US$0.731bn	71%	US$11.62mn
Market cap	Free float	Avg. daily volume

Target price	18.00	11.7% over current
Current price	16.12	as at 26/10/2020

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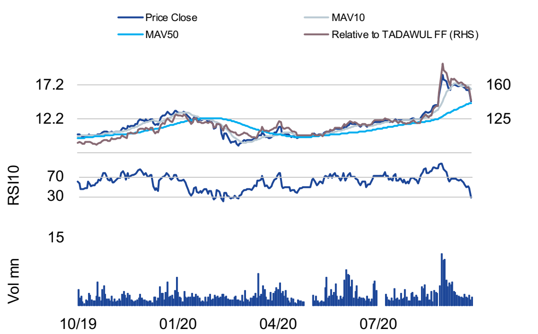
Existing rating

Underweight	Neutral	Overweight

Performance



Earnings

(SARmn)	FY19	FY20E	FY21E
Revenue	416	603	658
Revenue growth	49.6%	44.7%	9.2%
Gross profit	196	311	340
Gross margin	47%	52%	52%
EBITDA	162	271	298
EBITDA margin	39%	45%	45%
Net profit	54	165	194
Net margin	13%	27%	29%
EPS	0.31	0.97	1.14
DPS	0.00	0.75	0.91
Payout ratio	0.0%	77.0%	80.0%
P/E	51.2x	16.6x	14.2x
RoE	3%	8%	9%

Source: Company data, Al Rajhi Capital

Najran Cement

Earnings beat estimates; Increase TP to SAR 18

Najran Cement (NCC) registered revenue of SAR159mn, a y-o-y growth of 63.5% and, was slightly higher than our estimate of SAR151mn. Growth in sales was supported by a 57.4% y-o-y growth in volume and a 3.8% increase in average realization. Cement sales volume for Q3 20 came in at 0.78mn tons, 7.3% higher than our estimate, though the average realization at SAR203/ton was lower than our estimate of SAR206/ton. Continued growth from mortgages aided volume growth. Gross profits and operating income increased by 107.3% y-o-y and 134.8% y-o-y respectively, aided by higher volume and the resulting improvement in operating leverage. For the nine months, NCC registered a volume growth of 48.1% y-o-y. Growth was aided by strong momentum in real estate activities in the local market. Going forward, we expect this trend to continue, though growth rates for 2021 will be tempered by the higher base in 2020. Average realizations are likely to come under pressure, given the competitive nature of the local market. After taking into account the current quarter performance, we increase our target price to SAR18/share from the earlier target price of SAR16/share and have maintained our rating at "Overweight".

Q3 results: Total volume sold during the quarter was at 0.78mn tons in 3Q20, compared to 0.59mn tons in 2Q20 and 0.50mn tons a year back. Average realizations on the other hand at SAR203/ton was lower than SAR206/ton in 2Q20 and SAR195/ton a year back. Aided by improved operating leverage, gross margins increased to 39.0% in 3Q20, corresponding to 30.8% a year back, though was lower than 41.4% in 2Q20. Net margins at 29.8% in 3Q20, was higher compared to 27.1% in 2Q20 and 14.5% a year back, aided by higher volume and better control over operating cost.

Figure 1 Najran Cement: Summary of Q3 2020 results

(SARmn)	Q3 2020	Q3 2019	Q2 2020	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	159	97	121	63%	31%	151
Gross Profit	62	30	50	107%	23%	56
Gross Margin	39%	31%	41%	NA	NA	37%
Operating Profit	52	22	40	135%	28%	46
Net Profit	47	14	33	235%	44%	39

Source: Company data, Al Rajhi Capital

Valuation and risks: For our estimates, we expect input and energy prices to remain flat. We value the company based on an equal mix of DCF and relative valuation. The DCF target price is based on a 2.5% terminal growth and WACC of 12% and comes to SAR15/share. P/E is based on a multiple of 18.5x and comes to SAR20/share. Overall, we have increased our target price for the company to SAR18 per share, an upside of 11.7%, which implies an "Overweight" rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the 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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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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