

1Q19 Results Update

May 13, 2019

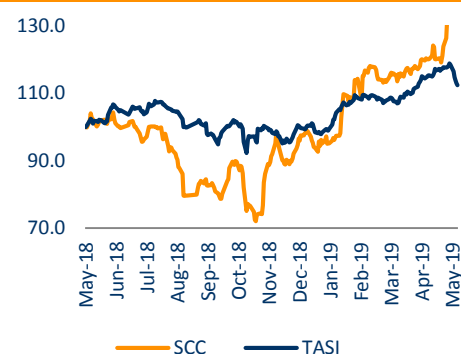
Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	66.9
Target Price (SAR)	56.0
Upside/Downside (%)	(16.3%)

As of May 12, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	10.2
52-Wk High (SAR)	69.0
52-Wk Low (SAR)	35.9
Total Outstanding Shares (in mn)	153
Free Float (%)	88.6%

SAUDI CEMENT vs. TASI (Rebased)

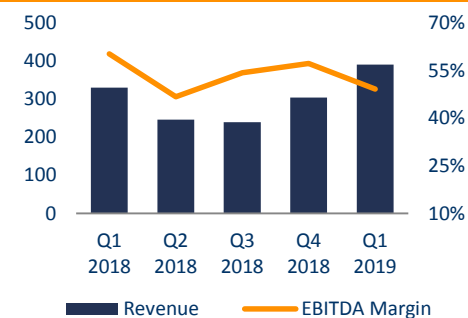


Price Performance (%)	Absolute	Relative
1m	14.0%	16.1%
6m	49.0%	34.6%
12m	37.0%	24.5%

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 May 12, 2019

Better sales growth fail to lift 1Q19 earnings as higher expenses pare gains

Saudi Cement Co. (SCC)'s net profit declined 6.9% YoY to SAR 132mn in 1Q19 as higher cost of sales, selling and distribution expenses, and net Islamic charges offset gains from revenue growth during the period. On a quarterly basis, however, net profit improved 6.1% QoQ owing to a surge in revenue, which overshadowed a cost increase. In 1Q19, cement dispatches remained flat at 1.5mn tons against 1Q18, but rose 3.7% QoQ over 4Q18. Meanwhile, the average realized price improved 1.2% YoY and 26.7% QoQ to SAR 227 per ton.

The KSA government has increased infrastructure spending, which may boost cement demand as we expect some of the mega projects to come online during the year. Though there were improvements in cement dispatches and average realized price during the quarter, they failed to lift the company's bottom line. The company's margins have been under pressure for a while due to high selling, distribution and other expenses. The company accounts for more than 50% of the KSA's cement exports owing to its proximity to Bahrain, but the exports formed merely ~18% of its total cement dispatches. The local markets contributed 82% to cement deliveries for the quarter, but demand in these markets continues to be pressurized. In addition, SCC's clinker inventory levels of 5.3mn tons, stand among the highest in the sector even though the company managed to reduce these level by 300k since December 2018.

- SCC's revenues grew 18.1% YoY and 28.5% QoQ to SAR 390mn in 1Q19.
- Gross profit for the quarter improved 6.9% YoY to SAR 181mn owing to a rise in sales. Consequently, gross margins fell to 46.4% in 1Q19, from 52.5% in 4Q18 and 51.2% in 1Q18, due to a surge in the cost of sales.
- EBITDA fell 3.4% YoY to SAR 192mn, largely ascribed to higher selling and distribution expenses. Consequently, the EBITDA margin declined to 49.2% in 1Q19, from 60.2% in 1Q18 and 57.2% in 4Q18.
- SCC's operating income dropped 5.0% YoY to SAR 141mn (1Q18: SAR 148mn) as a surge in selling and distribution expenses offset gains at the gross profit level. On a quarterly basis, however, operating profit increased 14.1% QoQ. The operating margin for 1Q19 slipped to 36.1% in 1Q19, from 40.7% in 4Q18 and 44.9% in 1Q18.
- Net profit for the period stood at SAR 132mn (-6.9% YoY), led by the above-mentioned factors. The net profit margin for 1Q19 contracted to 33.9%, from 43.0% in 1Q18.
- In April 2019, SCC's shareholders approved a 17.5% cash dividend (SAR 1.75 per share) for 2H18 amounting to SAR 267.8mn for its 153mn shares.

Valuation: We revise our target price to SAR 56.0 per share in light of better-than-expected 1Q19 results. However, given the recent run up in stock price, we foresee limited upside potential and therefore downgrade the stock to "Underweight" rating.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	390.4	330.5	18.1%	1,196.6	1,119.6	6.9%
Gross Profit (SAR mn)	181.0	169.3	6.9%	587.1	538.0	9.1%
EBITDA (SAR mn)	192.2	199.0	-3.4%	666.2	617.8	7.8%
Net Profit (SAR mn)	132.4	142.2	-6.9%	430.9	400.5	7.6%
EPS Basic (SAR)	0.9	0.9	-6.9%	2.8	2.6	7.6%
Gross Margin (%)	46.4%	51.2%	-4.9%	49.1%	48.1%	1.0%
EBITDA Margin (%)	49.2%	60.2%	-11.0%	55.7%	55.2%	0.5%
Net Profit Margin (%)	33.9%	43.0%	-9.1%	36.0%	35.8%	0.2%

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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