

ARABIAN CEMENT

RESULT ANALYSIS

Q3 2021

Lowest quarterly local sales since lockdown

Arabian Cement reported a net income of SAR37.7mn, declining 52.2% yoy (+12.5% qoq). This is lower than the SNB Capital and consensus estimates of SAR48.7mn and SAR40.2mn, respectively. Sales stood at SAR223mn (-5.9% yoy, -4.3% qoq), in-line with our estimates. As average selling price and volumes were in-line with estimates, we believe the variance was due to higher than expected production costs, which we attribute to higher costs in their Jordan operations.

- Revenues decreased 5.9% yoy to SAR223mn, coming in-line with our estimates. Assuming sales in Jordan stood at cSAR75mn, we estimate average local selling prices at SAR145/ton (-18.2% yoy, +3.4% qoq). We attribute the decline across the sector to increased competition in Saudi, which has affected the local sales price in Q3 21.
- Total sales quantities increased 17.8% yoy to 1.02mn tons in Q3 21 (-8.8% qoq), coming in-line with our estimates and significantly outperforming the industry's yoy decline of 10.3%. Local cement sales declined by 12.2% yoy (-1.7% qoq) to 0.65mn tons, underperforming the local industry's decline of 11.6% yoy. This represents their lowest quarterly sales volume since lockdown in Q2 20.
- Exports increased 72.2% yoy (-42.1% qoq) to 369,000 tons, which helped in offsetting the decline in local cement sales. Export growth for Arabian Cement outperformed the industry, which stood at 7.2% on a yoy basis (-25.1% qoq).
- Gross margins contracted to 30.4% in Q3 21 as compared to 43.3% in Q3 20 and lower than our estimate of 36.0%. We believe the variance from our estimates was mainly due to the higher than expected production costs, which we attribute to higher costs in their Jordan operations.
- Operating expenses in absolute terms increased 67.3% yoy to reach SAR22mn but came-in slightly lower than our estimates of SAR25mn. Opex-to-sales stood at 9.9% versus our estimate of 11.2%.

Outlook

Based on our latest update, we are Neutral on Arabian Cement with a PT of SAR39.9. Though pressure on cement prices represents a key concern for Arabian Cement and the cement sector as a whole, we expect the company to benefit from demand pick-up driven by its close proximity to the Western region's construction projects in the medium to long term. The stock trades at 2021f PE of 19.6x, compared to the sector average of 18.5x.

Q3 21 Results Summary (SAR mn)

	Q3 21	Q3 20	%yoy	Q3 21f	%Var^	Q2 21	% qoq
Revenues	223	237	(5.9)%	223	0.0%	233	(4.3)%
Gross income	68	103	(34.0)%	80.3	(15.5)%	63	7.7%
Gross margin (%)	30.4%	43.3%	(12.9)%	36.0%	(5.6)%	27.0%	3.4%
EBIT	46	89.4	(48.9)%	55.3	(17.3)%	37.6	21.5%
EBIT margin (%)	20.5%	37.7%	(17.2)%	24.8%	(4.3)%	16.1%	4.4%
Net income	37.7	78.9	(52.2)%	48.1	(21.6)%	33.5	12.5%
Net margin (%)	16.9%	33.3%	(16.4)%	21.6%	(4.7)%	14.4%	2.5%
EPS (SR)	0.38	0.79	(52.2)%	0.48	(21.6)%	0.34	12.5%

Source: Company, SNB Capital Research, ^ % Var indicates variance from SNB Capital forecasts.

REVENUE



Last 4 Quarters vs Q3 21. SAR

NEUTRAL

Price target (SAR) 39.9

Current price (SAR) 39.1

PT last updated in March 2021

VALUATION MULTIPLES

	20	21f	22f
P/E (x)	21.1	19.6	17.1
P/B (x)	1.4	1.4	1.4
EV/EBITDA (x)	11.5	11.1	10.5
Div Yield (%)	5.8	5.8	5.8

Source: SNB Capital Research estimates

STOCK DETAILS

M52-week range H/L (SAR) 48/30

Market cap (\$mn) 1,043

Shares outstanding (mn) 100

Listed on exchanges Saudi Exchange

Price perform (%)	1M	3M	12M
Absolute	(7.5)	(14.5)	22.2
Rel. to market	(11.8)	(23.2)	(23.1)

Avg daily turnover (mn)	SAR	US\$
3M	12.8	3.4
12M	17.8	4.8

Reuters code 3010.SE

Bloomberg code ARCCO AB

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OCTOBER 2021

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NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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OCTOBER 2021

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