

We remain positive on the Saudi cement sector, based on expected housing demand due to increase in mortgage loans and the government's mega projects. Improved cement prices led to recovery on the sector's fundamentals. The average selling price has increased from SAR 148.4/tonne in FY18 to reach SAR 198.0/tonne in FY19, indicating an increase of 33.4%, and is expected to average at SAR 198.9/tonne in FY20. The sector is expected to have an attractive dividend payments for FY20. Southern Cement and City Cement are expected to register the highest EPS growth to stand at SAR 4.64/share and 1.52/share, respectively. The fast recovery after pandemic and VAT hikes in the cement sector, has increased our estimated growth in net income to 16.4%Y/Y in FY20. We remain **Overweight** on Arabian, Eastern and Southern cement, while upgrading Yanbu cement from Neutral to **Overweight** at SAR 40.2/share. We also maintain our Neutral on Yamama, Qassim and Saudi Cement Company. We initiate our coverage on Saudi White Cement Co. with 'Overweight' recommendation and a TP of SAR 33.6/share.

The Saudi cement sector is standing on its feet again: The Saudi Cement sector has seen its fortune rise since early 2019 on the back of improved export and local demand, backed by heavy housing construction activities. The Saudi Cement stocks moved up by 49.5% during the last 6-months, after the crash which was caused by the pandemic, due to a pickup in demand and an increase in price realization per tonne.

We expect growth to continue in the construction sector as a result of Housing VRP, whilst the contribution of the proceeds from last year's SAR 110bn received by the PIF for Aramco IPO, to contribute into domestic mega projects and helping push growth in the overall construction activities. Mortgage loans for retail has increased around 83.9%Y/Y to stand at 33.6bn in Q3-20 from SAR 18.3bn in Q3-19. Moreover, the possibility of starting some of the mega projects construction activities in FY21 will create more potential in the cement sector. Local cement and clinker dispatches for 10M-20, stood at 41.8mn tons, compared to 34.0mn tons in 10M-19, recording an increase of 22.9%Y/Y. While export recorded a decline of 22.1%, to stand at 5.0mn tons in 10M-20 compared to 6.5mn tons in 10M-19.

Significant increase in selling prices was the prime factor, supporting cement sector's earnings in FY19 and is expected to stabilize at current levels in FY20 and FY21. Furthermore, an increase in FY19 cement dispatches by 2.2%Y/Y, mostly driven by export which has increased by 76.4%Y/Y. High clinker inventory level, at 40.6MT in Oct-20, remains a short-term concern due to higher production to sales ratio and expected decline in export sales. However, we expect inventory level to noticeably decline in the mid-term, driven by estimated improved cement consumption.

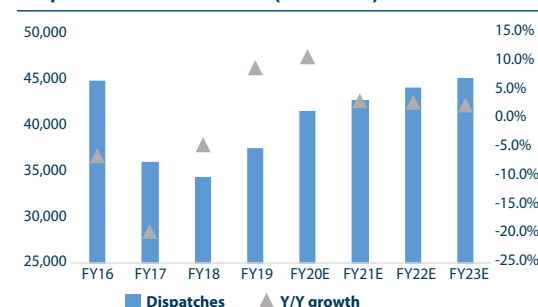
Selling prices are high again with a potential to grow further: Increased cement demand and the approval of export led to a higher-than-anticipated rise in cement prices across Saudi Arabia in FY19/20. As a result, we have seen a recovery on selling prices in the sector after a downtrend. Qassim Cement selling price is expected to average at from 127.73/ton in FY18 to 229.17/ton in FY19 (up by 79.4%Y/Y), followed by Yamama Cement with a selling price of 125.62/ton in FY18 to 206.46/ton in FY19 (up by 64.3%Y/Y). The average cement price in the Kingdom for the companies under coverage stood at the end of FY19 stood at SAR 198.0/ton.

AJC Recommendation and estimates:

Company	Net Income FY19	Net Income FY20E	ROE	PB	Forward PE	Dividend Yield FY20E	CP	TP	Upside / Downside	Recommendation
Yamama Cement	256.3	299.3	7.6%	1.45	37.43	0.0%	28.10	24.9	-11.6%	Neutral
Saudi Cement	451.4	459.5	17.1%	3.28	18.67	5.8%	57.50	53.8	-6.5%	Neutral
Eastern Cement	180.7	218.7	8.8%	1.30	13.39	4.7%	37.55	39.9	6.2%	Overweight
Qassim Cement	360.7	402.8	22.3%	3.72	16.16	5.7%	74.60	70.5	-5.5%	Neutral
Yanbu Cement	257.8	298.1	9.0%	1.67	15.70	5.1%	35.15	40.2	14.4%	Overweight
Arabian Cement	208.7	204.6	6.8%	1.07	12.77	5.6%	32.00	34.7	8.4%	Overweight
Southern Cement	462.7	650.1	18.5%	2.96	15.26	4.2%	74.30	78.0	5.0%	Overweight
White Cement	190.0	233.9	13.3%	1.89	13.95	6.3%	27.75	33.6	21.1%	Overweight
City cement	180.9	212.3	12.0%	1.81	13.87	6.3%	22.86	24.8	8.5%	Neutral

