

SECTOR UPDATE

Q4 23

## Short-term headwinds, long term recovery

We maintain our long-term positive outlook on the Saudi Cement sector. We believe the acceleration of the Mega/Giga projects will support long-term demand and prices. However, weak demand following housing and construction slowdown has led to inventory accumulation and is expected to continue to put pressure on prices in the short-term. We expect average selling prices to stand at SAR199/ton (c+8% yoy) in 2023f and gradually improve to SAR202/ton in 2024f. We expect volumes to decline by 9.8% yoy to 37.6mn tons in 2023f, and increase marginally to 38.4mn tons in 2024f driven by improved construction activity. We upgrade Eastern Cement to Overweight and remain Overweight on Riyadh Cement on attractive valuation and favourable product mix. We downgrade Southern Cement to Neutral due to weaker than expected performance during the year.

- Long term recovery on the back of Mega projects**

Cement volume sales in 9M 23 declined by 7.5% yoy, primarily due to the slowdown in residential mortgages and construction activities as interest rates remain high. The residential housing market has been significantly impacted by elevated interest rates along with rising real estate prices, which in turn impacted new mortgage originations. According to SAMA, the number of new mortgages issued declined by a 44.3% yoy to 9,000 in August 2023. Despite short term demand headwinds, the acceleration in Mega/Giga projects is expected to be the main sector driver in the long-term. Moreover, other projects/initiatives such as the establishment of Saudi Tourism Company, along with NHC's plans to provide 11,700 residential units across Riyadh and Jeddah are expected to boost demand further in the long-term. We expect sales volumes to stand at 37.6mn tons (-9.8% yoy) in 2023f and to reach 38.4mn tons (+2.1% yoy) in 2024f.

- Record high inventories intensifies price competition**

Clinker inventory has risen by 10.9% yoy in Sep 2023 to 39.7mn tons, the highest level since Oct 2020. We attribute the increase in inventory levels to excess supply and lower than expected demand. We believe inventory accumulation will keep prices under pressure in the short-term. We expect prices at SAR199/ton in 2023f (+8% yoy) and improve to SAR202/ton and SAR206/ton in 2024f and 2025f, respectively.

- Upgrade Eastern Cement to OW, and remain OW on Riyadh Cement**

The short-term outlook of the sector is expected to remain muted due to weak demand and prices. However, we believe the long-term outlook is positive supported by Mega/Giga projects and better prices. Our top picks are Eastern Cement and Riyadh Cement due to attractive valuation and favourable product mix while we downgrade Southern Cement following to weak performance during the year. The sector is trading at a 2024f P/E and EV/EBITDA of 20.9x and 12.9x, respectively.

### Valuation summary

	Rating	PT (SAR)	Current price	Upside/Downside (%)	Mcap (SAR mn)	P/E (x) 2024f	EV/EBITDA 2024f	Div. Yield 2024f	Stock perf ytd (%)
Eastern Cement	OW	44.3	36.9	20.2	3,173	15.4	8.0	6.1	(8.5)
Riyadh Cement	OW	38.5	29.9	28.4	3,593	15.0	10.4	5.8	(5.8)
Yamama Cement	N	30.5	29.2	4.7	5,903	26.0	17.7	3.4	8.0
Qassim Cement	N	62.3	62.9	(1.0)	5,663	30.0	23.5	3.2	6.1
Yanbu Cement	N	31.1	32.3	(3.6)	5,160	29.2	13.8	3.1	(8.3)
Arabian Cement	N	30.3	32.1	(5.5)	3,203	24.9	13.4	4.7	(7.6)
Saudi Cement	N	56.4	51.3	9.9	7,643	19.3	12.6	5.8	(2.1)
Southern Cement	N	40.7	40.9	(0.4)	5,719	30.2	14.3	1.8	(19.9)

Source: SNB Capital Research estimates. All prices as of 12 Nov 2023.

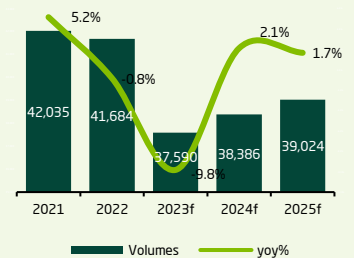
Please refer to the last page for important disclaimer

### SECTOR PERFORMANCE



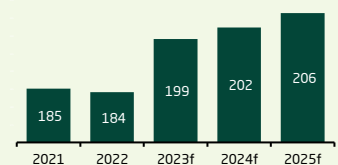
Source: Saudi Exchange, SNB Capital Research

### SALES VOLUME



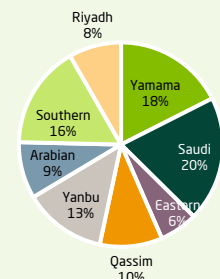
Source: Yamama Cement, SNB Capital Research. Volume in thousand tons

### CEMENT PRICES



Source: SNB Capital Research. SAR/ton

### MARKET SHARE (9M 23)



Source: Yamama Cement, SNB Capital Research

**Hekmat Salahie** +966 11 874 7820  
Hekmat.salahie@alahlicapital.com

NOVEMBER 2023

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