



Arabian Cement beats estimates on higher than expected volumetric sales and lower than expected COGS. Net income came at SAR 60.6mn, above our expectation of SAR 43.1mn. Revenue came at SAR 193.5mn, higher than our estimates of SAR 183.5mn. Selling price stood at SAR 160/tonne against our estimates of SAR 201.9/tonne, which could be due to accounting adjustment. **“Overweight”** recommendation on the stock with a TP at **SAR 35.70/share**.

- Arabian cement delivered a strong net income of 60.6mn in Q3-19 compared to SAR 37.3mn in Q2-19 and SAR 14.4mn in Q3-18. Net income surpassed our estimates and the market consensus estimates of SAR 43.1mn and SAR 42.9mn, respectively. We believe that the Y/Y strong growth is mainly attributed to an increase in its selling price by 28.4%, and an increase in sales volume by 38.1%Y/Y. The deviation of Q3-19 earnings from our estimates is mainly ascribed to higher than expected volumetric sales, resulting in higher revenue and gross margin.
- Revenue stood at SAR 193.5mn, above our estimates of SAR 183.5mn, showing an increase of 64.2%Y/Y, due to increase in sales volume and a strong contribution from Qutranah cement. During Q3-19, the company registered an increase of 38.1%Y/Y in local volumetric sales to stand at 663KT vs. 480KT in Q3-18, above our volume estimates of 582KT. The average price realization/tonne for local sales stood at SAR 160/tonne, as compared to our estimates of SAR 201.9/tonne and SAR 197.9/tonne in Q2-19 indicating a decline of 19.2%Q/Q, mainly due to accounting adjustments.
- Gross profit stood at SAR 93.5mn (an increase of 45.2%Q/Q, 119.1%Y/Y), above our estimates of SAR 68.3mn, due to higher than expected revenue. Cost per tonne stood at SAR 107.7/tonne compared to an average of SAR 152.1/tonne in FY18, mainly due to an accounting adjustments.
- Operating profit stood at SAR 80.4mn, above our estimates of SAR 53.6mn due to an increase in gross profit along with a decrease in OPEX, which stood at SAR 13.1mn, showing a decline of 22.0%Y/Y.

AJC view: local volumetric sales continue to increase. We believe that the company’s sales volumes will gradually increase over the coming quarters given the mega projects in the western region, as well as improved performance from Qatranah. The company is expected to sustain the current price realization for FY19. We believe, cement sector has recovered from its current downtrend due to producer’s concentration on selling prices and an increase in export sales. For 10M-19, total sector dispatches stood at 40.5MT (including exports) compared to 37.3MT in 10M-18, depicting an increase of 8.7%Y/Y. The company has an inventory of 3.6MT indicating an increase of 64.2%Y/Y, which can be enough to cover more than 140% of the total sales volume during TTM. Arabian cement is expected to post SAR 212.3mn in net income (2.12 EPS), for FY19. The company is currently trading at TTM PE of 21.6x compared to a forward PE of 13.7x based on FY20 earnings. We expect the company to generate a strong FCF, which increases the possibility of higher DPS at SAR 1.75/share during FY19, resulting in a D/Y of 5.4%. **“Overweight”** recommendation on the stock with a TP at **SAR 35.70/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	117.9	164.6	193.5	64.1%	17.6%	5.4%
Gross Profit	42.7	64.4	61.7	119.0%	45.2%	37.0%
<i>Gross Margin</i>	<i>36.2%</i>	<i>39.1%</i>	<i>48.3%</i>	-	-	-
EBIT	25.9	49.6	80.4	210.4%	62.1%	50.2%
Net Profit	14.4	37.3	60.6	320.8%	62.5%	40.6%
EPS	0.14	0.37	0.61	-	-	-

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

Overweight

Target Price (SAR)	35.70
Upside / (Downside)*	10.2%

Source: Tadawul *prices as of 18th of November 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	905.7	600.7	786.5	905.9
Growth %	-27.9%	-33.7%	30.9%	15.2%
Net Income	262.7	-26.3	212.3	232.1
Growth %	-48.8%	NM	NM	9.3%
EPS	2.63	-0.26	2.12	2.32

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E	FY20E
Gross Margin	38.6%	6.3%	39.1%	37.0%
Net Margin	29.0%	-4.4%	27.0%	25.6%
P/E	13.07x	NM	15.26x	13.96x
P/B	1.13x	0.78x	1.12x	1.11x
EV/EBITDA (x)	8.4x	21.8x	9.2x	8.3x
Dividend Yield	10.2%	4.4%	5.4%	5.9%

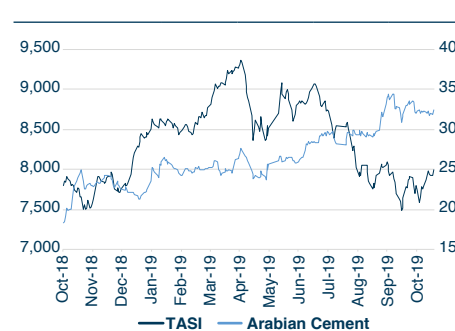
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.20
YTD %	42.41 %
52 Week (High)/(Low)	34.60/21.10
Shares Outstanding (mn)	100.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Senior Analyst
 Jassim Al-Jubran
 +966 11 2256248
 j.aljabran@aljaziracapital.com.sa

Analyst
 Abdulrahman Al-Mashal
 +966 11 2256374
 A.Almashal@Aljaziracapital.com.sa

RESEARCH DIVISION

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers
Central Region, & acting head Western and Southern Region Investment Centers
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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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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Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068