Source: AlJazira capital, Tadawul *prices as of 22th of November 2020

Dispatches Performance (SAR 000')



Source: Yamama Cement, Aljazira Capital, Bloomberg

POS of Transactions for Construction & Building Materials



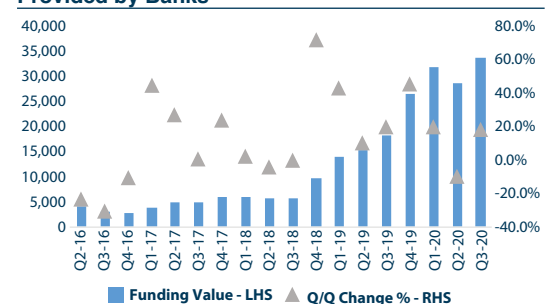
Source: Al-Eqtisadiyah, Aljazira Capital

Key Earnings (mn)

	FY19	FY20E	FY21E	FY22E	FY23E
Revenue	7,947.5	8,704.3	9,232.4	9,566.5	9,784.3
Growth%	41.3%	9.5%	6.1%	3.6%	2.3%
Net Income	2,549.4	2,979.2	3,034.4	3,186.9	3,285.0
Growth%	161.2%	16.9%	1.9%	5.0%	3.1%
Net Margin	32.1%	34.2%	32.9%	33.3%	33.6%

Source: Company reports, Aljazira Capital

Residential Mortgages Finance For Individuals Provided by Banks



Source: Aljazira Capital, Sama

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Price Outlook: Cement prices are expected to average at 198.9/tonne for FY21, due to expected stability in demand level backed by housing constructions and mortgage loans growth in the Kingdom. Thus, the sector's margins are expected to improve even though COGS is expected to increase, as we expect any potential increase in fuel cost will be partially offset by the company's current low cost inventory. We don't expect any further price war in the upcoming years between players due to demand by housing construction, mega projects future demand and the recognized impacts on the companies' financials during the pricing war which started in FY16 and ended in Q4-18.

Outlook on Selling Prices

Company	FY17	FY18	FY19	FY20E	FY21E	FY22E
Yamama Cement	176.39	125.62	206.46	192.30	191.49	192.45
Saudi Cement	233.27	196.04	209.45	190.04	187.58	189.45
Eastern Cement	192.50	175.64	259.68	279.45	284.41	285.83
Qassim Cement	161.62	127.73	229.17	198.84	194.41	197.10
Yanbu Cement	172.04	155.95	153.59	191.91	213.08	214.15
Arabian Cement	166.29	115.31	185.89	176.60	183.98	184.17
Southern Cement	190.68	141.97	192.69	198.78	210.29	211.35
Riyadh Cement	157.73	127.42	193.22	199.98	200.38	200.78
City Cement	157.05	141.24	197.24	202.07	204.34	206.38

Source: AlJazira capital, companies' financials

Historically high inventory needs exports and pick-up in local demand to rationalize: Clinker inventories at the end of Oct-20 reached 40.6mn tons as against 44.2mn tons in Oct-19 showing a decline of 8.1%Y/Y, mostly due to improved local and export sales as some cement companies started to focus on exporting to decrease inventory levels. Furthermore, Inventories will continue to decline in the mid-term due to an increase in local sales, but increase in local demand will partially offset the expected decline in export. We expect export volume to decline further for FY20/21 due to concentration on local consumption. The cement sector sales to production ratio stood at 55.0% in FY19 and is expected to increase to 69.6% in FY20. Najran Cement recorded the highest Sales to Production ratio of 59.0% in FY19, while Yanbu Cement recorded low sales to production ratio of 39.4%.

