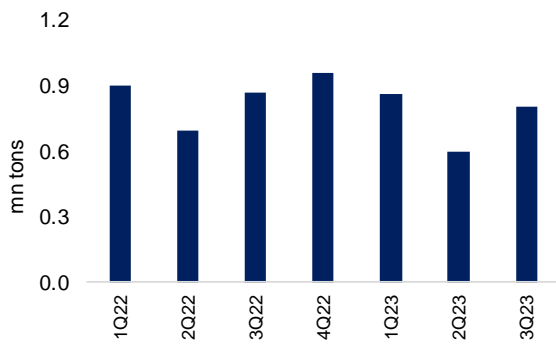


Arabian Cement Company (ACC) reported its 3Q23 revenue at SAR214mn, which was lower by 11.2% YoY. The topline was impacted by a 20.9% YoY fall in the blended realization, a 7.4% YoY fall in cement volumes, and a 3.3% YoY fall in revenue from its Jordan operations. Even as a 492.0% YoY growth in clinker volumes supported sales to a certain extent. Revenue was also lower than our estimate of SAR233mn. Gross profit of ACC declined by 35.4% YoY to SAR53mn, as gross margins fell to 24.7% in 3Q23 from 34.0% in 3Q22. SG&A expenses increased by 5.6% YoY, at the back of higher selling and distribution expenses. The company also booked a 22.0% YoY increase in Zakat provisions for the quarter. Overall net income fell by 49.6% YoY to SAR30mn and was also lower than our expectation of SAR40mn. Going forward we expect pricing to remain weak owing to increased competition, which will continue to cast a shadow on the financial performance of ACC. However, the stock is currently quoting at c.21x its 2024e EPS, which discounts most of the downside. Based on the current results, we have reduced our target price on the stock from SAR43/share to SAR36/share, but maintain our BUY rating.

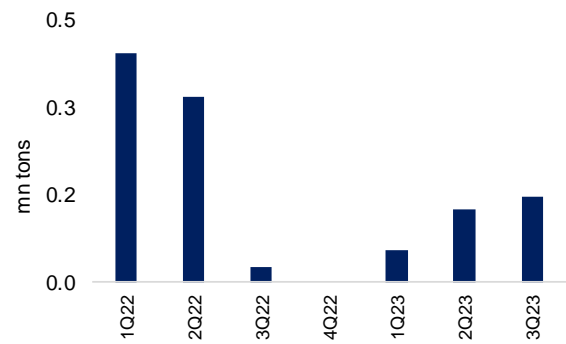
**Cement prices to remain weak:** Cement demand in Saudi has been weak in 2023, with the industry sales volume falling by 5.6% YoY for 9M23 and 3Q23. ACC has underperformed the industry in both the periods, with its volumes declining by 8.1% YoY and 7.4% YoY for 9M23 and 3Q23 respectively. However, its growth in clinker volume has been robust at 492% YoY for 3Q23, compared to a fall in volume of 8.4% for the industry during the same period. The company is a mid-sized player in the industry with a market share of 6%, in terms of cement volumes sold, for YTD'Sep-23. In this scenario, we expect ACC's realization will continue to face downward pressure in the face of continued price competition in the region. Though we expect the cement volumes to recover in 4Q23 (QoQ) and clinker volumes will continue to remain steady, these may not be sufficient to make up for the lower cement prices. As a result, we expect the pressure on the financial performance to persist in the coming quarters.

**Valuations:** With the industry demand for cement remaining lacklustre in the Kingdom, and the cement prices expected to remain under pressure in the coming quarters, we have reduced our forecast and the target price. However, since our last report the price has fallen by more than 20%, which we feel has discounted most of the negatives. We revise our target price downwards to SAR36/share, while retaining our BUY rating.

