



City Cement beats estimates on higher than expected volumetric sales. Net income came at 50.5mn, 30.9% above our expectation of 38.6mn. Revenue came at 128.0mn, 5.1% above our estimates. Sales volume stood at 649KT, compared to our expectations of 617KT. Selling price stood at SAR 197.2/tonne, in-line with our estimates of SAR 197.3/tonne. We upgrade our recommendation to **“Overweight”** on the stock with a TP at **SAR 17.30/share**.

- City cement posted net income of 50.5mn in Q3-19 (EPS; SAR 0.27/share); compared to SAR 2.4mn losses in Q3-18; well above our estimates of SAR 38.6mn. The Y/Y strong growth is mainly attributed to improved selling price and sales volume growth. The deviation of Q3-19 earnings from our estimates is mainly ascribed to higher than expected volumetric sales, resulting in higher revenue.
- Revenue stood at SAR 128.0mn (an increase of 18.4%Q/Q, 95.8%Y/Y), above our estimates of SAR 121.7mn due to higher than expected volumetric sales. During Q3-19, the company registered an increase of 16.7%Q/Q and 21.5%Y/Y in volumetric sales which stood at 649KT. Average price realization/tonne stood at SAR 197.2/tonne, in-line with our estimates of SAR 197.3/tonne and SAR 194.4/tonne in Q2-19.
- Gross profit stood at SAR 56.2mn (an increase of 33.1%Q/Q, 966.9%Y/Y), above our estimates of SAR 48.6mn, due to higher than expected revenue. Cost per tonne stood at SAR 110.5/tonne compared to an average of SAR 103.9/tonne in FY18. We expect cost per tonne to average at SAR 117.5/tonne For FY19.
- Operating profit stood at SAR 47.8mn, above our estimates of SAR 39.9mn due to an increase in gross profit. OPEX came at SAR 8.4mn, showed an increase of 31.3%Y/Y and a decline of 6.9%Q/Q, in-line with our estimates of SAR 8.7mn.

**AJC view:** City cement selling prices has recovered considerably during the past three quarters to reach SAR 197.2/tonne (61.1%Y/Y), and is expected to potentially increase during the next quarters. Moreover, volumetric sales recorded an increase of 7.6%Y/Y in 9M-19, and are expected to increase by one high digit number during FY20. The company has an inventory of 1.5MT, which could be enough to cover more than 60% of the total sales volume during TTM. We believe, cement sector is continuing the recovery from its downtrend due to producer’s concentration on selling prices and an increase in both local & export sales. For 9M-19, total sector dispatches stood at 35.5MT (including exports) compared to 33.2MT in 9M-18, depicting an increase of 6.9%Y/Y. City cement is expected to post SAR 170.4mn in net income (0.90 EPS), for FY19, recording an increase of 53.5%Y/Y supported by increase in selling prices. The company is currently trading at TTM PE of 13.5x compared to a forward PE of 13.0x based on FY20 earnings. Dividend payment is still attractive and is expected to increase to SAR 0.60/share (4.5% D/Y) in FY19, owing to its strong balance sheet and zero debt. We updated our recommendation to **“Overweight”** on the stock with a TP at **SAR 17.30/share**.

### Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
<b>Revenue</b>	<b>65.3</b>	<b>108.1</b>	<b>128.0</b>	95.8%	18.4%	5.1%
Gross Profit	5.3	42.2	56.2	966.9%	33.1%	15.7%
<i>Gross Margin</i>	<i>8.1%</i>	<i>39.1%</i>	<i>43.9%</i>	-	-	-
EBIT	-1.2	33.2	47.8	N.A	44.0%	19.8%
<b>Net Profit</b>	<b>-2.4</b>	<b>32.3</b>	<b>50.5</b>	N.A	56.6%	30.9%
EPS	(0.01)	0.17	0.27	-	-	-

Source: Company Reports, AlJazira Capital. NA: Not Available

### Overweight

<b>Target Price (SAR)</b>	<b>17.3</b>
<b>Upside / (Downside)*</b>	<b>19.6%</b>

Source: Tadawul \*prices as of 3rd of November 2019

### Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	535.4	344.9	519.2	600.0
Growth %	-11.0%	-35.6%	50.5%	15.6%
Net Income	93.3	111.0	170.4	209.9
Growth %	-56.7%	18.9%	53.5%	23.2%
EPS	0.49	0.59	0.90	1.11

Source: Company reports, Aljazira Capital

### Key Ratios

	FY17	FY18	FY19E	FY20E
Gross Margin	24.0%	29.2%	40.3%	42.3%
Net Margin	17.4%	32.2%	32.8%	35.0%
P/E	24.0x	17.9x	16.0x	13.0x
P/B	1.06x	0.93x	1.23x	1.17x
EV/EBITDA (x)	8.8x	10.9x	8.7x	6.8x
Dividend Yield	3.4%	3.8%	4.5%	5.2%

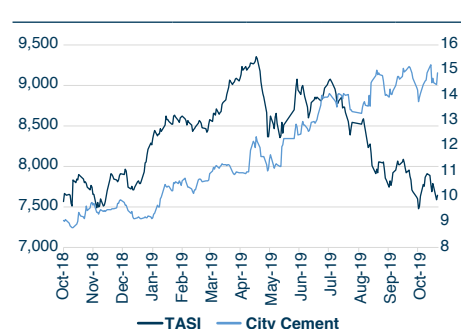
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	2.82
YTD %	56.79%
52 Week (High)/(Low)	15.30/9.00
Shares Outstanding (mn)	189.20

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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