

**FY20 Results Update**

**March 11, 2021**

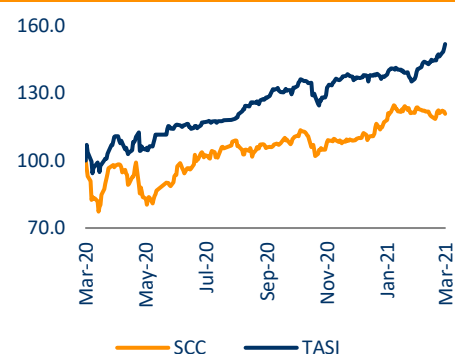
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	64.2
Target Price (SAR)	63.1
Upside/Downside (%)	(1.7%)

As of March 10, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	9.8
52-Wk High (SAR)	67.0
52-Wk Low (SAR)	41.0
Total Outstanding Shares (in mn)	153.0
Free Float (%)	92.3%

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

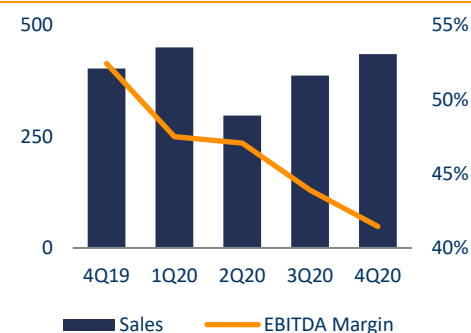


Price Performance (%)	Absolute	Relative
1m	(2.3%)	(10.2%)
6m	14.2%	(4.5%)
12m	20.9%	(31.0%)

**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 March 10, 2021

**Strong growth in sales volume supports FY20 top line but margins contract**

Saudi Cement Co. (SCC)'s revenue scaled up 8.0% YoY to SAR 1.6bn in FY20 due to higher production and sales volumes. Gross profit was up 2.6% YoY to SAR 666.4mn, but gross profit margin shrank 261.9 bps to 42.5% in FY20. Increased selling and distribution costs led to a 2.4% YoY drop in operating profit to SAR 479.1mn in FY20. Nevertheless, net profit inched up 1.0% YoY to SAR 456.0mn in FY20 owing to the decline in financial charge for the year. Net profit margin for the period contracted 226.3 bps to 29.0% in FY20.

Demand for cement recovered steadily in 4Q20, despite the headwinds caused by the COVID-19 pandemic. Cement sales grew 4.6% YoY to SAR 1.4bn, while clinker sales surged 48.3% YoY to SAR 0.2bn in FY20. SCC's domestic sales rose 2.3% YoY to SAR 1.2bn, whereas exports soared 35.8% YoY to SAR 0.4bn in FY20. Aggregate sales volume of the 17 Saudi cement companies surged 20.2% YoY to 53.2mn tons in FY20, whereas they rose 13.0% YoY to 15.1mn tons in 4Q20. The growth was primarily driven by strong momentum in the domestic mortgage market (as indicated by the 83.2% YoY rise in retail mortgage loans of Saudi banks to SAR 136.2bn in FY20) and several ongoing mega projects undertaken by the Saudi government. We believe the continued growth in the retail mortgage sector bodes well for the cement sector in FY21. However, additional restrictions due to new mutations of the COVID-19 virus could slow the completion of existing projects and delay the announcement of new projects. This could hurt the demand for cement and create headwinds for Saudi cement companies. Therefore, based on the factors mentioned above, we maintain our "Neutral" rating on the stock.

- SCC's revenue rose 8.9% YoY to SAR 1.6bn in FY20, primarily led by 12.3% YoY and 10.0% YoY increase in production and sales volumes, respectively. Revenue was up 8.1% YoY and 12.5% QoQ to SAR 435.0mn in 4Q20.
- Gross profit (up 2.6% YoY to SAR 666.4mn) grew at a slower pace than the top line due to a 14.1% YoY surge in cost of sales to SAR 903.3mn. Subsequently, gross profit margin narrowed to 42.5% in FY20 from 45.1% in FY19.
- EBITDA dipped 0.1% YoY to SAR 703.9mn in FY20. As a result, EBITDA margin for the year contracted to 44.8% from 48.9% in FY19.
- Operating income dropped 2.4% YoY to SAR 479.1mn in FY20 due to a 43.0% surge in selling and distribution costs. Operating profit margin contracted to 30.5% from 34.1% in FY19.
- However, net profit rose 1.0% YoY to SAR 456.0mn in FY20 due to decline in financial charge and higher share of profits from associate companies. Net profit margin for the period stood at 29.0% vis-à-vis 31.3% in FY19.
- On February 3, SCC's Board recommended a cash dividend of SAR 2.0 per share for 2H20, equivalent to SAR 306mn or 2.0% of the company's share capital.

**Valuation:** We revise our target price to a fair value of SAR 63.1 per share and rate the stock as "Neutral".

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	435.0	402.5	8.1%	1701.5	1569.6	8.4%
Gross Profit (SAR mn)	176.8	196.6	(10.1%)	717.6	666.4	7.7%
EBITDA (SAR mn)	180.3	211.0	(14.6%)	794.4	703.9	12.8%
Net Profit (SAR mn)	124.1	143.6	(13.6%)	496.6	456.0	8.9%
EPS Basic (SAR)	0.81	0.94	(13.6%)	3.25	2.98	8.9%
Gross Margin (%)	40.6%	48.8%	(8.2%)	42.2%	42.5%	(0.3%)
EBITDA Margin (%)	41.4%	52.4%	(11.0%)	46.7%	44.8%	1.8%
Net Profit Margin (%)	28.5%	35.7%	(7.1%)	29.2%	29.0%	0.1%

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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