



US\$0.845bn Market cap
81% Free float
US\$5.37mn Avg. daily volume

Target price **36.00** 13.6% over current
 Current price **31.70** as at 28/10/2020

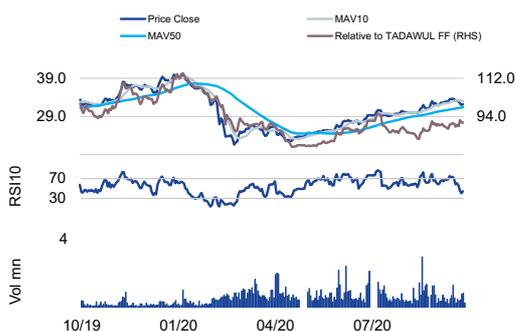
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2019A	2020E	2021E
Revenue	782	813	868
Revenue growth	30%	4%	7%
Gross profit	316	305	335
Gross margin	40%	38%	39%
EBITDA	391	386	410
EBITDA margin	50%	47%	47%
Net profit	209	211	227
Net margin	27%	26%	26%
EPS	2.09	2.11	2.27
DPS	1.75	1.66	1.91
Payout ratio	84%	79%	84%
EV/EBITDA	9.7x	8.5x	7.8x
P/E	17.7x	15.0x	14.0x
RoE	7.1%	7.0%	7.5%

Source: Company data, Al Rajhi Capital

Arabian Cement

Earnings in line; Increase TP to SAR 36

Arabian Cement (ACC) registered revenue of SAR237mn, a y-o-y growth of 22.5% and, was higher than our estimate of SAR220mn by 7.6%. Growth in sales was supported by a 50.1% y-o-y growth in volume. Cement sales volume for Q3 20 came in at 0.74mn tons, 1.6% higher than our estimate. Continued growth from mortgages aided volume growth. Gross profits and operating income increased by 9.8% y-o-y and 11.2% y-o-y respectively. Growth in gross profit was lower on a y-o-y basis, vis-à-vis growth in revenue, due to higher cost of sales, at the back pressure on Jordanian operations. This was to a certain extent compensated by lower administrative and other operating expenses. For the nine months, ACC registered a volume growth of 16.7% y-o-y. Growth was aided by strong momentum in real estate activities in the local market. Going forward, we expect this trend to continue, though growth rates for 2021 will be tempered by the higher base in 2020. Average realizations are likely to come under pressure, given the competitive nature of the local market. We expect the Jordanian operations to continue to come under pressure, which is likely to moderate the overall growth of ACC. After taking into account the current quarter performance, we increase our target price to SAR36/share from the earlier target price of SAR28/share and have increased our rating to “Overweight” from “Neutral”.

Q3 results: Total volume sold during the quarter was at 0.74mn tons in 3Q20, compared to 0.38mn tons in 2Q20 and 0.49mn tons a year back. Despite higher volumes, gross margins fell to 43.3% in 3Q20, corresponding to 48.3% a year back, though it was higher than 22.2% in 2Q20. Net margins at 33.3% in 3Q20, was higher compared to 5.4% in 2Q20 and 31.3% a year back. Despite a fall in gross margins, the overall profitability improved due to lower administrative and other operating costs, higher investment income, and lower financial expenses.

Figure 1 Arabian Cement: Summary of Q3 2020 results

SARmn	Q3 2020	Q3 2019	Q2 2020	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	237	193	140	22%	70%	220
Gross Profit	103	94	31	10%	232%	101
Gross Margin	43%	48%	22%	NA	NA	46%
Operating Profit	89	80	15	11%	498%	85
Net Profit	79	61	8	30%	937%	80

Source: Company data, Al Rajhi Capital

Valuation and risks: For our estimates, we expect input and energy prices to remain flat. We value the company based on an equal mix of DCF and relative valuation. The DCF target price is based on a 1.5% terminal growth and WACC of 9.4% and comes to SAR37/share. P/E is based on a multiple of 17.0x and comes to SAR35/share. Overall, we have increased our target price for the company to SAR36 per share, an upside of 13.6%, which implies an “Overweight” rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the government’s infrastructure spending.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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