

City Cement - 2Q23 Result Review

Analyst: Neetika Gupta

Previous Recommendation: **Buy**

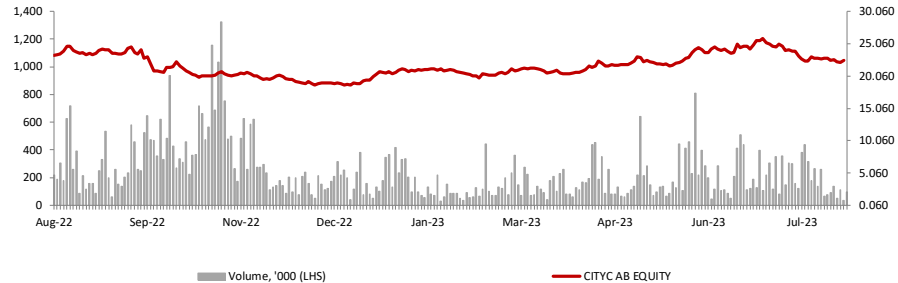
Target Price (SAR): **26.50**

Previous Reco. & Date: TP: SAR 26.5 per share; Buy on 18-May-2023

Upside / (Downside): 20.2%

Date: 09-08-2023

Bloomberg Ticker	CITYC AB
Current Market Price (SAR)	22.040
52wk High / Low (SAR)	26.15/18.58
12m Average Vol. (000)	241.8
Mkt. Cap. (USD/SAR mn)	822/3,086
Shares Outstanding (mn)	140.0
Free Float (%)	74%
3m Avg Daily Turnover (000)	4,976.7
6m Avg Daily Turnover (000)	4,291.4
P/E'23e (x)	19.9
P/Bv'23e (x)	1.7
Dividend Yield '23e (%)	6.3%
Price Perf. (1m/3m) (%)	-10.2/-0.5



Revenue decreased by 13% YoY, missing our expectation

City Cement reported revenue of SAR 77.8mn for 2Q23, missing our expectation. The revenue decreased 13% YoY and 28% QoQ. For 1HFY23, revenue decreased 6% YoY to SAR 186mn mainly due to revenue decline in 2Q23 as revenue growth was flat in 1Q23.

Net profit decreased 2% YoY and 12% QoQ, missing our expectation

Net profit of the company came in at SAR 24.3mn below our estimates of SAR35.9mn. Net profit decreased 2% YoY and 12% QoQ mainly due to lower quantity sold. For 1HFY23, Net profit grew 24% YoY driven by 61% YoY growth in 1Q23. Net profit grew in 1Q23 due to lower cost of revenue and S&M expenses and higher other income.

Maintain our rating on the stock

The company's plant is strategically located near megaprojects which will benefit the company from rising demand. So we expect revenue to grow at a higher rate led by increased volume and sales price realization. Margins are expected to improve as energy cost will likely go down and revenue increases. Hence we continue to maintain a Buy rating on the stock.

Valuation

City Cement is trading at 2023e P/E of 19.9x, representing a 24% premium compared to the historical average P/E of 16.06x. Additionally, P/Bv multiple of 1.8x, based on our FY23 estimate, represents a 23% discount compared to the historical average P/Bv of 2.3x.

Income Statement													
(SAR mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)	1HFY22	1HFY23	YoY (%)
Sales/Revenue	108.1	89.2	100.1	134.0	108.2	77.8	127.0	-13%	-28%	-39%	197.3	186.0	-6%
Gross profit	26.3	32.9	28.4	57.8	33.0	30.8	47.2	-6%	-6%	-35%	59.2	63.8	8%
Operational Profit	17.5	24.3	20.7	48.3	24.3	21.7	37.6	-11%	-11%	-42%	41.8	45.9	10%
Net Profit (Loss) after tax	17.2	24.8	25.3	47.8	27.6	24.3	35.9	-2%	-12%	-32%	42.0	51.9	24%
Balance Sheet													
(SAR mn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23e	YoY (%)	QoQ (%)	Var (%)			
Shareholders' Equity	1,777.9	1,802.8	1,771.7	1,819.1	1,776.7	1,800.9	1,784.6	0%	1%	1%			
Key Ratios													
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	2Q23e						
Net Profit Margin	16%	28%	25%	36%	25%	31%	28%						
Return on Equity (RoE)	4%	6%	6%	11%	6%	5%	8%						
Annualized EPS (SAR)	0.49	0.71	0.72	1.36	0.79	0.69	1.03						
BVPS (SAR)	12.7	12.9	12.7	13.0	12.7	12.9	12.7						
TTM P/E (x)							24.6						

Source: Financials, MSX, Bloomberg, U Capital Research

For our earlier report, please [click here](#).

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%

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