

Cement Sector

Saudi Cement Co.	HOLD
12M Price Target (SAR)	56.00
CMP (SAR)	52.10
Potential upside	7.5%
Market cap (SAR mn)	7,971
P/E (FY23e)	21.42
EV/EBITDA (FY23e)	13.63
Dividend Yield (FY23e)	5.76%
ROE (FY23e)	16.87%

Southern Cement	HOLD
12M Price Target (SAR)	45.00
CMP (SAR)	43.20
Potential upside	4.2%
Market cap (SAR mn)	6,048
P/E (FY23e)	37.69
EV/EBITDA (FY23e)	15.45
Dividend Yield (FY23e)	1.62%
ROE (FY23e)	4.91%

Yanbu Cement Co.	Neutral
12M Price Target (SAR)	33.00
CMP (SAR)	35.25
Potential upside	-6.4%
Market cap (SAR mn)	5,552
P/E (FY23e)	46.14
EV/EBITDA (FY23e)	18.13
Dividend Yield (FY23e)	4.26%
ROE (FY23e)	4.54%

Najran Cement	BUY
12M Price Target (SAR)	12.60
CMP (SAR)	11.36
Potential upside	10.9%
Market cap (SAR mn)	1,931
P/E (FY23e)	30.71
EV/EBITDA (FY23e)	12.50
Dividend Yield (FY23e)	0.00%
ROE (FY23e)	3.06%

Eastern Cement	Strong BUY
12M Price Target (SAR)	46.00
CMP (SAR)	37.95
Potential upside	21.2%
Market cap (SAR mn)	3,264
P/E (FY23e)	17.78
EV/EBITDA (FY23e)	7.19
Dividend Yield (FY23e)	3.16%
ROE (FY23e)	7.52%

City Cement	Neutral
12M Price Target (SAR)	20.00
CMP (SAR)	20.72
Potential upside	-3.5%
Market cap (SAR mn)	2,901
P/E (FY23e)	43.58
EV/EBITDA (FY23e)	17.77
Dividend Yield (FY23e)	2.52%
ROE (FY23e)	3.67%

Saudi Cement Sector – Slow Recovery

The Saudi cement industry witnessed heavy pressure on cement prices across the board in 3Q23. On an average the cement realization fell by 12% QoQ among the companies under our coverage. The companies most affected were from the Central and Western regions. Yamama Cement Company (YSCC) and City Cement (CCO), both from the Central region, were the significantly impacted, with their average realization falling by 31% and 20% QoQ respectively. YSCC saw its prices fall to SAR104 per ton in 3Q23, very close to its 1Q22 levels. On the other hand, Yanbu Cement Company's (YCC), from the Western region, witnessed a decline in price by 10% QoQ to SAR166 per ton. Prices for Eastern Province Cement Company (EPCCO) and Najran Cement (NCC) were the least impacted with the lowest decline of -3% QoQ (avg realisation SAR 267/ton) and -6% QoQ. (SAR 175/ton), respectively.

Weak demand scenario, with the cement volumes falling by 6% YoY (YTD' Nov-23), high clinker inventories, and an increase in competition were the main reason for the pressure on pricing. Among the companies under our coverage, most witnessed lower volumes on a YoY basis. CCO (-21% YoY), YCC (-18% YoY), Southern Cement (SPCC) (-13% YoY), and NCC (-10% YoY) all underperformed its peers and the industry average. YSCC (-5% YoY), Saudi Cement (SCCO) (-5% YoY), and Arabian Cement (ACC) (-3% YoY) performed slightly better than its peers. Riyadh Cement (+12% YoY) and EPCCO (+11% YoY) both outperformed the industry average substantially. We view EPCCO as a bright spot, given that it has managed to grow its volume, with the least impact on its prices.

We continue to remain optimistic on the pipeline of Mega and Giga projects, and the investments expected towards the Expo 2030. However, a slower than expected real estate demand have hampered the offtake for cement and we expect any recovery will occur slowly. As of Nov-2023, the industry had a clinker inventory of 39.3mn tons, which was equivalent to c.8 months of production. We view this adversely, more so in a high interest rate scenario, where the holding cost is likely to be high. Looking at the historical trends, we expect price competition among players to continue and keep cement prices under pressure in the medium term.

Company	TP			CMP	+/- from TP	Rating	P/E	
	Old	New	Change				2023e	2024e
Saudi Cement	63.0	56.0	-11.1%	52.1	7.5%	Hold	21.4x	22.3x
Southern Cement	47.0	45.0	-4.3%	43.2	4.2%	Hold	37.7x	37.2x
Yanbu Cement	37.0	33.0	-10.8%	35.3	-6.4%	Neutral	46.1x	54.7x
Najran Cement	14.5	12.6	-13.1%	11.4	10.9%	BUY	30.7x	27.1x
Eastern Cement	51.0	46.0	-9.8%	38.0	21.2%	Strong BUY	17.8x	16.0x
City Cement	21.0	20.0	-4.8%	20.7	-3.5%	Neutral	43.6x	42.1x

Companies Under Our Coverage

Companies	CMP	TP	Up/Down	Rating	Volume Sold			Revenue			Net Income		
					YTD Nov23	YTD Nov22	YoY	3Q23	3Q22	YoY	3Q23	3Q22	YoY
Yamama Cement	34.1	30.0	-12.0%	Sell	6,113	6,405	-4.6%	212	249	-14.8%	41	101	-59.8%
Saudi Cement	52.1	56.0	7.5%	Hold	5,492	5,763	-4.7%	315	328	-4.0%	68	81	-15.4%
Southern Cement	43.2	45.0	4.2%	Hold	4,641	5,318	-12.7%	286	323	-11.4%	53	89	-39.9%
Yanbu Cement	35.3	33.0	-6.4%	Neutral	3,309	4,041	-18.1%	189	262	-27.9%	16	69	-77.6%
Arabian Cement	35.1	36.0	2.6%	Hold	3,011	3,106	-3.1%	214	241	-11.2%	30	59	-49.6%
Riyadh Cement	33.0	36.0	9.3%	Hold	3,006	2,694	11.6%				NA		
Najran Cement	11.4	12.6	10.9%	BUY	2,444	2,703	-9.6%	114	128	-10.8%	14	28	-49.7%
Eastern Cement	38.0	46.0	21.2%	Strong BUY	2,132	1,926	10.7%	243	174	39.6%	41	20	106.1%
City Cement	20.7	20.0	-3.5%	Neutral	1,938	2,463	-21.3%	71	100	-29.4%	4	25	-82.5%

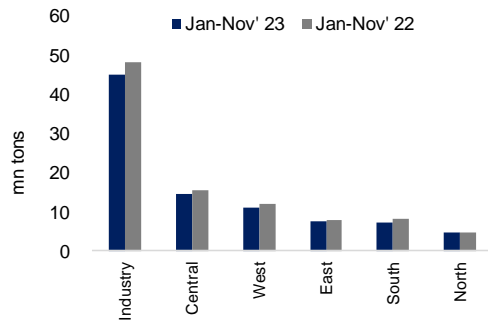
Source: Yamama Cement, Company Filings, US Research (Riyadh Cement has not disclosed quarterly numbers)

Cement volumes in 2023 report lackluster performance

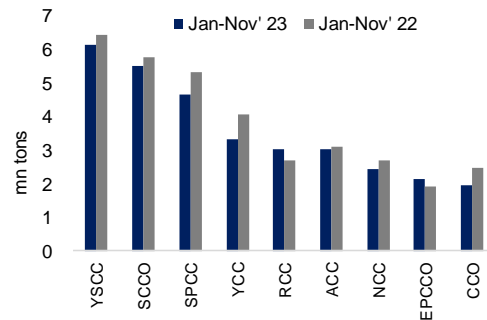
Cement volumes in KSA continued to remain under pressure in 2023 falling by 6.3% YoY to 44.9mn tons at the back of weak demand scenario. Cement volumes were down across regions. Southern region was the most impacted, with the volumes declining 11.7% YoY, followed by West (7.7% YoY), Central (5.9% YoY), and North (4.1% YoY). The Eastern region was the least impacted, with the volumes remaining flattish by 0.8% YoY.

Cement volume in 2023 report fall of 6.3% YoY

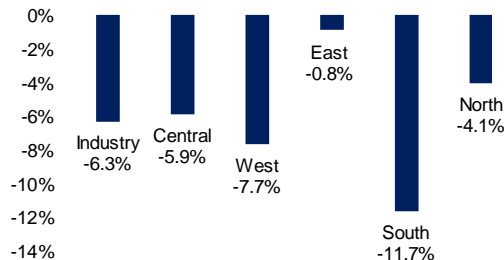
Cement volumes in 2023 reports lower volume



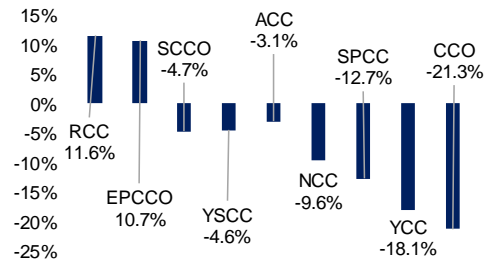
Most companies report fall in volume



East report YoY improvement in volume YTD' Nov-23



Eastern Cement and Riyadh Cement outperforms

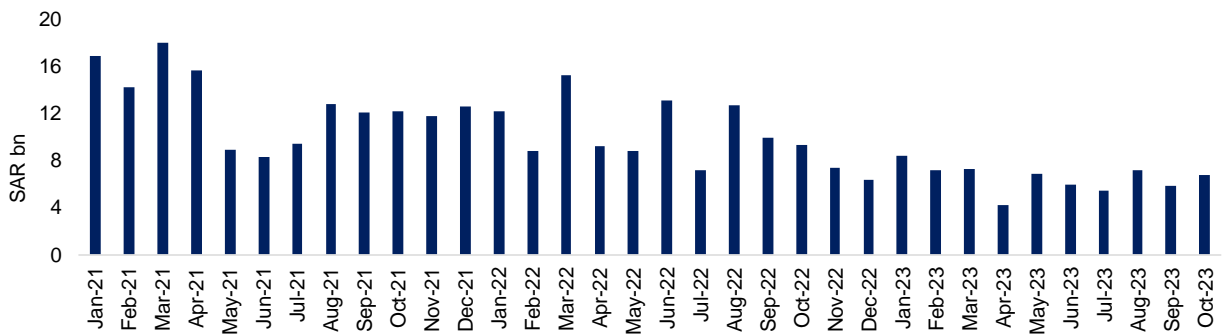


Source: Yamama Cement, US Research

Fall in cement volumes in line with our expectations.

Most of the companies under coverage have reported a fall in cement volumes for Nov-23, except Riyadh Cement Company (RCC) and Eastern Province Cement Company (EPCCO), which reported a 11.6% YoY and 10.7% YoY growth in volumes respectively. Saudi Cement Company (SCCO), Yamama Cement (YSCC), and Arabian Cement (ACC) on the other hand reported a fall in cement volume of 4.7%, 4.6%, and 3.1% respectively, though the performance was better than the industry. City Cement (CCO), Yanbu Cement (YCC), Southern Province Cement (SPCC) and Najran Cement (NCC) reported the highest fall of 21.3%, 18.1%, 12.7%, and 9.6% respectively. We had broadly expected the performance of these companies to be below industry average and the cement volumes have come in line with our expectations.

Monthly new residential mortgage trends lower in 2023



Source: SAMA, US Research

The lower cement offtake has been impacted by weak demand, especially from the real estate segment. New residential mortgages averaged SAR6.5bn per month between Jan to Oct 2023 and is the lowest since 2018. This has been lower than our estimate of between SAR7-8bn for 2023. As per a Knight Frank report, since 2016 the real estate and infrastructure projects to be completed is more than USD1.25 trillion, while the value of projects underway has been valued at USD250bn. With nearly 80% of the value of projects pending construction, we see a strong pent-up demand from the construction sector. Further, KSA has also recently won the bid to conduct Expo 2030 in Riyadh. Towards this, the Kingdom has earmarked SAR29bn as investments and we see potential for a recovery in the sector, though the same is likely to take longer than expected.

Weak demand, high inventory, and competition impacts cement prices.

Overall, the industry performance has thus far been weaker than our expectation. We had expected the industry to end 2023 on a flat note, with the volumes coming in line with 2022 levels. However, 2H23 has continued to be weak and is likely to end the year with further downside. Overall, we expect this weakness to continue for the short to medium term, with any recovery happening gradually.

Pricing to remain under pressure

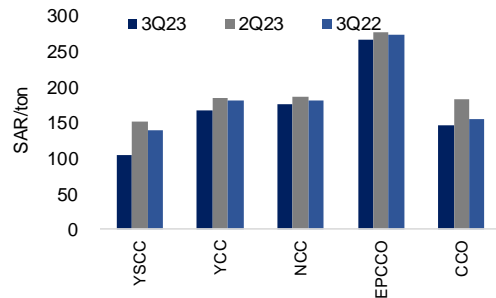
Cement pricing have come under pressure for all the companies under our coverage, with the average realization underperforming our expectation across the board. Weak demand scenario, high levels of inventory, and heavy competition all had an adverse impact on the prices, especially in the Central region. Clinker inventory levels of the industry increased by 13% YTD to 39.7mn tons as of Oct-23, from the levels of 35.1 mn tons in Dec-22. This accounts for more than 8 months of clinker production. These are the highest levels, since 2019, for the industry. With the demand remaining lackluster and the cost of holding the inventory increasing in a high interest rate scenario, we expect the cement prices will continue to remain under pressure.