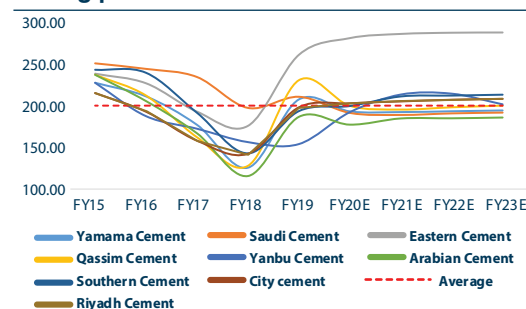
Mega Projects are scheduled to start construction activities soon, but might get delayed due to decline in oil prices: Saudi Arabia's cement industry continues to witness robust demand due to a rise in construction activity, led by government backed infrastructure projects and housing initiatives. Cement demand witnessed a decline in consumption starting in FY16 till the end of FY18. Propelled by a rise in housing construction activity we saw a strong pick up in FY19/20, cement demand has increased from its lowest point in FY17 47.1MT to 50.2MT in FY19 – indicating a growth of 6.3% from FY17–19, Where it increased by 19.0% from 39.4MT in 10M-17 to reach 46.8MT in 10M-20. Mortgage contracts increased 263% Y/Y to 170.3k in FY-19, while the total value rose 173% Y/Y to SAR 73.9bn. On the other hand, the government followed austerity policies during 2020 by cutting SAR 150bn from capital spending, which has affected the construction sector directly. However, the estimated improve in oil price during FY21 and contribution of the proceeds from last year's SAR 110bn received by the PIF for Aramco IPO, are expected to push the growth trajectory in domestic mega projects and the overall construction sector. Thus, we believe companies that are in close proximity to mega projects will benefit the most (particularly in the northern and western region).

Mega Projects List

Project	Region	Capital	Size Km2
Neom	North West	500bn	26,500
Qiddiya entertainment city	Najd	N.A	334
The Red Sea Project	West	N.A	28,000
Amaala	Northwestern Coast	N.A	3,800
Jean Nouvel's Sharaan resort in Al-Ula	West	N.A	925
King Salman Energy Park	East	1.6bn	50

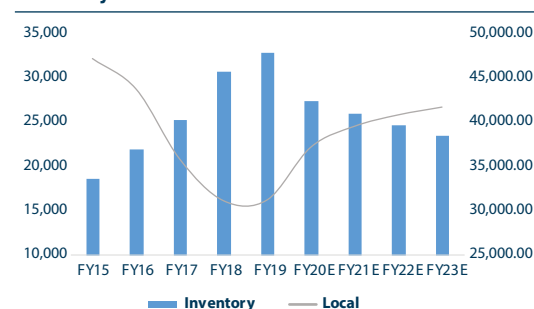
Source: AlJazira Capital

Selling price Performance



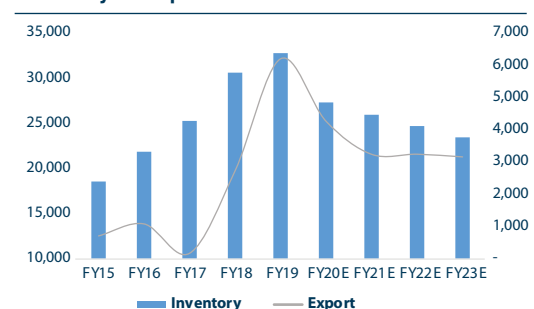
Source: AlJazira Capital, the company's report

Inventory & Local Performance



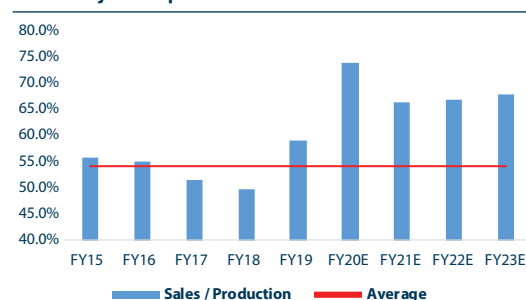
Source: Yamama Cement, AlJazira Capital

Inventory & Export Performance



Source: Yamama Cement, AlJazira Capital

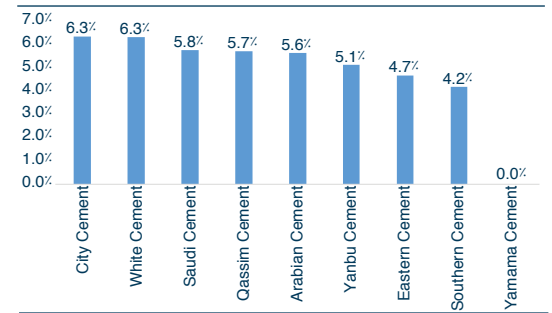
Inventory & Export Performance



Source: Yamama Cement, AlJazira Capital

Attractive dividends are expected in the upcoming years: Dividend payment is expected to show further increase in FY20. Cement sector's dividend yield is attractive compared to the companies' low market prices. White Cement and City Cement are expected to have the highest DY of 6.3% (DPS 1.75) and (DPS 1.45), respectively. Followed by Saudi Cement and Qassim Cement with a DY of 5.8% (DPS 3.30) and 5.7% (DPS 4.25), respectively. Arabian Cement and Yanbu Cement with a DY of 5.6% (DPS 1.80) and 5.1% (DPS 1.80), respectively. While Yamama Cement is not expected to pay dividend for FY20 due to heavily leveraged balance sheet and CAPEX. In FY19, Yamamah cement Co. had the highest D/E of 45.3% due to new plant financing, followed by Saudi Cement and Arabian Cement with a D/E of 21.8% and 14.2%, respectively. While, Eastern Cement, Qassim Cement and City Cement have a zero debt in their balance sheets.

