



Pricing Pressure to Ease in the Near Future, Giga Projects to Drive Long-Term Demand KSA Cement Sector | Sector Report

Eqity Analyst

Ahmed AlMutawah

+966 11 2256250

a.almutawah@aljaziracapital.com.sa

Short-term challenges on demand persistent, but the long-term drivers kicking off; selling prices to recover amid expected end of price war.

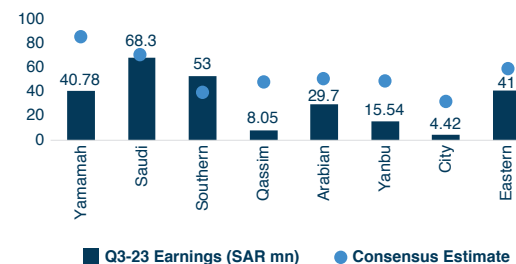
The Cement Sector in Saudi Arabia has been undergoing the effects of the changes in demand dynamics, as housing construction activities have been declining due to slowed mortgages market amid interest rate hikes. However, the demand pressure was mitigated by the execution of the Giga and Vision 2030 related projects. Since most of most of the values of those projects are not rewarded yet, we expect them to be the main driver for cement demand in the coming years, along with the government Capex. Accordingly, we expect volumetric sales to drop by 8.0% in FY23, and to recover by 3.0% in FY24; driven by higher acceleration in Giga project. On the other hand, the cement prices have been pressured by the fierce competition in the Central region where most of those current construction activities are conducted, supported by the high level of inventories, all this was reflected on the companies' earnings during Q2/Q3-FY23. Going forward, we expect the pressure on prices to ease, as more projects are awarded in regions other than the Central region. Thus, providing higher volumetric demand and lowering the current geographic concentration of the construction activities in the Central region. Consequently, the underlining potential in the Saudi cement sector is estimated to be witnessed over the /mid/long run. Given the recent dip in the stock prices and expected recovery for 2024 performance, we believe that the current valuation has been attractive for some of the stocks in our coverage, Yamama Cement, Riyadh Cement, Eastern Cement, Arabian Cement are our top picks in the sector.

Q3-23 earnings missed our estimates amid stronger than expected pressure on prices, earnings forecast to grow 21.1% Y/Y in FY24 backed by recovery in selling prices and volumes: Our cement universe posted earnings of SAR 260.8mn in Q3-23, a decline of 47.4%Y/Y and 25.4% Q/Q, missing our estimated SAR 349.5mn and the consensus's SAR 413.3 mn. The Y/Y and Q/Q decline came steeper than our estimate; mainly due to weaker than expected average selling prices (ASP) for the sector which stood at SAR 158.5 per tonne in Q3-23 (previous quarter: SAR 180). Moreover, local sales declined 4.8% Y/Y during Q3-23. This impacted the margins as well, GP margin for the companies under AJC's coverage stood at 25% in Q3-23, compared to 35% a year earlier, and the lowest margin since Q3-18. However, according to current market sentiment, ASP started to show improvement during Q4-23, which we expect to average around SAR 173.0 per tonne by the end of the quarter, and to recover gradually through FY24. Accordingly, we expect companies under AJC's coverage to record a growth of 21.1% Y/Y in earnings in FY24, after experiencing a 9.7% decline in FY23, to reach combined earnings of SAR 2.22bn.

Topline expected to rise 6.1% Y/Y in FY24 supported by 3.0% Y/Y volume growth; clinker inventories to ease from 3-year high: KSA cement sector witnessed a 7.4% decline in local cement dispatches to near 43.0mn tonnes in 11M-23 due to weak demand from housing constructions activities (average new mortgages per month down 39% Y/Y in 10M-23). This led to a 13.0% Y/Y increase in clinker inventories, reaching 39.75mn tonnes as of Nov-23, after recording the highest level in 3 years during Oct-23. However, the decline in cement demand due to low housing construction activities has been partially offset by the momentum in Giga projects constructions and larger government Capex (government Capex estimated at SAR 203bn in FY23, up 41.8% Y/Y; budgeted SAR 189bn for FY24), which will be realized in the next phase. We expect that the Giga projects constructions and government Capex will drive the demand for cement. Saudi Arabia, represented 44% (USD 44bn) of the total USD 101bn worth of projects awarded in H1-23 in the MENA region, and represents about 35% of the estimated USD 3tn total value of the project pipeline in the MENA region. Moreover, we expect the demand from the private sector to improve in FY24, given the anticipated interest rate cut, which will ease the pressure on the private sector funding costs. The hosting of EXPO 2030 and expectedly 2034 FIFA world cup in KSA and their related constructions activities from both public and private sectors will boost the demand for cement in the upcoming years. Additionally, PIF announced recently that it aims to spend around SAR 4tn in the real estate development market in the next 10 years Driven by expected improvement in demand, volumetric sales are estimated at around 48.1mn tonne (+3.0% Y/Y) and 50.5mn tonne (+5.0% Y/Y) in FY24 and FY25; respectively. Accordingly, the top line is forecast to grow 6.1% and 4.7% in FY24 and FY25; respectively. Higher demand will result in an easing of inventory levels. We estimate clinker inventory to reduce to 39.0mn tonnes in FY24 and 36.5mn tonnes in FY25 from an estimated 40.7mn tonnes in FY23. Additionally, a greater concentration of local sales (due to rising demand) compared to exports is expected to aid the margins of the cement companies. Thus, we are positive on the sector over the medium/long runs.

