



Saudi Cement Sector Update

Pressure to continue; Long term story intact

- **Oversupply & high inventory:** Cement volume for the eight months ended August 2021 increased marginally, by 4.5% y-o-y. The growth in cement volume was at the back of the lower base for the same period the previous year, due to Covid based restrictions. We expect cement volume growth for Q3 2021 to be negative and we have now revised our outlook for Q4 2021 and expect the negative trend to continue. On average, the cement industry in the Kingdom has operated with average utilization of c.70% (YTD Aug – 2021 annualized); added to this the industry also carries an inventory of 34mn tonnes or c.8 months of clinker production. Despite an 8% reduction in inventory, since the beginning of the current year, it continues to be on the higher side.
- **Recovery pushed back:** Given these, we expect average realizations of cement companies under our coverage to come under pressure. However, we believe that these are temporary factors and expect construction activity to recover. We have seen a recovery in the new mortgage loans in July 2021 to SAR8.4 bn from SAR7.5 bn in June 2021, which we feel is a lead indicator of the construction activity. Going forward, we expect monthly new mortgage loans to average around SAR8.5 bn. Added to this, we also expect activities in the mega and Giga projects in the Kingdom to recover towards the end of the current year. However, these will take time to aid cement volume. We now expect the recovery in the cement sector in H1 2022, compared to our earlier expectation of Q4 2021. Thus, the financials of the companies under our coverage in the cement sector is likely to come under pressure.
- **Expect lower dividends:** We expect lower profitability during H2 2021, resulting in a lower capacity of companies to pay dividends (except Najran and Riyadh Cement). Overall, we have revised our estimates and the fair value prices of companies under our coverage.

Figure 1 Rating Summary

Companies	Old Tp SAR/sh	New Tp SAR/sh	Revision in TP %	CMP	Up/down to CMP %	Rating
Arabian Cement	43	40	-7.0%	42	-5.3%	Neutral
Yamama Cement	34	28	-17.6%	31	-8.2%	Neutral
Saudi Cement	66	55	-16.7%	63	-12.3%	Underweight
Qassim Cement	89	80	-10.1%	83	-3.8%	Neutral
Yanbu Cement	48	40	-16.7%	42	-4.6%	Neutral
Southern Cement	75	75	0.0%	74	0.8%	Neutral
Najran Cement	25	22	-12.0%	22	-0.3%	Neutral
Riyadh Cement Co.	40	40	0.0%	36	11.6%	Overweight

Source: Company data, Al Rajhi Capital



Cement volume to remain under pressure in H2 2021:

Cement volume from Jan-Aug 2021, increased by 4.5%, though the growth was primarily driven by strong growth in April 2021 (41% y-o-y) and May 2021 (65% y-o-y). The growth for these two months was primarily driven by a lower base during the previous years, due to Covid related lockdown and travel restrictions. Excluding these months, cement sales would have been lower compared to the previous year. In our opinion, the fall in cement demand (y-o-y) can be attributed to lower construction activity, due to a shortage in labor supply and the new regulations relating to new building permits. While we expect growth in cement volumes to improve, we expect the recovery to be later than our previous expectation. Stabilizing of real estate activity, as witnessed by a recovery in the new mortgage loans in July 2021 to SAR8.4 bn from SAR7.5 bn in June 2021, which we feel is a lead indicator to the construction activity. Going forward, we expect monthly new mortgage loans to average around SAR8.5 bn. We also expect spending on infrastructure projects to pick up, through the execution of various mega and Giga projects. These in turn are likely to aid in the recovery of construction products. However, we expect the recovery to be delayed and expect it to occur in H1 2022. As a result of this, we expect the financial performance of companies under our coverage to continue to come under pressure in both Q3 2021 and Q4 2021.

Figure 2 Trend in cement volume and new mortgages



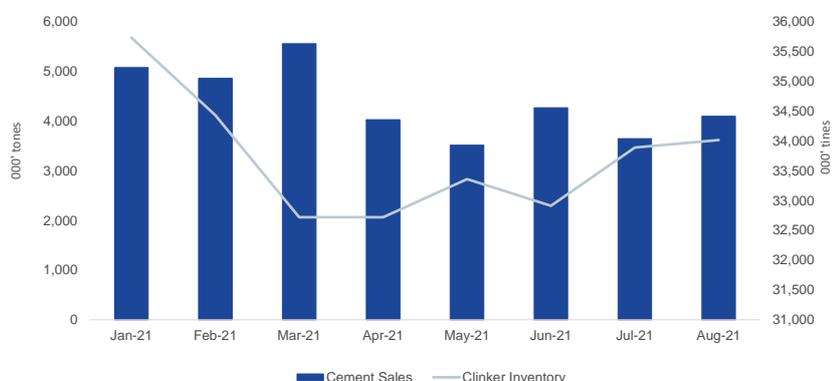
Source: Company data and Al Rajhi Capital

Cement prices to come under pressure

As of 31-Aug-2021, cement companies in the kingdom were operating at a capacity utilization of c.70% (YTD Aug – 2021 annualized). Added to this, the companies also carry a clinker inventory of 34mn tons or c.8 months of clinker production. Given this and the relatively lower construction activity in the Kingdom, we expect cement prices to come under pressure. We feel that this is likely to be more pronounced in the Central region, where we expect Yamama Cement’s cement production to increase, given that its new production line has commenced operations and it also carries close to 15 months of clinker inventory. As a result, we expect cement prices to come under pressure in Q3 2021 and continue in Q4 2021. This in turn is likely to put pressure on the financial performance and the resultant dividend payment of companies under our coverage. However, we expect this trend to improve in H1 2022, as the demand scenario improves.