Dividend Yield



Source: Aljazira Capital

AJC View and Valuation: Higher demand and higher selling price led to excellent results. Under coverage cement companies' FY19 net profit showed a significant increase of 159.3%Y/Y, to stand at SAR 2.4bn compared to SAR 909.9mn in FY18. This is due to an increase in cement prices, and an increase of local and export sales by 8.4%Y/Y. In FY18 cement companies realized heavy discount on selling prices in order to gain market share and reduce inventory level. However, average selling price for the sector increased from SAR 148.4/ton in FY18 to SAR 198.0/ton in FY19 and is expected to stand at SAR 198.9/tonne in FY20. Thus, overall revenue of under coverage cement companies in the sector increased from SAR 5.6bn in FY18 to SAR 7.9bn in FY19.

Average cost per ton for the sector increased from SAR 120.2/ton in FY18 to SAR 124.7/ton in FY19. Furthermore, any marginal increase in the cost per tonne due to the potential increase in energy cost in the upcoming years; is expected to be partially offset by the current high level of clinker inventory and the potential increase in average selling prices. With the contention of housing construction by the ministry of housing and PIF's investment in local mega projects, the sector is expected to continue its growth trajectory.

Cement companies has 40.6MT of inventory, which could be enough to cover 100% of the total sales volume during TTM. Southern Cement is expected to show a growth in revenue of 27.6%Y/Y and 40.5%Y/Y in net income in FY20. Yamama Cement revenue is estimated to grow by 12.9%Y/Y, where net income is expected to increase by 16.7%Y/Y.

Dividend payment is attractive and is expected to increase in the coming years. Southern Cement and City Cement EPS for FY19 stood at SAR 3.31 and SAR 0.96 and expected to increase to SAR 4.64 and SAR 1.52, respectively.

Yanbu Cement is trading at a forward PE of 15.7x based on our FY21 earnings forecast, compared to current PE of 18.7x. We update our recommendation on the stock to **"Overweight"** with a TP at **SAR 40.2/share**.

Eastern Cement is trading at a forward PE of 13.4x based on our FY21 earnings forecast, compared to current PE of 14.4x. We maintain our **"Overweight"** recommendation on the stock with a TP at **SAR 39.9/share**.

Arabian Cement is trading at a forward PE of 12.8x based on our FY21 earnings forecast, compared to current PE of 15.6x. We maintain our **"Overweight"** recommendation on the stock with a TP at **SAR 34.7/share**.

Southern Cement is trading at a forward PE of 15.3x based on our FY21 earnings forecast, compared to current PE of 16.5x. We maintain our **"Overweight"** recommendation on the stock with a TP at **SAR 78.0/share**.

City Cement is trading at a forward PE of 13.9x based on our FY21 earnings forecast, compared to current PE of 14.9x. We maintain our **"Neutral"** recommendation on the stock with a TP at **SAR 24.8/share**.

Yamama Cement is trading at a forward PE of 37.4x based on our FY21 earnings forecast, compared to current PE of 17.4x. We maintain our **"Neutral"** recommendation on the stock with a TP at **SAR 24.9/share**.

Qassim Cement is trading at a forward PE of 16.2x based on our FY21 earnings forecast, compared to current PE of 14.9x. We maintain our **"Neutral"** recommendation on the stock with a TP at **SAR 70.5/share**.

Saudi Cement is trading at a forward PE of 18.7x based on our FY21 earnings forecast, compared to current PE of 18.6x. We maintain our **"Neutral"** recommendation on the stock with a TP at **SAR 53.8/share**.



Yanbu Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	767	976	910	928
Growth %	-16.3%	27.2%	-6.8%	2.0%
Net Income	91	258	298	353
Growth %	-71.4%	182.7%	15.6%	18.3%
EPS	0.58	1.64	1.89	2.24

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	18.6%	34.3%	40.4%	46.8%
Net Margin	11.9%	26.4%	32.8%	38.0%
P/E	41.5	23.3	18.6	15.7
P/B	1.2	1.8	1.7	1.6
EV/EBITDA	13.6	12.6	10.9	9.7
Dividend Yield	7.3%	3.3%	5.1%	5.7%
ROA	2.4%	7.0%	8.0%	9.3%
ROE	2.8%	7.8%	9.0%	10.5%

Arabian Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	600.7	782.0	833.2	968.6
Growth %	-33.7%	30.2%	6.6%	16.3%
Net Income	(26.3)	208.7	204.6	250.6
Growth %	NM	NM	-2.0%	22.5%
EPS	-0.26	2.09	2.05	2.51

