

## 1Q22 Results Update

June 16, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	52.1
Target Price (SAR)	56.4
Upside/Downside (%)	8.2%

As of June 15, 2022

Key Data (Source: Bloomberg)	
Market Cap (SAR bn)	8.0
52-wk High (SAR)	65.0
52-wk Low (SAR)	51.0
Total Outstanding shares (in mn)	153.0
Free Float (%)	92.3%

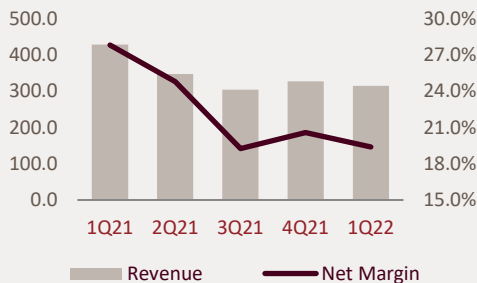
### SAUDI CEMENT vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.3%)	2.6%
6m	(7.5%)	(15.0%)
12m	(19.8%)	(30.4%)

Major Shareholders (%)	
Khaled Abdulrahman Saleh Al Rajhi	6.87%

### Quarterly Sales (SAR mn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of June 15, 2022

### Decline in volume and selling price coupled with rising costs hits profitability

Saudi Cement Co. (SCC)'s revenue fell 26.6% YoY to SAR 315.1mn in 1Q22 owing to lower sales price and volumes. Despite a 16.1% YoY fall in cost of sales, the company's gross profit slipped 42.0% YoY to SAR100.7mn during the quarter. Consequently, gross profit margin shrank 849 bps YoY to 32.0% in 1Q22. The decline in selling and distribution expenses was offset by rise in general and administrative expenses as SCC's operating profit dropped 51.8% YoY to SAR 60.1mn in 1Q22, while operating margin narrowed 999 bps YoY to 19.1%. Despite a fall in zakat expense and finance cost, the company's net profit reduced 48.8% YoY to SAR 61.1mn in 1Q22. Consequently, net profit margin contracted 812 bps to 19.4% during the quarter.

SCC reported a weak performance during 1Q22, as the company's topline and bottom line declined 26.6% YoY and 48.8% YoY, respectively, during the quarter, largely attributable to lower average selling prices and volumetric sales. Increase in cost per ton during the period negatively impacted company margins. Aggregate local cement sales volume of the 17 Saudi cement companies dragged down 10.1% YoY to 14.2mn tons in 1Q22. Additionally, SCC's local cement sales volume dropped 14.3% to 1.6mn tons. Clinker inventory at the sector level stood at 33.7mn tons at the end of 1Q22 compared with 33.2mn tons at the end of 1Q21. The decline in local sales supply during the quarter was attributable to labor shortages and slowdown in construction activities. In the labor market, the number of expatriate workers continue to decline in 2021. Additionally, the implementation of a new regulation under Saudi Building Code impacted construction activities. However, easing COVID-19-related restrictions led to rise in the number of expats in 4Q21 — the first quarterly rise since 1Q20. Additionally, pickup in infrastructure spending, megaprojects, and rise in government spending owing to increasing oil prices may lead to improvement in cement volumes during the second half of this year. In light of these factors, we maintain our 'Neutral' rating on the stock.

- SCC's revenue dropped 26.6% YoY to SAR 315.1mn in 1Q22 following lower sales price and volumes.
- Gross profit decreased 42.0% YoY to SAR 100.7mn, despite cost of sales declining 16.1% YoY to SAR 214.3mn during the quarter. Consequently, gross profit margin narrowed to 32.0% in 1Q22 from 40.5% in 1Q21.
- EBITDA declined 35.6% YoY to SAR 116.6mn in 1Q22, while EBITDA margin shrank to 37.0% from 42.2% in 1Q21.
- Higher general and administrative expenses offset the fall in general and administrative expense as operating income slipped 51.8% YoY to SAR 60.1mn in 1Q22. Consequently, EBIT margin contracted to 19.1% from 29.1% in 1Q21.
- Despite lower financial charges and zakat expense, increase in share in net results of associates, and higher other income, net profit dropped 48.8% YoY to SAR 61.1mn in 1Q22. Net profit margin for the period stood at 19.4% vis-à-vis 27.8% in 1Q21.
- SCC's revenue declined 3.8% QoQ from SAR 327.5mn in 4Q21 on lower sales volume, slightly offset by higher average selling price during the quarter. However, despite lower selling and distribution expenses, finance cost, and zakat expenses, net profit slipped 9.3% QoQ from SAR 67.4mn in 4Q21.
- SCC's EPS dropped to SAR 0.40 in 1Q22 from SAR 0.78 in 1Q21.
- SCC's Board of Directors declared a 15% cash dividend for H1 2022 at SAR 1.5 per share amounting to SAR 229.5mn.

**Valuation:** We revise our target price to a fair value of 56.4 per share but maintain "Neutral" rating on the stock.

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	315.1	429.1	(26.6%)	1,337.2	1,409.6	(5.1%)
Gross Profit (SAR mn)	100.7	173.6	(42.0%)	498.9	530.4	(5.9%)
EBITDA (SAR mn)	116.6	181.1	(35.6%)	527.7	571.6	(7.7%)
Net Profit (SAR mn)	61.1	119.4	(48.8%)	296.1	331.9	(10.8%)
EPS Basic (SAR)	0.40	0.78	(48.8%)	1.94	2.17	(10.8%)
Gross Margin (%)	32.0%	40.5%	(8.5%)	37.3%	37.6%	(0.3%)
EBITDA Margin (%)	37.0%	42.2%	(5.2%)	39.5%	40.6%	(1.1%)
Net Profit Margin (%)	19.4%	27.8%	(8.4%)	22.1%	23.5%	(1.4%)

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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