We have seen intense price competition in the industry historically, though the current one has taken us by surprise. Despite being cautious on the pricing, we had not expected the average realization to revert back to close to 1Q22 levels this soon after a recovery. On an average, the cement realization was down by 12% QoQ among our coverage companies. Companies in the Central region were the most impacted, with the prices of YSCC and CCO falling the most by 31% and 20% QoQ, respectively. Of this, YSCC with an average realization of SAR104 per ton was the most impacted and was the lowest among its peers. This was followed by CCO, at SAR146 per ton. Going forward, we expect these two companies will continue to face pressure, with YSCC underperforming its peers the most, followed by CCO.

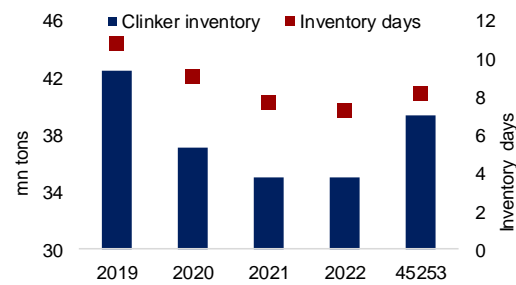
YCC, in the Western region, saw its average realization fall by 10% QoQ to SAR166 per ton. We expect Western region to be the second most impacted region in terms of pressure on cement prices. It has to be noted that the majority of the real estate and infrastructure projects currently

being undertaken are concentrated in the Central and Western region. With the demand in the other regions remaining weak, we expect a higher flow of excess volumes to these regions, increasing the level of competition and putting pressure on the cement prices.

Cement realization under pressure across the board



Industry's clinker inventory levels have increased



Source: Yamama Cement, Company filings, US Research

NCC with an average realization of SAR175 per ton, saw its prices eroding by 6% QoQ, though it was one of the least impacted in terms of pricing. EPCCO's realization at SAR267 per ton, despite a 3% QoQ fall, continued to have the highest average realization among the companies in our coverage. It was also the least impacted by the recent price competition.

Pricing pressure to continue

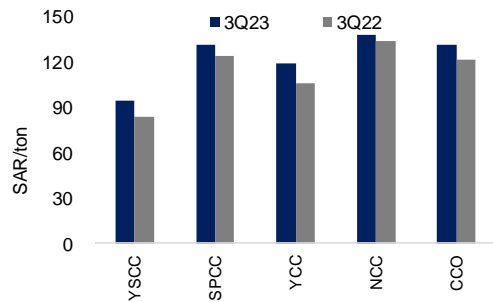
Going forward, we expect the pressure on cement prices to continue, as we expect the recovery in the demand scenario will take time. Added to this, YSCC has one of the lowest cost of sales per ton of production amongst its peers due to its recent addition of a new production line. This in turn gives them flexibility over its peers in terms of pricing. The high level of clinker inventory in the industry would accentuate the pressure on cement prices in the medium term. Among our coverage companies, YSCC and CCO are likely to be the most impacted, while EPCCO and NCC are likely to be the least impacted. Broadly we expect this trend to continue, with the prices in the Central region continuing to come under pressure, relative to the other regions.

Companies under our coverage witness an increase in costs

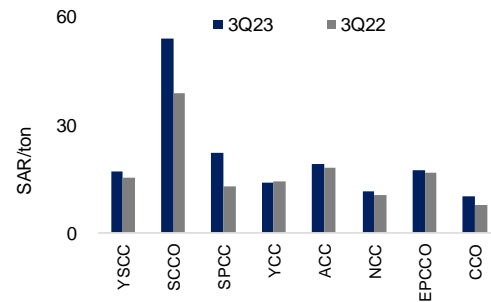
Cost of sales per ton increased for most of the companies under our coverage. On an average the cost of sales per ton for the companies we

track increased by 8% YoY. Higher production cost due to an increase in the lease on mining of clinker and an overall increase in outlay is likely to have been the main reason for this. YSCC with a cost per ton of SAR94 (based on clinker consumption) had one of the lowest metrics among its peers and was helped by its new production line. Despite the 13% YoY increase, the company has the best flexibility in its pricing.

Cost of sales per ton mostly increases in 3Q23



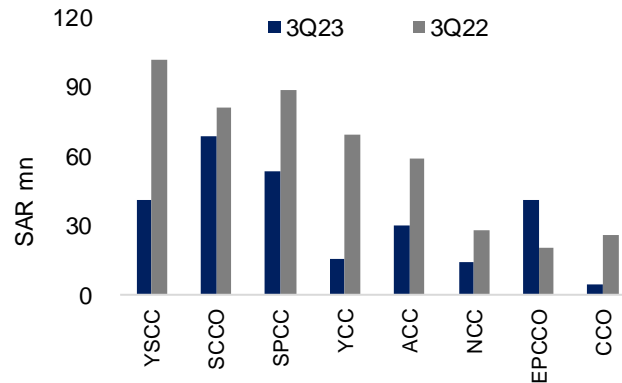
Operating expenses too have come higher



Source: Yamama Cement, Company filings, US Research (Cost of sales per ton is based on clinker consumption)

Operating expenses too have increased for most of the companies during the quarter, with an average increase of 23% YoY. Increase in clinker sales and higher SG&A expenses are likely to have been the key reason for this. SPCC with an increase of 75% YoY, SCCO with an increase of 39% YoY, and CCO with an increase of 29% YoY, were the companies which registered the highest increase in their operating expenses. Of this SCCO had the highest levels of expenditure and was due to its operations in Bahrain, through its subsidiary. Going forward, given the weak pricing scenario, companies are likely to exercise some control over their costs to manage their profitability.

Only EPCCO reports growth in net income



Source: Company filings, US Research

The aggregate net income of the companies under our coverage fell by 43% YoY, with EPCCO being the dark horse, registering a growth in profitability of 106% YoY. Lower base and an increase in cement volumes aided the performance of the company. All the other companies under our coverage reported a drop in their profitability. SCCO, ACC, and SPCC profitability was supported to a certain extent by higher clinker sales, though weak results of Bahrain subsidiary put pressure on SCCO's performance. CCO, YCC, and YSCC with a drop of 83%, 78% and 60% YoY, respectively were some of the worst affected companies, in line with their fall in realization. YCC's performance was also impacted by base effect, due to lower clinker sales.

COMPANIES SECTION

Cement Sector

Saudi Cement Co.

HOLD: 12M TP @ 56

Valuation Summary (TTM)

Price (SAR)	52.1
PER TTM (x)	18.5
P/Book (x)	3.8
P/Sales (x)	5.3
EV/Sales (x)	5.6
EV/EBITDA (x)	12.8
Dividend Yield (%)	5.7
Free Float (%)	90%
Shares O/S (mn)	153
YTD Return (%)	3%
Beta	0.9

(mn)	SAR	USD
Market Cap	7,971	2,125
EV	8,403	2,240

Price performance (%)	1M	3M	12M
Saudi Cement Co	3%	-2%	3%
Tadawul All Share Index	6%	3%	13%
Industry Index	6%	3%	13%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	5,615	4,918	5,470
Avg Daily Volume (,000)	93	95	100

52 week	High	Low	CTL*
Price (SAR)	60.60	49.50	5.7

* CTL is % change in CMP to 52wk low

Major shareholders

Al Rajhi Khalid Bin	7%
Vanguard Group Inc/T	1.9%
BlackRock Inc	0.9%
Others	90.4%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.3%

Key ratios	2020	2021	2022
EPS (SAR)	2.98	2.17	2.61
BVPS (SAR)	17.33	15.90	14.99
DPS (SAR)	3.50	3.50	3.25
Payout ratio (%)	117%	117%	117%

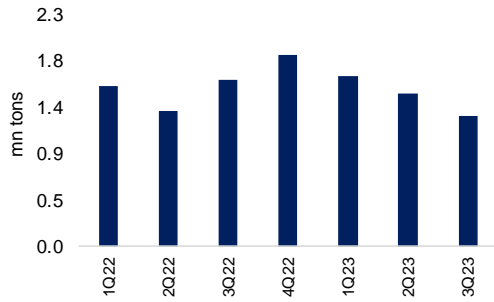


Saudi Cement Company (SCCO) reported its revenue at SAR315mn, which was lower by 4.0% YoY and was impacted by a 20.5% YoY fall in cement revenue, even as clinker revenue increased by 422.3% YoY. Cement revenue was impacted by a 21.5% YoY fall in cement volume to 1.3mn ton. Clinker sales on the other hand was positively aided by a 479.3% YoY increase in clinker volume. The revenue was in line with our estimate of SAR317mn. Gross profit fell by 8.0% YoY to SAR114mn and was impacted by lower revenue, with the gross margins falling to 36.3% in 3Q23, compared to 37.9% a year ago. The fall was tempered to a certain extent by lower cost of sales per ton to SAR115 in 3Q23, compared to SAR122 in 3Q22. Operating expenses increased by 39.2% YoY and was impacted by a substantial rise in the selling and administrative expenses. Finance cost increased by 60.9% YoY, at the back of higher interest cost and rise in debt. The weak operating performance was offset to a certain extent by an increase in other income to SAR19mn in 3Q23, compared to SAR2mn in the previous year. Overall, net income declined by 15.4% YoY to SAR68mn and was slightly lower than our expectation of SAR71mn. However, adjusting for the other income the net income would have been SAR49mn for 3Q23, lower than the expected adjusted net income of SAR67mn. Going forward we expect the pressure on cement prices to continue, which is likely to negatively impact the profitability of the company. Saudi Cement is currently quoting at 22x its 2024e EPS. Overall, we have lowered our target price from SAR63 per share to SAR56 per share and reduce our rating from Buy to Hold.

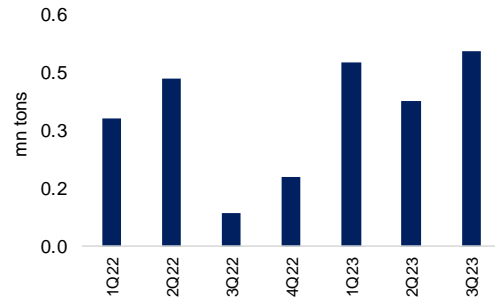
Volume under pressure, though pricing better than peers: Saudi Cement is the second largest player in KSA with a market share of 12% of cement sales volume. Cement sales in KSA has been lacklustre in 2023, with the industry sales volume declining by 5.6% YoY for 9M23. Saudi Cement's sales volume fell by a mere 2.1% YoY for the same period, outperforming the industry performance. Going forward, we expect cement sales volume will continue to remain under pressure as the recovery is likely to be slow. Cement realization on the other hand is also expected to remain under pressure, though the same is likely to be better than the industry average.

Valuations: The 3Q23 financial performance of Saudi Cement has been weak, underperforming our expectation. We expect this to continue for the next few quarters. Overall, we have reduced our target price to **SAR56 per share** with a **Hold** rating.

