

Rating **Buy**
12- Month Target Price **SAR 48.00**

QASSIM CEMENT COMPANY (QACCO)
4Q2018 First Look

Expected Total Return

Price as on Jan-30, 2019	SAR 37.00
Upside to Target Price	29.7%
Expected Dividend Yield	5.4%
Expected Total Return	35.1%

Market Data

52 Week H/L	SAR 46.50/30.10
Market Capitalization	SAR 3,330 million
Enterprise Value	SAR 2,667 million
Shares Outstanding	90 million
Free Float	54.9%
12-Month ADTV(000's)	67.9
Bloomberg Code	QACCO AB

1-Year Price Performance



Source: Bloomberg

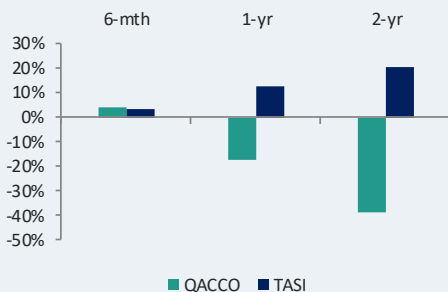


Fig in SAR Mln	RC.Est	Actuals
Revenue	85	115
Gross Profit	13	46
Net Income	9	40
EPS (SAR)	0.10	0.44

Upgrade to Buy

Qassim Cement Company (QACCO) reported 4Q2018 numbers ahead of market and our expectations, helped by higher topline as well as elevated gross margins. Revenues came in at SAR 115 million for the quarter, +55% Q/Q, while net income was recorded at SAR 40 million (EPS SAR 0.44), -41% Y/Y but substantially above 3Q's figure of SAR 6 million and consensus estimates of SAR 15 million. We are pleased to note a jump in selling prices to SAR 159/ton in 4Q versus a record low of SAR 111/ton in 3Q as producers have realized a price war does not benefit anyone, particularly in the central region where competition is stiff. We have revised our demand forecasts upwards resulting in higher revenue and net income forecasts going forward. Our target price rises from SAR 40.00 to SAR 48.00 and we upgrade Qassim Cement to a Buy.

Selling price improves to SAR 159/ton

Revenues were -32% lower Y/Y but improved substantially by +55% Q/Q to SAR 115 million on the back of both higher dispatches as well as rising prices. Sales of 726k tons in the quarter were markedly above 671k tons in 3Q but lower than 1.05 million tons last year. We are happy to observe a change in direction of selling prices with prices of SAR 159/ton in 4Q as compared to a record low of SAR 111/ton in the preceding quarter as it appears producers have realized undercutting prices is in no one's interest. However, QACCO did end up losing market share to 6.8% versus 7.4% in 3Q and down from 7.8% in 1Q2018.

Gross margins impress

Another highlight of the quarter was robust gross margins of 40% versus 13% in 3Q and closing in on the 43% gross margin achieved in 2017. Jump in selling prices has flowed through to the gross level. Gross profit of SAR 46 million was a multiple of SAR 10 million last quarter but -39% lower Y/Y. Operating expenses have risen substantially to SAR 8 million versus an average of SAR 2 million for the year, which could point to some one-off charge. Inventory levels have risen again in December and have now reached 2.7 million tons (90% of LTM sales), another all-time high.

Forecasts pushed higher

Net income of SAR 40 million beat both consensus estimates of SAR 15 million and our SAR 9 million forecast on a combination of volume and price growth. We believe 4Q marks a turnaround and combined with better demand forecasts on execution of mega projects announced in the Kingdom, we revised upwards our revenue and profit estimates for 2019 and beyond. Resultantly, our target price rises from SAR 40.00 to SAR 48.00 and we upgrade to a Buy. While a 2019E PE of 23.0x is higher than TASI's 15.2x, we believe it is justified on the back of much improved growth prospects and a potential turnaround in the sector.

Key Financial Figures

FY Dec31 (SAR Mln)	2017A	2018*	2019E
Revenue	626	426	477
EBITDA	314	177	200
Net Profit	252	121	146
EPS (SAR)	2.80	1.34	1.62
DPS (SAR)	2.90	1.75	2.00
BVPS (SAR)	19.38	18.97	18.59

*Preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	12.5%	6.1%	7.3%
ROAE	12.2%	6.0%	7.4%
P/E	13.3x	27.7x	23.0x
P/B	1.9x	1.9x	1.9x
EV/EBITDA	11.0x	18.8x	16.6x
EV/Sales	5.5x	7.8x	7.0x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review / Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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