

Cement Sector

Maintain BUY: 12M TP @ 14.50

Valuation Summary (TTM)

Price (SAR)	12.6
PER TTM (x)	19.0
P/Book (x)	1.1
P/Sales (x)	4.0
EV/Sales (x)	5.1
EV/EBITDA (x)	11.4
Dividend Yield (%)	4.0
Free Float (%)	87%
Shares O/S (mn)	170
YTD Return (%)	4%
Beta	0.8

(mn)	SAR	USD
Market Cap	2,139	570
Total Assets	2,454	654

Price performance (%)	1M	3M	12M
Najran Cement Co	-7%	-12%	-12%
Tadawul All Share Index	-3%	3%	-9%
Industry Index	-3%	3%	-9%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	6,434	8,430	11,258
Avg Daily Volume (,000)	523	615	813

52 week	High	Low	CTL*
Price (SAR)	15.34	11.80	6.6

* CTL is % change in CMP to 52wk low

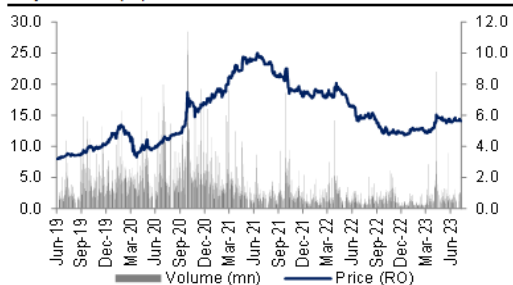
Major shareholders

Al Barrak Khaled	9%
Vanguard Group Inc	2.0%
Dimensional Fund Adv	1.4%
Others	87.4%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.1%

Key ratios	2020	2021	2022
EPS (SAR)	1.18	0.97	0.67
BVPS (SAR)	12.09	11.56	11.73
DPS (SAR)	1.50	1.00	0.50
Payout ratio (%)	127%	103%	75%



Najran Cement – 1H23 performance review

Najran Cement is a mid-sized cement company operating in the Southern region of Saudi Arabia. The company has a market share of 5% of cement volume and was the 8th largest player in the Kingdom in YTD'Jul-23. For the seven months ended Jul-23, Najran's cement sales volume fell by 5.0% YoY to 1.5mn tons, slightly underperforming the industry, which fell by 4.3% for the same period. The operating performance of Najran in 2023 thus far has been weak and below expectations. Both Eid-Al-Adha and Eid-Al-Fiter falling in 1H23 impacted both the company and the industry performance. Though the main challenge was the increase in competition among the players, especially in 2Q23, which has put pressure on the cement volumes of the company, even as its average cement realization remained strong. In 2Q23, the company's financial performance was weak and lower than expected, both at the revenue and the profitability levels. Cement volumes were weaker than expected, though the cement realization came in line with our forecast. Profitability was also impacted by lower scale of operation and an increase in the cost of sales per ton. Going forward, in 2H23, we expect the cement volume to be better than 1H23. Despite this, we expect cement volumes to fall by 5% YoY in 2023e. We also expect cost of sales per ton to moderate in 2H23, vis-à-vis 1H23 levels, though the 2023e levels are likely to be higher than 2022 levels. Overall, we forecast Najran Cement to report a c.12.5% YoY fall in net income to SAR99mn for 2023e. Based on our revised estimates we have reduced our target price of Najran Cement from SAR16 per share to SAR14.5 per share, but maintain our BUY rating on the stock. The company is currently quoting at c.17x its 2024e EPS.

Lower cement volume impacts 2Q23 revenue: Revenue of Najran cement fell by 6.2% YoY and was impacted by a 10.7% YoY fall in cement volume to 0.54mn tons for 2Q23. The performance was impacted by Eid-Al-Adha holidays occurring in Jun-23 and the volumes were lower than our expectation of 0.56mn tons by 3.0%. Cement realization on the other hand increased by 5.0% YoY, limiting the fall in revenue to a certain extent and was in line with our estimate of SAR186/ton for 2Q23. Going forward we expect the revenue of Najran Cement to fall by c.2% YoY to SAR524mn for 2023e and will be impacted by lower cement volume.

