Qassim Cement Co.

Result Flash Note Q3-19

Qassim Cement beats estimates on higher than expected price realization per tonne and volumetric sales. Net income came at SAR 90.2mn, 21.1% above our and consensus estimates of SAR 74.5mn and SAR 81.5mn, respectively. Revenue came at SAR 190.2mn, well above our estimates due to higher than expected selling prices and sales volume, which stood at 821KT compared to our expectations of 763KT. Selling prices stood at SAR 231.6/tonne against our estimates of SAR 223.0/tonne. We maintain our "**Neutral**" recommendation on the stock with a revised TP at **SAR 57.20/share**.

- Qassim cement posted net income of SAR 90.2mn in Q3-19 (EPS; 1.00 /share); compared to SAR 5.7mn in Q3-18 and SAR 70.5mn in Q2-19. Net income surpassed our estimates and the market consensus estimates of SAR 74.5mn and SAR 81.5mn, respectively. The Y/Y growth in net income is mainly attributed to improved selling price by 109.0% and volumetric sales by 22.4%. The deviation of Q3-19 earnings from our estimates is mainly ascribed to higher than expected volumetric sales and selling prices, resulting in higher revenue.
- Revenue stood at SAR 190.2mn (an increase of 23.1%Q/Q, 155.7%Y/Y), above our estimates of SAR 170.1mn due to higher than expected realization per tonne and Sales volume. During Q3-19, the company registered an increase of 22.4%Y/Y in volumetric sales, as dispatches in Q3-19 stood at 821KT vs. 671KT in 3Q-18, surpassing our volume estimates of 763KT. Average price realization/tonne stood at SAR 231.6/tonne, as compared to our estimates of SAR 223.0/tonne and SAR 220.0/tonne in Q2-19. The shift in selling prices is expected to continue as industry players are expected to keep prices rational after recognizing losses last year; along with expected recovery on the back of upcoming mega projects.
- Gross profit stood at SAR 96.3mn (an increase of 27.4%Q/Q, 909.0%Y/Y), above our estimates of SAR 83.9mn, due to higher than expected revenue. Cost per tonne stood at SAR 114.3/tonne compared to an average of SAR 94.4/tonne in FY18. We expect cost per tonne for FY19 to average at SAR 113.9/tonne.
- Operating profit stood at SAR 88. 2mn, above our estimates of SAR 77.6mn due to an increase in gross profit. OPEX stood at SAR 8.2mn, showing an increase of 30.6%Y/Y.

AJC view: Qassim cement recorded an increase in both price realization of 4.9%Q/Q and volumetric sales of 17.3%Q/Q, which we believe is sustainable. The company has an inventory of 3.1MT, which could cover more than 103% of the total sales volume during last year. We believe, cement sector has recovered from its current downtrend due to producer's concentration on selling prices and an increase in export sales. Qassim cement is expected to post net income of SAR 317.2mn in FY19, recording an increase of 163.6%Y/Y. The company is currently trading at TTM PE of 18.8x compared to a forward PE of 12.5x based on our forecasted FY20 earnings. We maintain our "**Neutral**" recommendation on the stock with a TP at **SAR 57.20/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**74.4**	**154.5**	**190.2**	155.7%	23.1%	11.8%
Gross Profit	9.5	75.6	96.3	909.0%	27.4%	14.8%
Gross Margin	*12.8%*	*48.9%*	*50.7%*	-	-	-
EBIT	3.3	68.4	88.2	2,581.5%	28.8%	13.6%
Net Profit	**5.7**	**70.5**	**90.2**	1,486.5%	28.0%	21.1%
EPS	0.06	0.78	1.00	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	57.20
Upside / (Downside)*	7.0%

Source: Tadawul *prices as of 28th of October 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	625.9	425.7	702.6	813.9
Growth %	-26.5%	-32.0%	65.0%	15.8%
Net Income	251.8	120.8	317.2	386.7
Growth %	-39.0%	-52.0%	162.6%	21.9%
EPS	2.80	1.34	3.52	4.30

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E	FY20E
Gross Margin	43.7%	33.0%	48.6%	51.1%
Net Margin	40.2%	28.4%	45.1%	47.5%
P/E	16.09x	25.03x	15.18x	12.45x
P/B	2.32x	1.85x	2.65x	2.38x
EV/EBITDA (x)	10.40x	12.57x	10.13x	8.00x
Dividend Yield	6.4%	5.2%	2.8%	2.8%

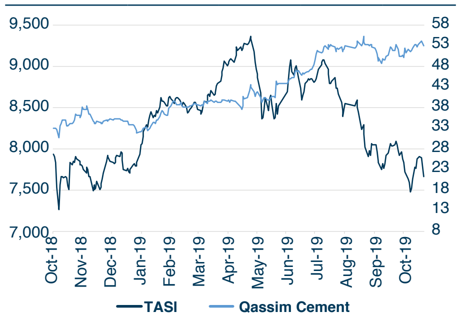
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	4.82
YTD %	61.01%
52 Week (High)/(Low)	55.40/31.80
Shares Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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.