

SAUDI CEMENT

NEUTRAL

CURRENT PRICE SAR38.3

UPSIDE +42.3%

TARGET PRICE SAR54.5

EVENT FLASH

الأهلي كابيتال
NCB Capital

Strong earnings supported by higher quantities

Saudi Cement reported higher than expected set of Q3 18 results. Net income declined -13.7% yoy to SAR75mn, coming higher than the NCBC and consensus estimates of SAR44mn and SAR54mn, respectively. We believe the deviation in earnings is due to higher than expected sales volume and margins. Sales volumes increased mainly as a result of cement and clinker exports.

- **NCBC View on Results:** Saudi Cement reported stronger than expected set of Q3 18 results, with a net profit of SAR75mn. This is higher than the NCBC and consensus estimates of SAR44mn and SAR54mn, respectively. We believe the deviation in earnings is mainly due to higher than expected sales volume and margins.
- Total local and export sales of cement and clinker of Saudi Cement stood at 1.33mn tons in Q3 18 (+24.1% yoy), coming in-line with our estimates of 1.29mn tons. Local cement sales stood at 0.92mn tons, declining 14.5% yoy in Q3 18 vs the industry which declined 12.0% yoy. The overall growth in sales quantities came from cement exports of 198,000 tons in Q3 18 vs no cement exports in Q3 17 and clinker exports of 215,000 tons in Q3 18 vs no clinker exports in Q3 17.
- Sales declined -4.2% yoy to SAR240mn, coming in-line with our estimates of SAR245mn. Selling prices came-in at SAR180/ton vs our estimates of SAR190/ton and SAR233/ton in Q3 17. We believe the yoy decrease in overall prices is due to a different sales mix as a result of exporting clinker.
- Gross margins expanded 101bps yoy to 47.2% in Q3 18 and were significantly higher than the NCBC estimates of 33.7% due to cost efficiencies and a higher than expected sale of clinker. Despite the expansion in margins, there was a decline of -2.1% yoy in the gross profit level to SAR113mn. We estimate an average gross margin of 44.8% till 2022E.
- Opex increased +49% yoy to SAR33mn in Q3 18 vs SAR22mn in Q3 17, and came above our estimates of SAR32mn. Opex-to-sales increased to 13.6% in Q3 18 vs 9% in Q3 17, compared to our estimates of 13.0%.
- We are Neutral on Saudi Cement, with a PT of SAR54.5. We believe the ongoing weakness in the construction sector is a key risk. However, considering the export sales recorded in Q3 18, any further export contracts will be a key positive catalyst for the stock in the near term.

Q3 18 Results Summary

SAR mn	Q3 18	Q3 17	% yoy	Q3 18f	% var^	% qoq
Revenues	240	250	(4.2)%	245	(2.3)%	(2.5)%
Gross income	113	116	(2.1)%	83	36.9%	17.6%
Gross margin (%)	47.2%	46.2%	101bps	33.7%	1,352bps	809bp
EBIT	81	94	(14.0)%	51	58.9%	25.7%
EBIT Margin (%)	33.6%	37.5%	(382)bps	20.7%	1,296bps	754bp
Net income	75	87	(13.7)%	44	71.2%	29.9%
Net margin (%)	31.5%	34.9%	(344)bps	18.0%	1,351bps	785bp
EPS (SAR)	0.49	0.57	(13.7)%	0.29	71.2%	29.9%

Source: Company, NCBC Research, ^ % var indicates variance from NCBC forecasts

STOCK DETAILS

52-week range H/L (SAR)	60/36
Market cap (\$mn)	1,565
Shares outstanding (mn)	153
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	(14.5)	(17.3)	(2.3)
Rel. to market	(12.4)	(11.5)	(15.1)

Avg daily turnover (mn)	SAR	US\$
3m	4.0	1.1
12m	6.3	1.7

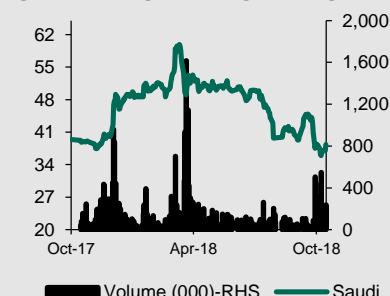
Reuters code	3030.SE
Bloomberg code	SACCO AB
www.saudicement.com	

VALUATION MULTIPLES

	17a	18f	19f
PE (x)	12.9	14.9	14.5
PB (x)	2.0	2.0	2.0
EV/EBITDA (x)	9.2	9.7	9.3
Div Yield (%)	10.4	6.5	6.5

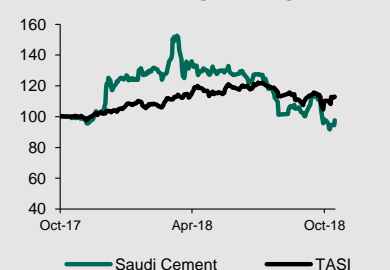
Source: NCBC Research forecasts

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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