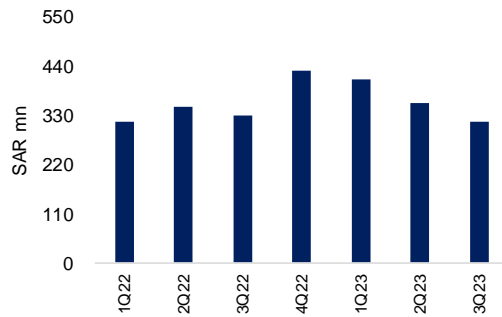
Cement volumes trends lower in 2023



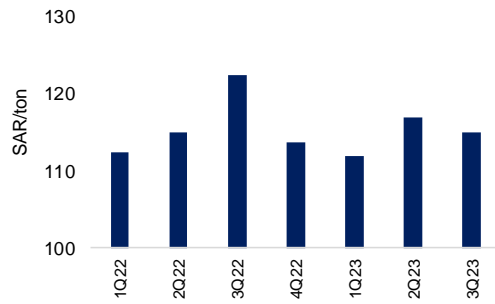
Clinker volumes grow 479% YoY



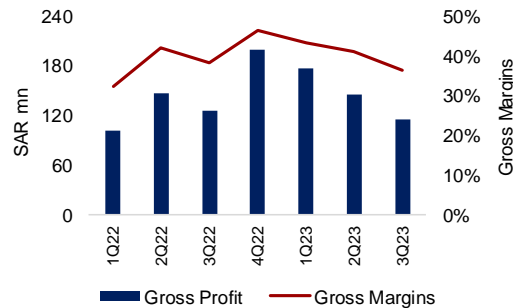
Topline under pressure due to lower volumes



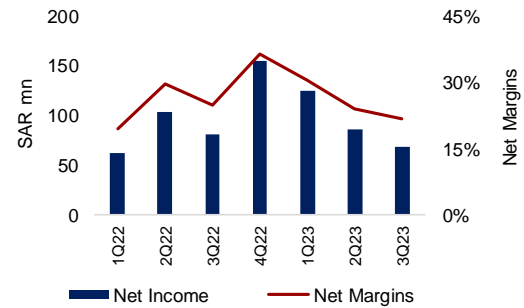
3Q23 cost of sales per ton falls YoY



Gross profits decline 8% YoY due to lower revenue



Net income fall cushioned by higher other income



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,442	1,570	1,410	1,420	1,474	1,504	1,590	1,649	1,709
Cost of sales	(792)	(903)	(879)	(851)	(879)	(902)	(939)	(963)	(988)
Gross profit	650	666	530	569	595	602	651	685	722
Operating expenses	(159)	(187)	(186)	(165)	(210)	(214)	(223)	(230)	(237)
Operating profit	491	479	344	404	385	388	428	455	484
Other income	2	10	18	23	36	19	19	19	20
Finance expenses	(26)	(13)	(8)	(16)	(31)	(31)	(22)	(13)	(13)
Earnings before tax	468	476	354	411	390	375	425	461	491
Tax	(16)	(24)	(24)	(12)	(18)	(17)	(20)	(21)	(23)
Net income	451	452	330	399	372	358	405	440	468
Minority interest	0	4	2	0	0	0	0	0	0
Net income post MI	451	456	332	399	372	358	405	440	468

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,533	2,434	2,283	2,138	2,001	1,865	1,731	1,598	1,467
Intangibles	9	19	15	11	11	10	10	9	9
Right-of-use asset	31	28	20	19	14	9	4	0	0
Investment in associates	57	33	37	46	48	50	53	55	57
Investment	0	3	4	3	3	3	3	3	3
Total non-current assets	2,630	2,517	2,360	2,218	2,077	1,938	1,800	1,665	1,535
Inventory	754	632	517	552	573	585	618	641	665
Receivables, Net	369	369	394	380	395	402	426	441	458
Cash & Cash Equivalents	127	125	81	91	70	70	70	70	70
Other current assets	30	36	40	36	36	36	36	36	36
Total current assets	1,279	1,161	1,033	1,060	1,074	1,093	1,150	1,188	1,228
Total assets	3,909	3,678	3,392	3,278	3,151	3,031	2,950	2,853	2,764
Share Capital	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530
Total reserves	1,200	1,122	903	763	676	575	483	388	282
Minority interest	0	25	0	0	0	0	0	0	0
Total equity	2,730	2,677	2,433	2,293	2,206	2,105	2,013	1,918	1,812
Short-term & current debt	595	400	350	325	367	346	355	352	367
Lease liabilities - Current	7	9	9	6	6	6	6	6	6
Payable	61	64	57	134	53	54	56	58	59
Other current liab.	404	414	422	397	397	397	397	397	397
Total current liabilities	1,067	886	839	862	822	803	813	813	829
Long-Term Debt	0	0	0	0	0	0	0	0	0
Long-term lease liabilities	26	22	15	17	17	17	17	17	17
Other non-current liab.	87	92	106	106	106	106	106	106	106
Total non-current liabilities	112	114	120	123	123	123	123	123	123
Total Liabilities	1,180	1,001	959	985	945	926	936	936	951
Equity and liabilities	3,909	3,678	3,392	3,278	3,151	3,031	2,950	2,853	2,764

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	721	811	643	642	472	557	568	619	642
Cash from investments	(135)	(75)	(64)	(75)	(76)	(78)	(79)	(81)	(82)
Cash from financing	(528)	(739)	(622)	(557)	(417)	(480)	(489)	(538)	(559)
Net changes in cash	58	(3)	(43)	10	(21)	0	0	0	0
Closing balance (C/b)	127	125	81	91	70	70	70	70	70

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	3.0	3.0	2.2	2.6	2.4	2.3	2.7	2.9	3.1
BVPS	17.8	17.3	15.9	15.0	14.4	13.8	13.2	12.5	11.8
DPS	3.5	3.5	3.5	3.3	3.0	3.0	3.3	3.5	3.8
FCF/share	3.8	4.8	3.8	3.7	2.6	3.1	3.2	3.5	3.7
Revenue/share	9.4	10.3	9.2	9.3	9.6	9.8	10.4	10.8	11.2
Valuations									
M.Cap (SAR mn)	7,971	7,971	7,971	7,971	7,971	7,971	7,971	7,971	7,971
EV (SAR mn)	8,415	8,267	8,222	8,178	8,239	8,216	8,223	8,218	8,231
P/E	17.7	17.5	24.0	20.0	21.4	22.3	19.7	18.1	17.0
EV/EBITDA	11.9	11.7	14.4	12.9	13.6	13.5	12.7	12.2	11.8
EV/Sales	5.8	5.3	5.8	5.8	5.6	5.5	5.2	5.0	4.8
P/BV	2.9	3.0	3.3	3.5	3.6	3.8	4.0	4.2	4.4
P/S	5.5	5.1	5.7	5.6	5.4	5.3	5.0	4.8	4.7
Div. yield	6.7%	6.7%	6.7%	6.2%	5.8%	5.8%	6.2%	6.7%	7.2%
FCF yield	7.3%	9.2%	7.3%	7.1%	5.0%	6.0%	6.1%	6.7%	7.0%
Liquidity									
Cash Ratio	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current ratio	1.2	1.3	1.2	1.2	1.3	1.4	1.4	1.5	1.5
Quick ratio	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Return ratio									
ROA	11.5%	12.3%	9.7%	12.2%	11.8%	11.8%	13.7%	15.4%	16.9%
ROE	16.5%	17.2%	13.6%	17.4%	16.9%	17.0%	20.1%	22.9%	25.8%
ROCE	12.6%	13.0%	10.1%	12.3%	12.2%	12.8%	14.5%	15.9%	17.5%
Cash cycle									
Inventory turnover	1.1	1.4	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Payables turnover	13.1	14.1	15.3	6.3	16.7	16.7	16.7	16.7	16.7
Receivables turnover	3.9	4.3	3.6	3.7	3.7	3.7	3.7	3.7	3.7
Inventory days	343	252	212	234	235	233	237	240	242
Payable days	28	25	24	57	22	22	22	22	22
Receivables days	92	85	101	96	96	96	96	96	96
Cash Cycle	407	311	289	273	310	308	312	314	317
Profitability ratio									
Gross margins	45.1%	42.5%	37.6%	40.1%	40.4%	40.0%	41.0%	41.6%	42.2%
EBITDA margins	48.9%	44.8%	40.6%	44.7%	41.0%	40.3%	40.7%	40.8%	40.9%
Operating margins	34.1%	30.5%	24.4%	28.4%	26.1%	25.8%	26.9%	27.6%	28.3%
PBT margins	32.5%	30.3%	25.1%	28.9%	26.5%	25.0%	26.7%	28.0%	28.7%
Net margins	31.3%	29.0%	23.5%	28.1%	25.2%	23.8%	25.5%	26.7%	27.4%
Effective tax rate	3.5%	5.0%	6.8%	2.9%	4.6%	4.6%	4.6%	4.6%	4.6%
Leverage									
Total debt (SAR mn)	628	431	374	348	389	369	377	375	389
Net debt (SAR mn)	501	306	292	256	319	299	307	305	319
Debt/Capital	18.7%	13.9%	13.3%	13.2%	15.0%	14.9%	15.8%	16.4%	17.7%
Debt/Total assets	16.1%	11.7%	11.0%	10.6%	12.4%	12.2%	12.8%	13.1%	14.1%
Debt/Equity	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Debt/EBITDA	0.9	0.6	0.7	0.5	0.6	0.6	0.6	0.6	0.6
Net debt/EBITDA	0.7	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5

Cement Sector

HOLD: 12M TP @ 45

Valuation Summary (TTM)

Price (SAR)	43.2
PER TTM (x)	32.9
P/Book (x)	1.9
P/Sales (x)	5.3
EV/Sales (x)	5.4
EV/EBITDA (x)	15.2
Dividend Yield (%)	1.6
Free Float (%)	60%
Shares O/S (mn)	140
YTD Return (%)	-15%
Beta	0.9

(mn)	SAR	USD
Market Cap	6,048	1,612
EV	6,074	1,619

Price performance (%)	1M	3M	12M
Southern Province Cement	5%	-4%	-12%
Tadawul All Share Index	6%	3%	13%
Industry Index	6%	3%	13%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	2,039	2,128	3,449
Avg Daily Volume (,000)	47	50	72

52 week	High	Low	CTL*
Price (SAR)	54.80	40.00	8.5

* CTL is % change in CMP to 52wk low

Major shareholders

Public Investment Fu	37%
Vanguard Group Inc/T	1.9%
BlackRock Inc	0.9%
Others	59.8%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.2%

Key ratios	2020	2021	2022
EPS (SAR)	4.35	3.07	2.15
BVPS (SAR)	23.43	22.76	22.90
DPS (SAR)	4.75	2.50	1.25
Payout ratio (%)	109%	81%	58%



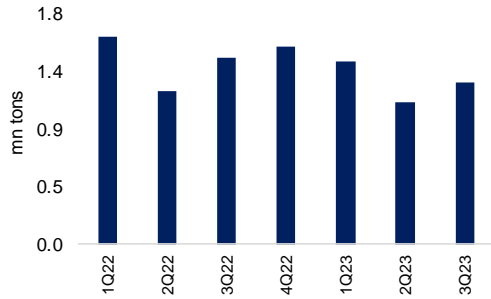
Southern Province Cement Co.

Southern Province Cement Co. (SPCC) reported its 3Q23 revenue at SAR286mn, which was down 11.4% YoY and was impacted by a 12.8% YoY fall in cement volume to 1.3mn tons and a 5.3% YoY fall in clinker volume to 0.4mn tons. Blended realization too was slightly lower by 0.6% YoY to SAR171 per ton in 3Q23. The revenue was however in line with our estimates of SAR294mn. Gross profits fell by 23.7% YoY, at the back of lower revenue and an increase in cost of sales per ton to SAR131 in 3Q23, compared to SAR124 a year ago. At the back of this, gross margins fell to 28.2% in 3Q23, compared to 32.7% in 3Q22. Operating expenses increased by 74.7% YoY at the back of near doubling of its administrative expenses. Finance cost was higher by 16.5% YoY due to an increase in interest rates and higher debt. Overall net income fell by 39.9% YoY to SAR53mn, due to lower revenue, higher cost of sales, and higher SG&A expenses. However, the net income was better than our estimate of SAR47mn and was aided by lower-than-expected cost of sales per ton. Though the performance of the company was better than our estimates, we expect that cement volume performance will remain under pressure and the recovery is likely to be lower than previously estimated. Given this, we have reduced the target price of SPCC from SAR47/share to SAR45/share and retain our Hold rating.

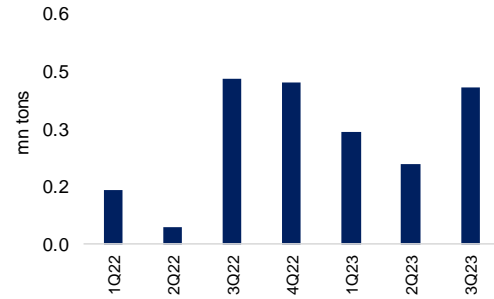
Volume to underperform, even as prices come under pressure: SPCC is the third largest player in the Saudi Arabian cement market with a market share of 10% of the cement volume sold in the country. Cement sale in KSA has been lacklustre in 2023, with the industry sales volume declining by 5.6% YoY for 9M23 and 3Q23. For 9M23, SPCC's sales volume fell by a higher than expected 10.6% YoY and by 12.8% YoY for 9M23 and 3Q23 respectively, underperforming the industry. Clinker volumes on the other hand increased by a robust 47.5% YoY for 9M23. Going forward, we expect the cement volumes to remain under pressure and will recover at a relatively slower rate. Cement prices too are also likely to remain under pressure, at the back of increasing competition. Though we expect the clinker volumes to aid the revenue, it is unlikely to make up for the pressure on cement operations.

Valuations: The 3Q23 financial performance of SPCC has been under pressure, though the same was better than our expectation. We expect both the revenue and the profitability of the company will continue to be underwhelming, due to the overall industry scenario. Given this, we have reduced our target price to **SAR45/share** with a **Hold** rating.

