Saudi Cement Co.

Materials | SCC | 3030

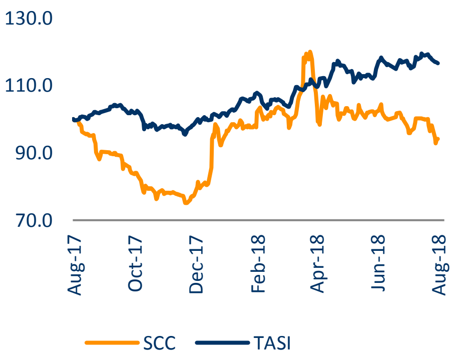
2Q 2018 Results Update **Aug 06, 2018**

Recommendation	**Neutral**
Previous Recommendation	Neutral
Current Price (SAR)	46.0
Target Price (SAR)	48.6
Upside/Downside (%)	5.7%

As of Aug 05, 2018

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	7.0
52 Wk High (SAR)	60.40
52 Wk Low (SAR)	37.20
Total Outstanding shares (in mn)	153
Free Float (%)	89.1%

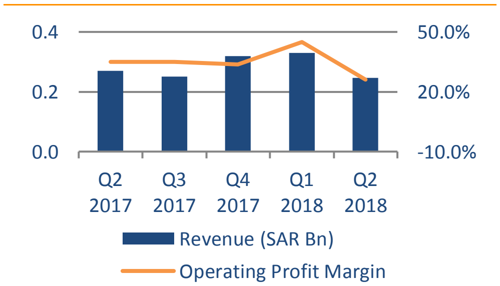
SCC vs. TASI (Rebased)



Price Performance (%)	**Absolute**	**Relative**
1m	(4.2%)	(3.6%)
6m	(8.0%)	(16.2%)
12m	(6.0%)	(22.6%)

Major Shareholders (%)	
Khaled Abdulrahman Saleh Al Rajhi	8.02%
Public Pension Agency	5.62%
General Org. for Social Insurance	5.22%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 5th Aug 2018

Another quarter of weak performance; net income below consensus estimates

Saudi Cement's (SCC) 2Q18 revenue declined 9% Y/Y to SAR 246mn, driven by weak domestic demand, and lower selling prices. Increase in cost of sales per ton, driven by production cuts by SCC resulted in 21% Y/Y decline in gross profits. Further, increase in distribution and marketing expenses, in addition to increase in Islamic financial charges and decline in the share of associate's profits weighed on net profits (-38% Y/Y to SAR58mn). During last quarter, KSA resumed cement exports to Bahrain and year till date SCC has exported 263,000 tons of cement leading cement exports from KSA. Given SCC's geographical proximity to Bahrain, we expect the exports will help relieve some of the company's excess inventory and stabilize costs.

Sequentially SCC's net profits declined 59.2% Q/Q driven by lower sales, higher SG&A expenses, increased finance charges and decline in share of associate's profits. We believe the company's earnings will be driven by improved capacity utilization, given the moderate recovery in regional demand (USD 5bn Jubail and USD 6bn Dharain TOD projects) and resumption of exports. However, higher costs per ton would remain a challenge given current oversupply in the market. Overall, we project a low single-digit top-line expansion, while margins will continue to remain under pressure in 2018.

- SCC's top line contracted 8.8% Y/Y to SAR 269mn in Q2 2018, driven by decline in the dispatches despite export volumes and -11% Y/Y drop in realised prices. For the Eastern Region, the demand seems to be stabilizing (+1.8% Y/Y), while Saudi despite being the largest regional player has not seen significant benefit from this trend.
- Gross profit declined 20.7% Y/Y to SAR 96mn, due to sales decline, however, cost of sales were largely contained and increased only by 1.0% Y/Y. Blended costs per ton declined 1% Y/Y as SCC to SAR 122. However, since cost rationalization was unable to keep pace with the decline in revenue, the gross margins dipped 580bps to 39.1% in Q2 2018.
- SCC's EBITDA for the quarter stood at SAR 151mn vis-à-vis SAR 115mn in Q2 2017, a 24.0% Y/Y decline, driven by lower operational efficiencies and higher costs. The EBITDA margin declined 930bps to 46.7% in Q2 2018.
- SCC's operating income dropped faster than gross profits by 35.3% Y/Y to SAR 64mn (Q2 2017: SAR 99mn). The operating margin dipped 1070bps to 26.1% in Q2 2018. During the quarter, the company witnessed margin erosion due to lower capacity utilization.
- Net profit for the period stood at SAR 93.9mn (-38% Y/Y, -59% Q/Q), led by lower sales volumes and higher operating expenses and finance costs. Net profit margin, as of Q2 2018, stood at 23.6% compared to 34.9% in Q2 2017.
- SCC's cash flow from operating activities slightly improved by 8.3% Y/Y to SAR 99mn in Q2 2018 (Q2 2017: SAR 91mn) due to decline in trade receivables.
- Saudi Arabia's cement sector is expected witness moderate demand revival driven by lifting of exports tariffs in 2018, while excess inventory and high competition will keep the prices under check. We expect the exports to Bahrain and demand from Jubail project to relieve some of SCC's high inventory levels, while elevated costs per ton will keep the margins under pressure.

Valuation: We revise our target price downwards to SAR 48.6 per share, incorporating weak 1H 18 performances. SCC trades at premium valuation to its regional and sector peers due to its strong market position and high dividend yield. We see limited upside from the current level, and maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	245.8	269.5	(8.8%)	1,214	1,185	2.5%
Gross Profit (SAR mn)	96.1	121.2	(20.7%)	530.6	568.8	(6.7%)
EBITDA (SAR mn)	114.9	151.1	(24.0%)	621.1	681.8	(8.9%)
Net Profit (SAR mn)	58.0	93.9	(38.2%)	411.4	453.4	(9.3%)
EPS basic (SAR)	0.38	0.61	(38.2%)	2.69	2.96	(9.3%)
Gross Margin (%)	39.1%	45.0%	(5.8%)	43.7%	48.0%	(4.3%)
EBITDA Margin (%)	46.7%	56.1%	(9.3%)	51.1%	57.6%	(6.4%)
Net Profit Margin (%)	23.6%	34.9%	(11.2%)	33.9%	38.3%	(4.4%)

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.

FALCOM Financial Services

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