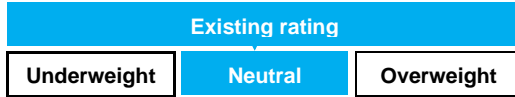




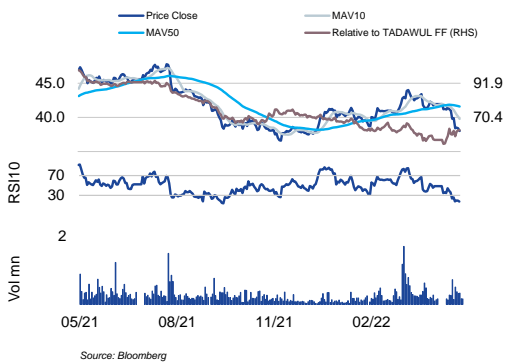
US\$1.018bn Market cap
81% Free float
US\$3.267mn Avg. daily volume

Target price **40.00** +4.7% over current
 Current price **38.20** as at 24/5/2022

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Performance



Earnings

(SARmn)	2021	2022E	2023E
Revenue	1,033	848	915
Revenue growth	18%	-18%	8%
Gross profit	309	206	244
Gross margin	30%	24%	27%
EBITDA	347	257	286
EBITDA margin	34%	30%	31%
Net profit	162	124	156
Net margin	16%	15%	17%
EPS	1.62	1.24	1.56
DPS	2.75	2.25	2.25
Payout ratio	170%	182%	144%
EV/EBITDA	10.4x	13.8x	12.4x
P/E	23.7x	30.9x	24.5x
RoE	5.9%	4.7%	6.0%

Source: Company data, Al Rajhi Capital

Arabian Cement

Financial performance to remain weak; TP at SAR40/sh

Arabian Cement Company (ACC) registered a revenue of SAR259mn, a y-o-y fall of 19.3% and was higher than our estimate of SAR204mn. Fall in sales was attributed to a 21.0% y-o-y fall in revenue from its operations in the Kingdom and a 13.9% y-o-y fall in the revenue from its operations from outside the Kingdom. Revenue from KSA was impacted by a 20.3% y-o-y fall in cement volume. Gross profit fell by 33.6% y-o-y, while operating profit fell by 43.3% y-o-y. Lower revenue, along with the resultant fall in operating leverage, and higher input costs, impacted profitability, as gross margins fell to 26.6% for Q1 2022, compared to 32.4% a year back. For Q1 2022, cement volume of ACC fell by 20.3% y-o-y, underperforming both the industry, which on an average fell by 10.1%, and the performance of the Western region, which registered a fall of 10.0%. We expect construction activity to remain weak; along with this, with a clinker inventory of 34.7 mn tons, in April-22, which is around seven months of production (LTM), we expect the average realization to remain under pressure. However, there could be a slight recovery in both the volume and prices post H1 2022, as we expect marginal recovery in demand backed by an improvement in the execution of mega and giga projects. However, this recovery is likely to be limited, resulting in cement sales volume coming lower in 2022, compared to 2021. Overall, we maintain our target price at SAR40/share and also maintain our rating at “Neutral”.

Q1 results: Total volume sold during the quarter came at 0.9mn tons in Q1 2022, in line with volume in Q4 2021, but lower than 1.1mn tons a year back. At the back of lower volume and higher input costs, gross margins fell to 26.6% in Q1 2022, compared to 32.4% a year back, and 29.0% in the previous quarter. Net margins at 16.2% in Q1 2022 was lower than 20.8% a year back, though it was better than 9.1% in Q4 2021.

Figure 1 ACC: Summary of Q1 2022 results

(SARmn)	Q1 2022	Q1 2021	Q4 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	259	322	256	-19%	1%	204
Gross Profit	69	104	74	-34%	-7%	57
Gross Margin	27%	32%	29%	NA	NA	28%
Operating Profit	44	78	34	-43%	33%	30
Net Profit	42	67	23	-37%	80%	25

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 8.0% and comes to SAR35/share. Dividend capitalization is based on a fair value yield of 5.0% and comes to SAR45/share. Overall, we have maintained our target price for the company to SAR40 per share, a upside of 4.7%, which implies an “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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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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