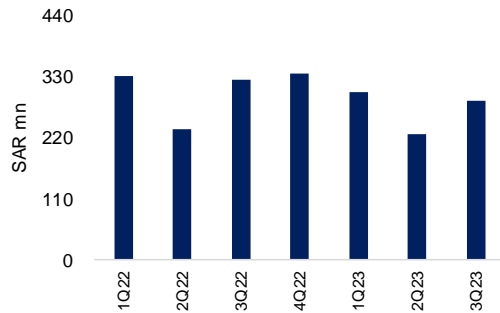
Domestic sales volume of SPCC remains lower



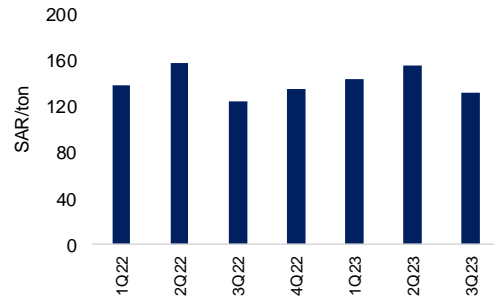
Clinker volumes remains strong, though lower YoY



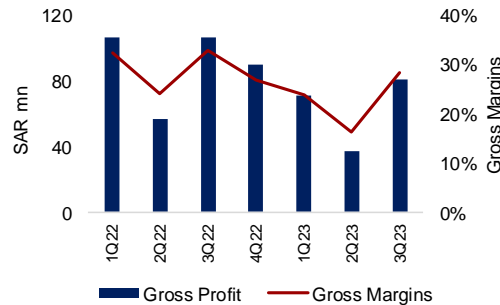
Revenue under pressure due to lower volume



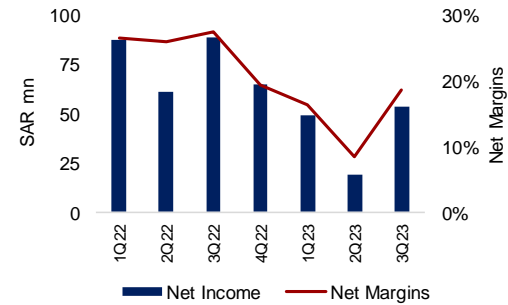
Cost of sales per ton increases YoY in 3Q23



Profits fall due to lower revenue and high cost of sales



Low gross profit and high opex impacts net income



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,300	1,653	1,339	1,222	1,079	1,084	1,157	1,203	1,252
Cost of sales	(763)	(974)	(834)	(865)	(829)	(830)	(862)	(880)	(900)
Gross profit	538	679	505	357	250	254	295	323	352
Operating expenses	(54)	(50)	(62)	(63)	(70)	(71)	(74)	(76)	(77)
Operating profit	483	628	443	294	180	182	221	248	274
Other income	7	13	12	9	12	12	12	12	12
Finance expenses	(20)	(15)	(9)	(10)	(14)	(14)	(13)	(12)	(7)
Earnings before tax	470	627	446	293	178	180	220	248	280
Tax	(8)	(17)	(17)	8	(17)	(18)	(19)	(17)	(18)
Net income	463	609	429	301	160	162	202	231	262
Minority interest	0	0	0	0	0	0	0	0	0
Net income post MI	463	609	429	301	160	162	202	231	262

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	3,098	2,965	2,821	2,756	2,593	2,442	2,303	2,176	2,058
Intangibles	0	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0	0
Investment	0	0	0	0	277	553	830	830	830
Others	5	5	5	5	5	5	5	5	5
Total non-current assets	3,103	2,971	2,826	2,762	2,876	3,001	3,139	3,011	2,894
Inventory	708	547	573	669	704	706	732	748	765
Receivables, Net	36	41	51	78	108	108	116	120	125
Cash & Cash Equivalents	325	543	504	320	300	300	300	300	300
Investments	0	0	0	0	0	0	0	0	0
Other current assets	28	43	51	42	42	42	42	42	42
Total current assets	1,097	1,174	1,178	1,110	1,155	1,156	1,190	1,211	1,233
Total assets	4,200	4,144	4,005	3,872	4,030	4,157	4,329	4,222	4,127
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Total reserves	1,906	1,880	1,786	1,806	1,868	1,932	2,011	2,101	2,203
Total Equity	3,306	3,280	3,186	3,206	3,268	3,332	3,411	3,501	3,603
Short-term & current debt	60	70	75	80	232	383	474	274	75
Lease liabilities - Current	0	0	0	0	0	0	0	0	0
Payable	39	43	53	48	77	77	80	82	84
Other current liab.	287	307	319	245	245	245	245	245	245
Total current liabilities	386	420	447	373	554	705	799	601	404
Long-Term Debt	398	328	253	173	88	0	0	0	0
Long-term lease liabilities	0	0	0	0	0	0	0	0	0
Other non-current liab.	110	117	118	120	120	120	120	120	120
Total non-current liabilities	508	445	371	293	208	120	120	120	120
Total Liabilities	894	865	818	666	762	825	918	721	523
Equity and liabilities	4,200	4,144	4,005	3,872	4,030	4,157	4,329	4,222	4,127

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	647	958	611	320	320	345	344	376	397
Cash from investments	(46)	(47)	(58)	(148)	(309)	(309)	(311)	(36)	(38)
Cash from financing	(366)	(693)	(592)	(356)	(31)	(35)	(33)	(340)	(359)
Net changes in cash	235	218	(39)	(183)	(20)	0	0	0	0
Closing balance	325	543	504	320	300	300	300	300	300

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	3.3	4.4	3.1	2.1	1.1	1.2	1.4	1.7	1.9
BVPS	23.6	23.4	22.8	22.9	23.3	23.8	24.4	25.0	25.7
DPS	3.5	4.8	2.5	1.3	0.7	0.7	0.9	1.0	1.1
FCF/share	4.3	6.5	4.0	1.2	0.1	0.3	0.2	2.4	2.6
Revenue/share	9.3	11.8	9.6	8.7	7.7	7.7	8.3	8.6	8.9
Valuations									
M.Cap (SAR mn)	6,048	6,048	6,048	6,048	6,048	6,048	6,048	6,048	6,048
EV (SAR mn)	6,182	5,904	5,873	5,981	5,792	5,578	5,392	5,192	4,993
P/E	13.1	9.9	14.1	20.1	37.7	37.2	30.0	26.2	23.1
EV/EBITDA	9.1	7.1	9.1	11.8	15.4	15.2	13.7	12.6	11.6
EV/Sales	4.8	3.6	4.4	4.9	5.4	5.1	4.7	4.3	4.0
P/BV	1.8	1.8	1.9	1.9	1.9	1.8	1.8	1.7	1.7
P/S	4.7	3.7	4.5	4.9	5.6	5.6	5.2	5.0	4.8
Div. yield	8.1%	11.0%	5.8%	2.9%	1.6%	1.6%	2.0%	2.3%	2.6%
FCF yield	9.9%	15.1%	9.1%	2.8%	0.2%	0.6%	0.5%	5.6%	5.9%
Liquidity									
Cash Ratio	0.8	1.3	1.1	0.9	0.5	0.4	0.4	0.5	0.7
Current ratio	2.8	2.8	2.6	3.0	2.1	1.6	1.5	2.0	3.1
Quick ratio	1.0	1.5	1.4	1.2	0.8	0.6	0.6	0.8	1.2
Return ratio									
ROA	11.0%	14.7%	10.7%	7.8%	4.0%	3.9%	4.7%	5.5%	6.4%
ROE	14.0%	18.6%	13.5%	9.4%	4.9%	4.9%	5.9%	6.6%	7.3%
ROCE	11.5%	15.2%	11.1%	7.6%	4.5%	4.4%	5.1%	5.9%	6.6%
Cash cycle									
Inventory turnover	1.1	1.8	1.5	1.3	1.2	1.2	1.2	1.2	1.2
Payables turnover	19.5	22.6	15.6	17.9	10.8	10.8	10.8	10.8	10.8
Receivables turnover	36.6	40.3	26.4	15.6	10.0	10.0	10.0	10.0	10.0
Inventory days	334	202	248	279	306	306	306	306	306
Payable days	18	16	23	20	33	33	33	33	33
Receivables days	10	9	14	23	36	36	36	36	36
Cash Cycle	326	195	238	281	309	309	309	309	309
Profitability ratio									
Gross margins	41.3%	41.1%	37.7%	29.2%	23.2%	23.4%	25.5%	26.9%	28.1%
EBITDA margins	52.2%	50.2%	48.4%	41.5%	34.8%	33.8%	34.1%	34.2%	34.3%
Operating margins	37.2%	38.0%	33.1%	24.1%	16.7%	16.8%	19.1%	20.6%	21.9%
PBT margins	36.2%	37.9%	33.3%	23.9%	16.5%	16.6%	19.0%	20.6%	22.4%
Net margins	35.6%	36.9%	32.0%	24.6%	14.9%	15.0%	17.4%	19.2%	20.9%
Effective tax rate	1.6%	2.7%	3.8%	-2.8%	9.8%	9.9%	8.4%	6.9%	6.4%
Leverage									
Total debt (SAR mn)	458	398	328	253	321	383	474	274	75
Net debt (SAR mn)	134	(144)	(175)	(67)	21	83	174	(26)	(225)
Debt/Capital	12.2%	10.8%	9.3%	7.3%	8.9%	10.3%	12.2%	7.3%	2.0%
Debt/Total assets	10.9%	9.6%	8.2%	6.5%	8.0%	9.2%	10.9%	6.5%	1.8%
Debt/Equity	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Debt/EBITDA	0.7	0.5	0.5	0.5	0.9	1.0	1.2	0.7	0.2
Net debt/EBITDA	0.2	(0.2)	(0.3)	(0.1)	0.1	0.2	0.4	(0.1)	(0.5)

Cement Sector

Yanbu Cement Co.

NEUTRAL: 12M TP @ 33

Valuation Summary (TTM)

Price (SAR)	35.3
PER TTM (x)	34.6
P/Book (x)	2.1
P/Sales (x)	6.7
EV/Sales (x)	6.9
EV/EBITDA (x)	16.3
Dividend Yield (%)	8.7
Free Float (%)	87%
Shares O/S (mn)	158
YTD Return (%)	-3%
Beta	0.8

(mn)	SAR	USD	
Market Cap	5,552	1,480	
EV	5,835	1,555	
Price performance (%)			
	1M	3M	12M
Yanbu Cement Co	7%	-2%	5%
Tadawul All Share Index	6%	3%	13%
Industry Index	6%	3%	13%
Trading liquidity (,000)			
	1M	3M	6M
Avg daily turnover (SAR ,000)	3,778	3,967	6,196
Avg Daily Volume (,000)	95	118	164
52 week			
	High	Low	CTL*
Price (SAR)	43.90	30.50	14.1

* CTL is % change in CMP to 52wk low

Major shareholders

Public Investment Fu	10%
Vanguard Group Inc/T	2.0%
BlackRock Inc	1.2%
Others	86.9%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.2%

Key ratios	2020	2021	2022
EPS (SAR)	1.78	1.01	1.37
BVPS (SAR)	19.03	17.74	17.58
DPS (SAR)	2.25	2.25	1.50
Payout ratio (%)	126%	223%	109%

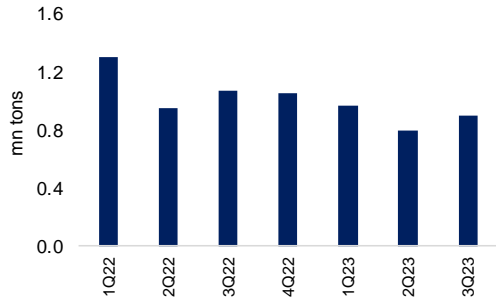


Yanbu Cement Company (YCC) reported its 3Q23 revenue at SAR189mn, which declined by 27.9% YoY. The topline was impacted by a 23.1% YoY drop in cement sales and a 41.4% YoY fall in clinker sales. Cement sales was impacted by a 15.8% YoY fall in cement volume to 0.9mn tons and an 8.6% YoY fall in the cement realization to SAR166/ton. Clinker revenue on the other hand was impacted by a 32.4% YoY decline in clinker volume and a 13.4% YoY reduction in the realization. The topline was also lower than our estimate of SAR215mn and was impacted by a lower-than-expected cement realization. Gross profit of YCC declined by 56.7% YoY to SAR39mn, as gross margins fell to 20.4% in 3Q23 from 34.1% in 3Q22. Lower revenue and an increase in cost of sales per ton by 12.4% YoY to SAR119/ton impacted profitability. SG&A expenses was down by 2.0% YoY, at the back of lower selling and distribution expenses. Overall net income dropped by 77.6% YoY to SAR16mn and was impacted by a decline in the average cement realization. We expect the cement prices will remain under pressure in the coming few quarters, which is likely to continue to put pressure on the financial performance of the company. The stock is currently quoting at c.54x its 2024e EPS, which we feel is on the higher side, given the weak market dynamics. Overall, we have reduced our target price on the stock from SAR37/share to SAR33/share, and reduce our rating to Neutral.

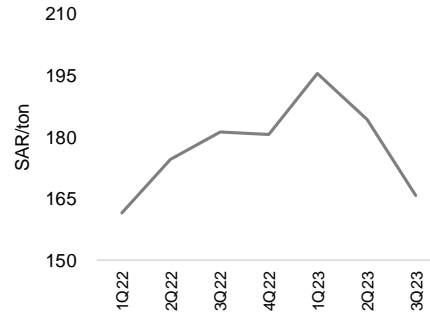
Saudi cement sector woes continue: Cement offtake in the Kingdom has been weak so far in 2023, with the industry sales volume declining by 5.6% YoY for 9M23 and 3Q23. For 9M23, YCC's cement volume fell by a much higher 19.9% YoY, while it dropped by 15.8% YoY for 3Q23, substantially underperforming the industry in both the period. Going forward, we expect the cement volume of the company will continue to underperform the industry average in the medium term. Cement realization too is likely to remain under pressure. Its clinker sales too have fallen by 40.9% YoY for 9M23 and by 32.4% YoY for 3Q23. We expect this trend to broadly continue for 4Q23e, though the same is likely to stabilise in 2024e.

