

## ARABIAN CEMENT

NEUTRAL

CURRENT PRICE SAR29.3

UPSIDE +2.4%

TARGET PRICE SAR30.0

EVENT FLASH

## Strong results on higher selling prices and margins

Arabian Cement reported an in-line set of Q2 19 results, with a net profit of SAR37mn vs a loss of SAR50.9mn in Q2 18. This compares to NCBC and consensus estimates of SAR37mn and SAR29mn, respectively. We believe the strong yoy improvement came mainly as a result of higher selling prices in Saudi and an improvement in Jordanian operations. We believe selling prices in Saudi stood at SAR221/ton in Q2 19 vs SAR130/ton in Q2 18.

- **NCBC view on the results:** Arabian Cement reported an in-line set of Q2 19 results. The company reported a net income of SAR37mn in Q2 19 vs a net loss of SAR50.9mn in Q2 18. This is in-line with NCBC estimates of SAR37mn, but is stronger than consensus estimates of SAR29mn. We believe the yoy improvement came from higher selling prices of SAR221/ton in Q2 19 vs SAR130/ton in Q2 18.
- Total local cement and clinker sales volumes of Arabian Cement's Saudi operations stood at 0.46mn tons in Q2 19 vs. NCBC estimates of 0.40mn tons. Local sales quantities declined -13.3% yoy (-23.4% qoq) in Q2 19, underperforming the industry which declined -6.3% yoy (-17.5% qoq). We expected selling prices in Saudi to be similar to Q1 19 levels at SAR195/ton. Depending on the sales of Jordanian operations, we believe actual selling prices in Saudi may have been as high as SAR221/ton (+69.6% yoy, +11.8% qoq). We estimate sales from Jordanian operations of SAR60mn in Q2 19 vs SAR38.5mn in Q2 18 and SAR58.0mn in Q1 19.
- Gross margins expanded from -33.1% in Q2 18 to 39.1% in Q2 19. This compares to our estimates of 40.6%. We believe the variance from our estimates came as a result of a higher than expected cost/ton of SAR211/ton vs our estimates of SAR205/ton. However, this was partially offset by the higher than expected selling prices. The expansion in margins came mainly from the Saudi operations, as the Jordanian operations of the company run at significantly lower gross margins.
- We are Neutral on Arabian Cement with a PT of SAR30.0. We believe the higher selling prices is a positive, while the ongoing muted demand outlook in H2 19 remains a key short term risk for the sector. Demand from mega projects is expected to begin as of 2020 and Arabian Cement is expected to be a key beneficiary, provided its favourable location in the western region of Saudi.

## Q2 19 Results Summary

SAR mn	Q2 19a	Q2 18a	% yoy	Q2 19f	%Var <sup>^</sup>	% qoq
Revenues	164.6	107.8	52.7%	138.0	19.3%	(13.0)%
Gross income	64.4	(35.6)	NM	56.0	15.0%	4.4%
Gross margin (%)	39.1%	(33.1)%	7,219bps	40.6%	(145)bps	650bps
EBIT	49.6	(52.2)	NM	39.4	25.8%	1.8%
EBIT Margin (%)	30.1%	(48.4)%	7,857bps	28.6%	157bps	438bps
Net income	37.3	(50.9)	NM	36.9	1.0%	0.4%
Net Margin (%)	22.7%	(47.2)%	6,986bps	26.8%	(411)bps	302bps
EPS (SAR)	0.37	(0.51)	NM	0.37	1.0%	0.4%

Source: Company, NCBC Research, ^% Var indicates variance from NCBC forecasts

الأهلي كابيتال  
NCB Capital

## STOCK DETAILS

M52-week range H/L (SAR)	34/17
Market cap (\$mn)	782
Shares outstanding (mn)	100
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	11.6	6.2	25.1
Rel. to market	13.7	13.6	20.6

Avg daily turnover (mn)	SAR	US\$
3M	7.6	2.0
12M	5.5	1.5

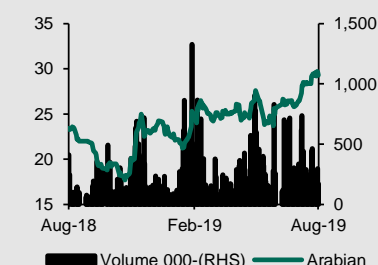
Reuters code	3010.SE
Bloomberg code	ARCCO AB
www.arabiacement.com	

## VALUATION MULTIPLES

	18a	19f	20f
PE (x)	NM	27.0	23.5
PB (x)	1.0	1.0	1.0
EV/EBITDA (x)	27.2	10.5	9.8
Div Yield (%)	3.4	2.6	3.1

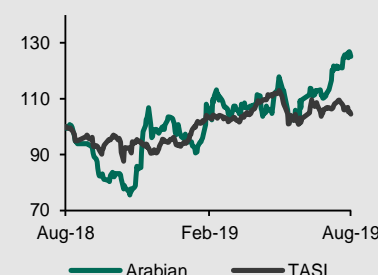
Source: NCBC Research estimates, \*Actual

## SHARE PRICE PERFORMANCE



Source: Tadawul

## RELATIVE PERFORMANCE



Source: Tadawul

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