

Qassim cement announced a strong set of results, beating our estimates on all levels. Net income of SAR 39.5mn, came well above our estimates and market consensus of SAR 6.7mn and SAR 14.5mn respectively. The deviation from our estimates is attributed to higher than expected selling price, which for the quarter stood at SAR 159.0/tonne against our estimates of SAR 115.0/tonne. We maintain our **“Neutral”** recommendation with revised TP of SAR 34.4/share.

- Qassim cement's net income of SAR 39.5mn surpass our estimates significantly. The deviation came as the company increased its selling price by 43.5%Q/Q, resulting in higher revenue and margins.
- Revenue stood at SAR 115.4mn (-31.7%Y/Y, 55.2%Q/Q), well above our estimates of 77.6mn. Selling prices stood at SAR 159.0/tonne, against our estimates of SAR 116/tonne. This shift in selling price is expected to continue in the short run however, in the long run it is expected to rationalize in line with market dynamics. Volumetric sales stood at 726K/tonne, 7.5% above our estimates.
- Gross profit stood at SAR 46.2mn (-39.0%Y/Y, 383.5%Q/Q), and gross margin declined 448bps form year earlier. Gross profit and margins came higher than expectation, as result of higher revenue. Cost per tonne stood at SAR 95.4/tonne compared to SAR 89.2/tonne in 4Q-17. We expect cost per tonne for FY19 to average at SAR 97.09/tonne. Operating profit stood at SAR 38.4mn a decline of 43.3%Y/Y. OPEX at SAR 7.8mn, showed a decline of 3.5%Y/Y.

AJC view: We believe, cement sector is yet to recover from its current downtrend, as the announced projects are yet to materialize on cement dispatches. Overall, we expect FY19 to remain weak for cement sector, and selling price will not sustain the high level in the long run. Cement sector is highly saturated in terms of capacity and participants, Which can only be eased through consolidation in the sector. The reversal in cement sector is subjected to pick up in construction activity and reduce competition in the sector. We remain neutral on cement sector. Qassim cement's clinker inventory to sales ratio for FY18 stood at 89.0%, better position compared to the sector at 93.5% (including exports). Based on our estimates, the company is trading at forward P/E and P/BV of 31.97x and 1.98x, respectively. The company reduced its dividend payment for FY to SAR 1.75/share, we expect the company to pay SAR 1.5/share for FY19, a dividend yield of 4.1%. We maintain our **“Neutral”** recommendation with PT of **SAR 34.4/share**.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	169.0	74.4	115.4	-31.72%	55.11%	48.71%
Gross Profit	75.7	9.5	46.2	-38.97%	386.32%	260.94%
Gross Margin	44.8%	12.8%	40.0%	-	-	-
EBIT	67.7	3.3	38.4	-43.28%	1063.64%	585.71%
Net Profit	67.2	5.7	39.6	-41.07%	594.74%	491.04%
EPS	0.75	0.06	0.44			

Source: Company Reports, Aljazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) **34.4**

Upside / (Downside)* **-6.4%**

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

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	625.9	425.7	389.1
Gross Profit	273.7	140.4	117.6
Net Profit	251.8	120.8	103.6
EPS	2.80	1.34	1.15

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	43.7%	33.0%	30.2%
Net Margin	40.2%	28.4%	26.6%
P/E	16.09x	26.78x	31.97x
P/B	2.32x	1.89x	1.98x
EV/EBITDA (x)	10.40x	12.03x	15.18x
Dividend Yield	6.4%	5.2%	4.1%

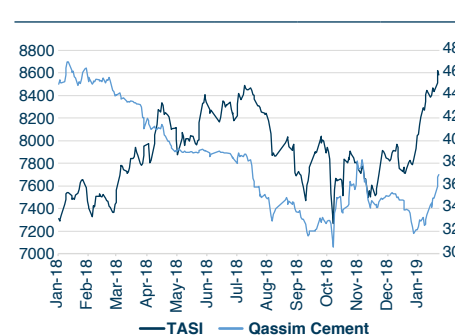
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.3
YTD %	9.52
Shares Outstanding (mn)	90.0
52 Week High/ Low	46.5/30.1

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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.

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