Valuations: The 3Q23 financial performance of YCC has been weak and has also underperformed our expectation. With the cement offtake taking time to recover, and with the increased levels of competition, we expect that the cement prices will continue to remain under pressure. These are likely to continue to cast a shadow on the financial performance of the company. Overall, we have reduced our target price on the company to **SAR33/share** and reduce our rating to **Neutral**.

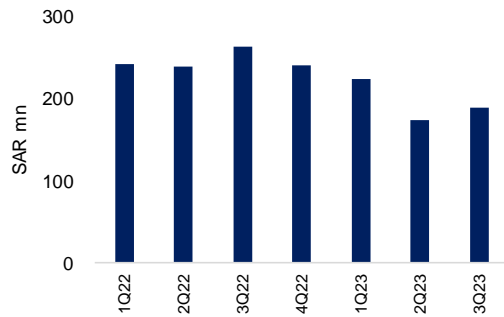
Cement volumes trending lower in 2023



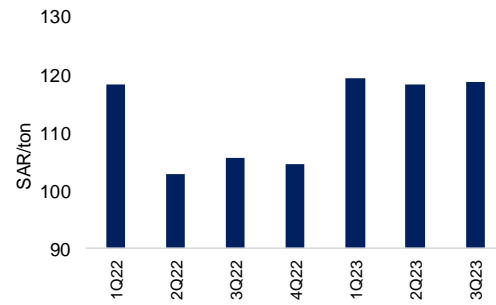
Realization decline due to competition



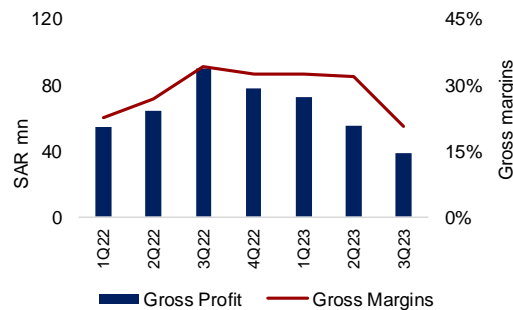
Revenue declines on lower cement volume and prices



Cost of sales per ton increases in 2023



Profits decline due to lower revenue & higher cost



Operating profit under pressure



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	976	940	934	981	776	765	832	865	900
Cost of sales	(641)	(598)	(710)	(696)	(571)	(578)	(594)	(604)	(615)
Gross profit	335	342	224	285	205	187	238	262	285
Operating expenses	(54)	(41)	(48)	(51)	(58)	(59)	(61)	(63)	(64)
Operating profit	281	301	176	233	147	129	177	199	221
Other income	4	7	3	6	(1)	(1)	(1)	(1)	(1)
Finance expenses	(8)	(5)	(3)	(8)	(15)	(18)	(9)	(3)	(2)
Earnings before tax	277	302	175	231	130	110	166	195	218
Tax	(19)	(19)	(13)	(15)	(10)	(8)	(13)	(15)	(16)
Net income	258	283	162	215	120	101	154	181	202
Minority interest	0	(2)	(2)	0	0	0	0	0	0
Net income post MI	258	281	160	215	120	101	154	181	202

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,759	2,631	2,529	2,398	2,258	2,127	2,008	1,897	1,796
Intangibles	3	4	3	2	1	0	0	0	0
Investment in associates	0	0	0	0	0	0	0	0	0
Others	0	0	54	33	33	33	33	33	33
Total non-current assets	2,762	2,635	2,586	2,433	2,292	2,161	2,041	1,931	1,829
Inventory	564	671	541	595	714	665	594	543	523
Receivables, Net	170	162	166	157	155	138	133	138	144
Cash & Cash Equivalents	177	137	61	101	50	50	51	84	81
Investments	0	0	0	21	21	21	21	21	21
Other current assets	18	24	38	42	42	42	42	42	42
Total current assets	928	994	807	916	983	916	841	829	811
Total assets	3,691	3,629	3,393	3,349	3,275	3,077	2,882	2,760	2,641
Share Capital	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575	1,575
Total reserves	1,697	1,422	1,220	1,194	1,078	943	821	726	613
Minority interest	30	32	32	0	0	0	0	0	0
Total Equity	3,302	3,029	2,827	2,769	2,653	2,518	2,396	2,301	2,188
Short-term & current debt	52	52	197	74	30	29	28	7	4
Lease liabilities - Current	0	0	0	0	0	0	0	0	0
Payable	32	60	22	52	43	43	45	45	46
Other current liab.	168	380	178	262	262	262	262	262	262
Total current liabilities	253	492	396	388	335	334	334	314	311
Long-Term Debt	65	26	80	92	186	124	50	43	40
Long-term lease liabilities	6	6	6	5	5	5	5	5	5
Other non-current liab.	65	77	84	96	96	96	96	96	96
Total non-current liabilities	136	109	170	193	287	225	152	145	141
Total Liabilities	389	601	566	581	622	559	486	459	452
Equity and liabilities	3,691	3,629	3,393	3,349	3,275	3,077	2,882	2,760	2,641

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	494	419	377	477	162	327	380	367	351
Cash from investments	(61)	(67)	(101)	(88)	(27)	(27)	(29)	(30)	(32)
Cash from financing	(308)	(392)	(353)	(349)	(185)	(300)	(350)	(303)	(322)
Net changes in cash	125	(40)	(76)	40	(51)	0	1	33	(3)
C/b	177	137	61	101	50	50	51	84	81

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	1.6	1.8	1.0	1.4	0.8	0.6	1.0	1.1	1.3
BVPS	20.8	19.0	17.7	17.6	16.8	16.0	15.2	14.6	13.9
DPS	2.0	2.3	2.3	1.5	1.5	1.5	1.8	1.8	2.0
FCF/share	2.8	2.2	1.8	2.5	0.9	1.9	2.2	2.1	2.0
Revenue/share	6.2	6.0	5.9	6.2	4.9	4.9	5.3	5.5	5.7
Valuations									
M.Cap (SAR mn)	5,552	5,552	5,552	5,552	5,552	5,552	5,552	5,552	5,552
EV (SAR mn)	5,528	5,531	5,806	5,601	5,702	5,638	5,563	5,502	5,498
P/E	21.5	19.8	34.8	25.8	46.1	54.7	36.1	30.7	27.5
EV/EBITDA	11.6	11.2	15.8	14.0	18.1	19.7	17.1	16.2	15.5
EV/Sales	5.7	5.9	6.2	5.7	7.3	7.4	6.7	6.4	6.1
P/BV	1.7	1.9	2.0	2.0	2.1	2.2	2.3	2.4	2.5
P/S	5.7	5.9	5.9	5.7	7.2	7.3	6.7	6.4	6.2
Div. yield	5.7%	6.4%	6.4%	4.3%	4.3%	4.3%	5.0%	5.0%	5.7%
FCF yield	7.8%	6.3%	5.0%	7.0%	2.4%	5.4%	6.3%	6.1%	5.7%
Liquidity									
Cash Ratio	0.7	0.3	0.2	0.3	0.1	0.1	0.2	0.3	0.3
Current ratio	3.7	2.0	2.0	2.4	2.9	2.7	2.5	2.6	2.6
Quick ratio	1.4	0.7	0.7	0.8	0.8	0.8	0.7	0.9	0.9
Return ratio									
ROA	7.0%	7.8%	4.8%	6.4%	3.7%	3.3%	5.3%	6.5%	7.6%
ROE	7.9%	9.4%	5.7%	7.8%	4.5%	4.0%	6.4%	7.9%	9.2%
ROCE	7.6%	8.3%	5.2%	7.0%	4.5%	4.2%	6.1%	7.2%	8.4%
Cash cycle									
Inventory turnover	1.1	0.9	1.3	1.2	0.8	0.9	1.0	1.1	1.2
Payables turnover	19.9	9.9	32.9	13.3	13.3	13.3	13.3	13.3	13.3
Receivables turnover	5.7	5.8	5.6	6.2	5.0	5.6	6.3	6.3	6.3
Inventory days	317	404	274	308	450	414	360	324	306
Payable days	18	36	11	27	27	27	27	27	27
Receivables days	63	62	64	58	72	65	58	58	58
Cash Cycle	361	430	328	338	495	452	391	355	337
Profitability ratio									
Gross margins	34.3%	36.4%	23.9%	29.0%	26.4%	24.5%	28.6%	30.2%	31.7%
EBITDA margins	48.7%	52.6%	39.4%	40.8%	40.5%	37.5%	39.2%	39.3%	39.3%
Operating margins	28.8%	32.0%	18.8%	23.8%	18.9%	16.8%	21.3%	23.0%	24.6%
PBT margins	28.4%	32.1%	18.8%	23.5%	16.8%	14.3%	20.0%	22.6%	24.3%
Net margins	26.4%	29.9%	17.1%	22.0%	15.5%	13.3%	18.5%	20.9%	22.4%
Effective tax rate	6.9%	6.2%	7.6%	6.7%	7.5%	7.5%	7.5%	7.5%	7.5%
Leverage									
Total debt (SAR mn)	123	84	282	171	222	158	84	56	49
Net debt (SAR mn)	(54)	(53)	222	70	172	108	33	(28)	(33)
Debt/Capital	3.6%	2.7%	9.1%	5.8%	7.7%	5.9%	3.4%	2.4%	2.2%
Debt/Total assets	3.3%	2.3%	8.3%	5.1%	6.8%	5.1%	2.9%	2.0%	1.8%
Debt/Equity	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Debt/EBITDA	0.3	0.2	0.8	0.4	0.7	0.6	0.3	0.2	0.1
Net debt/EBITDA	(0.1)	(0.1)	0.6	0.2	0.5	0.4	0.1	(0.1)	(0.1)

Cement Sector

BUY: 12M TP @ 12.6

Valuation Summary (TTM)

Price (SAR)	11.4
PER TTM (x)	19.4
P/Book (x)	1.0
P/Sales (x)	3.7
EV/Sales (x)	4.7
EV/EBITDA (x)	11.2
Dividend Yield (%)	NM
Free Float (%)	88%
Shares O/S (mn)	170
YTD Return (%)	-6%
Beta	0.9

(mn)	SAR	USD	
Market Cap	1,931	515	
EV	2,269	605	
Price performance (%)			
	1M	3M	12M
Najran Cement Co	8%	-8%	-5%
Tadawul All Share Index	6%	3%	13%
Industry Index	6%	3%	13%
Trading liquidity (,000)			
	1M	3M	6M
Avg daily turnover (SAR ,000)	5,380	4,661	6,456
Avg Daily Volume (,000)	471	414	516
52 week			
	High	Low	CTL*
Price (SAR)	15.34	10.30	10.3

* CTL is % change in CMP to 52wk low

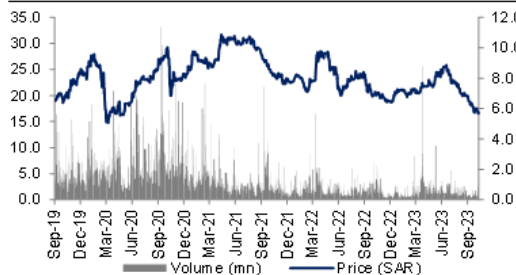
Major shareholders

Al Barrak Khaled Moh	9%
Vanguard Group Inc/T	2.0%
Dimensional Fund Adv	0.8%
Others	88.0%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.1%

Key ratios	2020	2021	2022
EPS (SAR)	1.18	0.97	0.67
BVPS (SAR)	12.09	11.56	11.73
DPS (SAR)	1.50	1.00	0.50
Payout ratio (%)	127%	103%	75%



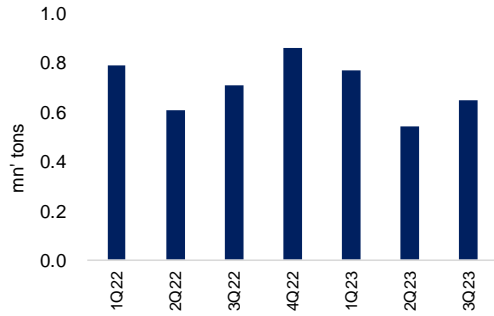
Najran Cement Co.

