

3Q20 Results Update

December 29, 2020

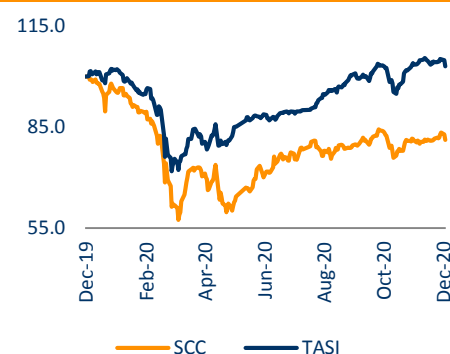
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	58.0
Target Price (SAR)	56.0
Upside/Downside (%)	(3.5%)

As of December 21, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.9
52-Wk High (SAR)	90.5
52-Wk Low (SAR)	52.2
Total Outstanding Shares (in mn)	153.0
Free Float (%)	91.4%

SAUDI CEMENT vs. TASI (Rebased)

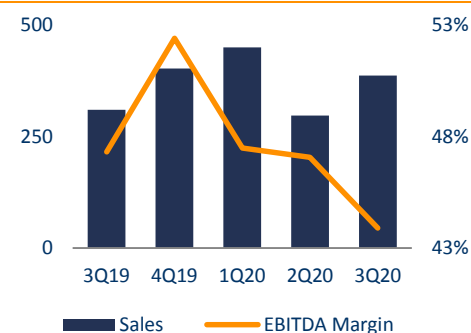


Price Performance (%)	Absolute	Relative
1m	0.2%	0.6%
6m	13.1%	(3.2%)
12m	(18.9%)	(21.9%)

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	6.87%
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Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 21, 2020

Strong growth in sales volume supports 3Q20 bottom line

Saudi Cement Co. (SCC)'s net profit (attributable to equity holders) rose 29.7% YoY to SAR 107.6mn in 3Q20, led by a 19.8% YoY increase in sales volume during the period. Cement dispatches for the quarter increased to 1.6mn tons against 1.3mn tons in 3Q19 and 1.2mn tons in 2Q20. The company reported a 22.8% YoY gain in operating income to SAR 114.0mn on lower general and administrative expense, offset by higher selling and distribution cost. The increase in the share of profits from associated companies, higher other income, and reduced financial charges despite higher zakat charges, together with the factors mentioned above, supported SCC's bottom line in 3Q20.

Despite the increase in VAT, the cement sector witnessed a robust recovery from headwinds caused by the COVID-19 pandemic. The company's top line scaled up 9.2% YoY to SAR 1,134.6mn in 9H20, whereas its bottom line improved 6.7% YoY to SAR 328.5mn during the period. Aggregate sales of the 17 Saudi cement companies surged 25.7% YoY in July, 37.7% YoY in August, and 23.5% YoY in September, primarily driven by strong momentum in real estate activities in the domestic market. The rise in dispatches continued 14.6% YoY in October and 15.4% YoY in November. We expect growth in the cement sector to continue in FY21. However, the increasing operating expenses are set to continue pressurizing margins. Therefore, we maintain our "Neutral" rating on the stock based on the factors mentioned above.

- SCC's revenue rose 24.7% YoY to SAR 386.8mn in 3Q20, primarily led by a 19.8% YoY increase in sales volumes. Revenue was up 30.0% QoQ from SAR 297.5mn in 2Q20.
- Gross profit soared 23.8% YoY to SAR 163.2mn. However, growth was offset by higher cost of sales, which limited the benefit from increased revenue, as cost of sales was up 25.4% YoY to SAR 223.6mn during the period. Consequently, gross profit margin narrowed marginally to 42.2% in 3Q20 from 42.5% in 3Q19.
- EBITDA inched up 15.7% YoY to SAR 169.8mn in 3Q20. However, EBITDA margin for the quarter contracted to 43.9% as against 47.3% in 3Q19.
- Operating income strengthened 22.8% YoY to SAR 114.0mn in 3Q20 as the 18.3% decline in general and administrative expense was offset by an 88.9% rise in selling and distribution costs. Operating profit margin tightened to 29.5% in 3Q20 from 29.9% in 3Q19.
- In addition to these factors, the increase in the share of profits from associated companies, higher other income, and reduced financial charges despite higher zakat charges in 3Q20 resulted in a 29.7% YoY surge in net profit (attributable to equity holders) to SAR 107.6mn. Net profit margin for the period stood at 27.8% as opposed to 26.8% in 3Q19 and 25.4% in 2Q20.

Valuation: We revise our target price to a fair value of SAR 56.0 per share and rate the stock as "Neutral."

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	386.8	310.1	24.7%	1,545.4	1,441.6	7.2%
Gross Profit (SAR mn)	163.2	131.8	23.8%	671.9	649.8	3.4%
EBITDA (SAR mn)	169.8	146.7	15.7%	710.7	704.7	0.9%
Net Profit (SAR mn)	107.6	83.0	29.7%	459.7	451.4	1.8%
EPS Basic (SAR)	0.70	0.54	29.7%	3.0	3.0	1.8%
Gross Margin (%)	42.2%	42.5%	(0.3%)	43.5%	45.1%	(1.6%)
EBITDA Margin (%)	43.9%	47.3%	(3.4%)	46.0%	48.9%	(2.9%)
Net Profit Margin (%)	27.8%	26.8%	1.1%	29.7%	31.3%	(1.6%)

Source: Company Financials, FALCOM Research

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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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