

1Q20 Results Update

June 03, 2020

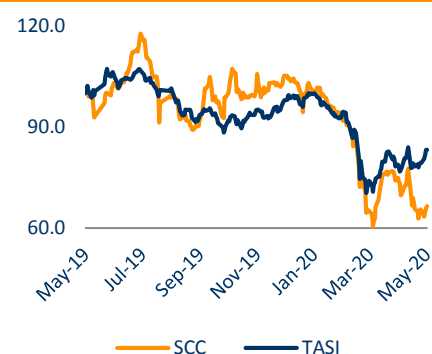
Recommendation	Neutral
Previous Recommendation	Overweight
Current Price (SAR)	47.9
Target Price (SAR)	50.4
Upside/Downside (%)	5.2%

As of May 31st, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.3
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	(9.9%)	(16.7%)
6m	(37.1%)	(24.7%)
12m	(33.5%)	(16.8%)

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	7.8 %
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of May 31st, 2020

Continued rise in cement sales boost Saudi Cement's bottom line in 1Q20

Saudi Cement Co. (SCC)'s net profit jumped 11.4% YoY to SAR 147.6mn in 1Q20, as a sharp rise in cement sales offset the higher general and administrative expense. During 1Q20, the company's sales surged 15.4% YoY and 11.9% QoQ to SAR 450.4mn. Cement dispatches for the quarter improved 23.8% YoY to 1.792 million tons compared to 1.447 million tons in 1Q19 and 1.612 million tons in 4Q19. Local cement deliveries were up 25.5% YoY to 1.497 million tons, whereas exports went up 16.1% YoY to 295,000 from 254,000 in 1Q19.

The cement industry in Saudi Arabia started the year 2020 on a strong note, taking ahead the gains from 2019 when the industry benefitted from the upturn in demand, following a rebound in domestic public projects and higher export quantities. During April 2020, however, aggregate sales of the 17 Saudi cement companies fell 28.8% YoY to 2.863 million tons, with declines in the local as well as export markets. This was partly due to the COVID-19 pandemic that forced the government to implement social-distancing norms, thus delaying projects. Additionally, the crash in oil prices hit government revenues, which could eventually limit government spending and thus disrupt housing and infrastructure projects. On the company front, the rising cost of sales per ton remains a concern, which could become more prominent if revenue declines. In view of the prevailing macroeconomic situation, we revise our rating to Neutral on this stock.

- SCC's revenue grew 15.4% YoY to SAR 450mn in 1Q20, largely driven by a surge in average selling prices and higher sales volumes.
- Gross profit for the year was up 12.0% YoY to SAR 202.8mn, contained by the rise in cost of sales, which limited the benefit from increased revenue. On a quarterly basis, gross profit rose 3.1% from SAR 197mn in 4Q19.
- Gross margins for 1Q20 fell to 45.0% from 46.4% in 1Q19 and 48.8% in 4Q19.
- EBITDA increased 10.3% YoY to SAR 213.9mn in 1Q20. However, EBITDA margin for the quarter slipped to 47.5% as against 49.7% in 1Q19.
- Operating income rose 11.9% YoY to SAR 157.8mn in 1Q20 from SAR 141mn in the previous year. It remained almost in line with the figure in the previous quarter.
- Net profit for the period was SAR 147.6mn, up 11.4% YoY and 2.8% QoQ.
- During the quarter, the company acquired an additional 27% stake in the United Cement company (on January 9, 2020) for SAR 22.97mn, taking its ownership in United Cement to 63%.

Valuation: We revise our target price to a fair value of SAR 50.4 per share and rate the stock as "Neutral."

	1Q'20	1Q'20	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	450.4	390.4	15.4%	1,342.8	1,441.6	(6.9%)
Gross Profit (SAR mn)	202.8	181.0	12.0%	598.0	649.8	(8.0%)
EBITDA (SAR mn)	213.9	193.8	10.3%	654.4	704.7	(7.1%)
Net Profit (SAR mn)	147.6	132.4	11.4%	409.9	451.4	(9.2%)
EPS Basic (SAR)	0.97	0.87	12.1%	2.7	3.0	(9.2%)
Gross Margin (%)	45.0%	46.4%	(1.4%)	44.5%	45.1%	(0.5%)
EBITDA Margin (%)	47.5%	49.7%	(2.2%)	48.7%	48.9%	(0.1%)
Net Profit Margin (%)	32.8%	33.9%	(1.2%)	30.5%	31.3%	(0.8%)

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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