

3Q19 Results Update

November 27, 2019

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	69.1
Target Price (SAR)	58.0
Upside/Downside (%)	(16.1%)

As of November 27th, 2019

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	10.6
52-Wk High (SAR)	79.9
52-Wk Low (SAR)	46.00
Total Outstanding Shares (in mn)	153
Free Float (%)	93.8%

SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(7.0%)	(6.6%)
6m	0.4%	6.2%
12m	50.6%	46.0%

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	8.02%
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of November 27th, 2019

Higher sales push net profits in 3Q19 but miss street estimates

Saudi Cement Co. (SCC)'s net profit jumped 10.1% YoY to SAR 83.0mn in 3Q19, as the rise in sales offset the higher general and administrative expenses and increased financial charges. However, net profit fell 10.1% QoQ due to lower revenues as a result of seasonality and higher financial charges. The company's cement dispatches increased 17.4% YoY to 1.309 million tons but declined 4.0% QoQ in 3Q19. The cement output improved 11.1% YoY to 1.293 million tons but declined 9.9% QoQ. The clinker output was up 5.9% YoY and 40.0% QoQ to 1.847million tons.

Since the start of 2019, the cement industry in the Kingdom witnessed an upturn as domestic demand rose after a rebound in public projects. The company's overall performance benefitted from the improved average selling price of cement and higher cement dispatches on annual basis. In addition, the government's decision to partially lift a long-standing ban on cement exports and slash export fees for cement firms allowed them to perform better. The Ministry of Commerce and Investment has granted 22 permits for cement exports in 2019 alone. In September 2019, local cement sales in Saudi Arabia were up 16.2% to 3.4 million tons and export sales rose 7.62% YoY to 113,000 tons. However, the company's cost of sales per ton continued to be high and is expected to remain so. Moreover, the sharp rise in operating expenses is set to continue pressurizing margins. In addition, the stock has run up considerably in the past year and we foresee limited upside potential and therefore maintain our Underweight rating on the stock.

- SCC's revenues grew 29.5% YoY to SAR 310.1mn in 3Q19, largely driven by a rise in selling price and higher sales volumes. Revenues, however, fell 8.4% on sequential basis.
- Gross profit for the quarter was up 16.5% YoY to SAR 131.8mn, as growth in the cost of sales outpaced revenues. On quarterly basis, gross profit declined 6.0% due to lower sales. Consequently, gross margins for 3Q19 stood at 42.5% compared with 41.4% in 2Q19 and 47.2% in 3Q18.
- EBITDA increased 11.6% YoY to SAR 145.1mn but declined 4.2% QoQ. Consequently, the EBITDA margin for the quarter was 46.8% against 44.7% and 54.3% in 2Q19 and 3Q18, respectively.
- Operating income rose 15.2% YoY to SAR 92.8mn. However, it declined 6.9% QoQ despite reduced operating expenses as revenues fell over the comparable period. The operating margin for 3Q19 expanded marginally to 29.9% from 29.4% in 2Q19. On the other hand, it was lower than 33.6% in 3Q18 due to a sharp rise in general and administrative expenses.
- Net profit for the period stood at SAR 83.0mn, up 10.1% YoY, aided by higher sales. On the contrary, net profit contracted 10.1% QoQ owing to reduced sales volumes and increased financial charges.

Valuation: We revise our target price to a fair value of SAR 58.0 per share and retain our "Underweight" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	310.1	239.6	29.5%	1,406.8	1,119.6	25.7%
Gross Profit (SAR mn)	131.8	113.1	16.5%	638.6	538.0	18.7%
EBITDA (SAR mn)	145.1	130.1	11.6%	714.6	617.8	15.7%
Net Profit (SAR mn)	83.0	75.4	10.1%	458.4	400.5	14.4%
EPS Basic (SAR)	0.54	0.49	10.1%	3.0	2.6	14.4%
Gross Margin (%)	42.5%	47.2%	(4.7%)	45.4%	48.1%	(2.7%)
EBITDA Margin (%)	46.8%	54.3%	(7.5%)	50.8%	55.2%	(4.4%)
Net Profit Margin (%)	26.8%	31.5%	(4.7%)	32.6%	35.8%	(3.2%)

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 $\geq 10\%$.

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 $\geq 10\%$.

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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