

3Q 2018 Results Update

Nov 20, 2018

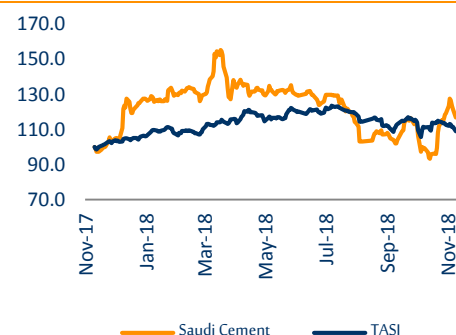
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	45.0
Target Price (SAR)	46.5
Upside/Downside (%)	3.4%

As of Nov 19, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.9
52 Wk High (SAR)	60.40
52 Wk Low (SAR)	35.90
Total Outstanding shares (in mn)	153
Free Float (%)	89.1%

SCC vs. TASI (Rebased)

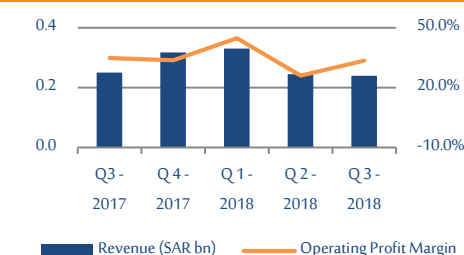


Price Performance (%)	Absolute	Relative
1m	18.1%	20.1%
6m	(11.3%)	(4.8%)
12m	16.9%	7.8%

Major Shareholders (%)

Khaled Abdulrahman Saleh Al Rajhi	8.02%
Public Pension Agency	6.11%
General Org. for Social Insurance	5.22%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 19th August 2018

SCC's 3Q18 net profit falls 13.7% Y/Y, still beats consensus

Saudi Cement's (SCC) 3Q18 net profit declined 13.7% Y/Y to SAR 75mn on lower sales, in addition to an increase in selling and distribution expenses, Islamic financial charges, and a decrease in share in the net results of associates. Sequentially, net profit jumped 29.9% Q/Q, ascribed to a fall in the cost of sales per ton of cement sold (-7.0% Q/Q, -10% Y/Y) aided by 31% increase in production. Revenues came in at SAR 240mn, down 4.3% Y/Y and 2.5% Q/Q, largely driven by decline in total cement dispatches (-9.3% Q/Q, 4.0% Y/Y) to 1.1mn tons in 3Q18. However, the likely sequential increase in selling price (+7.5% Q/Q, -7.9% Y/Y), along with an increase in total exports (clinker and cement) at 413K tons, up 6.7% Q/Q, capped further decline in revenue.

SCC witnessed some improvement in margins during the quarter. Gross margins expanded 101bps Y/Y and 811bps to 47.2%, as cost per ton declined (-7.0% Q/Q, -10% Y/Y) on the back of a rise in clinker production levels to 1.7mn tons (+28.8% Y/Y, +31.3% Q/Q). We believe the recent increase in clinker production levels are in anticipation of an upturn in demand and, consequently, the firm expanded clinker inventory to 5.4mn tons (4.9mn tons in 2Q17, 5.2mn tons in 3Q17). We expect demand to pick up in the coming quarter, with the USD 4.4bn King Salman Energy Park (SPARK) expected to commence work in 4Q18, coupled with a seasonal upturn in construction activity.

- SCC's top line contracted 4.3% Y/Y to SAR 240mn in 3Q18, largely driven by decline in the selling price (-7.9% Y/Y) despite a marginal rise in dispatches (+4.0% Y/Y). Sequentially, revenue declined 2.5% Q/Q, ascribed to a 9.3% fall in dispatches; however, a +7.5% increase in selling price capped this decline.
- Gross profit declined 2.1% Y/Y to SAR 113mn, due to decline in sales (-4.3% Y/Y) and the cost of sales (-6.1% Y/Y). Blended costs per ton declined 9.7% Y/Y to SAR 113, benefitting from economies of scale, amid an increase in production volumes (1.7mn tons in 3Q18). Consequently, gross margins witnessed a margin expansion of 101bps, while sequentially, the margins expanded 811bps, driven by a 15.5% Y/Y fall in the cost of sales.
- EBITDA fell 10.6% Y/Y to SAR 130mn, driven by a significant increase in SG&A (+159% Y/Y). EBITDA margin declined 389bps Y/Y to 54.3% in 3Q18, while expanding 754bps Q/Q on a sequential basis, largely ascribed to significant fall in the cost of sales in 3Q18.
- SCC's operating income dropped 13.7% Y/Y to SAR 77mn (3Q17: SAR 90mn). The operating margin dipped 382bps to 33.6% in 3Q18. During the quarter, the company witnessed margin erosion on a Y/Y basis due to lower capacity utilization.
- Net profit for the period stood at SAR 75.4mn (-13.7% Y/Y, 29.9% Q/Q), led by the aforesaid reasons. Net profit margin, as of 3Q18, stood at 31.5%, compared with 34.9% in 3Q17.
- In 3Q18, exports, particularly to Bahrain, helped Eastern Region relieve some of its excess inventory and stabilize price realization. We expect the selling price to remain volatile in the near term due to intense competition amid current higher inventory levels. Meanwhile, we believe that export sales would grow moderately.

Valuation: We revise our target price downwards to SAR 46.5 per share, in the light of weak results. SCC trades at premium valuation to its regional and sector peers owing to its strong market position and high dividend payouts. We see limited upside from the current level, and maintain our "Neutral" rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	239.6	250.2	-4.3%	1,162.8	1,184.5	-1.8%
Gross Profit (SAR mn)	113.1	115.6	-2.1%	508.0	568.8	-10.7%
EBITDA (SAR mn)	130.1	145.6	-10.6%	572.1	681.8	-16.1%
Net Profit (SAR mn)	75.4	87.4	-13.7%	359.9	453.4	-20.6%
EPS basic (SAR)	0.5	0.6	-13.7%	2.4	3.0	-20.6%
Gross Margin (%)	47.2%	46.2%	1.0%	43.7%	48.0%	-4.3%
EBITDA Margin (%)	54.3%	58.2%	-3.9%	49.2%	57.6%	-8.4%
Net Profit Margin (%)	31.5%	34.9%	-3.4%	31.0%	38.3%	-7.3%

Source: Company Financials, FALCOM Research

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 Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

Disclaimer and Risks Warning:

The information in this report was compiled from various public sources believed to be reliable and whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions, future prices and expectations contained herein are fair and reasonable, FALCOM makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, FALCOM does not represent that the information or expected future prices in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information or the expected prices contained in this report. FALCOM accepts no liability whatsoever for any loss arising from any use of this report or its contents, and FALCOM shall not be in any way responsible for the contents hereof. Opinions, forecasts or price projections contained in this report represent FALCOM's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results, prices or events will match any such opinions, forecasts or prices projections which represent only one possible outcome and these price estimates may not occur in the future whatsoever. Further, such opinions, forecasts or price projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially. Any value or price, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount. This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, the person who obtain a copy of this report should understand that this report is not intended to provide personal investment advice and does not take into account his/her financial situation or any specific investment objectives or particular needs which he/she may have. Before making an investment decision the investors should seek advice from an independent financial, investment and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients. This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and price estimates contained; are protected by the intellectual property laws, copyright and publishing rules and regulations applied in the Kingdom of Saudi Arabia.

All rights reserved.

FALCOM acquired the Saudi Capital Market Authority license number (37-06020) on 27/05/2006, and commenced providing its services to the investors in the Saudi Stock Exchange on 19/02/2007 with CR Number 1010226584 Issued on 04/12/1427H.