Najran Cement reported its 3Q23 revenue at SAR114mn, which was down by 10.8% YoY. The topline was impacted by 8.2% YoY drop in cement volume to 0.65mn tons, while cement realization was down by 2.9% YoY to SAR175/ton. The revenue was also lower than our estimates of SAR123mn, due to lower-than-expected cement prices. Gross profit fell by 21.8% YoY to SAR32mn and was impacted by lower revenue and an increase in cost of sales per ton by 2.8% YoY to SAR125. On the back of these gross margins fell to 28.4% in 3Q23 compared to 32.4% a year back. Operating expenses increased by 9.9% YoY on higher SG&A expenses. Finance cost rose by 97.3% YoY due to higher debt and interest rates. Overall, net income fell by 49.7% YoY to SAR14mn as a result of lower revenue and the pressure on margins. It was also lower than our expectation of SAR19mn, due to lower-than-expected cement prices and the resultant impact on gross margins. Going forward, we expect both the revenue and the profitability of Najran Cement to remain under pressure. We expect the cement volume will remain lacklustre, as the market recovery will be slow. Cement prices on the other hand is likely to be better than the industry average, though the same is likely to continue to be lower than its own historical levels. Overall, we have reduced our target price on the company to SAR12.6/share, but maintain our BUY rating.

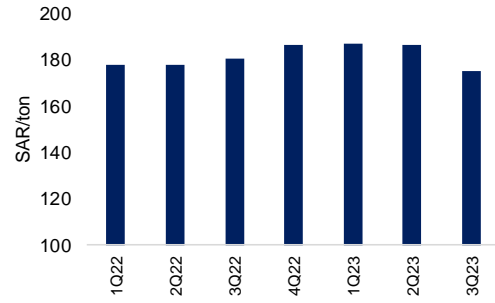
Pressure on operations to continue: Najran Cement is a relatively small player operating in the Southern region, accounting for a market share of 5% and was the 8th largest player in terms of cement volume sold in the Kingdom. Cement sale in KSA has been lacklustre in 2023, with the industry sales volume declining by 5.6% YoY for 9M23 and 3Q23. For 9M23, Najran Cement's sales volume fell by a slightly higher 6.7% YoY for 9M23 and by 8.2% YoY for 3Q23, underperforming the industry. Going forward, we expect this trend to broadly continue. We expect the realization of the company to be lower than the levels achieved by it during 2019-21, though it is likely to be better than its peers. Cement volumes on the other hand is likely to continue to underperform industry average, as we expect the weakness in demand to continue.

Valuations: The 3Q23 financial performance of Najran Cement has been weak, underperforming our expectation. We expect this to continue for the next few quarters on the back of weak industry dynamics. Overall, we have reduced our target price on the company to **SAR12.6/share** with a **BUY** rating.

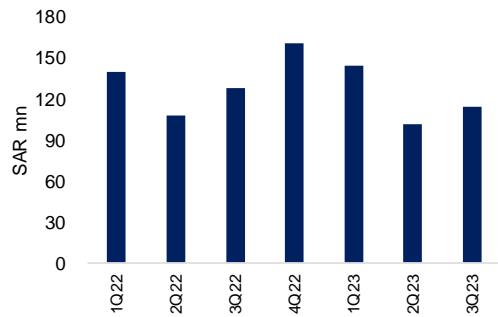
YoY cement volume down by 8% YoY in 3Q23



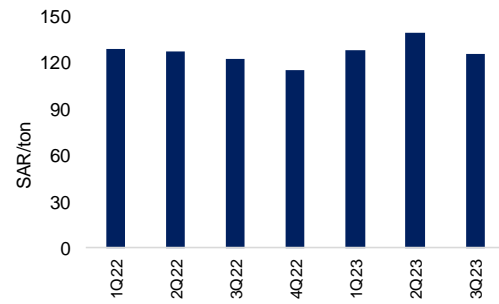
Cement prices decline 3% YoY in 3Q23



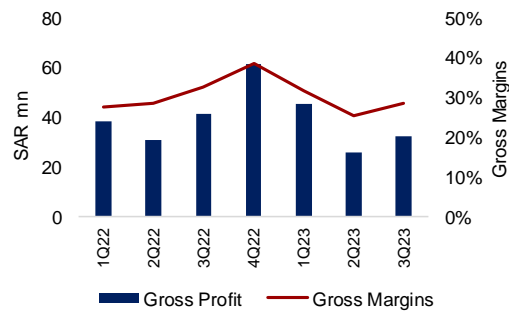
YoY sales lower in 3Q23 on lower volumes and prices



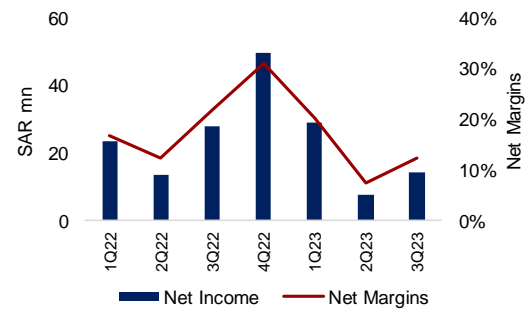
Cost of sales per ton higher by 3% YoY in 3Q23



Lower revenue & high costs impacts gross profits



Weak operating performance impacts net income



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	416	623	582	536	477	486	521	542	564
Cost of sales	(297)	(373)	(351)	(364)	(342)	(353)	(372)	(384)	(396)
Gross profit	119	250	230	172	135	134	149	158	167
Operating expenses	(34)	(45)	(49)	(43)	(45)	(46)	(47)	(48)	(49)
Operating profit	85	205	181	128	90	88	102	110	118
Other income	2	1	(2)	3	4	4	4	4	4
Finance expenses	(27)	(16)	(8)	(11)	(23)	(15)	(6)	(4)	(3)
Earnings before tax	60	191	171	120	71	78	100	110	120
Tax	(6)	10	(5)	(7)	(9)	(6)	(6)	(6)	(6)
Net income	54	201	166	114	63	71	94	104	113
Minority interest	0	0	0	0	0	0	0	0	0
Net income	54	201	166	114	63	71	94	104	113

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	2,085	1,984	1,963	1,936	1,881	1,827	1,774	1,722	1,671
Intangibles	4	4	4	4	4	4	4	4	4
Investments	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0
Total non-current assets	2,089	1,988	1,967	1,941	1,885	1,831	1,778	1,726	1,675
Inventory	323	282	269	366	427	353	298	288	297
Receivables, Net	33	30	28	29	20	20	21	22	23
Cash & Cash Equivalents	22	172	82	39	58	156	239	277	296
Investments	0	0	0	0	0	0	0	0	0
Other current assets	20	47	43	50	50	50	50	50	50
Total current assets	398	531	422	483	554	578	608	637	666
Total assets	2,487	2,519	2,390	2,424	2,439	2,409	2,386	2,363	2,341
Share Capital	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Total reserves	284	356	266	293	356	368	385	404	424
Minority interest	0	0	0	0	0	0	0	0	0
Total equity	1,984	2,056	1,966	1,993	2,056	2,068	2,085	2,104	2,124
Short-term & current debt	371	52	52	44	43	43	43	43	43
Lease liabilities - Current	0	0	0	0	0	0	0	0	0
Payable	26	45	45	46	42	43	46	47	49
Other current liab.	41	48	57	58	58	58	58	58	58
Total current liabilities	438	145	154	149	144	145	147	149	150
Long-Term Debt	30	279	228	236	194	151	108	65	22
Long-term lease liabilities	6	6	6	5	5	5	5	5	5
Other non-current liabilities	29	33	37	40	40	40	40	40	40
Total non-current liabilities	66	318	270	281	239	196	153	110	67
Total liabilities	504	463	424	430	383	341	300	259	217
Equity and liabilities	2,487	2,519	2,390	2,424	2,439	2,409	2,386	2,363	2,341

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	185	359	270	93	86	225	229	193	184
Cash from investments	(21)	(11)	(53)	(50)	(24)	(24)	(26)	(27)	(28)
Cash from financing	(153)	(199)	(307)	(85)	(43)	(103)	(120)	(128)	(137)
Net changes in cash	10	149	(89)	(43)	19	98	83	38	19
Closing balance	22	172	82	39	58	156	239	277	296

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	0.3	1.2	1.0	0.7	0.4	0.4	0.6	0.6	0.7
BVPS	11.7	12.1	11.6	11.7	12.1	12.2	12.3	12.4	12.5
DPS	0.0	1.5	1.0	0.5	0.0	0.4	0.5	0.5	0.6
FCF/share	1.0	2.0	1.3	0.3	0.4	1.2	1.2	1.0	0.9
Revenue/share	2.4	3.7	3.4	3.2	2.8	2.9	3.1	3.2	3.3
Valuations									
M.Cap (SAR mn)	1,931	1,931	1,931	1,931	1,931	1,931	1,931	1,931	1,931
EV (SAR mn)	2,317	2,096	2,134	2,178	2,116	1,974	1,848	1,767	1,705
P/E	36.1	9.6	11.7	17.0	30.7	27.1	20.6	18.6	17.0
EV/EBITDA	14.2	7.4	8.4	10.7	12.5	11.8	10.2	9.4	8.6
EV/Sales	5.6	3.4	3.7	4.1	4.4	4.1	3.5	3.3	3.0
P/BV	1.0	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9
P/S	4.6	3.1	3.3	3.6	4.1	4.0	3.7	3.6	3.4
Div. yield	0.0%	13.2%	8.8%	4.4%	0.0%	3.1%	4.0%	4.4%	4.8%
FCF yield	8.5%	18.0%	11.2%	2.2%	3.2%	10.4%	10.5%	8.6%	8.1%
Liquidity									
Cash Ratio	0.1	1.2	0.5	0.3	0.4	1.1	1.6	1.9	2.0
Current ratio	0.9	3.7	2.7	3.2	3.9	4.0	4.1	4.3	4.4
Quick ratio	0.2	1.7	1.0	0.8	0.9	1.6	2.1	2.3	2.5
Return ratio									
ROA	2.2%	8.0%	6.9%	4.7%	2.6%	3.0%	3.9%	4.4%	4.8%
ROE	2.7%	9.8%	8.4%	5.7%	3.1%	3.4%	4.5%	4.9%	5.3%
ROCE	3.4%	8.1%	7.6%	5.3%	3.7%	3.7%	4.3%	4.7%	5.1%
Cash cycle									
Inventory turnover	0.9	1.3	1.3	1.0	0.8	1.0	1.3	1.3	1.3
Payables turnover	11.4	8.3	7.8	7.8	8.1	8.1	8.1	8.1	8.1
Receivables turnover	12.4	20.5	20.6	18.7	24.4	24.4	24.4	24.4	24.4
Inventory days	391	272	276	362	449	360	288	270	270
Payable days	32	43	46	46	44	44	44	44	44
Receivables days	29	18	17	19	15	15	15	15	15
Cash Cycle	389	246	248	335	420	330	258	240	240
Profitability ratio									
Gross margins	28.6%	40.1%	39.6%	32.1%	28.3%	27.5%	28.6%	29.1%	29.7%
EBITDA margins	39.1%	45.2%	43.8%	37.8%	35.5%	34.4%	34.7%	34.9%	35.0%
Operating margins	20.5%	32.9%	31.1%	24.0%	18.9%	18.1%	19.6%	20.3%	21.0%
PBT margins	14.3%	30.6%	29.4%	22.5%	15.0%	16.0%	19.2%	20.3%	21.2%
Net margins	12.9%	32.2%	28.5%	21.2%	13.2%	14.7%	18.0%	19.2%	20.1%
Effective tax rate	10.3%	-5.4%	3.2%	5.5%	11.9%	8.2%	6.2%	5.6%	5.1%
Leverage									
Total debt (SAR mn)	408	337	285	286	243	200	156	113	70
Net debt (SAR mn)	386	165	203	246	185	43	(83)	(164)	(226)
Debt/Capital	17.1%	14.1%	12.7%	12.5%	10.6%	8.8%	7.0%	5.1%	3.2%
Debt/Total assets	16.4%	13.4%	11.9%	11.8%	9.9%	8.3%	6.6%	4.8%	3.0%
Debt/Equity	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Debt/EBITDA	2.5	1.2	1.1	1.4	1.4	1.2	0.9	0.6	0.4
Net debt/EBITDA	2.4	0.6	0.8	1.2	1.1	0.3	(0.5)	(0.9)	(1.1)

Cement Sector

Strong BUY: 12M TP @ 46

Valuation Summary (TTM)

Price (SAR)	38.0
PER TTM (x)	16.2
P/Book (x)	1.4
P/Sales (x)	3.4
EV/Sales (x)	3.3
EV/EBITDA (x)	9.1
Dividend Yield (%)	3.1
Free Float (%)	60%
Shares O/S (mn)	86
YTD Return (%)	-5%
Beta	0.9

(mn)	SAR	USD	
Market Cap	3,264	870	
EV	3,087	823	
Price performance (%)			
	1M	3M	12M
Eastern Province Cement Co	5%	-5%	-1%
Tadawul All Share Index	6%	3%	13%
Industry Index	6%	3%	13%
Trading liquidity (,000)			
	1M	3M	6M
Avg daily turnover (SAR ,000)	1,730	1,373	1,534
Avg Daily Volume (,000)	42	36	37
52 week			
	High	Low	CTL*
Price (SAR)	48.00	35.50	7.7

* CTL is % change in CMP to 52wk low

Major shareholders

Al Saud Abdul Aziz B	37%
Vanguard Group Inc/T	1.9%
BlackRock Inc	0.9%
Others	59.8%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.1%

Key ratios	2020	2021	2022
EPS (SAR)	2.53	2.24	1.67
BVPS (SAR)	29.46	27.93	27.44
DPS (SAR)	2.50	2.50	2.00
Payout ratio (%)	99%	112%	120%



Eastern Province Cement Co.

