



**US\$0.855bn** Market cap  
**81%** Free float  
**US\$2.045mn** Avg. daily volume

**Target price** 37.00 14.7% over current  
**Current price** 32.25 as at 05/11/2019

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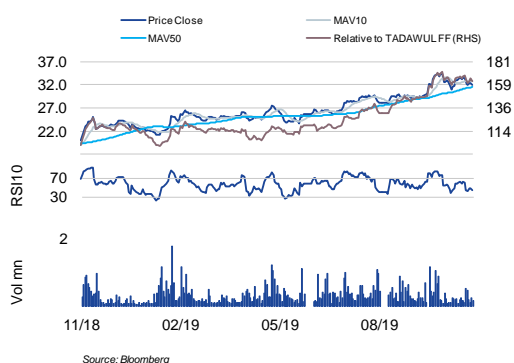
**Existing rating**

<b>Underweight</b>	<b>Neutral</b>	<b>Overweight</b>
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## Arabian Cement

### Q3: Earnings beat; TP revised to SAR37/sh.

#### Performance



#### Earnings

(SARmn)	2018	2019e	2020e
Revenue	601	770	780
Revenue growth	1%	28%	0%
Gross profit	38	339	347
Gross margin	6%	44%	45%
EBITDA	122	400	403
EBITDA margin	20%	52%	52%
Net profit	-26	215	222
Net margin	-4%	28%	29%
EPS	-0.26	2.15	2.22
DPS	1.00	1.75	2.00
Payout ratio	NA	81%	90%
EV/EBITDA	20.2x	8.8x	8.4x
P/E	-85.5x	14.9x	14.4x
RoE	-0.9%	7.7%	7.9%

Source: Company data, Al Rajhi Capital

Arabian Cement reported net profit at SAR60.6mn in Q3 2019, beating our estimate of SAR42mn as well as consensus estimates of SAR42.9mn. The beat was primarily driven by higher-than-expected top-line, coupled with improved operating efficiencies. Further, the company's Jordanian operations witnessed a sharp improvement in its performance with the net profit generated from the Jordanian operations reaching to SAR28.2mn (Q3 2018: SAR8.9mn; Q2 2019: SAR5.9mn), primarily due to higher selling prices. Moreover, the total revenue increased 64.1% y-o-y (+46.6% y-o-y based on our estimate), wherein, domestic revenue grew 77.0% y-o-y to SAR106mn and Jordanian revenue rose 51.0% y-o-y to SAR87mn – both entirely aided by increased selling prices despite challenging market conditions. However, the ongoing weakness in the local market has reduced the company's market share to 4.8% (Q3 2018: 5.1%; Q2 2019: 4.9%). Nonetheless, in 2019 so far, improvement in selling prices remains the performance driver for the company, as the company has shifted towards higher pricing strategy. Going forward, we believe that the company will continue to benefit from increased selling prices, particularly in Jordanian market. Post better-than-expected Q3 results, we revise our TP to SAR37/sh. (SAR29/sh. earlier) and rating to overweight (Neutral earlier) on the stock.

**Q3 results:** Total revenue increased 64.1% y-o-y to SAR194mn, driven by higher selling prices and increase in volume. Total cement sales volume grew 5.1% y-o-y (12.6% q-o-q) to 493k tons in Q3 2019 (Q3 2018: 469k tons, Q2 2019: 438k tons). Average domestic selling price came at SAR220/ton (+98% y-o-y, flat q-o-q), while for Jordan, it was likely higher by ~70% y-o-y as per our calculation. On account of higher selling prices coupled with better efficiencies, gross profit jumped by 119% y-o-y (45% q-o-q) to SAR94mn. Accordingly, net profit came at SAR60.6mn, higher than our estimates of SAR42mn.

**Figure 1 Arabian Cement: Summary of Q3 2019 results**

(SAR mn)	Q3 2018	Q2 2019	Q3 2019	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	118	165	194	64%	18%	173
Gross Profit	43	64	94	119%	47%	75
Gross Margin	36.4%	38.8%	48.5%	NA	NA	43.4%
Operating profit	26	50	80	210%	62%	58
Net Profit	14	37	61	321%	62%	42

Source: Company data, Al Rajhi Capital

**Valuation and risks:** Post Q3 results, we revise our forward looking estimates upwards, mainly on account of increased average selling prices and sales volume. On the dividends, the company distributed a dividend of SAR 0.75/sh of H1 2019. Going forward we believe that the company is likely to increase the pay-out further in H2 2019, owing to healthy cash position, high retained earnings level and highly valuable liquid assets. Further, the company currently trades at an attractive dividend yield of ~5.5%, which is positive for income seeking investors. Accordingly, we raise our target price to SAR37/sh (SAR29/sh earlier) implying an Overweight rating on the stock. **The downward key risks** are lower than expected market demand and lower than forecasted selling prices. **The key upward risks** are higher than anticipated cement selling prices, higher than forecasted government's infrastructure spending pick up and higher than expected benefits of governmental subsidies.



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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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