



Qassim Cement results came below our estimate on lower than expected price realization per tonne. Net income came at SAR 113.1mn, 11.8% below our estimates of SAR 128.3mn. Revenue came at SAR 237.7mn, compared to our estimates of SAR 273.3mn. Selling prices stood at SAR 175.1/tonne against our estimates of SAR 191.1/tonne. Volumetric sales stood at 1.36MT in-line with our expectations of 1.43MT. We maintain our “Neutral” recommendation on the stock with a TP at **SAR 74.6/share**.

- Qassim cement posted net income of SAR 113.1mn in Q4-20 (EPS; 1.26/share); compared to SAR 144.1mn in Q4-19 and SAR 110.1mn in Q3-20. Net income came below our estimates and the market consensus estimates of SAR 128.3mn and SAR 124.9mn, respectively. The 21.5%Y/Y decline in net income is mainly attributed to a discount in realization per tonne by 37.6%Y/Y and 7.0%Q/Q.
- Revenue stood at SAR 237.7mn (down 19.1%Y/Y, and up 2.6%Q/Q), under our estimates of SAR 273.3mn due to lower than expected selling price per tonne. During Q4-20, the company registered an increase of 29.6%Y/Y in volumetric sales, as dispatches in Q4-20 stood at 1.36MT vs. 1.05MT in Q4-19, slightly below our volumetric estimates of 1.43MT. Average price realization/tonne stood at SAR 175.1/tonne, as compared to our estimates of SAR 191.1/tonne and SAR 280.5/tonne in Q4-19.
- Gross profit stood at SAR 108.9mn (a decline of 42.6%Y/Y, 9.8%Q/Q), compared to our estimates of SAR 138.3mn, with a deviation of 21.3% due to lower than expected revenue. Cost per tonne stood at SAR 94.9/tonne in-line with our estimates of SAR 94.4/tonne.
- Operating profit stood at SAR 99.2mn, below our estimates of SAR 127.6mn. Where OPEX stood at SAR 7.7mn, showing a decline of 58.6%Y/Y.

AJC view: Qassim cement selling prices significantly declined by 37.6%Y/Y. The decline in realisation per tonne has continued for two Quarters, which is due to observing the impact of VAT. We believe selling prices will sustain the low level for one to two quarters before recovering. Dispatches increased by 29.6%Y/Y due to higher local demand. Clinker inventory declined by 8.9%Y/Y to reached 2.76MT, which can be enough to cover more than 59.8% of the TTM volume sales. We believe, cement sector will show a short-term decline in net income due to selling price discount. However, we are optimistic on the sector for the long-term with the increase in mortgage loans by 83.2%Y/Y in FY20, and the future demand of cement from Giga projects. For FY20, total sector dispatches stood at 58.4MT (including exports) compared to 50.2MT in FY19, depicting an increase of 16.3%Y/Y. Qassim cement is expected to post SAR 452.1mn in net income (5.02 EPS), for FY21, recording an increase of 7.7%Y/Y supported by increase in volumetric sales. The company is currently trading at TTM PE of 19.3x compared to a forward PE of 17.9x based on FY21 earnings. The company is expected to pay dividend of SAR 4.5/share (5.0% D/Y) in FY21, owing to its strong balance sheet and zero debt. We maintain our “Neutral” recommendation on the stock with a TP at **SAR 74.6/share**.

Results Summary

SARmn	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	293.7	231.6	237.7	-19.1%	2.6%	-13.0%
Gross Profit	189.7	120.7	108.9	-42.6%	-9.8%	-21.3%
Gross Margin	64.6%	52.1%	45.8%	-	-	-
EBIT	166.2	111.5	99.2	-40.4%	-11.1%	-22.3%
Net Profit	144.1	110.1	113.1	-21.5%	2.7%	-11.8%
EPS	1.60	1.22	1.26	-	-	-

Source: Company Reports, Aljazira Capital

Neutral

Target Price (SAR) **74.6**

Upside / (Downside)* **-17.1%**

Source: Tadawul *prices as of prices as of 4th of February 2021

Key Financials

SARmn (unless specified)	FY19	FY20	FY21E
Revenue	791.8	898.4	964.2
Growth %	86.0%	13.5%	7.3%
Net Income	360.7	419.8	452.1
Growth %	198.6%	16.4%	7.7%
EPS	4.01	4.66	5.02

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	53.9%	52.7%	51.1%
Net Margin	45.6%	46.7%	46.9%
P/E	16.5x	17.4x	17.9x
P/B	3.3x	4.0x	4.3x
EV/EBITDA	12.1x	13.0x	13.5x
Dividend Yield	3.6%	5.5%	5.0%

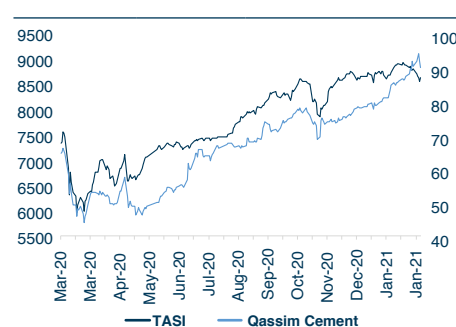
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	8.10
YTD %	13.3%
52 Week (High)/(Low)	94.80/43.10
Shares Outstanding (mn)	90.00

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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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