



Qassim Cement beats estimates on higher than expected volumetric sales. Net income came at SAR 85.5mn, 34.5% above our estimates of SAR 63.6mn. Revenue came at SAR 167.4mn, well above our estimates of SAR 142.5mn. Volumetric sales stood at 850KT compared to our expectations of 642KT. Selling prices stood at SAR 197.0/tonne against our estimates of SAR 222.0/tonne. We maintain our “Neutral” recommendation on the stock with a TP at **SAR 62.60/share**.

- Qassim cement posted net income of SAR 85.5mn in Q2-20 (EPS; 0.95 /share); compared to SAR 70.5mn in Q2-19 and SAR 111.2mn in Q1-20. Net income surpassed our estimates and the market consensus estimates of SAR 63.6mn and SAR 65.2mn, respectively. The Y/Y growth in net income is mainly attributed to improved volumetric sales by 21.4%/Y/Y and improved GP margin by 535bps, which increased from 48.9% in Q2-19 to 54.3% in Q2-20. The deviation of Q2-20 earnings from our estimates is mainly ascribed to higher than expected volumetric sales.
- Revenue stood at SAR 167.4mn (an increase of 8.4%/Y/Y, and a decline of 36.0%/Q/Q), above our estimates of SAR 142.5mn due to higher than expected sales volume. During Q2-20, the company registered an increase of 21.4%/Y/Y in volumetric sales, as dispatches in Q2-20 stood at 850KT vs. 700KT in Q2-19, surpassing our volume estimates of 642KT. Average price realization/tonne stood at SAR 197.0/tonne, as compared to our estimates of SAR 222.0/tonne and SAR 220.8/tonne in Q1-20.
- Gross profit stood at SAR 90.9mn (an increase of 20.2%/Y/Y, and a decline of 40.5%/Q/Q), above our estimates of SAR 69.0mn, mainly due to higher than expected revenue. Cost per tonne stood at SAR 90.1/tonne compared to an average of SAR 105.7/tonne in FY19. We expect cost per tonne for FY20 to average at SAR 95.0/tonne.
- Operating profit stood at SAR 82.4mn, above our estimates of SAR 61.8mn due to an increase in gross profit. OPEX stood at SAR 8.5mn, showing an increase of 19.1%/Y/Y.

AJC view: Qassim cement dispatches for the first two months in the quarter showed a sharp decline by 16.1%/Y/Y due to lockdown. However, during June-20 dispatches increased by 110.1%/Y/Y due to pre-purchases before VAT increase from 5% to 15%. We believe, cement sector will face some short-term challenges, that will effect dispatches, however outlook is expected to improve in the mid to long-term. We don't expect any price war among players due to the recognized impacts on the companies' financials during the price war era. For 7M-20, total sector dispatches stood at 31.5MT (including exports) compared to 28.2MT in 7M-19, depicting an increase of 11.6%/Y/Y. Qassim cement is expected to post SAR 379.0mn in net income (4.21 EPS), for FY20, recording an increase of 5.1%/Y/Y supported by increase in volumetric sales. The company is currently trading at TTM PE of 13.9x compared to a forward PE of 15.8x based on FY20 earnings. The company is expected to pay attractive dividend of SAR 3.50/share (5.3% D/Y) in FY20, owing to its strong balance sheet and zero debt. We maintain our “Neutral” recommendation on the stock with a TP at **SAR 62.60/share**.

Results Summary

SARmn	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	154.5	261.7	167.4	8.4%	-36.0%	17.5%
Gross Profit	75.6	152.8	90.9	20.2%	-40.5%	31.7%
<i>Gross Margin</i>	<i>48.9%</i>	<i>58.4%</i>	<i>54.3%</i>	-	-	-
EBIT	68.4	129.2	82.4	20.3%	-36.3%	33.3%
Net Profit	70.5	111.2	85.5	21.3%	-23.1%	34.5%
EPS	0.78	1.24	0.95	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **62.60**

Upside / (Downside)* **-5.8%**

Source: Tadawul *prices as of 17th of August 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenue	791.8	821.4	776.9
Growth %	86.0%	3.7%	-5.4%
Net Income	360.7	379.0	375.3
Growth %	198.6%	5.1%	-1.0%
EPS	4.01	4.21	4.17

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	53.9%	53.9%	53.2%
Net Margin	45.6%	46.1%	48.3%
P/E	16.5x	15.8x	15.9x
P/B	3.3x	3.2x	3.1x
EV/EBITDA	12.1x	11.2x	11.2x
Dividend Yield	3.6%	5.3%	5.1%

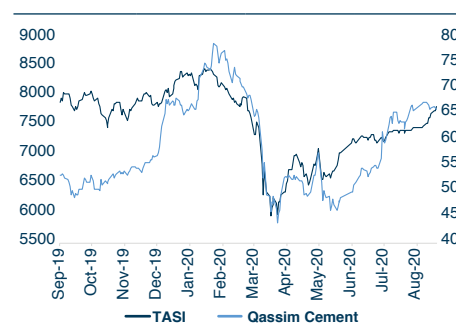
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	5.98
YTD %	0.76%
52 Week (High)/(Low)	79.30/43.10
Shares Outstanding (mn)	90.00

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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