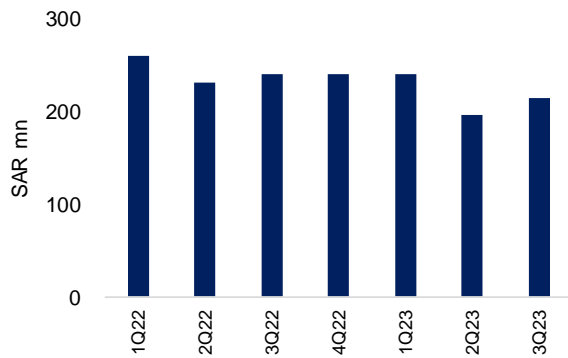
### Cement volume under pressure



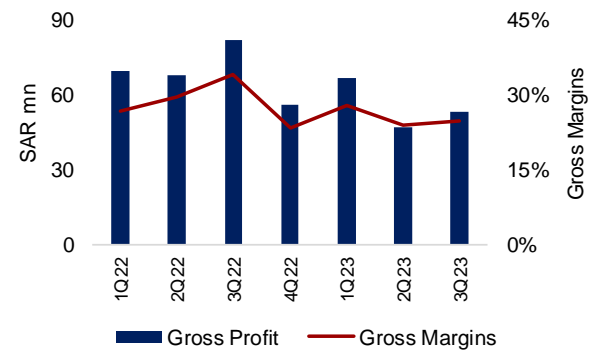
### Clinker volume recovers in 3Q23



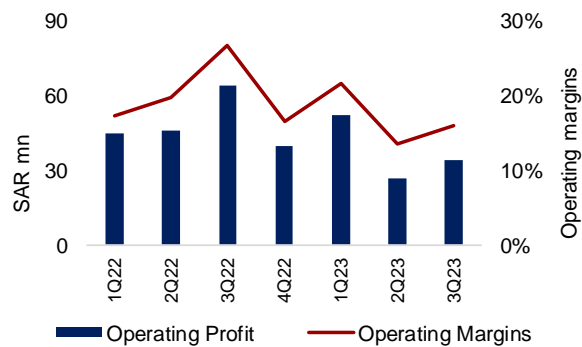
### 3Q23 sales fall due to lower cement volume & price



### Gross margin fall at the back of lower revenue



### Operating margins and profit face pressure



Source: Company filings and US Research

Income Statement(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	782	872	1,033	971	869	902	932	963	995
Cost of sales	(466)	(569)	(724)	(696)	(653)	(670)	(680)	(697)	(714)
<b>Gross profit</b>	<b>316</b>	<b>303</b>	<b>309</b>	<b>275</b>	<b>216</b>	<b>232</b>	<b>252</b>	<b>266</b>	<b>281</b>
Operating expenses	(7)	(72)	(114)	(81)	(73)	(75)	(77)	(79)	(81)
<b>Operating profit</b>	<b>309</b>	<b>231</b>	<b>195</b>	<b>193</b>	<b>143</b>	<b>157</b>	<b>175</b>	<b>187</b>	<b>200</b>
Other income	(43)	7	23	29	24	25	25	26	26
Finance expenses	(34)	(25)	(19)	(16)	(16)	(9)	(4)	-	-
<b>Earnings before tax</b>	<b>231</b>	<b>213</b>	<b>199</b>	<b>207</b>	<b>151</b>	<b>172</b>	<b>196</b>	<b>213</b>	<b>226</b>
Tax	(18)	(21)	(29)	(23)	(17)	(20)	(23)	(25)	(26)
<b>Net income</b>	<b>213</b>	<b>191</b>	<b>170</b>	<b>184</b>	<b>133</b>	<b>152</b>	<b>173</b>	<b>188</b>	<b>200</b>
Minority interest	(4)	(6)	(8)	(3)	(1)	(1)	(1)	(2)	(2)
<b>Net income post MI</b>	<b>209</b>	<b>185</b>	<b>162</b>	<b>181</b>	<b>132</b>	<b>152</b>	<b>172</b>	<b>186</b>	<b>198</b>

