



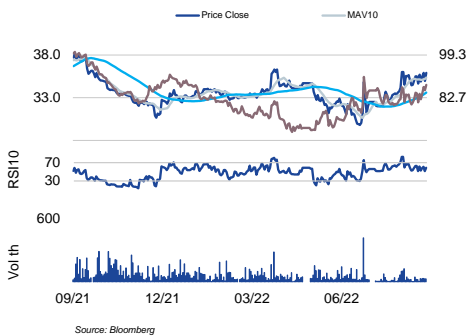
**US\$1.077bn** Market cap  
**56%** Free float  
**US\$0.384mn** Avg. daily volume

Target price **36.00** 6.7% over current  
Current price **33.75** as at 7/9/2022

Existing rating

**Underweight** **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2021A	2022E	2023E
Revenue	671	536	569
Revenue growth	14%	-20%	6%
Gross profit	264	207	231
Gross margin	39%	39%	41%
EBITDA	319	264	282
EBITDA margin	47%	49%	50%
Net profit	212	164	185
Net margin	32%	31%	32%
EPS	1.76	1.36	1.54
DPS	1.75	1.50	1.75
Payout	99%	110%	114%
EV/EBITDA	13x	15x	14x
P/E	19x	25x	22x
RoE	13%	10%	11%

Source: Company data, Al Rajhi Capital

## Riyadh Cement Co

### Performance continues to remain under pressure; TP at SAR 36/sh

Riyadh Cement Co (RCC) registered a revenue of SAR259mn, a y-o-y fall of 35.6%, and was broadly in line with our estimate of SAR250mn. The fall in sales was attributed to a 27.5% y-o-y fall in cement volume and lower average realization. Gross profit fell by 42.9% y-o-y, while operating profit fell by 47.8% y-o-y. Lower revenue and the resultant fall in operating leverage impacted profitability, as gross margins fell to 40.8% for H1 2022, compared to 46.0% a year back. Operating expenses on the other hand increased by 30% y-o-y. For H1 2022, the cement volume of RCC fell by 27.5% y-o-y, underperforming the industry, which on average fell by 8.5% y-o-y, and the performance of the Central region, which registered an increase of 2.1% y-o-y. Cement volume for the period was impacted by lower construction activity, though we feel that the fall in cement volume has reached the bottom. We expect the sector performance to improve, aided by stable mortgage offtake and favourable movement of construction material prices, which have started to fall. Cement prices in the Central region have overall improved in Q2 2022, though the same could come under pressure, at the back of renewed concerns over oversupply. Overall, we have reduced our target price to SAR36/share, from SAR40/share, and also reduce our rating to "Neutral".

**H1 2022 results:** Total volume sold during H1 2022 came in at 1.4mn tons, compared to 1.6mn tons in H2 2021 and 1.9mn tons a year back. Gross margins fell to 40.8% in H1 2022, corresponding to 46.0% a year back, though it was better than 29.4% in H2 2021. Net margins at 32.9% in H1 2022, were lower compared to 40.0% a year back. However, the same was better than 19.0% in H2 2021.

Figure 1: Riyadh Cement Co: Summary of H1 2022 results

(SARmn)	H1 2022	H1 2021	H2 2021	% chg y-o-y	% chg h-o-h	ARC Estimates
Revenue	259	401	270	-36%	-4%	250
Gross Profit	106	185	79	-43%	33%	75
Gross Margin	41%	46%	29%	NM	NM	30%
Op. Profit	90	173	54	-48%	68%	61
Op. Margin	35%	43%	20%	NM	NM	24%
Net Profit	85	160	51	-47%	66%	57

Source: Company data, Al Rajhi Capital

**Valuation and risks:** For our estimates, we expect input and energy prices to remain flat. We value the company based on an average mix of DCF and dividend capitalization. The DCF target price is based on a 2.0% terminal growth and WACC of 8% and comes to SAR38/share. Dividend capitalization is based on a fair value yield of 5.0% and comes to SAR35/share. Overall, we have reduced our target price for the company to SAR36 per share, an upside of 6.7%, which implies a *Neutral* rating. The key downside risk is a decline in volume and lower-than-expected cement prices. The key upside risks are higher than the forecasted pick-up in the construction activity, resulting in improved volume and prices.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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