Figure 3 Trend in cement volume and Inventory



Source: Company data and Al Rajhi Capital

Figure 4 Income Statement – Arabian Cement

(SARmn)	2020	2021E	2022E
Revenue	872	994	1,064
Revenue growth	12%	14%	7%
Gross profit	303	270	314
Gross margin	35%	27%	30%
EBITDA	372	307	342
EBITDA margin	43%	31%	32%
Net profit	185	138	174
Net margin	21%	14%	16%
EPS	1.85	1.38	1.74
DPS	2.25	1.75	1.75
Payout ratio	122%	127%	101%
EV/EBITDA	11.3x	13.8x	12.4x
P/E	22.8x	30.6x	24.3x
RoE	6.4%	4.8%	6.1%

Source: Company data, Al Rajhi Capital

Figure 5 Income Statement – Yamama Cement

(SARmn)	2020A	2021E	2022E
Revenue	880	787	788
Revenue growth	10%	-11%	0%
Gross profit	398	302	308
Gross margin	45%	38%	39%
EBIT	329	241	246
EBIT margin	37%	31%	31%
Net profit	363	237	210
Net margin	41%	30%	27%
EPS	1.79	1.17	1.04
DPS	0.00	0.00	0.50
Payout ratio	0%	0%	48%
EV/EBITDA	21.0x	27.1x	16.5x
P/E	17.0x	26.1x	29.3x
RoE	0.1x	0.1x	0.0x

Source: Company data, Al Rajhi Capital

Figure 6 Income Statement – Saudi Cement

(SARmn)	2020	2021E	2022E
Revenue	1,570	1,420	1,546
Revenue growth	9%	-10%	9%
Gross profit	666	519	630
Gross margin	42%	37%	41%
EBITDA	704	556	643
EBITDA margin	45%	39%	42%
Net profit	456	312	405
Net margin	29%	22%	26%
EPS	2.98	2.04	2.65
DPS	3.50	3.00	3.00
Payout ratio	117%	147%	113%
EV/EBITDA	14.0x	17.9x	15.5x
P/E	21.0x	30.7x	23.7x
RoE	17.2%	12.5%	16.5%

Source: Company data, Al Rajhi Capital

Figure 7 Income Statement – Yanbu Cement

(SAR mn)	2020A	2021E	2022E
Revenue	940	965	1054
Revenue growth	-4%	3%	9%
Gross profit	342	212	289
Gross margin	36%	22%	27%
EBITDA	500	357	422
EBITDA margin	53%	37%	40%
Net profit	281	167	241
Net margin	30%	17%	23%
EPS	1.78	1.06	1.53
DPS	2.25	2.00	2.00
Payout ratio	126%	188%	131%
EV/EBITDA	13.2x	18.2x	15.4x
P/E	23.5x	39.5x	27.4x
RoE	9.4%	5.9%	8.7%

Source: Company data, Al Rajhi Capital



Figure 8 Income Statement – Qassim Cement

(SARmn)	2020A	2021E	2022E
Revenue	898	715	819
Revenue growth	13%	-20%	14%
Gross profit	473	314	402
Gross margin	53%	44%	49%
EBITDA	497	349	437
EBITDA margin	55%	49%	53%
Net profit	420	288	368
Net margin	47%	40%	45%
EPS	4.66	3.20	4.09
DPS	4.45	3.50	3.50
Payout ratio	95%	109%	86%
EV/EBITDA	13.1x	18.5x	14.5x
P/E	17.8x	26.0x	20.3x
RoE	23.2%	16.2%	20.1%

Source: Company data, Al Rajhi Capital

Figure 9 Income Statement – Southern Cement

(SARmn)	2020	2021E	2022E
Revenue	1,653	1,276	1,393
Revenue growth	27%	-23%	9%
Gross profit	715	476	561
Gross margin	43%	37%	40%
EBITDA	866	626	705
EBITDA margin	52%	49%	51%
Net profit	609	415	498
Net margin	37%	33%	36%
EPS	4.35	2.96	3.56
DPS	4.75	3.75	3.75
Payout ratio	109%	127%	105%
EV/EBITDA	11.9x	16.5x	14.4x
P/E	17.1x	25.1x	20.9x
RoE	18.6%	13.1%	15.8%

Source: Company data, Al Rajhi Capital

Figure 10 Income Statement – Najran Cement

(SARmn)	2020	2021E	2022E
Revenue	623	555	604
Revenue growth	50%	-11%	9%
Gross profit	250	185	225
Gross margin	40%	33%	37%
EBITDA	285	211	240
EBITDA margin	46%	38%	40%
Net profit	204	129	160
Net margin	33%	23%	27%
EPS	1.20	0.76	0.94
DPS	1.50	1.50	1.50
Payout ratio	125%	197%	159%
EV/EBITDA	13.7x	18.1x	16.0x
P/E	18.4x	29.0x	23.4x
RoE	9.9%	6.7%	8.7%

Source: Company data, Al Rajhi Capital

Figure 11 Income Statement – Riyadh Cement

(SARmn)	2020	2021E	2022E
Revenue	590	685	777
Revenue growth	-1%	16%	13%
Gross profit	254	270	338
Gross margin	43%	39%	44%
EBITDA	334	345	408
EBITDA margin	57%	50%	53%
Net profit	220	228	291
Net margin	37%	33%	37%
EPS	1.83	1.90	2.42
DPS	1.75	1.75	2.00
Payout	95%	92%	83%
EV/EBITDA	12.8x	12.3x	10.3x
P/E	19.6x	18.9x	14.8x
RoE	0.1x	0.1x	0.2x

Source: Company data, Al Rajhi Capital



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