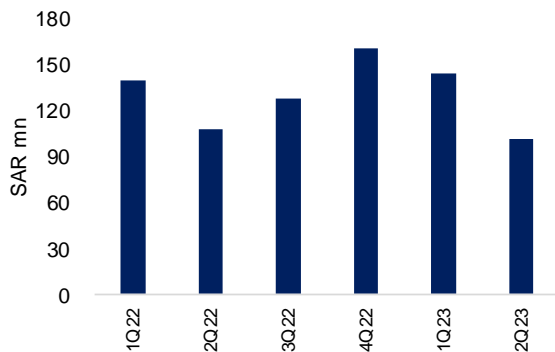
Gross margins under pressure, despite improved pricing scenario: Gross profit fell by 17.3% YoY to SAR25mn for 2Q23, at the back of lower revenue, as gross margins fell by 340bps YoY to 25.1%. Despite the improved pricing scenario, margins fell due to lower revenue and higher cost of sales per ton, which increased to SAR139/ton in 2Q23 compared to SAR127/ton for the same period previous year. Going forward, we expect the cement volumes in 2H23 to be higher than 1H23, and this improvement in scale is likely to also aid in the improvement of the gross margins for 2023e, compared to 1H23 levels.

Net income under pressure in 2Q23 and lower than expected: Operating cost fell by 18.2% YoY to SAR12mn, aided by lower selling and distribution expenses, at the back of lower revenue. Net income fell by 44.5% YoY to SAR7mn for 2Q23, and apart from the weak operating performance, the profitability was also impacted by higher finance expenses and provisions for tax. The net income for the quarter was also substantially lower than our estimate of SAR14mn.

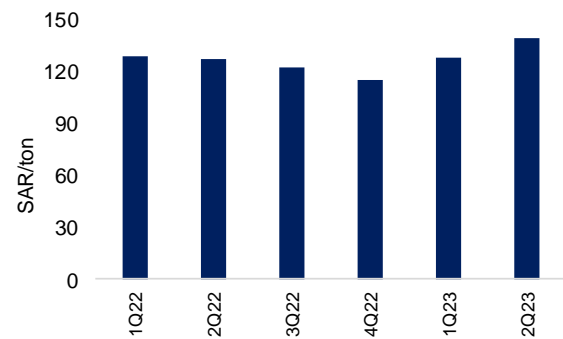
Going forward, we expect the financial performance of Najran Cement to improve in 2H23, vis-à-vis its 1H23 performance, as we expect both the cement volumes and the margins to recover. However, the YoY performance is likely to continue to come under pressure, as we forecast a c.12.5% YoY decline in net income to SAR99mn for 2023e.

Valuation and view: We had initiated coverage on the stock in May '23 with a target of SAR16 per share. The stock is currently trading at SAR12.6 per share, after reaching a closing high of SAR14.62 per share, since initiation. Based on our revised estimate we assign a target price of SAR14.5 per share, and retain our BUY rating on the stock.

