

Eastern cement posted net income of SAR 46.0mn beating our estimates of SAR 34.4mn duo to higher than expected selling price and export sales. Price realization jumped by 30%Y/Y to the highest level since FY16, while cost per tonne came 6% below our estimates. We update our recommendation to **“Neutral”** on the stock with a revised TP at SAR 28.80/share.

- Q1-19 net profit stood at SAR 46.0mn (EPS; SAR 0.53/share); an increase of 77%Q/Q and 171%Y/Y. Eastern cement net profit was higher than our estimates and the market consensus estimates of SAR 34.4mn and SAR 30.7mn, respectively. Y/Y growth was attributed to an increase in volumetric sales by 12.1% and an increase of 30% in selling price.
- Eastern cement posted sales at SAR 181.0mn, an increase of 18.0%Q/Q and 30.5%Y/Y, above our estimates of SAR 168.4mn despite of decline in revenue from concrete by 12.6%Y/Y. Strong growth is mainly attributed to higher than expected selling price and an increase in volumetric sales, which stood at 649KT compared to our expectations of 595KT, and 579KT registered in Q1-18. Price realization per tonne stood at SAR 231/tonne Vs. SAR 223/tonne in Q4-18 with an increase of 2.5%Q/Q. We believe that the price realization per tonne will continue the same high level.
- Gross profit at SAR 58.0mn (an increase of 46.1%Q/Q, 78.8%Y/Y), came above our estimates of SAR 42.9mn, due to an increase in revenue by 30.5%Y/Y. Based on our calculations, cost per tonne stood at SAR 149.3/tonne compared to our expectations of SAR 158.1/tonne and SAR 131.1/tonne in Q1-18.
- Operating profit stood at SAR 40.0mn, above our estimates of SAR 29.1mn due to an increase in gross profit. OPEX at SAR 17.0mn, showed an increase of 11.1%Y/Y.

AJC view: Q1-19 earnings indicate that 12.1%Y/Y growth in volumetric sales was mainly supported by export sales of 145KT, while price realization jumped by 30%Y/Y to the highest level since FY16. Clinker inventory witnessed an increase of 4.2%Y/Y to 2.8MT, which can be sufficient to cover around 130% of its total expected volumetric sales in FY19. We believe, cement sector is starting to recover from its current downtrend due to producer's concentration on selling prices and an increase in export sales. Selling prices are expected to sustain the high level in FY19. Furthermore, mega projects and other housing initiatives are the key growth driver for the Saudi cement sector and could be realized beyond FY19. We expect the company to generate a strong FCF of SAR 120mn, which increases the possibility of higher DPS at SAR 1.25/share during FY19, given a strong balance sheet and zero debt. Eastern cement is expected to post SAR 145.5mn in net income (1.69 EPS), for FY19, an increase of 108.4%Y/Y. The company is currently trading at TTM PE of 25.2x compared to a forward PE of 15.1x based on FY19 earnings. We update our recommendation to **“Neutral”** on the stock with a revised TP at **SAR 28.80/share**.

Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	139.0	153.0	181.0	30.2%	18.3%	7.5%
Gross Profit	32.0	40.0	58.0	81.3%	45.0%	35.1%
Gross Margin	23.4%	25.9%	31.9%	-	-	-
EBIT	17.0	24.0	41.0	141.2%	70.8%	41.1%
Net Profit	17.0	26.0	46.0	170.6%	76.9%	33.6%
EPS	0.19	0.30	0.53	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) **28.80**

Upside / (Downside)* **13.9%**

Source: Tadawul *prices as of 16th of May 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenues	640.6	565.7	619.9
Growth %	-25.2%	-11.7%	9.6%
Net Income	107.1	69.7	145.5
Growth %	-52.8%	-34.9%	108.6%
EPS	1.25	0.81	1.69

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	25.8%	23.2%	29.7%
Net Margin	16.7%	12.3%	23.5%
P/E	21.2x	25.6x	15.1x
P/B	1.03x	0.81x	0.99x
EV/EBITDA (x)	10.96x	10.08x	9.46x
Dividend Yield	3.8%	3.6%	4.9%

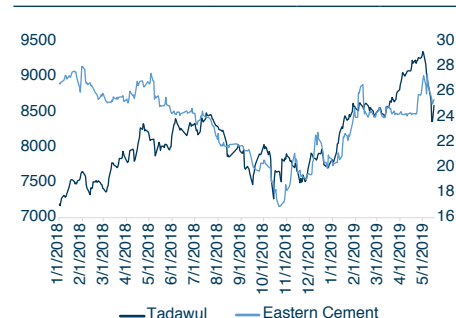
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	2.36
YTD %	21.9%
52 Week High/ Low	28.0/16.70
Shares Outstanding (mn)	86.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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.
- 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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