MARCH 2021

KSA CEMENT SECTOR

الأهلي كابيتال
NCB Capital

STRONG DEMAND TO SUPPORT OUTLOOK

We maintain our positive outlook for the Saudi Cement sector. The ongoing housing programs, pick-up in the Giga projects and PIF's 2021-2025 strategy are expected to be the key growth drivers. We estimate local cement sales to grow by +3.5% yoy in 2021f to 52.8mn tons, following to a strong growth of +20.7% yoy in 2020 to 51.1mn tons. This is expected to result in an attractive 2021f dividend yield of 5.1%, which is the sector's major attractiveness. However, cement price volatility is a key concern. We upgrade our rating on Eastern Cement to Overweight and downgrade Yanbu Cement to Neutral.

This is an extract of our published report, the full version of which can be found on the Alahlicapital.com website

- **Major projects to drive demand:** Demand is expected to remain robust in 2021f (up +3.5% to 52.8mn tons), up from already strong growth of +20.7% in 2020. This is driven by the ongoing Ministry of Housing initiatives, Giga projects and the PIF's 2021-2025 strategy. Demand from the housing sector remains strong with the value of new mortgages reaching a record high of SAR32.8bn in January 2021. Work on the Giga projects is expected to accelerate in 2021 as multiple contracts were awarded recently. Additionally, PIF 2021-2025 strategy, Riyadh and Soudah development projects are expected to support demand over the medium term.
- **Prices to increase from the recent lows:** Local cement prices averaged SAR174/ton in Q4 20, down -16.1% and 8.0% from 2019 and Q3 20 levels, respectively. We expect this was largely due to strong competition (particularly in Central Region), restricting the sector's ability to pass on the impact of VAT hike. As demand improves across Saudi in 2021f, we expect prices to average SAR183/ton. Selling price weakness remains a key risk.
- **Attractive dividend yields:** We believe the Saudi cement companies are well positioned to further improve their payouts in 2021f, (pay-out ratios 106.3% for the sector), reflecting in an attractive 2021f dividend yield of 5.1%. This will be mainly driven by strong sales growth, limited capex, declining inventory and low leverage ratios.
- **Upgrade Eastern to OW and downgrade Yanbu to Neutral:** We upgrade Eastern Cement to OW due to its attractive dividend yield (6.3%) and an unjustified valuation discount. On a relative basis, we prefer Saudi Cement due to its attractive dividend yield of 5.4% and a slight discount to the sector. We downgrade Yanbu Cement to Neutral as we believe the stock is fairly valued at the current levels, after a strong price rally since our last update.

Saudi Cement companies – Valuation matrix

	Rating	Current Price	Price Target	Upside/ Downside	Stock perf (%) YTD	PE (x) `21	Implied PE (x) `21	EV/ EBITDA `21	EV/ton ($) `21	DY (%) `21
Eastern Cement	OW	43.7	51.8	18.6%	6.1	16.8	19.9	11.1	290	6.3
Southern Cement	N	86.8	82.6	(4.8)%	3.0	19.6	18.6	14.6	279	5.8
Arabian Cement	N	41.0	39.9	(2.7)%	11.3	20.6	20.0	11.6	154	5.5
Yamama Cement	N	33.8	31.5	(6.7)%	14.4	29.1	27.2	14.2	282	3.0
Qassim Cement	N	87.9	83.7	(4.8)%	8.5	20.2	19.3	16.6	497	5.1
Yanbu Cement	N	44.4	47.3	6.6%	9.4	22.6	24.1	13.5	287	5.1
Saudi Cement	N	64.6	66.9	3.5%	5.0	19.4	20.1	12.5	319	5.4

Source: NCBC Research, Bloomberg, N: Neutral, UW: Underweight, OW: Overweight

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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