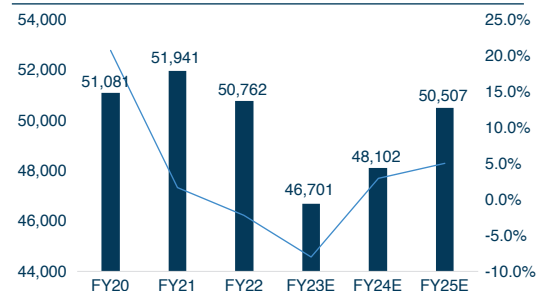
Competition in the Central Region spread to the Western Region, pricing pressure to ease gradually starting Q4-23: Although we have projected the price war in the Central Region previously (starting from Q2-23), and the possibility of it spreading to other regions, the intensity was much higher than we expected. The ASP in the Central Region reached SAR 122.8 per tonne in Q3-23 vs. SAR 148 a year earlier. Competition impacted the Western Region as well, where ASP declined to SAR 147.5 per tonne (Q3-22: SAR 163), despite the 20.7% Y/Y decline in discounted export sales from Arabian Cement and Yanbu Cement. Meanwhile, the Eastern Region still enjoys the leading position in the sector with an ASP of SAR 228 per tonne, thanks to the price premium to oil & gas project sales while avoiding the price competition. The sector's ASP stood at SAR 158.5 per tonne in Q3-23, down 12% Y/Y and 11% Q/Q, respectively. ASPs started to show recovery according to current market sentiment, and we expect them to average around SAR 173 per tonne by the end of Q4-23, driven by eased competition. We stay conservative on the pace of ASP recovery as the local demand stays below 50 MT a year; which we do not expect it to be realized before FY25.

Fig 1: Q3-23 Earnings vs. Consensus Estimates



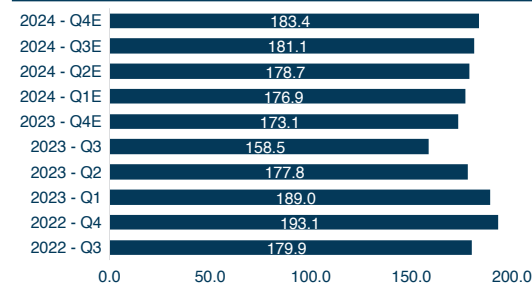
Source: Argaam, Aljazira Capital Research

Fig 2: Cement sales in KSA ('000)



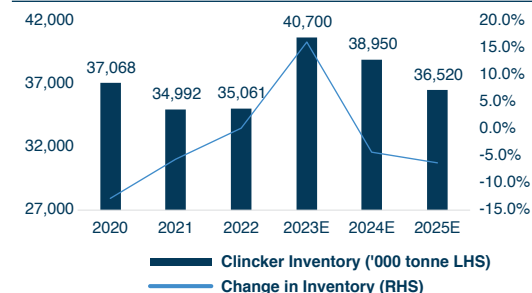
Source: Yamama Cement, Aljazira Capital Research

Fig 3: Average selling prices (SAR/tonne)



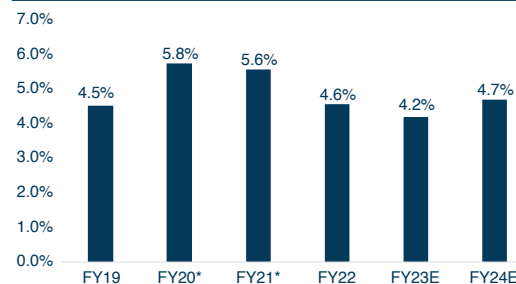
Source: Yamama Cement, Aljazira Capital Research

Fig 4: Clinker inventory trend and forecast



Source: Yamama Cement, Aljazira Capital Research

Fig 5: Dividend yield under AJC's coverage



Source: Aljazira Capital Research. *Excluding Yamama Cement.

