

FY19 Results Update

March 29, 2020

Recommendation	Overweight
Previous Recommendation	Underweight
Current Price (SAR)	41.1
Target Price (SAR)	50.9
Upside/Downside (%)	23.9%
<i>As of March 23rd, 2020</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.3
52-Wk High (SAR)	79.9
52-Wk Low (SAR)	41.0
Total Outstanding Shares (in mn)	153
Free Float (%)	92.0%

SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(30.9%)	(9.6%)
6m	(27.9%)	(8.0%)
12m	(24.2%)	3.4%

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	7.7%
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 23rd, 2020

Rise in cement sales helps lift company's net profits in FY19

Saudi Cement Co. (SCC)'s net profit jumped 12.7% YoY to SAR 451.4mn in FY19, as a sharp rise in cement sales offset the higher general and administrative expense and increased SCC's share in losses of associated companies. During 4Q19, the company's sales surged 32.5% YoY to SAR 402.5mn, leading to an annual rise of 15.0% YoY and 73.0% QoQ in profits to SAR 143.6mn. The company's cement output improved to 5.677 million tons in FY19 from 5.377 million tons in FY18. The clinker output was up to 6.381 million tons in FY19 against 6.163 million tons in FY18. Export quantities for FY19 stood at 903,000 tons for Saudi Cement.

In 2019, the cement industry benefitted from the upturn in demand, following a rebound in domestic public projects and higher export quantities. SCC also profited from higher average selling prices and cement dispatches annually. Moreover, the company remained the largest cement exporter even as domestic sales continued to rise. In addition, the government's decision to partially lift a long-standing ban on cement exports and slash export fees for cement firms helped SCC perform better. The Ministry of Commerce and Investment granted 22 permits for cement exports in 2019 alone. However, the company's cost of sales per ton continued to be high and is expected to keep pressurizing the margins. In addition, there is added uncertainty about the global economic performance in the wake of the coronavirus pandemic, coupled with the oil price war as Russia refuses to comply with OPEC production cuts. Having said that, the recent sharp fall in the share price offers scope for upside potential and therefore we change our rating to Overweight on the stock.

- SCC's revenues grew 28.8% YoY to SAR 1,441.6mn in FY19, largely driven by a surge in average selling prices and higher sales volumes.
- Gross profit for the year was up 20.8% YoY to SAR 649.8mn, contained by the growth in cost of sales, which offset growth in revenues. On quarterly basis, gross profit rose 49.2% to SAR 196.6mn in 4Q19 from SAR 131.8mn in 3Q19 on higher sales.
- Gross margins for FY19 fell to 45.1% from 48.1% in FY18 due to higher cost of sales compared with revenues.
- EBITDA increased 14.1% YoY to SAR 704.7mn in FY19. However, the EBITDA margin for the year slipped to 48.9% against 55.2% in FY18.
- Operating income rose 17.8% YoY to SAR 491.0mn in FY19 from SAR 416.8mn in the previous year. On quarterly basis, it increased 69.6% in 4Q19.
- Net profit for the period stood at SAR 451.4mn, up 12.7% YoY, buoyed by higher sales. Net profit expanded 73.0% QoQ in 4Q19 compared with 3Q19, owing to higher sales.

Valuation: We revise our target price to a fair value of SAR 50.9 per share and rate the stock as "Overweight."

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	402.5	303.8	32.5%	1,508.0	1,441.6	4.6%
Gross Profit (SAR mn)	196.6	159.4	23.3%	675.4	649.8	3.9%
EBITDA (SAR mn)	209.3	173.8	20.4%	709.2	704.7	0.6%
Net Profit (SAR mn)	143.6	124.8	15.0%	462.6	451.4	2.5%
EPS Basic (SAR)	0.94	0.82	15.0%	3.0	3.0	2.5%
Gross Margin (%)	48.8%	52.5%	(3.6%)	44.8%	45.1%	(0.3%)
EBITDA Margin (%)	52.0%	57.2%	(5.2%)	47.0%	48.9%	(1.9%)
Net Profit Margin (%)	35.7%	41.1%	(5.4%)	30.7%	31.3%	(0.6%)

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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