



Eastern cement posted net income of SAR 36.5mn beating our estimates of SAR 27.7mn due to higher than expected selling price. Consequently gross profit of SAR 50.7mn beat our estimates by 23.4%. Price realization stood at SAR 292.6/tonne, compared to our expectation of SAR 234.7/tonne, which could be attributed to accounting adjustment and change in revenue recognition. We reiterate our “Neutral” recommendation on the stock with a revised TP at **SAR 33.5/share**.

- Q3-19 Net profit stood at SAR 36.5mn (EPS; SAR 0.42/share); an increase of 14.7%Q/Q and 309.5%Y/Y. Eastern cement net profit was higher than our estimates and the market consensus estimates of SAR 27.7mn and SAR 27.0mn, respectively. Y/Y growth was attributed to an increase in volumetric sales by 9.2% and an increase of 67.1% in selling price.
- Eastern cement posted sales at SAR 173.8mn, an increase of 42.5%Q/Q and 9.5%Y/Y, above our estimates of SAR 152.6m. The strong growth is mainly attributed to higher than expected selling price and an increase in volumetric sales. Sales volumes stood at 499KT, in-line with our expectations of 489KT, and 457KT registered in Q3-18. Price realization per tonne stood at SAR 292.6/tonne Vs. SAR 233.5/tonne in Q2-19 (25.3%Q/Q); partially due to our expectation of change in revenue recognition.
- Gross profit at SAR 50.7mn (an increase of 28.4%Q/Q, 138.5%Y/Y), came above our estimates of SAR 41.1mn, due to an increase in revenue by 9.5%Y/Y. Based on our calculations, cost per tonne stood at SAR 194.9/tonne compared to our expectations of SAR 156.0/tonne and SAR 135.0/tonne in Q3-18, which we expect the high increase in cost per tonne is attributed to an accounting adjustment.
- Operating profit stood at SAR 37.4mn, above our estimates of SAR 27.7mn due to an increase in gross profit. OPEX, stood at SAR 13.4mn, showed a decline of 16.0%Q/Q.

AJC view: Q3-19 earnings indicate that 9.2%Y/Y growth in volumetric sales was mainly supported by domestic sales of 465KT, while price realization jumped by 67.1%Y/Y. Clinker inventory witnessed a decline of 11.5%Y/Y to stand at 2.7MT, which can be enough to cover more than 125% of the total sales volume during TTM. We believe, cement sector is continuing the recovery from its downtrend due to producer’s concentration on selling prices and an increase in both local & export sales. For 10M-19, total sector dispatches stood at 40.5MT (including exports) compared to 37.3MT in 10M-18, depicting an increase of 8.7%Y/Y.

We expect the company to generate a strong FCF of SAR 134.2mn, which increases the possibility of higher DPS at SAR 1.50/share during FY19, given a strong balance sheet and zero debt. Eastern cement is expected to post SAR 165.1mn in net income (1.92 EPS), for FY19, an increase of 136.7%Y/Y. We updated our FY19 earnings forecast upwards by 13.5%. The company is currently trading at TTM PE of 20.4x compared to a forward PE of 14.9x based on FY20 earnings. We reiterate our “Neutral” recommendation on the stock with a TP at **SAR 33.5/share**.

Results Summary

SARmn (unless specified)	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	122.0	159.0	174.0	42.6%	9.4%	13.9%
Gross Profit	21.0	40.0	51.0	142.9%	27.5%	23.4%
Gross Margin	17.2%	25.2%	29.3%	-	-	-
EBIT	7.0	24.0	37.0	428.6%	54.2%	40.5%
Net Profit	9.0	32.0	36.0	300.0%	12.5%	31.6%
EPS	0.10	0.37	0.42	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Neutral

Target Price (SAR) **33.5**

Upside / (Downside)* **1.10%**

Source: Tadawul *prices as of 13th of November 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	640.6	565.7	701.8	738.2
Growth %	-25.2%	-11.7%	24.0%	5.2%
Net Income	107.1	69.7	165.4	191.3
Growth %	-52.8%	-34.9%	137.1%	15.7%
EPS	1.25	0.81	1.92	2.22

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Gross Margin	25.8%	23.2%	29.2%	32.6%
Net Margin	16.7%	12.3%	23.6%	25.9%
P/E	21.2x	25.6x	17.2x	14.9x
P/B	1.03x	0.81x	1.27x	1.23x
EV/EBITDA (x)	10.96x	10.08x	11.55x	9.59x
Dividend Yield	3.8%	3.6%	3.0%	3.8%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.85
YTD %	59.5 %
52 Week (High)/(Low)	34.95 /19.00
Shares Outstanding (mn)	86.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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- 1. 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.
- 2. 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.
- 3. 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.
- 4. Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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