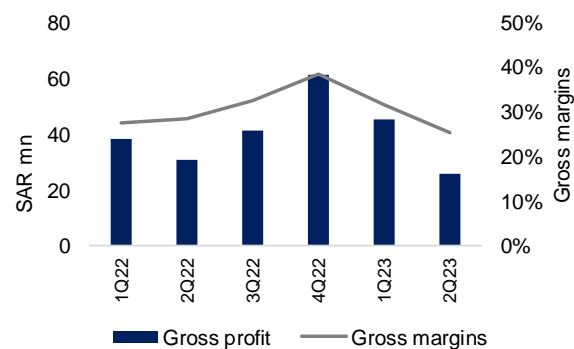
Revenue in 2Q23 comes lower



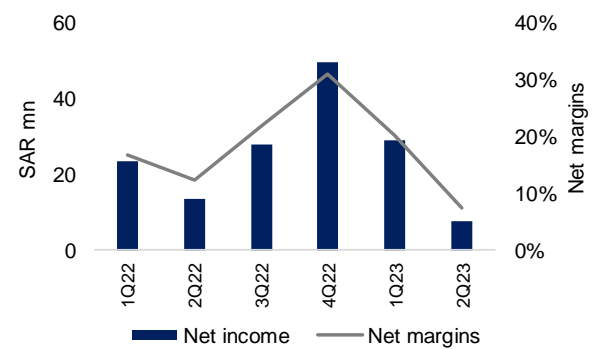
Cost of sales per ton increases



Lower revenue & high costs impacts gross profits



Weak operating performance impacts net income



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	416	623	582	536	524	561	601	635	660
Cost of sales	(297)	(373)	(351)	(364)	(355)	(375)	(396)	(414)	(428)
Gross profit	119	250	230	172	169	186	205	220	232
Operating expenses	(34)	(45)	(49)	(43)	(44)	(45)	(46)	(48)	(49)
Operating profit	85	205	181	128	125	141	158	173	183
Other income	2	1	(2)	3	3	3	3	3	4
Finance expenses	(27)	(16)	(8)	(11)	(23)	(15)	(6)	(4)	(3)
Earnings before tax	60	191	171	120	106	130	156	172	184
Tax	(6)	10	(5)	(7)	(6)	(6)	(6)	(6)	(6)
Net income	54	201	166	114	99	124	150	166	178
Minority interest	0	0	0	0	0	0	0	0	0
Net income	54	201	166	114	99	124	150	166	178

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,085	1,984	1,963	1,936	1,888	1,842	1,798	1,756	1,714
Intangibles	4	4	4	4	4	4	4	4	4
Investments	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0
Total non-current assets	2,089	1,988	1,967	1,941	1,893	1,846	1,802	1,760	1,719
Inventory	323	282	269	366	319	300	297	311	321
Receivables, Net	33	30	28	29	28	30	32	34	35
Cash & Cash Equivalents	22	172	82	39	104	141	150	132	128
Investments	0	0	0	0	0	0	0	0	0
Other current assets	20	47	43	50	50	50	50	50	50
Total current assets	398	531	422	483	501	520	529	527	534
Total assets	2,487	2,519	2,390	2,424	2,394	2,367	2,331	2,287	2,253
Share Capital	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Total reserves	284	356	266	293	308	321	326	322	330
Minority interest	0	0	0	0	0	0	0	0	0
Total equity	1,984	2,056	1,966	1,993	2,008	2,021	2,026	2,022	2,030
Short-term & current debt	371	52	52	44	43	43	43	43	43
Lease liabilities - Current	0	0	0	0	0	0	0	0	0
Payable	26	45	45	46	45	48	51	53	55
Other current liab.	41	48	57	58	58	58	58	58	58
Total current liabilities	438	145	154	149	147	149	152	154	156
Long-Term Debt	30	279	228	236	194	151	108	65	22
Long-term lease liabilities	6	6	6	5	5	5	5	5	5
Other non-current liabilities	29	33	37	40	40	40	40	40	40
Total non-current liabilities	66	318	270	281	239	196	153	110	67
Total liabilities	504	463	424	430	386	346	305	264	223
Equity and liabilities	2,487	2,519	2,390	2,424	2,394	2,367	2,331	2,287	2,253

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	185	359	270	93	219	218	227	227	242
Cash from investments	(21)	(11)	(53)	(50)	(26)	(28)	(30)	(32)	(33)
Cash from financing	(153)	(199)	(307)	(85)	(128)	(154)	(188)	(213)	(213)
Net changes in cash	10	149	(89)	(43)	65	36	9	(18)	(4)
Closing balance	22	172	82	39	104	141	150	132	128

