

Arabian Cement beats estimates on higher than expected revenue from Qutrana and lower than expected cost per tonne. Net income came at SAR 78.9mn, above our expectation of SAR 56.0mn. Revenue stood at 237.0mn, higher than our estimates of SAR 224.3mn. Where revenue from Qutrana stood at SAR 83.6mn, compared to our estimates of SAR 70.3mn. Cost per tonne stood at SAR 123.2/tonne, against our expectations of SAR 130.0/tonne. We maintain our **“Overweight”** recommendation on the stock with a TP at **SAR 34.10/share**.

- Arabian cement net income stood at 78.9mn in Q3-20 compared to SAR 60.6mn in Q3-19 and SAR 7.6mn in Q2-20. Net income above our estimates and the market consensus estimates of SAR 56.0mn and SAR 62.7mn, respectively. The Y/Y strong increase in net income is mainly attributed to an increase in volumetric sales by 41.3%. The deviation of Q3-20 earnings from our estimates is mainly ascribed to higher than expected revenue from Qutrana and a decrease in cost per tonne.
- Revenue stood at SAR 237.0mn, above our estimates of SAR 224.3mn, showing an increase of 22.5%Y/Y, as a result of an increase in sales volume. During Q3-20, the company registered an increase of 41.3%Y/Y in volumetric sales to stand at 865KT vs. 612KT in Q3-19, below our volume estimates of 875KT. The average price realization/tonne for local sales stood at SAR 177.3/tonne, as compared to our estimates of SAR 175.9/tonne and SAR 181.4/tonne in Q2-20 a decline of 2.3%Q/Q.
- Gross profit stood at SAR 102.7mn (an increase of 231.7%Q/Q, 9.8%Y/Y), under our estimates of SAR 86.1mn, due to higher than expected revenue from Qutrana and lower than expected cost per tonne, which stood at SAR 123.2/tonne compared to an average of SAR 131.2/tonne in FY19.
- Operating profit stood at SAR 89.4mn, above our estimates of SAR 73.0mn. Where OPEX stood at SAR 13.2mn, showing an increase of 1.1%Y/Y.

**AJC view:** Arabian cement's showed a significant increase in net income, due to an increase by 41.3%Y/Y in volumetric sales. As well as an increase in price realization per tonne by 2.3%Y/Y. The company's selling prices is expected to sustain at the same level in FY20. Arabian Cement has an inventory of 4.1MT indicating an increase of 27.0%Y/Y, which can be enough to cover more than 122% of the total sales volume during TTM. We believe, cement sector showed a fast recovery from the losses caused by the pandemic and wasn't effected by the increase of VAT, due to an increase in mortgage loans which registered 85.7%Y/Y during Q2-20. For 9M-20, total sector dispatches stood at 41.3MT (including exports) compared to 35.7MT in 9M-19, depicting an increase of 15.6%Y/Y.

Arabian cement is expected to post SAR 204.6mn in net income (2.05 EPS) for FY20, and SAR 250.6mn (2.51 EPS) in FY21 supported by a strong recovery in Qutrana. The company is currently trading at TTM PE of 15.0x compared to a forward PE of 12.3x based on FY21 earnings. We expect the company to generate a strong FCF of SAR 245.6mn, which increases the possibility of higher DPS at SAR 1.80/share during FY20, resulted in a D/Y of 5.8%. We maintain our **“Overweight”** recommendation on the stock with a TP at **SAR 34.10/share**.

### Results Summary

SARmn (unless specified)	Q3-19	Q2-20	Q3-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	193.5	139.6	237	22.5%	69.8%	5.6%
Gross Profit	93.5	31.0	102.7	9.8%	231.3%	19.2%
Gross Margin	48.3%	22.2%	43.3%	-	-	-
EBIT	80.4	14.9	89.4	11.2%	500.0%	22.6%
Net Profit	60.6	7.6	113.8	87.8%	1397.4%	40.9%
EPS	0.37	0.45	0.79	-	-	-

Source: Company Reports, AlJazira Capital \*NM: Not meaningful

### Overweight

Target Price (SAR)	34.10
Upside / (Downside)*	10.5%

Source: Tadawul \*prices as of 8<sup>th</sup> of November 2020

### Key Financials

	FY19	FY20E	FY21E
Revenue	782.0	833.2	968.6
Growth %	30.2%	6.6%	16.3%
Net Income	208.7	204.6	250.6
Growth %	NM	-2.0%	22.5%
EPS	2.09	2.05	2.51

Source: Company reports, Aljazira Capital

### Key Ratios

	FY19	FY20E	FY21E
Gross Margin	40.4%	37.9%	39.4%
Net Margin	26.7%	24.6%	25.9%
P/E	17.63x	15.08x	12.31x
P/B	1.24x	1.03x	1.01x
EV/EBITDA	8.8x	8.5x	7.3x
Dividend Yield	4.8%	5.8%	6.5%

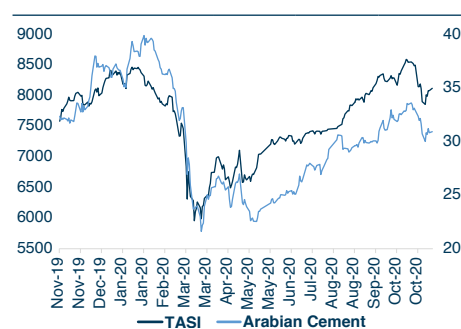
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	3.09
YTD %	-16.17%
52 Week (High)/(Low)	40.30/21.20
Shares Outstanding (mn)	100.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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- 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.

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