Balance Sheet(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,434	2,330	2,199	2,101	1,993	1,886	1,780	1,676	1,572
Investments	137	180	150	109	109	109	109	109	109
Investments in associates	57	48	55	67	76	86	96	106	116
Other non-current assets	53	53	47	44	42	41	39	37	36
<b>Total non-current assets</b>	<b>2,682</b>	<b>2,611</b>	<b>2,449</b>	<b>2,321</b>	<b>2,221</b>	<b>2,122</b>	<b>2,024</b>	<b>1,928</b>	<b>1,833</b>
Inventory	580	548	408	455	410	404	393	386	377
Receivables	230	222	204	221	197	205	212	219	226
Cash & Cash Equivalents	144	234	143	264	362	371	380	394	445
Other current assets	11	22	228	20	20	20	20	20	20
<b>Total current assets</b>	<b>965</b>	<b>1,026</b>	<b>984</b>	<b>959</b>	<b>989</b>	<b>1,000</b>	<b>1,005</b>	<b>1,019</b>	<b>1,068</b>
<b>Total assets</b>	<b>3,647</b>	<b>3,637</b>	<b>3,433</b>	<b>3,280</b>	<b>3,210</b>	<b>3,121</b>	<b>3,029</b>	<b>2,946</b>	<b>2,900</b>
Share Capital	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total reserves	1,883	1,873	1,750	1,635	1,617	1,594	1,566	1,527	1,475
Minority interest	75	75	84	87	88	89	91	93	95
<b>Total Equity</b>	<b>2,958</b>	<b>2,948</b>	<b>2,833</b>	<b>2,722</b>	<b>2,706</b>	<b>2,683</b>	<b>2,656</b>	<b>2,620</b>	<b>2,570</b>
Payables	174	211	196	174	163	167	170	174	178
Short term debt	89	11	8	43	71	68	50	-	-
Other current liab.	38	35	33	31	31	31	31	31	31
<b>Total current liabilities</b>	<b>301</b>	<b>256</b>	<b>236</b>	<b>248</b>	<b>265</b>	<b>267</b>	<b>252</b>	<b>206</b>	<b>210</b>
Long-Term Debt	331	323	249	189	118	50	-	-	-
Long-term lease liabilities	5	5	4	4	4	4	4	4	4
Other non-current liab.	53	106	110	117	117	117	117	117	117
<b>Total non-current liabilities</b>	<b>388</b>	<b>433</b>	<b>363</b>	<b>310</b>	<b>239</b>	<b>171</b>	<b>121</b>	<b>121</b>	<b>121</b>
<b>Total Liabilities</b>	<b>689</b>	<b>689</b>	<b>600</b>	<b>558</b>	<b>504</b>	<b>438</b>	<b>373</b>	<b>327</b>	<b>331</b>
<b>Equity and liabilities</b>	<b>3,647</b>	<b>3,637</b>	<b>3,433</b>	<b>3,280</b>	<b>3,210</b>	<b>3,121</b>	<b>3,029</b>	<b>2,946</b>	<b>2,900</b>

Cash Flows(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	261	406	467	235	326	290	315	328	340
Cash from investments	45	(26)	(231)	171	(35)	(36)	(37)	(39)	(40)
Cash from financing	(249)	(290)	(327)	(286)	(193)	(246)	(268)	(275)	(250)
Net changes in cash	58	91	(91)	120	98	9	9	14	50
<b>Cash balance</b>	<b>144</b>	<b>234</b>	<b>143</b>	<b>264</b>	<b>362</b>	<b>371</b>	<b>380</b>	<b>394</b>	<b>445</b>

