

**2Q19 Results Update**

**August 25, 2019**

Recommendation	Underweight
Previous Recommendation	Underweight
Current Price (SAR)	66.7
Target Price (SAR)	56.0
Upside/Downside (%)	(16.0%)

As of August 25, 2019

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	10.2
52-Wk High (SAR)	79.9
52-Wk Low (SAR)	35.9
Total Outstanding Shares (in mn)	153
Free Float (%)	93.8%

**SAUDI CEMENT vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	(11.1%)	(4.5%)
6m	24.2%	26.5%
12m	76.6%	71.8%

**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 August 25, 2019

**Improved sales volume and prices lift quarterly profits, yet miss consensus estimates**

Saudi Cement Co. (SCC)'s net profit jumped 59.1% YoY to SAR 92.3mn in 2Q19, owing to improved sales volumes and higher profit contribution from associates. It, however, fell 30.3% QoQ owing to lower sales, higher administrative expenses, and increased Islamic finance charges. The company's cement dispatches increased 10.9% YoY to 1.364 million tons, but declined 5.7% QoQ in 2Q19. The cement output improved 4.5% QoQ and 20.2% YoY to 1.435 million tons even as the clinker output declined 1.6% QoQ and 0.7% YoY.

KSA's 2019 national budget provides for higher allocation toward infrastructure spending, which is expected to boost the demand for construction materials such as cement. The positive upturn in the sector performance since the start of 2019 stems from the improved average selling price of cement and higher cement dispatches on an annual basis that gave the much needed boost to the company's topline. However, operating expenses and cost of sales remained high, which continued to pressurize margins. SCC accounted for over 50% of KSA's total cement exports for the quarter, but they formed ~17.0% of the total cement dispatches by the company. On the other hand, local deliveries formed over 82% of the cement dispatches for the quarter. In addition, SCC's clinker inventory levels of 5.1mn tons was the second-highest in the sector. We maintain our underweight rating on the stock.

- SCC's revenues grew 37.8% YoY to SAR 338.6mn in 2Q19, driven largely by a rise in selling price and higher sales volumes. The revenues, however, fell 13.3% on a sequential basis.
- Gross profit for the quarter surged 45.9% YoY to SAR 140.3mn, as the growth in revenues outpaced that in cost of sales. On a quarterly basis, the gross profit fell 22.5%, as costs of sales remained high. Consequently, gross margins for 2Q19 stood at 41.4% compared with 46.4% in 1Q19 and 39.1% in 2Q18.
- EBITDA increased 31.8% YoY to SAR 151.5mn. It declined 21.2% QoQ as operating expenses continued to be in line with the previous quarter despite a decline in revenues. Consequently, the EBITDA margin for the quarter was 44.7% against 49.2% and 46.7% in 1Q19 and 2Q18, respectively.
- SCC's operating income increased 55.5% YoY to SAR 99.7mn. On a quarterly basis, however, operating profit declined 29.3%. Operating margin for 2Q19 slipped to 29.4% from 36.1% in 1Q19.
- Net profit for the period stood at SAR 92.3mn; up 59.1% YoY aided by higher sales volumes and increased contribution from associates. On the other hand, net profit contracted 30.3% QoQ owing to lower sales volumes, high operating expenses, and increased financial charges.
- In May 2019, SCC's board of directors recommended a 15% cash dividend for 1H19 at SAR 1.50 per share amounting to SAR 229.5mn for its 153mn shares.

**Valuation:** We maintain our target price at SAR 56.0 per share and given the recent run up in stock price, we foresee limited upside potential and therefore retain our "Underweight" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	338.6	245.8	37.8%	1,462.8	1,119.6	30.7%
Gross Profit (SAR mn)	140.3	96.1	45.9%	664.3	538.0	23.5%
EBITDA (SAR mn)	151.5	114.9	31.8%	734.3	617.8	18.9%
Net Profit (SAR mn)	92.3	58.0	59.1%	478.7	400.5	19.5%
EPS Basic (SAR)	0.60	0.38	59.1%	3.1	2.6	19.5%
Gross Margin (%)	41.4%	39.1%	2.3%	45.4%	48.1%	(2.6%)
EBITDA Margin (%)	44.7%	46.7%	(2.0%)	50.2%	55.2%	(5.0%)
Net Profit Margin (%)	27.3%	23.6%	3.7%	32.7%	35.8%	(3.0%)

Source: Company Financials, FALCOM Research

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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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