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	6.3%	40.4%	37.9%	39.4%
Net Margin	-4.4%	26.7%	24.6%	25.9%
P/E	NEG	17.6	15.6	12.8
P/B	0.78	1.24	1.07	1.05
EV/EBITDA	21.0	8.8	8.8	7.6
Dividend Yield	4.5%	4.8%	5.6%	6.3%
ROA	-0.7%	5.7%	5.6%	6.9%
ROE	-0.9%	7.1%	6.8%	8.2%

City Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	344.9	531.4	584.1	633.7
Growth %	-35.6%	54.1%	9.9%	8.5%
Net Income	111.0	180.9	212.3	230.7
Growth %	18.9%	63.1%	17.3%	8.7%
EPS	0.59	0.96	1.52	1.65

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	29.2%	41.6%	43.9%	44.0%
Net Margin	32.2%	34.1%	36.3%	36.4%
P/E	15.7	18.7	15.1	13.9
P/B	0.8	1.5	1.8	1.7
EV/EBITDA	9.3	12.1	10.5	9.5
Dividend Yield	4.3%	2.2%	6.3%	4.4%
ROA	5.0%	7.8%	10.9%	11.2%
ROE	5.2%	8.1%	12.0%	12.4%

Eastern Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	565.7	728.8	751.8	845.9
Growth %	-11.7%	28.8%	3.2%	12.5%
Net Income	69.7	180.7	218.7	241.1
Growth %	-34.9%	159.1%	21.1%	10.2%
EPS	0.81	2.10	2.54	2.80

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	23.2%	30.6%	34.9%	35.7%
Net Margin	12.3%	24.8%	29.1%	28.5%
P/E	25.5	17.1	14.8	13.4
P/B	0.8	1.3	1.3	1.3
EV/EBITDA	10.1	10.9	9.5	8.3
Dividend Yield	4.8%	2.1%	4.7%	4.8%
ROA	2.8%	6.5%	7.7%	8.2%
ROE	3.2%	7.5%	8.8%	9.4%

Qassim Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	425.7	791.8	888.2	894.3
Growth %	-32.0%	86.0%	12.2%	0.7%
Net Income	120.8	360.7	402.8	415.4
Growth %	-52.0%	198.6%	11.7%	3.1%
EPS	1.34	4.01	4.48	4.62

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	33.0%	53.9%	53.2%	52.0%
Net Margin	28.4%	45.6%	45.3%	46.5%
P/E	25.0	16.5	16.7	16.2
P/B	1.8	3.3	3.7	3.5
EV/EBITDA	12.6	12.1	12.2	11.7
Dividend Yield	7.6%	3.6%	5.7%	4.6%
ROA	6.4%	17.5%	19.5%	19.0%
ROE	7.4%	20.2%	22.3%	21.7%

Saudi Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	1,119.6	1,441.6	1,550.3	1,602.7
Growth %	-5.5%	28.8%	7.5%	3.4%
Net Income	400.5	451.4	459.5	471.3
Growth %	-11.7%	12.7%	1.8%	2.6%
EPS	2.62	2.95	3.00	3.08

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	48.1%	45.1%	43.1%	42.0%
Net Margin	35.8%	31.3%	29.6%	29.4%
P/E	18.5	23.8	19.1	18.7
P/B	2.7	3.9	3.3	3.3
EV/EBITDA	7.4	10.7	8.8	8.8
Dividend Yield	6.7%	4.6%	5.8%	5.9%
ROA	10.2%	11.5%	12.1%	12.6%
ROE	14.4%	16.5%	17.1%	17.9%

Southern Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	887.7	1,300.3	1,658.7	1,759.7
Growth %	-16.6%	46.5%	27.6%	6.1%
Net Income	194.8	462.7	650.1	681.8
Growth %	-47.4%	137.6%	40.5%	4.9%
EPS	1.39	3.31	4.64	4.87

Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	29.5%	41.3%	43.0%	45.2%
Net Margin	21.9%	35.6%	39.2%	38.7%
P/E	26.49	19.49	16.00	15.26
P/B	1.63	2.73	2.96	2.78
EV/EBITDA	25.99	18.93	15.58	13.56
Dividend Yield	4.1%	3.5%	4.2%	4.3%
ROA	4.7%	11.0%	15.0%	15.2%
ROE	6.2%	14.0%	18.5%	18.2%

Yamama Cement

Key Financials (in SAR mn, unless specified)				
	FY18	FY19	FY20E	FY21E
Revenues	521.2	801.9	905.1	956.6
Growth %	-30.3%	53.8%	12.9%	5.7%
Net Income	(51.8)	256.3	299.3	152.0
Growth %	NM	NM	16.7%	-49.2%
EPS	-0.26	1.27	1.48	0.75