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Per Share (SAR)</b>									
EPS	2.1	1.8	1.6	1.8	1.3	1.5	1.7	1.9	2.0
BVPS	28.8	28.7	27.5	26.4	26.2	25.9	25.7	25.3	24.7
DPS	1.8	2.3	2.8	2.2	1.5	1.8	2.0	2.3	2.5
FCF/share	2.0	3.7	4.4	1.9	2.9	2.5	2.8	2.9	3.0
Revenue/share	7.8	8.7	10.3	9.7	8.7	9.0	9.3	9.6	10.0
<b>Valuations</b>									
M.Cap (SAR mn)	3,680	3,685	3,780	3,390	3,205	3,205	3,205	3,205	3,205
EV (SAR mn)	3,841	3,636	3,568	3,274	2,939	2,851	2,766	2,694	2,636
P/E	17.6	19.9	23.4	18.7	24.3	21.1	18.7	17.2	16.2
EV/EBITDA	8.6	9.8	10.6	9.7	10.2	9.5	8.7	8.1	7.7
EV/Sales	4.9	4.2	3.5	3.4	3.4	3.2	3.0	2.8	2.6
P/BV	1.3	1.3	1.4	1.3	1.2	1.2	1.2	1.3	1.3
P/S	4.7	4.2	3.7	3.5	3.7	3.6	3.4	3.3	3.2
Div. yield	4.8%	6.1%	7.3%	6.5%	4.7%	5.5%	6.2%	7.0%	7.8%
FCF yield	5.5%	10.1%	11.6%	5.7%	9.1%	7.9%	8.7%	9.0%	9.4%
<b>Liquidity</b>									
Cash Ratio	0.5	0.9	0.6	1.1	1.4	1.4	1.5	1.9	2.1
Current ratio	3.2	4.0	4.2	3.9	3.7	3.7	4.0	5.0	5.1
Quick ratio	1.3	1.9	2.4	2.0	2.2	2.2	2.4	3.1	3.3
<b>Return ratio</b>									
ROA	5.8%	5.3%	5.0%	5.6%	4.2%	4.9%	5.7%	6.4%	6.9%
ROE	7.2%	6.4%	5.9%	6.9%	5.0%	5.8%	6.7%	7.4%	8.0%
ROCE	9.1%	7.0%	6.3%	6.5%	4.9%	5.6%	6.4%	7.1%	7.8%
<b>Cash cycle</b>									
Inventory turnover	0.8	1.0	1.8	1.5	1.6	1.7	1.7	1.8	1.9
Payables turnover	2.7	2.7	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Receivables turnover	3.4	3.9	5.1	4.4	4.4	4.4	4.4	4.4	4.4
Inventory days	448	346	203	235	226	217	208	199	190
Payable days	134	133	97	90	90	90	90	90	90
Receivables days	106	92	71	82	82	82	82	82	82
Cash Cycle	420	305	177	227	218	209	200	191	182
<b>Profitability ratio</b>									
Gross margins	40.4%	34.7%	29.9%	28.3%	24.9%	25.7%	27.0%	27.6%	28.2%
EBITDA margins	57.0%	42.6%	32.6%	34.8%	33.1%	33.4%	34.2%	34.4%	34.6%
Operating margins	39.5%	26.5%	18.9%	19.9%	16.4%	17.4%	18.7%	19.4%	20.1%
PBT margins	29.5%	24.4%	19.3%	21.3%	17.4%	19.1%	21.0%	22.1%	22.7%
Net margins	26.7%	21.2%	15.6%	18.6%	15.2%	16.8%	18.4%	19.3%	19.9%
Effective tax rate	8.0%	10.0%	14.7%	11.0%	11.5%	11.5%	11.5%	11.5%	11.5%
<b>Leverage</b>									
Total debt (SAR mn)	425	339	262	236	194	123	55	5	5
Net debt (SAR mn)	281	104	118	(28)	(169)	(248)	(325)	(390)	(440)
Debt/Capital	12.6%	10.3%	8.5%	8.0%	6.7%	4.4%	2.0%	0.2%	0.2%
Debt/Total assets	11.7%	9.3%	7.6%	7.2%	6.0%	3.9%	1.8%	0.2%	0.2%
Debt/Equity	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Debt/EBITDA	1.0	0.9	0.8	0.7	0.7	0.4	0.2	0.0	0.0
Net debt/EBITDA	0.6	0.3	0.4	(0.1)	(0.6)	(0.8)	(1.0)	(1.2)	(1.3)

## Key contacts

### Research Team

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## Rating Criteria and Definitions

Rating	Rating Definitions
	<b>Strong Buy</b> This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	<b>Buy</b> This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	<b>Hold</b> This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	<b>Neutral</b> This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	<b>Sell</b> This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	<b>Strong Sell</b> This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	<b>Not rated</b> This recommendation used for stocks which does not form part of Coverage Universe

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