

Qassim Cement's net income came below estimates with a negative surprise, lower than our expectation by 48.9%. The deviation from our estimates came mainly from lower than expected realization price, as a result of high competition. Cement dispatches declined by 20.1%Y/Y in Q2-18, higher than the market decline of 14.3%Y/Y. Gross margin declined significantly by 1680bps, while cost per tonne increased by 5% Y/Y. We update our recommendation to **"Neutral"** with revised TP of SAR 37.3/share.

- Qassim Cement reported net income of SAR 18.4mn, below AJC and market consensus by 48.9% and 56.1%, respectively. Net income showed a decline of 65.4% Y/Y. The decline was mainly attributed to lower revenue and lower margins.
- Revenue stood at SAR 88.1mn depicting a decline of 34.8% Y/Y, well below our estimates of SAR 104.5mn. Price realization is expected to stand at SAR 125.1/tonne compared to our estimate of SAR 150/tonne, a deviation of 16.6%. We revised our estimates for price realization to average SAR 151.9/tonne for FY18 (c. 3.3%), compared to SAR 161.6/tonne in FY17. Volumetric sales showed a significant decline in Q2-18 by 20.1% Y/Y compared to the market average decline of 14.3% in same period.
- Gross profit stood at SAR 15.6mn depicting a decline of 68.1% Y/Y, below our estimates by 47.4%. Gross margin declined to 25% from 41.7% year earlier, due to lower realization price and higher cost per tonne. Cost per tonne is expected to stand at SAR 93.8/tonne compared to SAR 89.3/tonne in Q2-17. We expect cost per tonne for FY18 to average at SAR 92.77/tonne. Operating profit stood at SAR 15.6mn against our estimates of SAR 34.2mn, a deviation of 54.4%. OPEX at SAR 6.4mn, showed a decline of 14.3% Y/Y.

AJC view: Macroeconomic factors weighted on cement sector as construction activity slowed down. Price realization is expected to remain under pressure due to the current competitive environment. Thus, we remain neutral on the short term for the sector. The reversal in cement sector is subjected to government projects, which we expect to take shape in FY-19. The company inventory to sales ratio (TTM) is standing at 55.5%, a better position compared to the sector at 83.9%. Based on our estimates, the company is trading at forward P/E and P/BV of 18.61x and 1.84x, respectively. The company reduced its dividend payment for Q1-18 to SAR 0.65/share, we expect the company to pay SAR 2.0/share for FY18. We update our recommendation to **"Neutral"** with revised TP of **SAR 37.3/share**.

Results Summary

SARmn (unless specified)	Q2-17	Q1-18	Q2-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	135.1	147.9	88.1	-34.83%	-40.47%	-15.74%
Gross Profit	56.4	62.6	22.0	-60.98%	-64.86%	-47.34%
Gross Margin	41.7%	42.4%	25.0%	-	-	-
EBIT	49.0	56.6	15.6	-68.16%	-72.44%	-54.39%
Net Profit	53.2	57.2	18.4	-65.41%	-67.83%	-48.89%
EPS	0.59	0.64	0.20			

Source: Company reports, Aljazira Capital

Neutral

Target Price (SAR) 37.3

Upside / (Downside)* 2.6%
Source: Tadawul *prices as of 30th of July 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	852.0	625.9	505.2
Gross Profit	449.0	273.7	196.5
Net Profit	405.1	251.8	167.6
EPS	4.50	2.80	1.94

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	52.7%	43.7%	38.9%
Net Margin	47.5%	40.2%	33.2%
P/E	14.94x	16.09x	18.61x
P/B	3.42x	2.32x	1.84 x
EV/EBITDA (x)	12.26	12.57	12.95
Dividend Yield	8.9%	6.4%	5.6%

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.2
YTD %	-20.1%
Shares Outstanding (mn)	90.0
52 Week High/ Low	48.5/35.0

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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