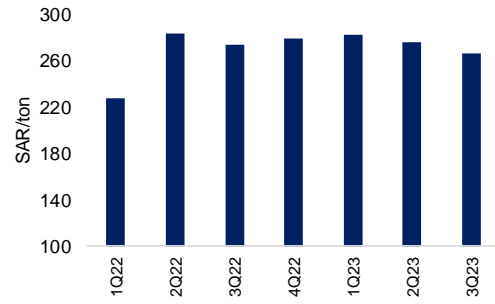
Eastern Province Cement Co (EPCCO) reported its revenue for 3Q23 at SAR243mn, up 39.6% YoY and was aided by a 13.3% YoY growth in cement revenue and a 119% YoY growth in precast revenue. Increase from cement sale was powered by a robust 16.1% YoY improvement in volume, though a 2.5% YoY fall in realization restricted the growth to a certain extent. The topline was better than our expectation of SAR216mn, at the back of higher-than-expected revenue from the precast segment. Gross profit increased by 20.3% YoY to SAR62mn and was driven by higher revenue. The gross margins however fell to 25.4% in 3Q23 compared to 29.4% a year ago. We expect the relatively higher proportion of precast revenue to total revenue to be the main reason for the same. Operating expenses increased by 4.2% YoY. EPCCO recorded a finance and other income of SAR9mn, compared to a SAR2mn net other expenses in the previous year. Overall, the company recorded a net income of SAR41mn up by 106.1% YoY and was aided by its strong operating performance and higher other income. The results were however lower than our expectation of SAR50mn. Despite better-than-expected revenue, the net income was below our expectation due to lower gross margins, owing to a fall in cement prices and higher proportion of precast revenue. Going forward, we expect cement price will remain constrained, contrary to our previous expectation. Though we expect cement volumes to remain robust and in line with its performance in the current year (2023), we have tempered our earlier forecasts to account for the weak pricing. Overall, we have reduced our target price to SAR46/share from our earlier levels of SAR51/share, which gives us a Strong BUY rating.

Cement volumes have outperformed the industry average, though prices have fallen: EPCCO is a relatively small player in the Saudi cement sector with a market share of 5% of the cement volume sold and is the 9th largest cement player. Cement sale in KSA has been lacklustre in 2023, with the industry sales volume declining by 5.6% YoY for 9M23 and 3Q23. However, the volumes of EPCCO have increased by 16% YoY in 9M23 and in 3Q23, outperforming the industry substantially. Cement realization however fell by 3.4% QoQ to SAR267/ton. Though the fall has been lower than some of its peers, the same has underperformed our forecast. Going forward, we expect the company's cement volumes will continue to remain strong. Though the realization will continue to be better than industry average, the same will be lower than our previous expectations. Overall, post the 3Q23 performance, we have reduced our target price of EPCCO to **SAR46/share**, which gives us a **Strong BUY** rating.

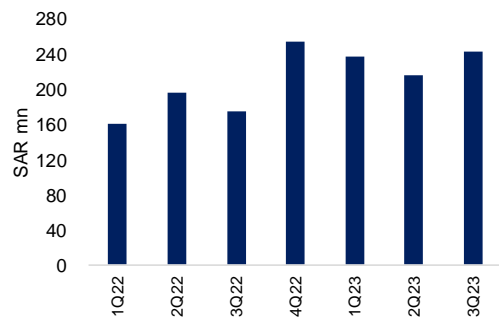
Cement volume continues to increase



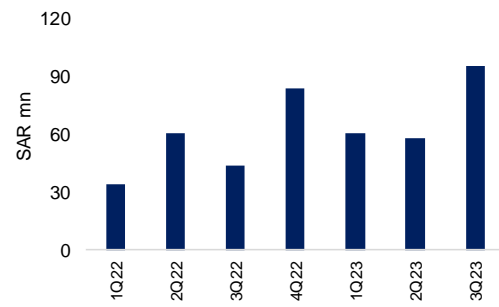
Cement prices decline by 3% YoY



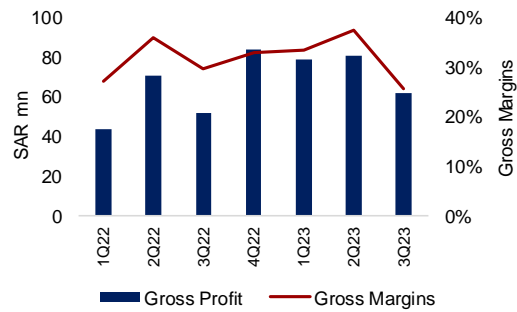
Revenue grows 40% YoY on higher volume



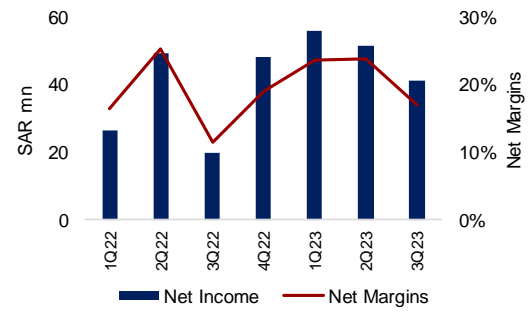
Precast revenue reports strong growth in 3Q23



Margins impacted by higher revenue from precast



Net income reports strong growth YoY



Source: Company filings and US Research

Income Statement(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	729	742	758	784	910	933	991	1,031	1,043
Cost of sales	(511)	(484)	(497)	(536)	(626)	(638)	(672)	(695)	(702)
Gross profit	218	258	261	248	284	295	319	336	341
Operating expenses	(56)	(51)	(55)	(67)	(67)	(68)	(70)	(72)	(73)
Operating profit	161	207	206	181	217	226	249	264	268
Other income	17	4	3	(7)	24	10	10	10	11
Finance expenses	(1)	(3)	(3)	(5)	(5)	(5)	(6)	(6)	(6)
Income from affiliate	24	38	21	1	(28)	-	-	-	-
Earnings before tax	200	246	227	170	207	231	254	269	273
Tax	(20)	(29)	(34)	(26)	(24)	(27)	(29)	(31)	(31)
Net income	181	217	193	143	184	204	225	238	241

Balance Sheet(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	869	820	758	762	751	743	741	743	745
Investments	536	577	590	642	642	642	642	642	642
Investments in associates	170	199	213	200	172	172	172	172	172
Other non-current assets	96	100	106	109	106	103	100	97	94
Total non-current assets	1,671	1,695	1,668	1,714	1,671	1,660	1,656	1,654	1,654
Inventory	506	427	460	579	659	657	674	680	687
Receivables	198	193	209	298	346	355	377	392	397
Cash & Cash Equivalents	340	529	402	91	11	112	192	287	387
Other current assets	50	26	46	170	176	177	180	182	183
Total current assets	1,094	1,175	1,117	1,138	1,192	1,301	1,423	1,542	1,654
Total assets	2,765	2,870	2,785	2,851	2,864	2,962	3,078	3,196	3,308
Share Capital	860	860	860	860	860	860	860	860	860
Total reserves	1,552	1,673	1,542	1,500	1,580	1,672	1,773	1,880	1,989
Total Equity	2,412	2,533	2,402	2,360	2,440	2,532	2,633	2,740	2,849
Payables	103	133	162	266	210	214	225	233	235
Other current liab.	147	89	96	96	84	85	90	93	94
Total current liabilities	250	222	258	361	293	299	315	326	329
Long-term lease liabilities	0	0	4	5	5	5	5	5	5
Other non-current liab.	103	115	120	125	125	125	125	125	125
Total non-current liabilities	103	115	124	130	130	130	130	130	130
Total Liabilities	353	337	382	492	424	430	445	456	459
Equity and liabilities	2,765	2,870	2,785	2,851	2,864	2,962	3,078	3,196	3,308

Cash Flows(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	362	348	209	130	114	307	302	330	337
Cash from investments	(65)	(27)	(2)	(130)	(91)	(93)	(99)	(103)	(104)
Cash from financing	(67)	(132)	(333)	(311)	(103)	(112)	(124)	(131)	(133)
Net changes in cash	231	189	(126)	(311)	(80)	101	79	96	100
Cash balance	340	529	402	91	11	112	192	287	387

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<u>Per Share (SAR)</u>									
EPS	2.1	2.5	2.2	1.7	2.1	2.4	2.6	2.8	2.8
BVPS	28.0	29.5	27.9	27.4	28.4	29.4	30.6	31.9	33.1
DPS	1.5	2.5	2.5	2.0	1.2	1.3	1.4	1.5	1.5
FCF/share	4.0	3.5	2.2	0.6	0.3	2.5	2.4	2.6	2.7
Revenue/share	8.5	8.6	8.8	9.1	10.6	10.9	11.5	12.0	12.1
<u>Valuations</u>									
M.Cap (SAR mn)	3,096	3,539	3,780	3,462	3,264	3,264	3,264	3,264	3,264
EV (SAR mn)	2,051	2,235	2,580	2,405	2,316	2,214	2,135	2,039	1,939
P/E	17.1	16.3	19.6	24.2	17.8	16.0	14.5	13.7	13.5
EV/EBITDA	7.8	7.4	8.4	8.4	7.2	6.7	6.0	5.5	5.2
EV/Sales	2.8	3.0	3.4	3.1	2.5	2.4	2.2	2.0	1.9
P/BV	1.3	1.4	1.6	1.5	1.3	1.3	1.2	1.2	1.1
P/S	4.2	4.8	5.0	4.4	3.6	3.5	3.3	3.2	3.1
Div. yield	4.2%	6.1%	5.7%	5.0%	3.2%	3.4%	3.8%	4.0%	4.1%
FCF yield	11.0%	8.5%	5.1%	1.4%	0.7%	6.5%	6.2%	6.9%	7.1%
<u>Liquidity</u>									
Cash Ratio	1.4	2.4	1.6	0.3	0.0	0.4	0.6	0.9	1.2
Current ratio	4.4	5.3	4.3	3.1	4.1	4.3	4.5	4.7	5.0
Quick ratio	2.4	3.4	2.5	1.5	1.8	2.2	2.4	2.6	2.9
<u>Return ratio</u>									
ROA	6.5%	7.6%	6.9%	5.0%	6.4%	6.9%	7.3%	7.4%	7.3%
ROE	7.5%	8.6%	8.0%	6.1%	7.5%	8.1%	8.5%	8.7%	8.5%
ROCE	6.7%	8.2%	8.6%	7.6%	8.9%	8.9%	9.4%	9.6%	9.4%
<u>Cash cycle</u>									
Inventory turnover	1.0	1.1	1.1	0.9	0.9	1.0	1.0	1.0	1.0
Payables turnover	5.0	3.6	3.1	2.0	3.0	3.0	3.0	3.0	3.0
Receivables turnover	3.7	3.9	3.6	2.6	2.6	2.6	2.6	2.6	2.6
Inventory days	356	318	333	388	379	370	361	352	352
Payable days	72	99	118	178	121	121	121	121	121
Receivables days	98	93	99	137	137	137	137	137	137
Cash Cycle	382	312	315	347	396	387	378	369	369
<u>Profitability ratio</u>									
Gross margins	29.9%	34.8%	34.4%	31.6%	31.2%	31.6%	32.2%	32.6%	32.7%
EBITDA margins	36.2%	40.7%	40.8%	36.4%	35.4%	35.4%	35.6%	35.7%	35.7%
Operating margins	22.2%	27.9%	27.2%	23.1%	23.8%	24.3%	25.2%	25.6%	25.7%
PBT margins	27.5%	33.2%	30.0%	21.6%	22.8%	24.8%	25.6%	26.1%	26.1%
Net margins	24.8%	29.3%	25.5%	18.3%	20.2%	21.9%	22.7%	23.1%	23.1%
Effective tax rate	9.8%	11.8%	15.1%	15.5%	11.5%	11.5%	11.5%	11.5%	11.5%
<u>Leverage</u>									
Total debt (SAR mn)	2	0	6	7	7	7	7	7	7
Net debt (SAR mn)	(338)	(528)	(397)	(84)	(4)	(105)	(184)	(280)	(380)
Debt/Capital	0.1%	0.0%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Debt/Total assets	0.1%	0.0%	0.2%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA	(1.3)	(1.7)	(1.3)	(0.3)	(0.0)	(0.3)	(0.5)	(0.8)	(1.0)

Cement Sector

NEUTRAL: 12M TP @ 20

Valuation Summary (TTM)

Price (SAR)	20.7
PER TTM (x)	27.8
P/Book (x)	1.7
P/Sales (x)	7.4
EV/Sales (x)	6.5
EV/EBITDA (x)	15.4
Dividend Yield (%)	4.7
Free Float (%)	71%
Shares O/S (mn)	140
YTD Return (%)	0%
Beta	1.0

