

Q4 2022

## Mega/Giga projects to support demand

We maintain our long-term positive outlook on the Saudi Cement sector. The acceleration of the Mega/Giga project will support long-term demand, whereas housing demand seems to have normalized as indicated by the slowdown in mortgage growth and low prices remain the main concern. In our view, the sector is going through a consolidation phase, as indicated by the ongoing M&A deals. We believe this may result in lower competition and better pricing mechanisms for the sector. We expect selling volumes to stand at 51mn tons (-1.8% yoy) and 54mn tons (+5.0% yoy) for 2022f and 2023f, respectively. Price realization is expected to stand at SAR167 per ton and SAR175 per ton for 2022f and 2023f, respectively. We upgrade Southern Cement to Overweight, while downgrading Qassim Cement to Neutral and remain Neutral for the rest of the stocks under coverage. We initiate coverage on Riyadh Cement with an Overweight rating.

- Long-term demand driven by Mega/Giga projects**

In line with Vision 2030, the government and PIF announced multiple Mega/Giga projects, such as Qiddiya, NEOM, Red Sea Project, among others, with a combined value of more than US\$700bn. We expect these projects to support the long-term demand for the sector. We expect companies with proximity to these projects to have better demand and pricing dynamics. In addition, the launch of Saudi Downtown Company which aims to build and develop downtown areas across 12 cities, is expected to support regional demand for all producers. We expect sales volumes to stand at 51mn tons (-1.8% yoy) and 54mn tons (+5.0% yoy) for 2022f and 2023f, respectively. With improving demand fundamentals, we expect prices to improve too. Prices are expected to grow by 4.5% yoy in 2023f to SAR175.

- Long term mortgage demand to remain steady**

After a strong growth in the last two years, mortgage loans have started to show signs of normalization. In 9M 22, mortgage loans decreased by 16.4% yoy, while the number of contracts declined by 19.7% yoy to 126,356. Despite the decline, we expect mortgage demand to remain steady in the long-term, on the back of 1) the initiatives to increase Riyadh's population to 15-20mn, 2) population growth and 3) decreasing household size.

- Overweight on Southern Cement and Riyadh Cement**

We remain positive on the cement sector in terms of demand and prices. Southern Cement is our preferred picks in the sector. Located in the southern region with limited competition is a key positive, while Soudah development projects and the replacement of existing lines with a more efficient production line are the key catalysts for the stock. We initiate our coverage on Riyadh Cement with an Overweight rating and a PT of SAR35.2. A diversified product mix and better-than-average margins are the key positives. The sector is trading at a 2023f P/E and EV/EBITDA of 18.8x and 10.9x, respectively. This is compared to the historical average of 22x and 15.6x, respectively.

### Valuation summary

	Rating	PT (SAR)	Current price	Upside/Downside (%)	Mcap (\$mn)	P/E (x) 2023f	EV/EBITDA 2023f	Div. Yield 2023f	Stock perf ytd (%)
Qassim Cement	N	67.9	60.5	12.3	1,454	19.9	13.9	4.5	(15.3)
Southern Cement	OW	61.5	49.7	23.7	1,856	16.3	10.8	5.4	14.2
Arabian Cement	N	33.7	32.0	5.3	853	15.9	9.3	4.7	(5.4)
Yamama Cement	N	29.6	26.0	13.8	1,406	19.9	10.0	0.0	5.4
Yanbu Cement	N	36.2	33.4	8.4	1,403	21.5	11.1	3.4	9.0
Saudi Cement	N	53.2	50.6	5.1	2,067	19.9	12.9	5.9	(2.4)
Eastern Cement	N	44.1	39.3	12.2	902	15.8	9.2	5.8	(4.4)
Riyadh Cement	OW	35.2	30.3	17.4	885	16.9	10.4	4.9	(9.5)

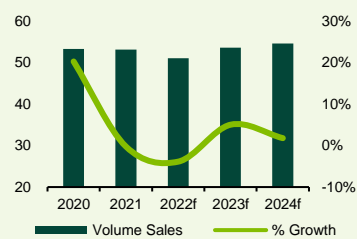
Source: SNB Capital Research estimates. All prices as of 11 December 2022

### SECTOR PERFORMANCE



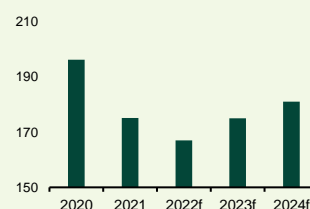
Source: Saudi Exchange, SNB Capital Research

### SALES VOLUME



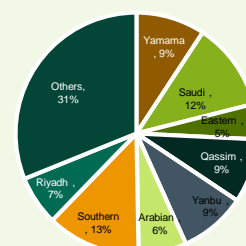
Source: Yamama Cement, SNB Capital Research

### CEMENT PRICES



Source: SNB Capital Research

### MARKET SHARE



Source: Yamama Cement, SNB Capital Research

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