Yamama Cement still leads in the market in terms of market share:

As of Nov-23, Yamama Cement held 14.1% TTM market share of local sales; benefiting from its new plant location, additional capacity, and price discounts. Followed by Southern Cement (10.9%) and Saudi Cement (9.6%). Most of main players in the sector kept their positions during FY23. Meanwhile, Northern Cement and Umm AlQura Cement bottoms the market with market shares of 1.8% and 2.2%, respectively. We expect companies like Saudi, Southern and Arabian Cement to gain more market shares gradually on the back of eased competition. Given its leading position in the market, we expect Yamama Cement to be the primary beneficiary on any improvement of demand. Regarding exports sales, Yanbu Cement and Arabian Cement noticeably decreased their combined exports by 43.4% Y/Y in 11M-23, and Saudi Cement took the lead with a market share of 40.0% of the total export. We expect Saudi Cement's exports to gradually decrease in FY24 and FY25; with the revived and more profitable local demand, which will be reflected on improved margins.

Current market valuations offer dividends yields opportunities: Given their strong cash flows and current market prices, we expect the sector's dividend yield to exceed most of the other sectors in the market. We anticipate a 4.20% average dividend yield to be posted by the companies under AJC's coverage in FY23 (down from 4.60% in FY22), as earnings are contracting in FY23. For FY23, we expect Yanbu Cement to be the lead the sector with a DY of 6.4%, followed by Saudi Cement and Riyadh Cement with a DY of 5.8% and 4.6%, respectively. However; the estimated earnings recovery in FY24 would increase the payouts of the companies in the sector, lifting the sector's yield to 4.70%. We expect Saudi Cement and Riyadh Cement both to lead the sector in FY24 with a DY of 6.1%, each. Followed by Arabian Cement with DY of 5.7%.

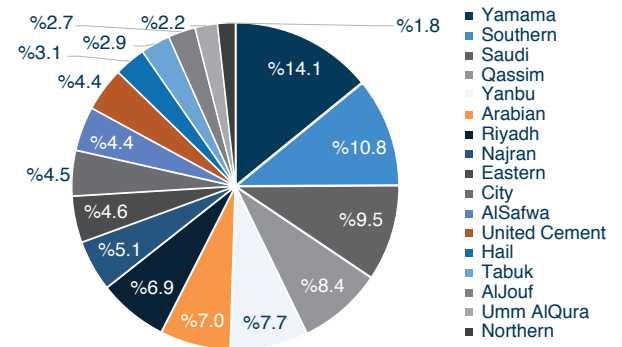
Valuation and investment thesis: We believe that the current market valuations offer four attractive investments opportunities in our cement universe, accordingly we update our recommendation to **"Overweight"** for Yamama Cement, Arabian Cement, Riyadh Cement and Eastern Cement. **Yamama Cement:** The easing of competition will unlock Yamama's ASP, despite the expected decline in its volumetric sales. The stock is currently trading on a forward P/E of 17.7x based on FY24 estimates. We upwardly update our TP to **SAR 40.10** per share. **Arabian Cement:** Expected improvement in ASP and lower inventory costs are the drivers for Arabian's potential. The stock is currently trading on a forward P/E of 18.0x based on FY24 estimates. We lift our TP to **SAR 42.0** per share for the stock. **Riyadh Cement:** We expect the company to benefit from the eased competition in the Central region. The stock is currently moved to be traded in the main market "TASI", which gives the valuation a premium compared to previous valuations. The stock is currently trading on a forward P/E of 16.8x based on FY24 estimates. We upwardly update our TP to **SAR 39.0** per share. **Eastern Cement:** We expect the company to benefit from the stable demand and prices in the eastern region, and the improving Precast segment both in volumetric sales and margins. The stock is currently trading on a forward P/E of 15.6x based on FY24 estimates, we downwardly update our TP to **SAR 44.0** per share with an **"Overweight"** recommendation. Meanwhile, we stay **"Neutral"** on Saudi Cement, Southern Cement, Qassim Cement, Yanbu Cement and City Cement. Main downside risks include: 1) less than expected improvement in average selling prices. 2) Some delay from Giga/Mega projects along with the oil price volatility. 3) the continuity in price war.