(mn)	SAR	USD
Market Cap	2,901	773
EV	2,763	737

Price performance (%)	1M	3M	12M
City Cement Co	15%	0%	5%
Tadawul All Share Index	6%	3%	13%
Industry Index	6%	3%	13%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	6,467	5,475	5,281
Avg Daily Volume (,000)	269	297	262

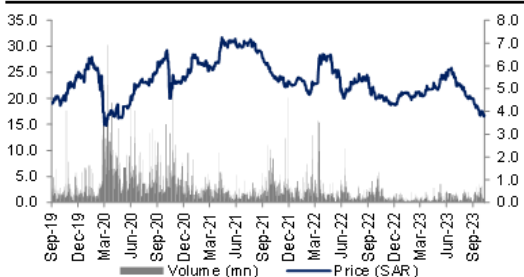
52 week	High	Low	CTL*
Price (SAR)	26.15	16.20	23.3

* CTL is % change in CMP to 52wk low

Major shareholders	
Abdullatif Group Hol	25%
ALMOAJIL TRADING & C	2.0%
Vanguard Group Inc/T	2.0%
Others	71.5%

Other details	
Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.1%

Key ratios	2020	2021	2022
EPS (SAR)	1.57	1.14	0.82
BVPS (SAR)	13.18	13.07	12.99
DPS (SAR)	1.50	1.25	0.90
Payout ratio (%)	95%	110%	110%

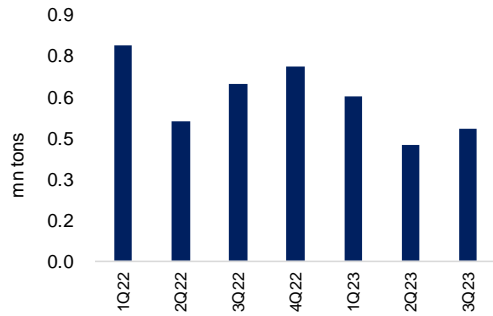


City Cement

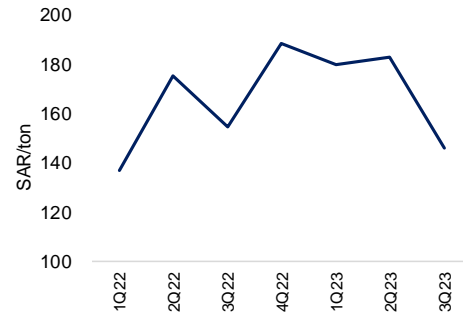
City Cement Co. 3Q23 revenue came in at SAR71mn and was down 29.4% YoY. The topline was impacted by a 25.2% YoY fall in cement volume and a 5.6% YoY decline in cement realization. The revenue was also lower than our estimate of SAR89mn and was impacted by lower-than-expected cement realization. Gross profit fell by 54.3% YoY to SAR13mn and was impacted by lower revenue, with gross margins lower from 28.4% in 3Q22 to 18.4% in 3Q23. The lower cement price and an increase in the cost of sales per ton by 7.7% YoY to SAR119 impacted the gross margins. Operating expenses increased by 28.7% YoY at the back of higher SG&A expenses. Overall net income fell by 82.5% YoY to SAR4mn, which was also substantially lower than our estimate of SAR24mn. Lower than expected cement prices and higher than expected operating costs was the main reasons for the miss in performance. Going forward, we expect cement prices will continue to remain under pressure, resulting in a continued weakness in the financial performance. The stock is currently quoting at c.42x its 2024e EPS, and we do not see further upside for the stock from its current levels. Overall, we have reduced our target price from SAR21/share to SAR20/share, which gives us a **Neutral** rating.

Small player in a highly competitive market place: City Cement is a marginal player in the KSA cement market with a market share of 4% in terms of sales volume, making it the 11th largest player in the industry. Cement sale in KSA has been lacklustre in 2023, with the industry sales volume declining by 5.6% YoY for 9M23 and 3Q23. For 9M23, City Cement's sales volume fell by a much higher 22.3% YoY and by 25.2% YoY for 9M23 and 3Q23 respectively, underperforming the industry substantially. Going forward, we expect this trend to broadly continue as we expect the volumes to remain under pressure. Cement prices too will continue to remain under pressure, especially in the Central region, due to heavy competition. We expect the impact of this will be further accentuated in 4Q23 due to a higher base, since the average realization of the company in 4Q22 was at SAR188/ton, compared to the current levels of SAR146/ton. Overall, the 3Q23 financial performance of City Cement has been weak, underperforming our expectation. Going forward, we expect the cement volume will remain weak and any recovery is likely to be slow, with the cement prices remaining under pressure. As a result of this we expect the financial performance of the company to also remain lacklustre for the coming quarters. Overall, we have reduced our target price on the company to **SAR20/share** with a **Neutral** rating.

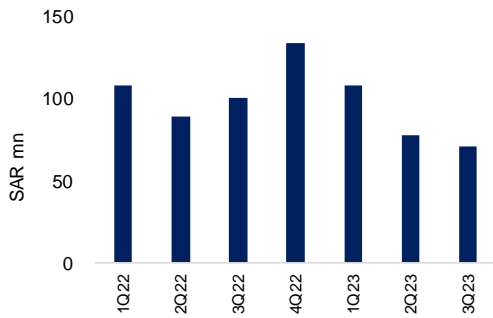
Cement volume comes lower by 25% YoY



Cement price under pressure, as it falls by 6% YoY



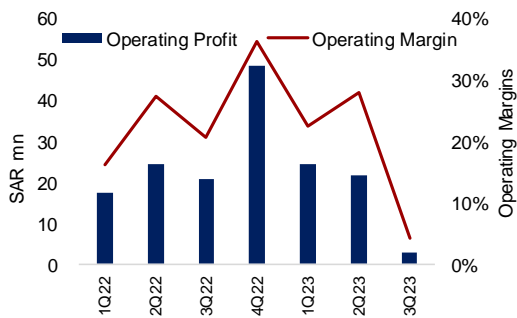
CCO revenue fall due lower volume and prices



Cost of sales per ton increases by 8% YoY



Lower prices and higher costs sinks margin



Source: Company filings and US Research

Income Statement(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	531	573	497	431	337	344	368	383	399
Cost of sales	(300)	(316)	(289)	(286)	(243)	(247)	(255)	(257)	(260)
Gross profit	231	257	208	145	94	97	113	126	138
Operating expenses	(36)	(37)	(34)	(35)	(38)	(38)	(39)	(40)	(41)
Operating profit	195	220	174	111	56	59	74	86	97
Other income	12	11	(1)	15	22	22	22	22	22
Finance expenses	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(0)
Earnings before tax	205	230	173	125	78	81	95	107	118
Tax	(15)	(10)	(12)	(10)	(11)	(12)	(14)	(16)	(17)
Net income	190	220	160	115	67	69	82	92	101

Balance Sheet(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	1,518	1,453	1,383	1,313	1,241	1,168	1,096	1,024	953
Other non-current assets	9	6	11	14	12	11	9	9	9
Total non-current assets	1,527	1,460	1,393	1,327	1,253	1,179	1,105	1,034	962
Inventory	213	145	143	154	164	160	159	161	163
Receivables	40	40	28	31	33	33	36	37	39
Cash & Cash Equivalents	68	50	56	50	86	157	221	280	337
Other current assets	500	254	336	380	382	382	384	386	387
Total current assets	822	489	563	614	664	733	800	864	926
Total assets	2,348	1,948	1,956	1,941	1,917	1,911	1,906	1,897	1,888
Share Capital	1,892	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Total reserves	365	445	430	419	412	406	397	388	378
Total Equity	2,257	1,845	1,830	1,819	1,812	1,806	1,797	1,788	1,778
Payables	15	17	24	28	33	34	35	35	35
Other current liab.	53	63	73	66	43	44	45	45	46
Total current liabilities	68	80	96	94	76	77	80	80	82
Long-term lease liabilities	3	-	4	2	2	2	2	2	2
Other non-current liab.	20	24	26	26	26	26	26	26	26
Total non-current liabilities	23	24	30	28	28	28	28	28	28
Total Liabilities	91	103	126	122	105	106	108	109	110
Equity and liabilities	2,348	1,948	1,956	1,941	1,917	1,911	1,906	1,897	1,888

Cash Flows(SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	331	382	268	164	118	155	163	169	178
Cash from investments	(492)	235	(84)	(43)	(8)	(8)	(9)	(9)	(10)
Cash from financing	(79)	(635)	(178)	(128)	(73)	(76)	(90)	(101)	(111)
Net changes in cash	(240)	(18)	6	(6)	36	71	64	59	57
Cash balance	68	50	56	50	86	157	221	280	337






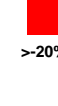
Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<u>Per Share (SAR)</u>									
EPS	1.0	1.6	1.1	0.8	0.5	0.5	0.6	0.7	0.7
BVPS	11.9	13.2	13.1	13.0	12.9	12.9	12.8	12.8	12.7
DPS	-	1.5	1.3	0.9	0.5	0.5	0.6	0.7	0.8
FCF/share	(1.1)	2.6	1.8	1.1	0.8	1.0	1.1	1.1	1.2
Revenue/share	2.8	4.1	3.5	3.1	2.4	2.5	2.6	2.7	2.8
<u>Valuations</u>									
M.Cap (SAR mn)	3,950	3,584	3,156	2,800	2,901	2,901	2,901	2,901	2,901
EV (SAR mn)	3,398	3,291	2,783	2,400	2,465	2,394	2,329	2,270	2,213
P/E	20.8	16.3	19.7	24.3	43.6	42.1	35.5	31.6	28.7
EV/EBITDA	12.3	10.9	10.8	12.5	17.8	16.9	14.9	13.6	12.4
EV/Sales	6.4	5.7	5.6	5.6	7.3	7.0	6.3	5.9	5.6
P/BV	1.8	1.9	1.7	1.5	1.6	1.6	1.6	1.6	1.6
P/S	7.4	6.3	6.4	6.5	8.6	8.4	7.9	7.6	7.3
Div. yield	0.0%	5.9%	5.5%	4.5%	2.5%	2.6%	3.1%	3.5%	3.8%
FCF yield	-5.3%	10.3%	8.1%	5.3%	3.8%	5.1%	5.3%	5.5%	5.8%
<u>Liquidity</u>									
Cash Ratio	1.0	0.6	0.6	0.5	1.1	2.0	2.8	3.5	4.1
Current ratio	12.1	6.1	5.8	6.6	8.7	9.5	10.0	10.7	11.4
Quick ratio	9.0	4.3	4.4	4.9	6.6	7.4	8.0	8.7	9.4
<u>Return ratio</u>									
ROA	8.1%	11.3%	8.2%	5.9%	3.5%	3.6%	4.3%	4.8%	5.4%
ROE	8.4%	12.0%	8.8%	6.3%	3.7%	3.8%	4.5%	5.1%	5.7%
ROCE	8.6%	11.9%	9.5%	6.1%	3.1%	3.3%	4.1%	4.8%	5.4%
<u>Cash cycle</u>									
Inventory turnover	1.4	2.2	2.0	1.9	1.5	1.5	1.6	1.6	1.6
Payables turnover	19.9	18.9	12.2	10.4	7.4	7.4	7.4	7.4	7.4
Receivables turnover	13.4	14.4	17.8	13.8	10.3	10.3	10.3	10.3	10.3
Inventory days	255	165	178	194	243	234	225	225	225
Payable days	18	19	29	35	49	49	49	49	49
Receivables days	27	25	20	26	35	35	35	35	35
Cash Cycle	264	171	169	185	229	220	211	211	211
<u>Profitability ratio</u>									
Gross margins	43.5%	44.9%	41.8%	33.7%	27.8%	28.3%	30.8%	32.9%	34.6%
EBITDA margins	52.0%	52.7%	51.7%	44.6%	41.2%	41.1%	42.5%	43.6%	44.6%
Operating margins	36.7%	38.4%	35.1%	25.7%	16.7%	17.1%	20.1%	22.4%	24.3%
PBT margins	38.7%	40.2%	34.7%	28.9%	23.1%	23.4%	25.9%	28.0%	29.7%
Net margins	35.8%	38.5%	32.3%	26.7%	19.8%	20.0%	22.2%	24.0%	25.4%
Effective tax rate	7.5%	4.2%	7.1%	7.8%	14.4%	14.4%	14.4%	14.4%	14.4%
<u>Leverage</u>									
Total debt (SAR mn)	5	2	5	4	4	4	4	4	4
Net debt (SAR mn)	(63)	(48)	(51)	(46)	(82)	(153)	(217)	(276)	(333)
Debt/Capital	0.2%	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Debt/Total assets	0.2%	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA	(0.2)	(0.2)	(0.2)	(0.2)	(0.6)	(1.1)	(1.4)	(1.7)	(1.9)

Key contacts

Research Team

Joice Mathew	Manna Thomas ACCA	Contact Address
Sr. Manager - Research	Research Associate	P. O Box: 2566; P C 112
E-Mail: joice@usoman.com	Email: manna.t@usoman.com	Sultanate of Oman
Tel: +968 2476 3311	Tel: +968 2476 3347	Tel: +968 2476 3300

Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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