



Target price **42.0** 7.5% over current  
Current price **39.0** as at 22/10/2017

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Existing rating

Underweight

**Neutral**

Overweight

Performance



Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	1932	1778	1172	1202
Revenue Growth	-4.6%	-8.0%	-34.1%	2.6%
EBITDA (mn)	1249	1149	667	655
EBITDA Growth	-6.0%	-8.0%	-41.9%	-1.8%
EPS	6.01	5.89	2.90	2.98
EPS Growth	-10.0%	-2.0%	-50.8%	2.8%

Source: Company data, Al Rajhi Capital

## Saudi Cement

### Q3: In-line; superior pricing power

Saudi Cement's Q3 2017 bottom-line came in at SAR87mn (-57% y-o-y), in-line with our estimate of SAR88mn as well as consensus' SAR83mn estimate. The y-o-y decline in profit is primarily due to 29% decline in Q3 sales volume as a result of sluggish demand in the Eastern province coupled with halting of Bahrain exports after imposing the export fees. The bottom-line was also impacted by higher cost/ton (+30% y-o-y) due to lower level of production. Despite weaker volumes, helped by locational advantage, the company was able to raise its average selling price on sequential basis to SAR233/ton, while on y-o-y basis there was a drop by 5.5% (as compared to deep discounts offered by other cement companies). However, we believe that this advantage is unlikely to sustain due to increasing competition amid weak demand outlook. Saudi Cement holds the highest level of inventory in the sector (5.3mn tons), which could give the company an advantage over its peers in the coming quarters after any potential removal of energy subsidies. We maintain Neutral rating on the stock with a revised target price of SAR42.0 per share.

- **Revenues and profit margins:** Saudi cement reported Q3 revenue of SAR250mn (-33% y-o-y, -7% q-o-q), in-line with our SAR245mn estimate. The company sold 1.07mn tons of cement during this quarter (-29% y-o-y). Low selling prices (-5.5% y-o-y) along with high cost/ton have led to further contraction in profit margins as gross and operating margins came at 46.4% and 37.6%, respectively.
- **Outlook:** Sharp drop in selling prices in the central and northern regions may increase the competition in the eastern region and lead the company to offer deep discounts. Also, we expect Saudi cement to benefit if the government decides to cancel current export fees. Further, our revised 2H 2017 dividends estimate stands at SAR1.0 per share (SAR1.5 earlier).
- **Net profit and Valuation:** Q3 net profit at SAR87mn (-57% y-o-y) was in-line with our estimate of SAR88mn. An escalation in cost of sales and lower sales volume put further downward pressure on the company's bottom-line. Based on our weighted average of DCF and PE relative valuation methods, we maintain Neutral rating on Saudi cement with a revised target price of SAR42.0/share.

Figure 1 Saudi cement: Summary of Q3 2017 results

	Q3 2016	Q2 2017	Q3 2017	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	375.0	269.5	250.2	-33.3%	-7.2%	245
Gross Profit	232.0	121.0	94.0	-59.5%	-22.3%	120
Gross Margin	62%	45%	38%	NA	NA	49%
Operating Profit	209.0	99.0	94.0	-55.0%	-5.1%	95
Net Profit	202.0	94.0	87.0	-56.9%	-7.4%	88

Source: Company data, Al Rajhi Capital



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