Table of valuations

Company Name	Recommendation	TP	Upside/ (Downside)	Net Income 2023	Net Income 2024	P/E FY23E	P/E FY24E	DPS FY23E	DPS FY24E	DY (%)
Saudi Cement	Neutral	56.0	7.5%	381.6	408.7	20.9	19.5	3.0	3.2	6.1%
Yamama Cement	Overweight	40.1	16.4%	329.7	394.7	21.1	17.7	1.0	1.25	3.6%
City Cement	Neutral	22.0	5.1%	86.2	142.5	33.8	20.5	0.8	1.15	5.5%
Arabian Cement	Overweight	42.0	19.7%	158.7	195.3	22.1	18.0	1.50	2.00	5.7%
Yanbu Cement	Neutral	38.0	7.5%	131.7	175.9	42.1	35.7	2.25	1.6	5.1%
Eastern Cement	Overweight	44.0	15.5%	205.5	210.0	15.9	15.6	1.2	1.2	3.1%
Southern Cement	Neutral	42.5	-1.2%	176.3	230.3	34.10	26.2	0.70	0.90	2.1%
Qassim Cement	Neutral	64.6	2.4%	149.4	226.6	38.0	25.0	2.60	3.0	4.8%
Riyadh Cement	Overweight	39.0	18.4%	214.0	235.0	18.5	16.8	1.5	2.0	6.1%

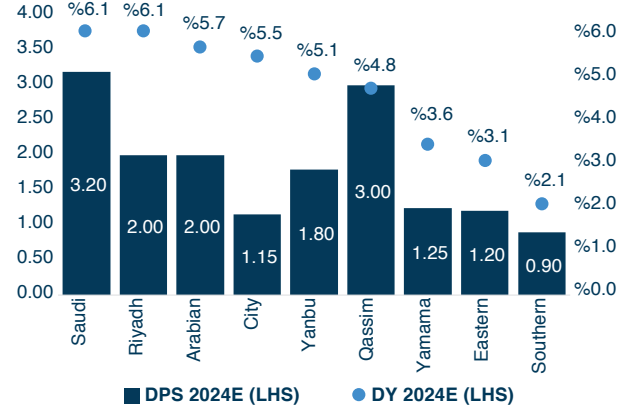
Source: the company's profiles, Bloomberg, AlJazira Capital Research. *prices as of 19th of Dec 2023

Fig 6. TTM market shares (Nov-23)



Source: Yamama Cement, Aljazira Capital Research

Fig 7. Estimated DY and DPS for FY24



Source: Aljazira Capital Research



Financial Performance

Yamama Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	1,022.7	980.1	1,099.2	1,177.7
Growth %	39.0%	-4.2%	12.1%	7.1%
Gross Profit	423.2	381.3	513.5	562.5
Gross Margin %	41.4%	38.9%	46.7%	47.8%
Net Profit	355.8	329.7	394.7	488.5
Net Margin %	34.8%	33.6%	35.9%	38.1%
EPS	1.76	1.63	1.95	2.21
DPS	1.00	1.00	1.25	1.75
ROA	5.6%	5.2%	6.3%	7.2%
ROE	7.6%	6.9%	8.0%	8.9%
PE (x)	17.8	21.2	17.7	15.6
PB (x)	1.36	1.46	1.42	1.39

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Saudi Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	1,419.8	1,496.3	1,546.9	1,607.8
Growth %	0.7%	5.4%	3.4%	3.9%
Gross Profit	568.9	600.6	639.8	683.3
Gross Margin %	40.1%	40.1%	41.4%	42.5%
Net Profit	398.8	381.6	408.7	461.7
Net Margin %	28.1%	25.5%	26.4%	28.7%
EPS	2.61	2.49	2.67	3.02
DPS	3.25	3.00	3.20	3.70
ROA	12.2%	12.1%	13.4%	15.7%
ROE	17.4%	17.2%	19.1%	22.6%
PE (x)	19.6	20.9	19.5	17.3
PB (x)	3.40	3.58	3.72	3.91

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Southern Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	1,022.7	1,068.6	1,086.4	1,078.4
Growth %	-8.7%	-12.6%	1.67%	-0.74%
Gross Profit	357.3	262.1	312.4	348.0
Gross Margin %	29.2%	24.5%	28.8%	32.3%
Net Profit	300.7	176.3	230.3	264.3
Net Margin %	24.6%	16.5%	21.2%	24.5%
EPS	2.15	1.26	1.64	1.89
DPS	1.25	0.70	0.90	1.00
ROA	7.8%	4.3%	5.6%	6.2%
ROE	9.4%	5.4%	6.8%	7.5%
PE (x)	23.7	34.1	26.1	22.8
PB (x)	2.23	1.83	1.78	1.72

