November 5, 2018

Rating	Neutral
12- Month Target Price	SAR 50.00

SAUDI CEMENT COMPANY (SACCO)

3Q2018 First Look

Expected Total Return	
Price as on Nov-4, 2018	SAR 44.45
Upside to Target Price	12.5%
Expected Dividend Yield	5.1%
Expected Total Return	17.6%

Market Data	
52 Week H/L	SAR 60.4/35.9
Market Capitalization	SAR 6,801 million
Enterprise Value	SAR 7,430 million
Shares Outstanding	153 million
Free Float	81.1%
12-Month ADTV(000's)	140.3
Bloomberg Code	SACCO AB

1-Year Price Performance

Source: Bloomberg

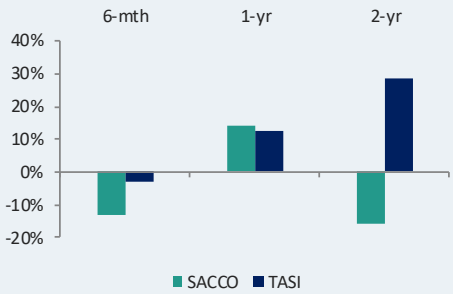

Fig in SAR Mln	RC.Est	Actuals
Revenue	230	240
Operating income	65	81
Net Income	60	75
EPS (SAR)	0.39	0.49

Beats Forecast

Saudi Cement Company's (SACCO) 3Q2018 results came in above estimates with EPS standing at SAR 0.49 (-14% Y/Y, +30% Q/Q) vs our estimate of SAR 0.39 and consensus' SAR 0.35. Revenue has declined by -4% Y/Y and -3% Q/Q to SAR 240 million and came close to our SAR 230 million forecast. We believe that the Company's bottom line was supported by the increase in exports and the decline in direct costs. The stock is trading at a 2018E P/E of 18.9x, expensive compared to peers, as valuations of most producers in the sector range between 15x to 16x. We have revised our estimates for 2018 and 2019 but maintain a SAR 50.00 target price and our Neutral recommendation.

Revenues in-line

Total revenues came in at SAR 240 million, declining by -4% Y/Y and -3% Q/Q, close to our SAR 230 million forecast. We believe that revenues were aided by a likely increase in local selling prices and an increase in exports to Bahrain as local sales volume dropped by -14% Y/Y and -11% Q/Q to 0.9 million tons and total exports (clinker and cement) to Bahrain inclined by +7% Q/Q to 413k tons. SACCO managed to export 198k tons of cement in 3Q (-2.5% Q/Q) and 215k tons of clinker (+17% Q/Q) to Bahrain, whereas Eastern Cement did not export any clinker and only managed to export 32k tons of cement. SACCO holds the greatest share of exports to Bahrain (30% of consumption comes from Saudi Arabia) representing 93% of total exports. Nonetheless, SACCO still has one of highest clinker inventory levels in the sector, currently standing at 5.4 million tons and representing 131% of LTM sales.

Margins improve across the board

Gross profit of SAR 113 million dropped by -2% Y/Y but improved by +18% Q/Q. Gross margins increased to 47% in 3Q2018 from 39% in 2Q2018 and last year's level of 46%. Gross margins improved Q/Q as direct costs per ton declined by -5% Q/Q on the back of higher clinker production levels. Clinker production increased by +29% Y/Y and +31% Q/Q to 1.7 million tons, taking utilization rates to 69% in 3Q from 53% in the preceding quarter. In addition, other revenues amounted to SAR 5.1 million in 3Q compared to SAR 1.1 million in 2Q, which helped in boosting the bottom line Q/Q and offsetting the increase in financial charges which has gone up by +46% Q/Q to SAR 6.7 million. As a result, net income came in at SAR 75 million, declining by -14% Y/Y but improving by +30% Q/Q, above our SAR 60 million forecast and streets' SAR 54 million, taking net margins to 31.3% in 3Q2018 from 23.6% in the previous quarter.

Maintain Neutral

SACCO results were better than forecasts. EPS stood at SAR 0.49 vs our estimate of SAR 0.39 and consensus' SAR 0.35. The stock is trading at a 2018E P/E of 18.9x, expensive compared to peers, as valuations of most operators range between 15x to 16x in the sector. We revise our 2018 and 2019 estimates but maintain a SAR 50.00 target price and our Neutral recommendation.

Key Financial Figures

FY Dec31 (SAR Mln)	2017A	2018E	2019E
Revenue	1,185	1,091	1,146
EBITDA	682	610	671
Net Profit	453	360	418
EPS (SAR)	2.96	2.35	2.73
DPS (SAR)	4.00	2.25	2.75
BVPS (SAR)	18.81	18.91	18.89

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	16%	9%	10%
ROAE	16%	12%	14%
P/E	15.0x	18.9x	16.3x
P/B	2.4x	2.4x	2.4x
EV/EBITDA	10.9x	12.2x	11.1x
EV/Sales	6.3x	6.8x	6.5x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

** The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors*

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