

1Q21 Results Update

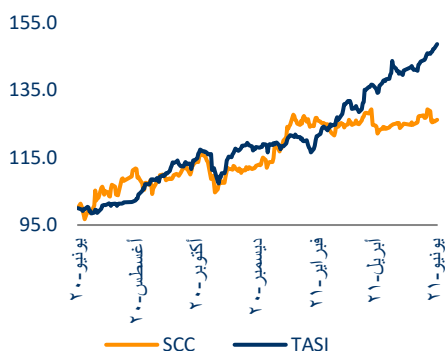
June 14, 2021

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	65.4
Target Price (SAR)	63.1
Upside/Downside (%)	(3.6%)

As of June 13, 2021

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	10.0
52-Wk High (SAR)	67.2
52-Wk Low (SAR)	50.0
Total Outstanding Shares (in mn)	153.0
Free Float (%)	92.3%

SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	0.9%	(4.6%)
6m	11.8%	(14.3%)
12m	26.3%	(22.5%)

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 June 13, 2021

Lower top line, higher operating costs weigh on bottom line and margins in 1Q21

Saudi Cement Co. (SCC)'s revenue dropped 4.7% YoY to SAR 429.1mn in 1Q21 due to lower average selling price of products during the quarter. Gross profit fell 14.4% YoY to SAR 173.6mn, while gross profit margin shrank 456 bps YoY to 40.5% in 1Q21. Increased SG&A expenses led to a 21.0% YoY plunge in operating profit to SAR 124.7mn in 1Q21; operating margin contracted 597 bps YoY to 29.1%. Net profit plummeted 19.6% YoY to SAR 119.4mn in 1Q21 owing to the decline in other income. As a result, net profit margin for the period tightened by 514 bps to 27.8%.

Demand for cement remained steady in 1Q21, despite the headwinds caused by the COVID-19 pandemic. Aggregate local cement sales volume of the 17 Saudi cement companies grew 5.3% YoY to 15.1mn tons, supported by an uptick in economic activity in the country. However, growth in local cement sales volume of SCC (up 4.0% to 1.6mn tons) underperformed that of the industry. SCC's domestic sales dipped 3.9% YoY to SAR 411.5mn in 1Q21, as significant competition in the KSA cement sector resulted in lower average selling prices of the company's products. Steady momentum in the domestic mortgage market, low interest rates, and ongoing mega projects are expected to be key drivers for the KSA cement sector in the near term. Cement sector companies are expected to log a healthy growth in revenue and bottom line in 2Q21 as compared to 2Q20; however, this is mainly due to the subdued activity in the sector in 2Q20 on account of the COVID-19 pandemic. Moreover, resurgence in COVID-19 cases could weigh on economic activity and result in a delay in housing and infrastructure projects. This could hurt demand for cement and create headwinds for Saudi cement companies. Therefore, based on these factors, we maintain our "Neutral" rating on the stock.

- SCC's revenue fell 4.7% YoY to SAR 429.1mn in 1Q21, primarily due to the decline in the average selling price of products. Revenue dipped 1.4% QoQ from SAR 435.0mn in 4Q20.
- Gross profit declined 14.4% YoY to SAR 173.6mn owing to the 3.2% YoY surge in cost of sales to SAR 255.4mn, in addition to the drop in top line. Subsequently, gross profit margin narrowed to 40.5% in 1Q21 from 45.0% in 1Q20.
- EBITDA plunged 15.3% YoY to SAR 181.1mn in 1Q21. As a result, EBITDA margin for the quarter slipped to 42.2% from 47.5% in 1Q20.
- Operating income nosedived 21.0% YoY to SAR 124.7mn in 1Q21 due to a surge in total SG&A expenses. Consequently, EBIT margin contracted to 29.1% from 35.0% in 1Q20.
- Lower other income, coupled with the decline in margins, led to a 19.6% YoY drop in the net profit (attributable to equity holders) to SAR 119.4mn in 1Q21. Net profit margin for the period stood at 27.8% vis-à-vis 33.0% in 1Q20.
- On April 8, SCC's shareholders approved the Board's recommendation of a SAR 2 per share cash dividend for 2H20, equivalent to SAR 306mn (20.0% of the share capital).
- On June 2, SCC's Board recommended a cash dividend of SAR 1.5 per share for 1H21, equivalent to SAR 229.5mn, or 15.0% of the company's share capital.

Valuation: We maintain our target price at a fair value of SAR 63.1 per share and retain "Neutral" rating on the stock.

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	429.1	450.4	(4.7%)	1,701.5	1,569.6	8.4%
Gross Profit (SAR mn)	173.6	202.8	(14.4%)	699.2	666.4	4.9%
EBITDA (SAR mn)	181.1	213.9	(15.3%)	738.6	703.9	4.9%
Net Profit (SAR mn)	119.4	148.5	(19.6%)	482.0	456.0	5.7%
EPS Basic (SAR)	0.78	0.97	(19.6%)	3.15	2.98	5.7%
Gross Margin (%)	40.5%	45.0%	(4.6%)	41.1%	42.5%	(1.4%)
EBITDA Margin (%)	42.2%	47.5%	(5.3%)	43.4%	44.8%	(1.4%)
Net Profit Margin (%)	27.8%	33.0%	(5.1%)	28.3%	29.0%	(0.7%)

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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