



US\$2.211bn Market cap
85% Free float
US\$9.03mn Avg. daily volume

Target price **65.00** 19.9% over current
 Current price **54.20** as at 29/10/2020

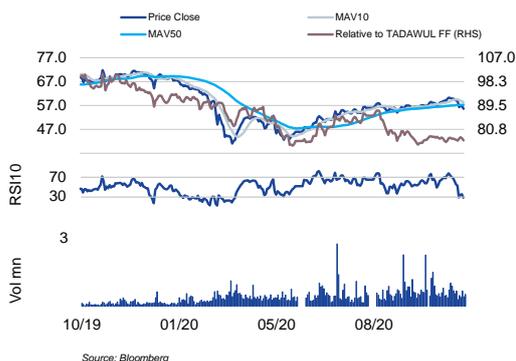
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2019A	2020E	2021E
Revenue	1,442	1,501	1,571
Revenue growth	29%	4%	5%
Gross profit	650	644	723
Gross margin	45%	43%	46%
EBITDA	698	663	727
EBITDA margin	48%	44%	46%
Net profit	451	427	495
Net margin	31%	28%	31%
EPS	3.0	2.8	3.2
DPS	3.5	3.0	3.5
Payout ratio	119%	108%	108%
EV/EBITDA	16.3x	13.1x	11.9x
P/E	24.2x	19.4x	16.8x
RoE	16%	16%	18%

Source: Company data, Al Rajhi Capital

Saudi Cement

Earnings boosted by volume; TP increased to SAR 65

Saudi Cement registered revenue of SAR387mn, a y-o-y growth of 24.7% and, was higher than our estimate of SAR373mn by 3.7%. Growth in sales was supported by a 19.8% y-o-y growth in volume and an improvement in average realization. Cement sales volume for Q3 20 came in at 1.6mn tons, 3.0% higher than our estimate. Continued growth from mortgages aided volume growth. Gross profits and operating income increased by 23.8% y-o-y and 22.8% y-o-y respectively. Growth in gross profit and operating profits were in line with revenue growth. For the nine months, Saudi Cement registered a volume growth of 9.9% y-o-y. Growth was aided by strong momentum in real estate activities in the local market. Going forward, we expect this trend to continue, though growth rates for 2021 will be tempered by the higher base in 2020. Average realizations are likely to come under pressure, given the competitive nature of the local market. We marginally increase our target price to SAR65/share from the earlier target price of SAR63/share and have increased our rating to "Overweight" from "Neutral".

Q3 results: Total volume sold during the quarter was at 1.6mn tons in 3Q20, compared to 1.2mn tons in 2Q20 and 1.3mn tons a year back. Despite higher volumes, gross margins fell marginally to 42.2% in 3Q20, corresponding to 42.5% a year back, though it was higher than 41.6% in 2Q20. Net margins at 27.5% in 3Q20, was higher compared to 25.0% in 2Q20 and 26.8% a year back. Despite lower gross margins, the overall profitability improved due to higher income from associates, higher other income, and lower financial charges.

Figure 1 Saudi Cement: Summary of Q3 2020 results

(SARmn)	Q32020	Q32019	Q2 2020	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	387	310	297	25%	30%	373
Gross Profit	163	132	124	24%	32%	169
Gross Margin	42%	43%	42%	NA	NA	45%
Operating Profit	114	93	83	23%	37%	127
Net Profit	106	83	74	28%	43%	120

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 equal mix of DCF and relative valuation. The DCF target price is based on a 2.0% terminal growth and WACC of 7.8% and comes to SAR70/share. P/E is based on a multiple of 18.5x and comes to SAR60/share. Overall, we have slightly increased our target price for the company to SAR65 per share, an upside of 19.9%, which implies an "Overweight" rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the government's infrastructure spending.

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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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