فالكم
FALCOM

Saudi Cement Co.

Materials | SCC | 3030

INTELLIGENT INVESTMENT IDEAS

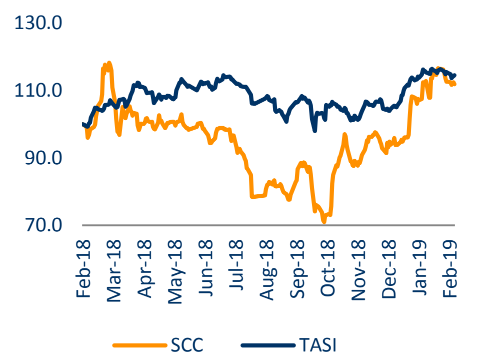
FY18 Results Update **March 05, 2019**

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	57.7
Target Price (SAR)	53.2
Upside/Downside (%)	(7.8%)

As of March 4, 2019

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	8.8
52-Wk High (SAR)	60.4
52-Wk Low (SAR)	35.9
Total Outstanding Shares (in mn)	153
Free Float (%)	88.6%

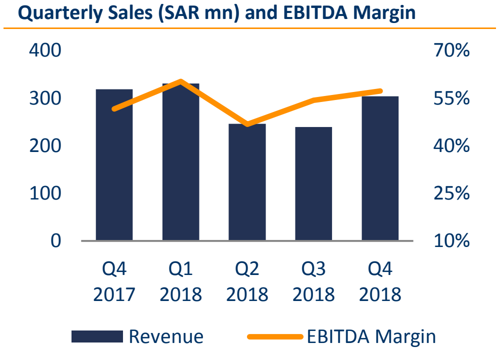
SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	(0.5%)	1.0%
6m	36.4%	30.7%
12m	11.8%	(2.7%)

Major Shareholders (%)	
Khaled Abdulrahman Saleh Al Rajhi	8.02%
Public Pension Agency	6.11%
General Org. for Social Insurance	5.22%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 4, 2019

4Q18 earnings beats consensus on margin improvement

Saudi Cement Co. (SCC)'s FY18 net profit declined 11.7% Y/Y to SAR 401mn on lower revenues, higher selling and distribution expenses, and Islamic financial charges. Net profit in 4Q18, however, jumped 16.2% to SAR 125mn, trimming some of the losses for the year, owing to improvements in cost of sales. Cement dispatches improved 2.6% Y/Y to 5.2mn tons, while realized prices declined 7.9% to SAR216/ton in FY18. Domestic sales fell 9.1% to 4.5 mn tons due to weakness in demand, while higher demand from exports lifted the overall cement sales volume. Exports to Bahrain relieved some of the excess inventory in the Eastern Region.

The company continues to witness margin erosion as the marginal rise in sales volume was offset by the decline in the average realized price. Demand from local markets is expected to remain under pressure, a segment that contributed almost 83.3% to sales revenues of the company in FY18. However, the recent removal of exports tariffs owing to domestic demand weakness and high inventory levels may boost demand from exports. Moreover, demand from launch of mega projects, such as Neom, Qiddiya entertainment city, the Red Sea Project, King Salman Energy Park (SPARK) and social housing schemes, may prop up demand in the long run, thereby supporting the sector and the region. The stock is currently trading at a premium to sector and regional peer, and we see limited upside to the current level. Hence, we maintain our Neutral rating on the stock.

- SCC's revenues declined 5.5% Y/Y to SAR 1.1bn in FY18, largely driven by a drop in the selling price (-7.9% Y/Y) despite a marginal rise in sales volume (+2.6% Y/Y). In 4Q18, revenues declined 4.6% Y/Y but were up 26.8% Q/Q to SAR 304mn, owing to seasonal demand upturn resulting in higher cement output and increased sales volumes.
- Gross profit for the year declined 5.4% Y/Y to SAR 538mn due to a slump in sales. Blended costs per ton fell 7.9% Y/Y to SAR 112, due to increase in production volumes (+2.5% to 5.1 mn tons). Consequently, gross margins slightly improved to 48.1% in FY18 from 48.0% in FY17. For 4Q18, gross margins expanded to 52.5% from 44.2% in 4Q17.
- EBITDA fell 9.4% Y/Y to SAR 618mn, fueled by a significant increase in selling and distribution expenses (+116% Y/Y). The EBITDA margin declined to 55.2% in FY18 from 57.6% in FY17, largely attributed to the sharp rise in operating expenses.
- SCC's operating income dropped 12.0% Y/Y to SAR 417mn (FY17: SAR 474mn). The operating margin slipped to 37.2% in FY18 from 40.0% in FY17. During the year, the company witnessed margin erosion on Y/Y basis due to lower cement prices and higher selling costs.
- Net profit for the period stood at SAR 401mn (-11.7% Y/Y), led by the factors mentioned aforesaid. The net profit margin for FY18 shrunk to 35.8% from 38.3% in FY17.
- In 2H18, the company declared a dividend for SAR 1.75 per share, taking the annual dividend to SAR 3.25 per share, amounting to SAR 497.25mn for FY18.

Valuation: We revise our target price upward to SAR 53.2 per share in the light of better than expected 4Q18 results. SCC has a strong market position and provides high dividend payouts (124%). We see a limited upside from the current level considering its rich valuation versus regional peers, thus maintain our "Neutral" rating on the stock.

	4Q'18	4Q'17	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	303.8	318.5	-4.6%	1,185.0	1,119.6	5.8%
Gross Profit (SAR mn)	159.4	140.9	13.2%	575.5	538.0	7.0%
EBITDA (SAR mn)	173.8	164.3	5.8%	665.3	617.8	7.7%
Net Profit (SAR mn)	124.8	107.5	16.2%	434.4	400.5	8.5%
EPS Basic (SAR)	0.8	0.7	16.2%	2.8	2.6	8.5%
Gross Margin (%)	52.5%	44.2%	8.2%	48.6%	48.1%	0.5%
EBITDA Margin (%)	57.2%	51.6%	5.6%	56.1%	55.2%	1.0%
Net Profit Margin (%)	41.1%	33.7%	7.4%	36.7%	35.8%	0.9%

Source: Company Financials, FALCOM Research

FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight:	The Target share price exceeds the current share price by ≥ 10%.
Neutral:	The Target share price is either more or less than the current share price by 10%.
Underweight:	The Target share price is less than the current share price by ≥ 10%.
To be Revised:	No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company`s performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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