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	0.3	1.2	1.0	0.7	0.6	0.7	0.9	1.0	1.0
BVPS	11.7	12.1	11.6	11.7	11.8	11.9	11.9	11.9	11.9
DPS	0.0	1.5	1.0	0.5	0.5	0.7	0.9	1.0	1.0
FCF/share	1.0	2.0	1.3	0.3	1.1	1.1	1.2	1.1	1.2
Revenue/share	2.4	3.7	3.4	3.2	3.1	3.3	3.5	3.7	3.9
Valuations									
M.Cap (SAR mn)	2,139	2,139	2,139	2,139	2,139	2,139	2,139	2,139	2,139
EV (SAR mn)	2,524	2,304	2,342	2,385	2,277	2,197	2,145	2,119	2,081
P/E	40.0x	10.6x	12.9x	18.8x	21.5x	17.3x	14.3x	12.9x	12.0x
EV/EBITDA	15.5x	8.2x	9.2x	11.8x	11.4x	10.2x	9.2x	8.6x	8.1x
EV/Sales	6.1x	3.7x	4.0x	4.5x	4.3x	3.9x	3.6x	3.3x	3.2x
P/BV	1.1x	1.0x	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x
P/S	5.1x	3.4x	3.7x	4.0x	4.1x	3.8x	3.6x	3.4x	3.2x
Div. yield	0.0%	11.9%	7.9%	4.0%	4.0%	5.2%	6.8%	7.9%	7.9%
FCF yield	7.6%	16.3%	10.2%	2.0%	9.0%	8.9%	9.2%	9.1%	9.8%
Liquidity									
Cash Ratio	0.1x	1.2x	0.5x	0.3x	0.7x	0.9x	1.0x	0.9x	0.8x
Current ratio	0.9x	3.7x	2.7x	3.2x	3.4x	3.5x	3.5x	3.4x	3.4x
Quick ratio	0.2x	1.7x	1.0x	0.8x	1.2x	1.5x	1.5x	1.4x	1.4x
Return ratio									
ROA	2.2%	8.0%	6.9%	4.7%	4.2%	5.2%	6.4%	7.3%	7.9%
ROE	2.7%	9.8%	8.4%	5.7%	5.0%	6.1%	7.4%	8.2%	8.8%
ROCE	3.4%	8.1%	7.6%	5.3%	5.2%	6.0%	6.8%	7.5%	8.1%
Cash cycle									
Inventory turnover	0.9x	1.3x	1.3x	1.0x	1.1x	1.3x	1.3x	1.3x	1.3x
Payables turnover	11.4x	8.3x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x	7.8x
Receivables turnover	12.4x	20.5x	20.6x	18.7x	18.7x	18.7x	18.7x	18.7x	18.7x
Inventory days	391	272	276	362	324	288	270	270	270
Payable days	32	43	46	46	46	46	46	46	46
Receivables days	29	18	17	19	19	19	19	19	19
Cash Cycle	389	246	248	335	297	261	243	243	243
Profitability ratio									
Gross margins	28.6%	40.1%	39.6%	32.1%	32.3%	33.2%	34.1%	34.7%	35.2%
EBITDA margins	39.1%	45.2%	43.8%	37.8%	38.1%	38.4%	38.7%	38.9%	39.0%
Operating margins	20.5%	32.9%	31.1%	24.0%	23.9%	25.2%	26.3%	27.2%	27.8%
PBT margins	14.3%	30.6%	29.4%	22.5%	20.2%	23.2%	25.9%	27.1%	27.9%
Net margins	12.9%	32.2%	28.5%	21.2%	19.0%	22.1%	24.9%	26.1%	26.9%
Effective tax rate	10.3%	-5.4%	3.2%	5.5%	6.0%	4.8%	4.0%	3.6%	3.5%
Leverage									
Total debt (SAR mn)	408	337	285	286	243	200	156	113	70
Net debt (SAR mn)	386	165	203	246	138	59	6	(19)	(58)
Debt/Capital	17.1%	14.1%	12.7%	12.5%	10.8%	9.0%	7.2%	5.3%	3.3%
Debt/Total assets	16.4%	13.4%	11.9%	11.8%	10.1%	8.4%	6.7%	5.0%	3.1%
Debt/Equity	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.0x
Debt/EBITDA	2.5x	1.2x	1.1x	1.4x	1.2x	0.9x	0.7x	0.5x	0.3x
Net debt/EBITDA	2.4x	0.6x	0.8x	1.2x	0.7x	0.3x	0.0x	-0.1x	-0.2x

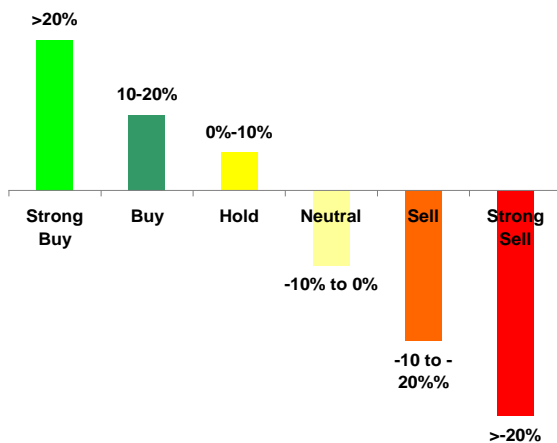
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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