

2Q21 Results Update

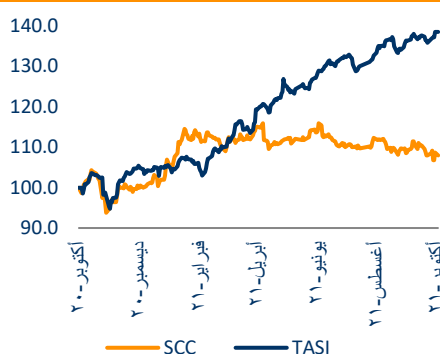
October 4, 2021

Recommendation	Underweight
Previous Recommendation	Neutral
Current Price (SAR)	62.4
Target Price (SAR)	52.9
Upside/Downside (%)	(15.2)

As of October 3, 2021

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	9.6
52-Wk High (SAR)	67.2
52-Wk Low (SAR)	53.4
Total Outstanding Shares (in mn)	153.0
Free Float (%)	86.1%

SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(1.3%)	(2.8%)
6m	(6.0%)	(21.4%)
12m	8.0%	(30.6%)

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 October 3, 2021

Earnings driven by top-line growth in 2Q21

Saudi Cement Co. (SCC)'s revenue gained 17.0% YoY to SAR 348.1mn in 2Q21, driven by higher dispatches during the quarter. Gross profit climbed 12.2% YoY to SAR 138.7mn, while gross profit margin shrank 173 bps YoY to 39.8% in 2Q21. Despite higher SG&A expense, operating profit went up 10.9% YoY to SAR 92.0mn in 2Q21, whereas operating margin contracted 146 bps YoY to 26.4%. Net profit increased 14.1% YoY to SAR 86.4mn in 2Q21, led by an increase in share in net results of associates and lower financial charges. Net profit margin for the period narrowed by 64 bps to 24.8%.

Demand for cement remained strong as the economy started to recover. Aggregate local cement sales volume of the 17 Saudi cement companies grew 22.8% YoY to 11.5mn tons, partly due to the lower base as the country implemented COVID-related restrictions last year. Growth in local cement sales volume of SCC (up 26.3% to 1.2mn tons) outperformed that of the industry. SCC's domestic sales rose 18.7% YoY to SAR 332.3mn in 2Q21, supported by strong local demand. Clinker inventory at the sector level stood at 32.9mn tons at the end of 2Q21. While we expect growth in cement volumes to improve, aided by a pickup in infrastructure spending, we expect the recovery to be postponed to 1H22. Given the high inventory, we anticipate cement selling prices to come under a slight pressure. In view of these factors, we revise our rating to "Underweight" on the stock.

- SCC's revenue rose 17.0% YoY to SAR 348.1mn in 2Q21, supported by an increase in dispatches. Revenue fell 18.9% QoQ from SAR 429.1mn in 1Q21.
- Gross profit increased 12.2% YoY to SAR 138.7mn, despite the 20.5% YoY surge in cost of sales to SAR 209.4mn. Gross profit margin tightened to 39.8% in 2Q21 from 41.6% in 2Q20.
- EBITDA jumped 6.2% YoY to SAR 148.7mn in 2Q21, while EBITDA margin for the quarter slipped to 42.7% from 47.1% in 2Q20.
- Operating income climbed 10.9% YoY to SAR 92.0mn in 2Q21 in spite of a surge in total SG&A expense. EBIT margin contracted to 26.4% from 27.9% in 2Q20.
- Higher share in net results of associates and lower financial charges led to a 14.1% YoY rise in net profit (attributable to equity holders) to SAR 86.4mn in 2Q21. Net profit margin for the period stood at 24.8% vis-à-vis 25.4% in 2Q20.
- As per the company's 2Q21 financials, SCC purchased an additional 37% stake in its Bahrain-based subsidiary United Cement Company for SAR 28mn. This brings SCC's total ownership in the company to 100%.

Valuation: We revise our target price to a fair value of SAR 52.9 per share and change our rating to "Underweight" on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	348.1	297.5	17.0%	1,555.0	1,569.6	(0.9%)
Gross Profit (SAR mn)	138.7	123.7	12.2%	606.6	666.4	(9.0%)
EBITDA (SAR mn)	148.7	140.0	6.2%	663.0	703.9	(5.8%)
Net Profit (SAR mn)	86.4	75.7	14.1%	410.2	456.0	(10.0%)
EPS Basic (SAR)	0.56	0.49	14.1%	2.68	2.98	(10.0%)
Gross Margin (%)	39.8%	41.6%	(1.7%)	39.0%	42.5%	(3.4%)
EBITDA Margin (%)	42.7%	47.1%	(4.4%)	42.6%	44.8%	(2.2%)
Net Profit Margin (%)	24.8%	25.4%	(0.6%)	26.4%	29.0%	(2.7%)

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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