

City Cement posted a net income of SAR 9.88mn, above our estimates of SAR 7.9mn, but lower than market consensus of SAR 13.7mn. The deviation from our estimates was mainly due to lower than expected cost/tonne. Revenue came below estimates, while GP margin showed an improvement Y/Y. Cement dispatches declined by 33.1%Y/Y in Q2-18, higher than the sector average decline of 14.3%. We reiterate our **“Neutral”** recommendation with TP of SAR 10.3/share.

- City Cement reported net income of SAR 9.88mn compared to SAR 12.4mn in Q2-17, depicting a decline of 20.1% Y/Y. Earnings beats our estimates by 32.0%, but lower than the market consensus of SAR 13.7mn. The deviation from our estimates is attributed to higher than expected GP margin, as a result of lower than expected cost/tonne.
- Revenue stood at SAR 70.1mn depicting a decline of 40.1% Y/Y, below our estimates of SAR 77.5mn due to lower than expected selling prices. Price realization is expected to stand at SAR 131.2/tonne compared to our estimate of SAR 150.3/tonne (Down 10.5% Y/Y). Price realization is expected to average at SAR 151.9/tonne during FY18, compared to SAR 157.1/tonne in FY17. Volumetric sales showed a significant decline of 33.1% Y/Y in Q2-18, compared to the sector average decline of 14.3% in same period.
- Gross profit stood at SAR 19.4mn depicting a decline of 6.4% Y/Y, well above our estimate by 24.4% as we expected higher cost/tonne. GP margin improved to 27.7% from 17.7% in Q2-17 due to lower cost/tonne. Cost per tonne is expected to stand at SAR 94.8/tonne compared to SAR 120.7/tonne in 2Q-17, the lowest since FY14. We expect cost per tonne for FY18 to average at SAR 111.9/tonne. Operating profit stood at SAR 12.0mn against our estimates of SAR 8.4mn, a deviation of 42.8%. OPEX remained stable during Q2-18, standing at SAR 7.4mn.

**AJC view:** Macroeconomic factors weighed down on cement sector as construction activity slowed down. The reversal in cement sector is subjected to the government projects, which we expect to take shape in FY-19. However, price realization is expected to remain under pressure due to current competitive environment. Thus, our short-term outlook remains neutral on the Saudi cement sector. The company inventory to sales ratio (TTM) stands at 45.2%, a better position compared to the sector level of 83.9%. Based on our estimates, the company is trading at forward P/E and P/BV of 29.9x and 0.94x, respectively. The company reduced its dividend payment for FY17 to SAR 0.40/share, we expect the company to maintain its dividend payment for FY18. We reiterate our **“Neutral”** recommendation with TP of **SAR 10.3/share**.

### Results Summary

SARmn (unless specified)	Q2-17	Q1-18	Q2-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	117.0	121.1	70.1	-40.11%	-42.11%	-9.55%
Gross Profit	20.8	34.2	19.4	-6.51%	-43.27%	24.36%
<i>Gross Margin</i>	<i>17.7%</i>	<i>28.2%</i>	<i>27.7%</i>	-	-	-
EBIT	13.5	26.7	12.0	-11.11%	-55.06%	42.86%
Net Profit	12.4	24.9	9.9	-20.16%	-60.24%	32.00%
EPS	0.07	0.13	0.05			

Source: Company reports, Aljazira Capital

## Neutral

Target Price (SAR) **10.3**

Upside / (Downside)\* **-2.1%**

Source: Tadawul \*prices as of 1<sup>st</sup> of August 2018

### Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	601.9	535.4	392.1
Gross Profit	256.1	128.5	103.1
Net Profit	216.3	93.3	66.6
EPS	1.14	0.49	0.35

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	42.5%	24.0%	26.3%
Net Margin	35.9%	17.4%	17.0%
P/E	10.16x	24.0x	29.9x
P/B	1.07x	1.06x	0.94x
EV/EBITDA (x)	5.7x	8.8 x	11.1x
Dividend Yield	8.6%	3.4%	3.8%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	2.0
YTD %	-11.0
Shares Outstanding (mn)	189.2
52 Week High/ Low	13.2/9.35

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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.
- 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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