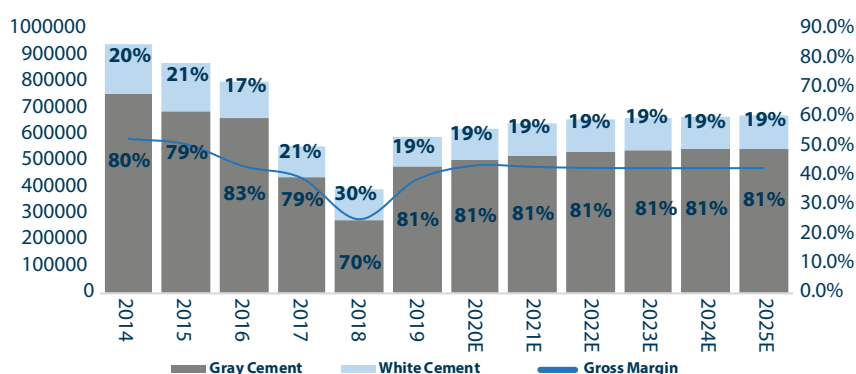
Key Ratios				
	FY18	FY19	FY20E	FY21E
Gross Margin	6.5%	42.0%	46.7%	36.5%
Net Margin	-9.9%	32.0%	33.1%	15.9%
P/E	NEG	20.5	19.0	37.4
P/B	0.8	1.4	1.5	1.4
EV/EBITDA	24.0	14.8	13.9	16.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%
ROA	-1.0%	4.6%	4.1%	2.2%
ROE	-1.5%	7.0%	7.6%	3.7%

Source: Aljazira Capital, Company Reports

We initiate our coverage on Saudi White Cement Co. with 'Overweight' recommendation and a TP of SAR 33.30/share. Net income increased by 187.2%Y/Y to stand at SAR 190.0mn in FY19 from SAR 66.2mn in FY18, and expected to register an increase of 23.1%Y/Y in FY20 on the back of an increase in mortgage loans which registered 85.7%Y/Y during Q2-20.

Company Overview: Saudi White Cement has two factories "White Cement" and "Riyadh Cement" both are based in Riyadh, Saudi Arabia, with three production lines that has a total production capacity of 2.6MT to 3.6MT. (I) A grey cement production line with a capacity of 1.65MT per year. (II) A white cement production line with a capacity of 300KT per year. (II) And a production line which can produce grey cement with a capacity of 1.65MT per year or 650KT of white cement per year.

FY19 Improvement in price realization per tonne and volumetric sales led to a double-digit growth in revenue: In FY19 Saudi White Cement revenue stood at SAR 594.0mn (+50%Y/Y) due to an increase in both realization per tonne (51.6%Y/Y) and an increase in volumetric sales (+14.9%Y/Y) for Riyadh Cement. Even though, revenue from white cement declined by 5.6%Y/Y. 81% of the total revenue was registered by Riyadh Cement which produce Gray cement, and the other 19% was from White Cement. Net margin has increased by 151bps in FY19 to reach 32.0% from 16.8% and is expected to stand at 37.5% in FY20. The FY19 increase in net margin is mainly attributed to an increase in average selling price per tonne from SAR 127.4 in FY18 to SAR 193.2. Where the expected increase in FY20 net margin is mainly attributed to a decline in cost per tonne to stand at SAR 139.6 from SAR 146.9 in FY19. Riyadh Cement (owned by White Cement) has a TTM market share of 5.0%, compared to companies that have the same level of production capacity, City Cement (5.7%), Eastern Cement (4.6%), Northern Cement (2.8%), and Arabian Cement (5.0%).



Cash flows tell a dividend story in FY20/21: We expect the company to generate a strong operating cash flows that is more than enough to payout dividends. Saudi White Cement is expected to post a FCF of SAR 299.7mn in FY20 and SAR 314.1mn in FY21. The company already paid SAR 0.75/share in dividends for H1-20, and expected to pay SAR 1.00/share in H2-20.

Overweight

Target Price (SAR) 33.30

Upside / (Downside) 21.1%

Source: Tadawul *prices as of 22th of November 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E	FY21E
Revenue	393.7	594.0	623.1	643.1
Growth %	-29.0%	50.9%	4.9%	3.2%
Gross Profit	99.2	229.9	270.8	276.5
Net Profit	66.2	190.0	233.9	238.8
EPS*	0.55	1.58	1.95	1.99

Source: Company reports, Aljazira Capital *After capital raise

Key Ratios

	FY18	FY19	FY20E	FY21E
Gross Margin	25.2%	38.7%	43.5%	43.0%
Net Margin	16.8%	32.0%	37.5%	37.1%
P/E	NA	NA	14.2	13.9
P/B	NA	NA	1.9	1.9
EV/EBITDA	NA	NA	9.9	9.6
ROA	3.3%	9.8%	12.0%	12.2%
ROE	4.0%	10.9%	13.3%	13.4%

Shareholders Pattern

Holdings

Rashid and Development Company Limited	23.2%
Prince Sultan Salman Abdulaziz Al Saud	8.1%
Prince Mohammed bin Fahad bin Abdulaziz Al Saud	6.1%

