

City Cement beats estimates on higher than expected price realization per tonne. Net income came at 41.4mn, 30.8% above our expectation of 31.7mn. Revenue came at 137.1mn, 21.7% above our estimates. Selling price stood at SAR 190/tonne against our estimates of SAR 156/tonne. We reiterated our “Neutral” recommendation on the stock with a TP at SAR 13.1/share.

- City cement posted net income of 41.4mn in Q1-19 (EPS; SAR 0.20/share); indicating an increase of 66.3%Y/Y; well above our net income estimates of SAR 31.7mn. We believe that the Y/Y strong growth is mainly attributed to improved selling price. The deviation of Q1-19 earnings from our estimates is mainly ascribed to higher than expected sales prices, resulting in higher revenue and margins.
- Revenue stood at SAR 137.1mn (an increase of 55.1%Q/Q, 13.2%Y/Y), above our estimates of SAR 112.6mn due to higher than expected realization per tonne. During Q1-19, the company registered an increase of 28.8%Q/Q in volumetric sales to 721 thousand tonne, in-line with our estimates. Average price realization/tonne stood at SAR 190.1/tonne, against our estimates of SAR 156.0/tonne and SAR 157.8/tonne in Q4-18. This shift in selling prices is expected to continue as industry players are expected to keep prices rational after recognizing losses during previous quarters.
- Gross profit stood at SAR 51.3mn (an increase of 22.7%Q/Q, 49.9%Y/Y), above our estimates of SAR 41.1mn, due to higher than expected revenue. Cost per tonne stood at SAR 119.7/tonne compared to an average of SAR 103.9/tonne in FY18. For FY19, we expect cost per tonne to average at SAR 106/tonne.
- Operating profit stood at SAR 42.1mn, above our estimates of SAR 33.4mn due to an increase in gross profit. OPEX at SAR 9.2mn, showed an increase of 21.5%Y/Y.

**AJC view:** City cement selling prices have recovered considerably during Q1-19 to reach SAR 190.1/tonne, along with flat volumetric sales. The company has an inventory of 1.6MT, sufficient to cover eight months sales. We believe, cement sector is starting to recover from its current downtrend due to producer’s concentration on selling prices and an increase in export sales. Selling prices is expected to sustain the high level in FY19. Furthermore, mega projects and other housing initiatives are the key growth driver for the Saudi cement sector and could be realized beyond FY2019. For 3M-19, total sector dispatches stood at 13.3mn tons (including exports) compared to 12.0mn tons in 3M-18, depicting an increase of 10.2%Y/Y. City cement is expected to post SAR 146.2mn in net income (0.77 EPS) ,for FY19, recording an increase of 31.7%Y/Y supported by increase in selling prices. The company is currently trading at TTM PE of 17.8x compared to a forward PE of 15.4x based on FY19 earnings. Dividend payment is still attractive and is expected to increase to SAR 0.60/share (5.0% D/Y) in FY19, owing to its strong balance sheet and zero debt. We reiterated our “Neutral” recommendation on the stock with a TP at **SAR 13.1/share**.

### Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	121.1	88.4	137.1	13.2%	55.1%	21.7%
Gross Profit	34.2	41.8	51.3	49.9%	22.7%	24.9%
Gross Margin	42.3%	40.0%	42.24%	-	-	-
EBIT	26.7	33.8	42.1	57.9%	24.6%	25.9%
Net Profit	24.9	78.6	41.4	66.3%	-47.3%	30.8%
EPS	0.64	0.44	0.66	-	-	-

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

## Neutral

Target Price (SAR) **13.1**

Upside / (Downside)\* **8.3%**

Source: Tadawul \*prices as of 30<sup>th</sup> of April 2019

### Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	535.4	344.9	440.6
Growth %	-11.0%	-35.6%	27.8%
Net Income	93.3	111.0	146.2
Growth %	-56.7%	18.9%	31.7%
EPS	0.49	0.59	0.77

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	24.0%	29.2%	42.9%
Net Margin	17.4%	32.2%	33.2%
P/E	24.0x	17.9x	15.4x
P/B	1.06x	0.93x	1.03x
EV/EBITDA (x)	8.8x	10.9x	7.7x
Dividend Yield	3.4%	3.8%	5.0%

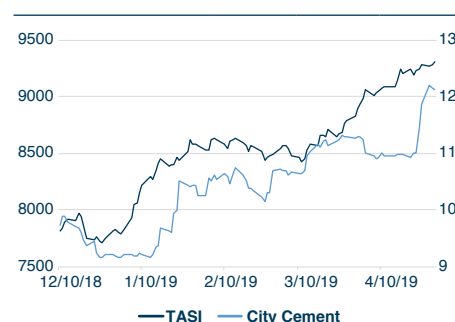
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	2.25
YTD %	31.81 %
52 Week (High)/(Low)	12.60/8.76
Shares Outstanding (mn)	189.20

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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