

Cement Sector

City Cement Company

First Cut – City Cement Co.

Fall in cement volume and lower cement realization impacts revenue: City Cement 3Q23 revenue at SAR71mn was down by 29.4% YoY and was impacted by a 25.2% YoY fall in cement volume to 0.5mn tons, and a 5.5% YoY fall in the cement realization to SAR146/ton. The reported revenue was lower than our expectation of SAR89mn and was attributed to lower-than-expected cement realization, even as volume were in line with our estimates.

Lower revenue and higher costs put pressure on profitability: Gross profit fell by 54.3% YoY to SAR13mn and was impacted by lower revenue, and higher cost of sales per ton, which increased by 7.7% YoY to SAR119/ton. Gross margins fell to 18.4% in 3Q23, compared to 28.4% a year back. Operating expenses on the other hand came higher by 28.7% YoY to SAR10mn, as operating profit fell by 85.6% YoY to SAR3mn. Net income at SAR4mn was lower by 82.5% YoY, and was also substantially lower than our expectation of SAR24mn.

Target price will be revised post underwhelming results: Overall, the operating performance of the company has been weak and lower than our expectation. City Cement is a relatively small player in the highly competitive Central region, where the players are resorting to aggressive pricing. This is likely to have an impact on the company's financial for the coming few quarters. We have a NEUTRAL rating and a target price of SAR21 per share on the stock and it is currently quoting at 39x its 2023E EPS. We will be taking a relook at the target price of the company, post its unimpressive set of numbers.

in SAR mn	3Q23	2Q23	QoQ	3Q22	YoY	3Q23e	VaR	9M23	9M22	YoY	2022	2021	YoY	2023E	YoY
Revenue	71	78	-9.1%	100	-29.4%	89	-20.5%	257	297	-13.7%	431	497	-13.2%	328	-24.1%
Gross profit	13	31	-57.9%	28	-54.3%	30	-56.7%	77	88	-12.3%	145	208	-30.0%	89	-38.6%
Gross margins (%)	18.4%	39.6%		28.4%		33.7%		29.9%	29.5%		33.7%	41.8%		27.2%	
Operating profit	3	22	-86.3%	21	-85.6%	21	-85.9%	49	62	-21.7%	111	174	-36.4%	52	-53.1%
Operating margins	4.2%	27.8%		20.6%		23.7%		19.0%	21.0%		25.7%	35.1%		15.9%	
Net income	4	24	-81.8%	25	-82.5%	24	-81.8%	56	67	-16.3%	115	160	-28.2%	60	-47.6%
Net margins	6.3%	31.2%		25.2%		27.2%		21.9%	22.6%		26.7%	32.3%		18.4%	

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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