Saudi Cement
Constructions and Materials – Industrial
SACCO AB; Saudi Arabia
01 November 2020

US$2.211bn  85%  US$9.03mn
Target price  65.00  19.9% over current
Current price  54.20  as at 29/10/2020

Existing rating
Underweight Neutral Overweight

Performance

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”. The “Overweight” rating.

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

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, and an upside of 19.6%, 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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