

3Q21 Results Update

January 6, 2022

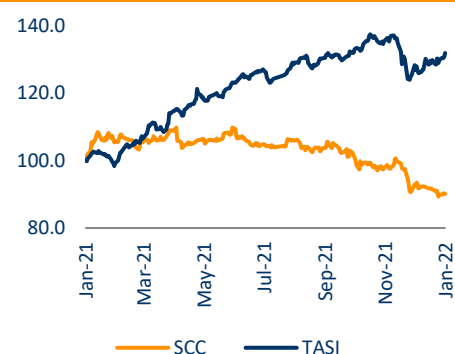
Recommendation	Neutral
Previous Recommendation	Underweight
Current Price (SAR)	54.6
Target Price (SAR)	57.7
Upside/Downside (%)	4.9

As of January 5, 2022

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	8.4
52-Wk High (SAR)	67.2
52-Wk Low (SAR)	54.3
Total Outstanding Shares (in mn)	153.0
Free Float (%)	86.1%

SAUDI CEMENT vs. TASI (Rebased)

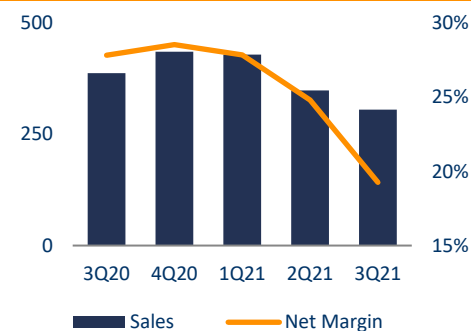


Price Performance (%)	Absolute	Relative
1m	(3.0%)	(5.8%)
6m	(14.1%)	(18.2%)
12m	(9.8%)	(41.8%)

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	6.87%
General Org. for Social Insurance	6.15%

Quarterly Sales (SAR mn) and EBITDA Margin



Source: Bloomberg, Company Financials, FALCOM Research; Data as of January 5, 2022

Top line dented due to weak demand along with lower selling price

Saudi Cement Co. (SCC)'s revenue declined 21.2% YoY to SAR 304.9mn in 3Q21, due to lower dispatches during the quarter. Gross profit fell 33.2% YoY to SAR 109.1mn, while gross profit margin shrank 642 bps YoY to 35.8% in 3Q21. Operating profit slipped 45.0% YoY to SAR 62.8mn in 3Q21, despite lower selling and distribution expenses, whereas operating margin contracted 889 bps YoY to 20.6%. Net profit decreased 45.4% YoY to SAR 58.7mn in 3Q21, despite lower financial charges, increase in share in net results of associates and higher other income. Net profit margin for the period contracted by 857 bps to 19.3%.

SCC reported weak results in 3Q21, with the top line declining 21.2% YoY during the quarter owing to lower volumetric sales as demand fell following the revision in building code. Aggregate local cement sales volume of the 17 Saudi cement companies plummeted 11.2% YoY to 11.5mn tons. SCC's local cement sales volume declined 12.5% to 1.2mn tons. Clinker inventory at the sector level stood at 34.6mn tons at the end of 3Q21 as compared to 40.1mn tons at the end of 3Q20. The company's inventory level declined to 3.5mn tons in 3Q21 from 4.9mn in 3Q20. We expect growth in cement volumes to improve, aided by a pickup in infrastructure spending. However, resurgence in COVID-19 cases due to the Omicron variant could impact economic activity and hurt the demand for cement; this, in turn, could create certain headwinds for Saudi cement companies. In the light of these factors, we revise our rating on the stock to 'Neutral'.

- SCC's revenue fell 21.2% YoY to SAR 304.9mn in 3Q21 due to a decrease in dispatches. Revenue declined 12.4% QoQ from SAR 348.1mn in 2Q21.
- Gross profit decreased 33.2% YoY to SAR 109.1mn due to a 12.4% YoY surge in cost of sales to SAR 195.9mn. Gross profit margin contracted to 35.8% in 3Q21 from 42.2% in 3Q20.
- EBITDA dropped 29.4% YoY to SAR 119.8mn in 3Q21, while EBITDA margin for the quarter slipped to 39.3% from 43.9% in 3Q20.
- Operating income decreased 45.0% YoY to SAR 62.8mn in 3Q21, despite lower selling and distribution expenses. EBIT margin contracted to 20.6% from 29.5% in 3Q20.
- Net profit slipped 45.4% YoY to SAR 58.7mn in 3Q21, despite lower financial charges, increase in share in net results of associates and higher other income. Net profit margin for the period stood at 19.3% vis-à-vis 27.8% in 3Q20.

Valuation: We revise our target price to a fair value of SAR 57.7 per share and change our rating on the stock to 'Neutral'.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	304.9	386.8	(21.2%)	1,599.7	1,569.6	1.9%
Gross Profit (SAR mn)	109.1	163.2	(33.2%)	674.6	666.4	1.2%
EBITDA (SAR mn)	119.8	169.8	(29.4%)	729.7	703.9	3.7%
Net Profit (SAR mn)	58.7	107.6	(45.4%)	473.5	456.0	3.9%
EPS Basic (SAR)	0.38	0.70	(45.4%)	3.10	2.98	3.9%
Gross Margin (%)	35.8%	42.2%	(6.4%)	42.2%	42.5%	(0.3%)
EBITDA Margin (%)	39.3%	43.9%	(4.6%)	45.6%	44.8%	0.8%
Net Profit Margin (%)	19.3%	27.8%	(8.6%)	29.6%	29.0%	0.6%

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, FALCOM Research.

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