Source: Tadawul, Aljazira Capital

Key Market Data

Market Cap(mn)	3.33
YTD%	26.1%
52 week (High)/(Low)	34.2/24.0
Share Outstanding (mn)	120.0

Source: Company reports, Aljazira Capital

Pick-up in demand and expected improvement in utilization rate are the key growth drivers for up-coming years: The company in 10M-20 sold 2.1mn tons of gray cement as compared to 1.98mn tons in 10M-19, depicting only a marginal increase of 1.2%Y/Y vs. average growth of 22.6%Y/Y for Saudi cement sector. The company's share in dispatches in 10M-20 declined to 5.2% from 5.9% in 10M-19, significantly impacted by COVID-19 during April-May 2020. Going forward, given the strong cement demand in the region and pick-up in construction activities, we believe the company will achieve higher capacity utilization levels. Based on our calculation, the company achieved almost 72% utilization rate on its operational lines during 10M-20; however, we expect capacity utilization to reach above 85% within 2 years over our forecast horizon. On the other hand, due to the fact that one of the company's production lines can produce 1.65MT of gray cement or 650KT of white cement, which is 60% less than gray cement, we believe that cost per tonne for white cement is much higher than gray cement. Unlike gray cement, white cement (usually used in decoration and luxuries architectural buildings) doesn't have any cap or restriction on selling price from the government. Thus, the expected future improvement in construction activities could be positively reflected on the future selling prices and gross margin. The realization per tonne for white cement is in the range of SAR 600-750/tonne (almost 20% of total revenue).

AJC View & Valuation: Saudi white Cement Co. registered an increase of 75.0% in revenue from gray cement on the back of an increase in both volumetric sales and price realization per tonne. In which dispatches improved by 14.9% in FY19 to stand at 2.4MT and is expected to register 2.5MT in FY20. Where price per tonne increased by 30.7%Y/Y in FY19 to stand at SAR 193.2 and expected to stand at SAR 200.0 in FY20. However, revenue from white cement declined by 5.9%Y/Y in FY19. Gross margin witnessed a notable improvement in FY19 to stand at 38.7% compared to 25.2% in FY18, where it is expected to record 43.5% in FY20. Riyadh Cement clinker inventory increased by 177%Y/Y in Oct-20 to reached 1.6MT, which can be enough to cover more than 65% of TTM volume sales.

We valued the company by assigning 60% weight for DCF, and 20% weight each for P/E (15.0x FY21E EPS) and EV/EBITDA (10.0x FY21 EBITDA). Our DCF based valuation methodology is based on 5-year explicit cash flows to reduce the sensitivity of our valuation to terminal value with the following key assumptions:

- Terminal growth rate is taken at 2.5%.
- Beta of 0.860 (Bloomberg).
- Risk free rate is taken at 2.23%.
- KSA total market risk is taken at 9.23%.
- Capital Assets Pricing Model (CAPM) is used to calculate cost of equity at 9.8%.
- Cost of debt is taken at 3.5%.
- Weighted average cost of capital (WACC) is calculated at 9.6%.

Based on our valuations, we initiate our coverage on Saudi White Cement Co. with '**Overweight**' recommendation and a TP of **SAR 33.30/share**.

DCF (mn)	2020E	2021E	2022E	2023E	2024E	2025E
FCF	299.6	314.3	319.6	325.3	325.9	325.5
Terminal Value						4,705.2
No. of year	0.2	1.2	2.2	3.2	4.2	5.2
Discount Factor	1.0	0.9	0.8	0.7	0.7	0.6
Present Value of FCF	295.1	282.5	262.1	243.4	222.5	202.8
Present Value of Terminal Value						2,931.4
Net Debt						4,439.8
Total						(10.1)
Target Price						36.9

Valuation Summary	Fair Value	Weight	Weighted Avg
DCF	36.9	60%	22.1
PE	29.8	20%	6.0
EV/EBITDA	27.5	20%	5.5
Weighted Avg 12-month TP (SAR)			33.6
CMP (SAR /share)			27.8
Expected Capital Gain			21.1%