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Qassim Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	678.5	613.6	723.2	785.5
Growth %	-6.1%	-9.6%	17.9%	8.6%
Gross Profit	188.5	167.5	158.8	197.8
Gross Margin %	27.8%	27.3%	35.8%	37.9%
Net Profit	130.5	149.4	226.6	261.3
Net Margin %	19.2%	24.4%	31.3%	33.3%
EPS	1.45	1.66	2.52	2.90
DPS	2.20	2.60	3.02	3.80
ROA	6.8%	8.0%	12.4%	15.1%
ROE	7.8%	9.4%	14.7%	17.9%
PE (x)	42.1	38.0	25.1	21.7
PB (x)	3.30	3.59	3.69	3.89

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Arabian Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	971.0	919.6	948.2	1,014.9
Growth %	-6.0%	-5.3%	3.1%	7.0%
Gross Profit	274.6	248.3	287.0	319.1
Gross Margin %	28.3%	27.0%	30.3%	31.4%
Net Profit	181.0	158.7	195.3	225.6
Net Margin %	18.6%	17.3%	20.6%	22.2%
EPS	1.81	1.59	1.95	2.26
DPS	2.20	1.50	2.0	2.30
ROA	5.5%	4.9%	6.1%	7.1%
ROE	6.6%	5.8%	7.2%	8.3%
PE (x)	19.5	22.1	18.0	15.6
PB (x)	1.30	1.28	1.28	1.29

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Yanbu Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	981.2	797.5	832.6	842.2
Growth %	5.0%	-18.7%	4.4%	1.1%
Gross Profit	284.7	217.7	258.2	289.1
Gross Margin %	29.0%	27.3%	31.0%	34.3%
Net Profit	215.4	131.7	175.9	235.4
Net Margin %	22.0%	16.5%	21.1%	28.0%
EPS	1.37	0.84	1.12	1.49
DPS	1.50	2.25	1.80	2.40
ROA	6.4%	4.0%	5.8%	8.3%
ROE	7.8%	5.2%	7.2%	10.3%
PE (x)	30.6	42.3	31.6	27.6
PB (x)	2.38	2.19	2.29	2.85

Source: the company's profiles, Bloomberg, AlJazira Capital Research



City Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	431.4	367.5	487.4	541.2
Growth %	-13.2%	-14.8%	32.6%	11.0%
Gross Profit	145.4	117.6	183.2	220.5
Gross Margin %	33.7%	32.0%	37.6%	40.7%
Net Profit	115.0	86.2	142.5	174.7
Net Margin %	26.7%	23.4%	29.2%	32.3%
EPS	0.82	0.62	1.02	1.25
DPS	0.90	0.80	1.15	1.50
ROA	5.9%	4.5%	7.3%	9.0%
ROE	6.3%	4.7%	7.8%	9.6%
PE (x)	24.3	34.0	20.6	16.8
PB (x)	1.54	1.61	1.61	1.62

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Eastern Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	784.2	931.5	947.1	967.7
Growth %	3.5%	18.8%	1.7%	2.2%
Gross Profit	247.7	299.7	310.0	328.0
Gross Margin %	31.6%	32.2%	32.7%	33.0%
Net Profit	143.3	205.5	210.0	217.5
Net Margin %	18.3%	22.1%	22.2%	22.5%
EPS	1.67	2.39	2.44	2.53
DPS	2.0	1.20	1.20	1.30
ROA	5.0%	7.1%	7.0%	7.0%
ROE	6.1%	8.3%	8.2%	8.1%
PE (x)	24.2	15.9	15.6	15.1
PB (x)	1.47	1.33	1.28	1.22

Source: the company's profiles, Bloomberg, AlJazira Capital Research

Riyadh Cement

Amount in SARmn, unless otherwise specified	2022	2023E	2024E	2025E
Revenue	598.0	659.8	643.0	687.3
Growth %	-13.2%	-14.8%	32.6%	11.0%
Gross Profit	231.5	264.7	289.0	325.5
Gross Margin %	38.7%	40.1%	45.0%	47.4%
Net Profit	189.8	214.0	235.0	272.0
Net Margin %	31.7%	32.4%	36.5%	39.6%
EPS	1.58	1.78	1.96	2.27
DPS	1.50	1.55	2.0	2.30
ROA	10.0%	11.2%	12.3%	14.3%
ROE	11.3%	12.5%	13.8%	15.9%
PE (x)	21.1	18.5	16.8	14.5
PB (x)	2.39	2.32	2.31	2.31

Source: the company's profiles, Bloomberg, AlJazira Capital Research





RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. **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.
2. **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.
3. **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.
4. **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.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068