Qassim Cement
Cement – Industrial
QACCO AB: Saudi Arabia
23 May 2022

الراجحي المالية
Al Rajhi Capital

US$1.907bn	51%	US$2.177mn
Market cap	Free float	Avg. daily volume

Target price	78.00	-1.9% over current
Current price	79.50	as at 23/5/2022

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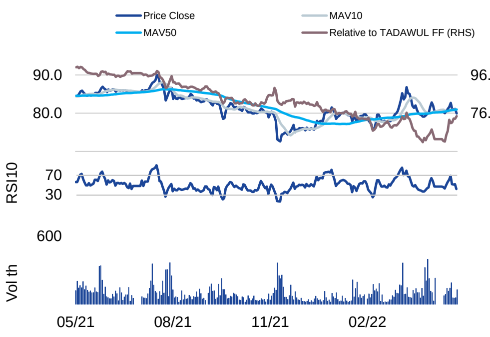
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

(SARmn)	2021A	2022E	2023E
Revenue	723	617	708
Revenue growth	-20%	-15%	15%
Gross profit	289	182	263
Gross margin	40%	30%	37%
EBITDA	334	222	297
EBITDA margin	46%	36%	42%
Net profit	295	171	243
Net margin	41%	28%	34%
EPS	3.28	1.90	2.70
DPS	3.50	2.50	3.00
Payout ratio	107%	132%	111%
EV/EBITDA	18.3x	27.6x	20.6x
P/E	24.2x	41.9x	29.5x
RoE	17.0%	10.1%	14.7%

Source: Company data, Al Rajhi Capital

Qassim Cement
Performance to remain under pressure; TP at SAR78/sh

Qassim Cement Co (QACCO) registered a revenue of SAR142mn, a y-o-y fall of 36.2%, but was higher than our estimate of SAR134mn. Fall in sales was attributed to a 6.5% y-o-y fall in cement volume and lower average realization. Cement sales volume for Q1 2022 came in at 1.1mn tons, broadly in line with our estimate. Gross profit fell by 75.6% y-o-y, while operating profit fell by 81.9% y-o-y. Lower revenue, & the resultant fall in operating leverage, and an increase in cost of sales, relative to revenue, impacted profitability, as gross margins fell to 19.2% for Q1 2022, compared to 50.3% a year back. For Q1 2022, cement volume of QACCO fell by 6.5% y-o-y, underperforming the performance of the Central region, which registered an increase of 4.6%, though it was better than the industry performance, which on an average fell by 10.1%. Going forward, we expect construction activity to remain weak; along with this, with a clinker inventory of 34.7 mn tons, in April-22, which is around seven months of production (LTM), we expect the average realization to remain under pressure. However, there could be a slight recovery in the volume post H1 2022, as we expect marginal recovery in demand, backed by an improvement in the execution of mega and giga projects. However, this recovery is likely to be limited, resulting in cement sales volume coming lower in 2022, compared to 2021. Overall, we reduce our target price to SAR78/share from SAR85/share, but maintain our rating at "Neutral".

Q1 results: Total volume sold during the quarter came at 1.1mn tons in Q1 2022, compared to 1.2mn tons in Q4 2021 and a year back. At the back of lower realization and volume, gross margins fell to 19.2% in Q1 2022, compared to 50.3% a year back, though it was an improvement from 5.5% in the previous quarter. Net margins at 17.6% in Q1 2022 was lower than 45.2% a year back, and 25.8% in Q4 2021. Q4 2021 net income was aided by reversal of provisions, and but for this, the net margins would have been better on a q-o-q basis.

Figure 1 QACCO: Summary of Q1 2022 results

(SARmn)	Q1 2022	Q1 2021	Q4 2021	% chg y-o-y	% chg q-oq	ARC Estimates
Revenue	142	223	131	-36%	9%	134
Gross Profit	27	112	7	-76%	280%	38
Gross Margin	19%	50%	5%	NA	NA	29%
Operating Profit	19	104	4	-82%	327%	30
Net Profit	25	101	34	-75%	-26%	34

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 average mix of DCF and dividend capitalization. The DCF target price is based on a 2.0% terminal growth and WACC of 6.5% and comes to SAR94/share. Dividend capitalization is based on a fair value yield of 4.0% and comes to SAR63/share. Overall, we have reduced our target price for the company to SAR78 per share, a downside of 1.9%, which implies an "*Neutral*" rating. The key downside risks are a decline in volume and lower than expected cement prices. The key upside risks are higher than the forecasted pick up in the construction activity, resulting in improved volume and prices.

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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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