White Cement's Key Financial Data

Amount in SAR mn, unless otherwise specified	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Income statement									
Revenues	874.6	801.4	554.4	393.7	594	623.1	643.1	658.3	665.4
Y/Y	-7.30%	-8.40%	-30.80%	-29.00%	50.90%	4.90%	3.20%	2.40%	1.10%
Cost of sales	-431.3	-455.1	-336.9	-294.4	-364.1	-352.4	-366.6	-377.6	-382.1
Gross Income	443.2	346.2	217.5	99.2	229.9	270.8	276.5	280.7	283.3
Sales and Marketing Expenses	-3.3	-3.3	-2.5	-2.6	-2.7	-2.8	-2.9	-3	-3
General and Admin Expenses	-31.1	-32.1	-28.5	-17.9	-21	-25	-25.8	-26.4	-26.7
Other (losses)/ gain - Net	0	0	0.8	1.6	-1.6	0.4	0.4	0.5	0.5
Income from Operations	408.9	310.8	187.3	80.4	204.6	243.4	248.2	251.8	254
Y/Y	-11.30%	-24.00%	-39.70%	-57.10%	154.60%	19.00%	2.00%	1.40%	0.90%
Income before Zakat	388	291.6	168.8	68.3	194.8	240.6	245.6	249.3	251.7
Zakat & Tax	-123	-501	-993	-2,141	-4,743	-6,698	-6,838	-6,940	-7,006
Net Income for the Period	387.8	291.1	167.8	66.2	190	233.9	238.8	242.3	244.6
Y/Y	-8.90%	-24.90%	-42.40%	-60.60%	187.20%	23.10%	2.10%	1.50%	1.00%
Balance sheet									
Assets									
Cash and Cash Equivalent	39.2	20	9.8	13.7	29.7	102.4	185.7	271.2	360.6
Other current assets	649.3	613.9	486.7	441.6	393	390.1	403.2	412.8	416
Property ,Plant & Equipment	1,696.50	1,665.30	1,590.30	1,535.20	1,467.80	1,408.90	1,327.90	1,249.60	1,174.00
Other non-current assets	82.8	7.7	6	0	43.7	45.9	48.2	50.6	53.1
Total Assets	2,467.80	2,306.80	2,092.90	1,990.40	1,934.20	1,947.40	1,964.90	1,984.20	2,003.70
Liabilities & owners' equity									
Total current liabilities	636.9	537.8	378.1	295	157.8	151	148	146.2	144.3
Total non-current liabilities	97.3	79.5	52.1	24.7	33.7	32.6	31.6	30.5	29.6
Paid-up capital	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00
Statutory reserves	331.3	360	360	360	360	360	360	360	360
Other reserves	0	0	0	0	3.7	3.7	3.7	3.7	3.7
Retained earnings	202.4	129.5	102.6	110.8	179	200	221.6	243.7	266.1
Total equity	1,733.60	1,689.50	1,662.60	1,670.80	1,742.70	1,763.70	1,785.40	1,807.40	1,829.80
Total equity & liabilities	2,467.80	2,306.80	2,092.90	1,990.40	1,934.20	1,947.40	1,964.90	1,984.20	2,003.70
Key fundamental ratios									
Liquidity Ratio									
Current Ratio(x)	1.1	1.2	1.3	1.5	2.7	3.3	4	4.7	5.4
Quick Ratio (x)	0.5	0.5	0.4	0.5	1.1	1.7	2.3	3	3.7
Profitability									
Gross Margins	50.70%	43.20%	39.20%	25.20%	38.70%	43.50%	43.00%	42.60%	42.60%
Operating Margins	50.70%	43.20%	39.20%	25.20%	38.70%	43.50%	43.00%	42.60%	42.60%
EBIT Margins	44.40%	36.40%	30.50%	17.40%	32.80%	38.60%	38.20%	37.90%	37.80%
Net Margins	44.30%	36.30%	30.30%	16.80%	32.00%	37.50%	37.10%	36.80%	36.80%
ROA	15.70%	12.60%	8.00%	3.30%	9.80%	12.00%	12.20%	12.20%	12.20%
ROE	22.40%	17.20%	10.10%	4.00%	10.90%	13.30%	13.40%	13.40%	13.40%
Leverage Ratios									
Debt/Equity	33.90%	27.00%	19.40%	12.20%	2.60%	2.40%	2.30%	2.10%	2.00%
Debt/Capital	49.00%	38.10%	26.90%	17.00%	3.70%	3.60%	3.40%	3.20%	3.10%
Debt/Assets	23.80%	19.80%	15.40%	10.20%	2.30%	2.20%	2.10%	2.00%	1.80%
Valuations									
EV/EBITDA (x)	NA	NA	NA	NA	NA	9.9	9.6	9.3	9.1
EPS (SAR)	3.2	2.4	1.4	0.6	1.6	1.9	2	2	2
BVPS (SAR)	14.4	14.1	13.9	13.9	14.5	14.7	14.9	15.1	15.2
Market Price (SAR)	NA	NA	NA	NA	NA	27.75	27.75	27.75	27.75
Market Capitalization (SAR Bn)	NA	NA	NA	NA	NA	3.3	3.3	3.3	3.3
Dividend Yeild	NA	NA	NA	NA	NA	6.30%	6.50%	6.50%	6.60%
PE (x)	NA	NA	NA	NA	NA	14.2	13.9	13.7	13.6
PB (x)	NA	NA	NA	NA	NA	1.9	1.9	1.8	1.8



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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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