

Arabian Cement beats estimates on higher than expected price realization per tonne. Net income came at SAR 37.1mn, above our expectation of SAR 9.2mn. Revenue came at 189.1mn, higher than our estimates of SAR 162.3mn. Selling price stood at SAR 220/tonne against our estimates of SAR 184.8.0/tonne. We revised our recommendation to “**Overweight**” on the stock with a TP at SAR 31.70/share.

- Arabian cement delivered a strong net income of 37.1mn in Q1-19 compared to SAR 15.4mn in Q4-18 and a net loss of SAR 6.1mn in Q1-18. Net income surpassed our estimates and the market consensus estimates of SAR 9.2mn and SAR 7.3mn, respectively. We believe that the Y/Y strong growth is mainly attributed to an increase in its selling price by 41.8%. The deviation of Q1-19 earnings from our estimates is mainly ascribed to higher than expected sales prices, resulting in higher revenue and margins.
- Revenue stood at SAR 189.1mn, above our estimates of SAR 162.3mn however a decline of 5.3%Y/Y, due to weak contribution from Qutranah cement. During Q1-19, the company registered a decline of 35.9%Y/Y in local volumetric sales to stand at 648KT vs. 1,035KT in Q1-18, coming in-line with our estimates of 628KT. The average price realization/tonne stood at SAR 220/tonne, as compared to our estimates of SAR 184.8/tonne and SAR 175/tonne in Q4-18.
- Gross profit stood at SAR 61.7mn (an increase of 243.0%Q/Q,382%Y/Y), above our estimates of SAR 30.6mn, due to higher than expected revenue. Cost per tonne stood at SAR 148.5/tonne compared to an average of SAR 152.1/tonne in FY18.
- Operating profit stood at SAR 48.7mn, above our estimates of SAR 12.6mn due to an increase in gross profit along with a decrease in OPEX, which stood at SAR 13.0mn, showed a decline of 31.1%Y/Y.

**AJC view:** Although Arabian Cement witnessed a strong recovery in price realization per tonne in Q1-19, local volumetric sales continue to decline by 37.4%Y/Y. However, we believe that the company’s sales volumes will gradually improve over the coming years given the mega projects in the western region. The company’s selling prices is expected to sustain the high level in FY19. Downside risks are related to lower than expected contribution from Qutranah in Jordan and higher than expected cost per tonne. On the other hand, cement sector is starting to recover from its current downtrend due to producer’s concentration on selling prices and an increase in export sales, while mega projects and other housing initiatives are the key growth driver for the Saudi cement sector and could be realized beyond FY19. The company has an inventory of 2.7MT, which will be sufficient to cover more than 100% of the local sales volume during the year. Arabian cement is expected to post SAR 152.4mn in net income (1.52 EPS), for FY19. The company is currently trading at a high TTM PE compared to a forward PE of 15.9x based on FY19 earnings. We expect the company to generate a strong FCF of SAR 190mn, which increases the possibility of higher DPS at SAR 1.25/share during FY19, resulted in a D/Y of 5.2%. We revised our recommendation to “**Overweight**” on the stock with a TP at **SAR 31.70/share**.

### Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	199.7	175.3	189.1	-5.3%	7.9%	16.5%
Gross Profit	12.8	18.0	61.7	382.0%	242.8%	101.7%
Gross Margin	6.4%	10.3%	31.6%	-	-	-
EBIT	(6.0)	2.3	48.7	NM	-	-
Net Profit	(6.1)	16.3	37.1	NM	127.6%	-
EPS	(0.06)	0.15	0.37	NM	-	-

Source: Company Reports, Aljazira Capital \*NM: Not meaningful

### Overweight

Target Price (SAR)	31.70
Upside / (Downside)*	31.0%

Source: Tadawul \*prices as of 18<sup>th</sup> of May 2019

### Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	905.7	600.7	689.5
Growth %	-27.9%	-33.7%	14.8%
Net Income	262.7	-26.3	152.4
Growth %	-48.8%	NM	NM
EPS	2.63	-0.26	1.52

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	38.6%	6.3%	32.1%
Net Margin	29.0%	-4.4%	22.1%
P/E	13.07x	NM	15.9x
P/B	1.13x	0.78x	0.84x
EV/EBITDA (x)	8.4x	21.8x	8.8x
Dividend Yield	10.2%	4.4%	5.2%

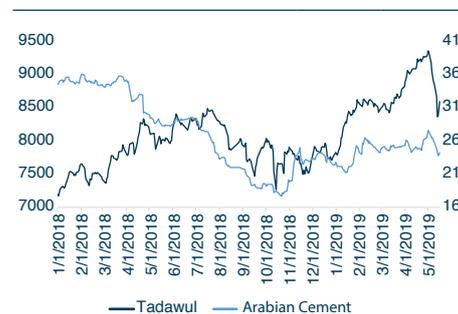
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	2.42
YTD %	8.13 %
52 Week (High)/(Low)	30.10/17.16
Shares Outstanding (mn)	100.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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- Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
- Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
- Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
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