



**Qassim Cement beats estimates on higher than expected margins, as price realization and input costs fare better than estimates. Net income came at SAR 111.2mn, 13.2% above our and consensus estimates of SAR 98.2mn and SAR 98.7mn, respectively. Revenue came at SAR 261.7mn, well above our estimates due to higher than expected selling Prices, which stood at SAR 220.9/tonne against our estimates of SAR 205.2/tonne. Volumetric sales stood at 1,185KT in-line with our estimates of 1,142KT. We maintain our “Neutral” recommendation on the stock with a TP at SAR 57.20/share.**

- Qassim cement posted net income of SAR 111.2mn in Q1-20 (EPS; 1.24 /share); compared to SAR 56.0mn in Q1-19 and SAR 144.1mn in Q4-19. Net income surpassed our estimates and the market consensus estimates of SAR 98.2mn and SAR 98.7mn, respectively. The Y/Y growth in net income is mainly attributed to improved selling price by 11.2%Y/Y and volumetric sales by 53.5%Y/Y. The deviation of Q1-20 earnings from our estimates is mainly ascribed to higher than expected selling prices and less than expected COGS resulting in higher gross profit.
- Revenue stood at SAR 261.7mn (an increase of 70.6%Y/Y, and a decline of 10.9%Q/Q), above our estimates of SAR 234.3mn due to higher than expected realization per tonne. During Q1-20, the company registered an increase of 53.5%Y/Y in volumetric sales, as dispatches in Q1-20 stood at 1,185KT vs. 772KT in Q1-19, in-line with our estimates of 1,142KT. Average price realization/tonne stood at SAR 220.9/tonne, as compared to our estimates of SAR 205.2/tonne and SAR 280.5/tonne in Q4-19.
- Gross profit stood at SAR 152.8mn (an increase of 135.8%Y/Y, and a decline of 19.4%Q/Q), above our estimates of SAR 102.0mn, due to higher than expected revenue and less than expected COGS. Cost per tonne stood at SAR 91.9/tonne compared to an average of SAR 105.7/tonne in FY19. We expect cost per tonne for FY20 to average at SAR 100.0/tonne.
- Operating profit stood at SAR 129.2mn, above our estimates of SAR 94.2mn due to an increase in gross profit. OPEX stood at SAR 23.6mn, showing an increase of 207.4%Y/Y.

**AJC view:** QCC witnessed 53.5% Y/Y improvement in volumetric sales, along with 11.2% increase in selling prices. Stability in selling prices is expected to continue as industry players are expected to keep prices rational. Potential suspension of government support for housing projects is our downside risk for the stock, which could adversely impact the construction sector and mortgage loans growth. The company has an inventory of 2.8MT, which is enough to cover more than 82.1% of the total sales volume during last year. The cement sector is likely to face most of the pressure from COVID-19 in Q2-20, due to halt in construction activity during the 24 hour lockdown, hence we expect weak performance in April-20. We expect cement dispatches to decline by 60% during April-20. The current lockdown will impact May and June sales at a lesser degree, as construction activities are allowed again. Qassim cement is expected to post net income of SAR 344.8mn in FY20, recording a decline of 4.4Y/Y. The company is currently trading at TTM PE of 11.2x compared to a forward PE of 13.1x 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	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
<b>Revenue</b>	<b>74.4</b>	<b>293.7</b>	<b>261.7</b>	70.6%	-10.9%	11.7%
Gross Profit	64.8	189.7	152.8	135.8%	-19.4%	49.8%
<i>Gross Margin</i>	<i>42.3%</i>	<i>64.6%</i>	<i>58.4%</i>	-	-	-
EBIT	57.1	166.2	129.2	126.2%	-22.3%	37.1%
<b>Net Profit</b>	<b>56.0</b>	<b>144.1</b>	<b>111.2</b>	98.5%	-22.8%	13.2%
EPS	0.62	1.60	1.24	-	-	-

Source: Company Reports, AlJazira Capital

## Neutral

Target Price (SAR) **57.20**

Upside / (Downside)\* **10.4%**

Source: Tadawul \*prices as of 3<sup>rd</sup> of May 2020

### Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenue	425.7	791.8	754.8
Growth %	-32.0%	86.0%	-4.7%
Net Income	120.8	360.7	344.8
Growth %	-52.0%	198.6%	-4.4%
EPS	1.3	4.0	4.1

Source: Company reports, Aljazira Capital

### Key Ratios

	FY18	FY19	FY20E
Gross Margin	33.0%	53.9%	53.3%
Net Margin	28.4%	45.6%	48.5%
P/E	25.0x	16.5x	13.1x
P/B	1.8x	3.3x	2.5x
EV/EBITDA (x)	12.6x	12.1x	8.9x
Dividend Yield	7.6%	3.6%	5.5%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	4.66
YTD %	-21.63%
52 Week (High)/(Low)	79.30/39.00
Shares Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

Analyst

Abdulrahman Al-Mashal

+966 11 2256374

A.Almashal@Aljaziracapital.com.sa



RESEARCH DIVISION

AGM-Head of Research

Talha Nazar

+966 11 2256250  
t.nazar@aljaziracapital.com.sa

Analyst

Faisal Alsuwelimy

+966 11 2256115  
F.alsuweilmy@aljaziracapital.com.sa

Senior Analyst

Jassim Al-Jubran

+966 11 2256248  
j.aljabran@aljaziracapital.com.sa

Analyst

Abdulrahman Al-Mashal

+966 11 2256374  
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales

Alaa Al-Yousef

+966 11 2256060  
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions

Ahmad Salman, CFA

+966 11 2256201  
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province

Abdullah Al-Rahit

+966 16 3617547  
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region

Investment Centers

Sultan Ibrahim AL-Mutawa

+966 11 2256364  
s.almutawa@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

- 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.
- 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.
- 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.
- 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.