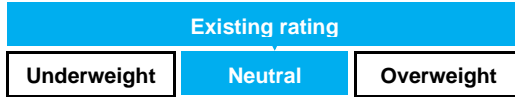




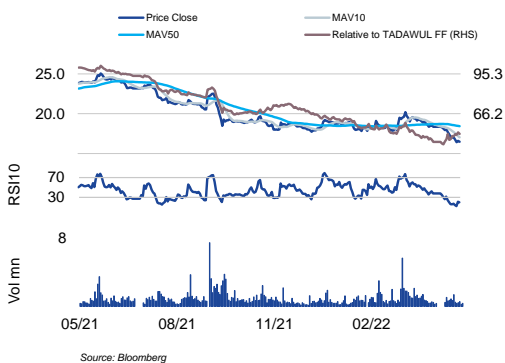
US\$0.742bn Market cap
71% Free float
US\$4.641mn Avg. daily volume

Target price **17.00** 3.8% over current
Current price **16.38** as at 26/5/2022

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Performance



Earnings

(SARmn)	2021	2022E	2023E
Revenue	582	475	518
Revenue growth	-7%	-18%	9%
Gross profit	230	145	180
Gross margin	40%	31%	35%
EBITDA	255	168	199
EBITDA margin	44%	35%	38%
Net profit	166	85	118
Net margin	28%	18%	23%
EPS	0.97	0.50	0.70
DPS	1.00	0.50	0.70
Payout ratio	103%	100%	101%
EV/EBITDA	11.7x	17.3x	14.3x
P/E	16.8x	32.9x	23.5x
RoE	8.4%	4.3%	6.0%

Source: Company data, Al Rajhi Capital

Najran Cement

Pressure on performance to continue; TP at SAR17/sh

Najran Cement registered a revenue of SAR140mn for Q1 2022, a y-o-y fall of 24.2%, but was higher than our estimate of SAR138mn. Fall in sales was attributed to a 13.2% y-o-y fall in cement volume and lower average realization. Cement sales volume for Q1 2022 came in at 0.8mn tons, broadly in line with our estimate. Gross profit fell by 49.2% y-o-y, while operating profit fell by 58.8% y-o-y. Lower revenue and the resultant fall in operating leverage, along with an increase in input cost impacted profitability, as gross margins fell to 27.4% for Q1 2022, compared to 40.9% a year back. For Q1 2022, cement volume of Najran Cement fell by 13.2% y-o-y, underperforming the industry, which on an average fell by 10.1%, and the performance of the Southern region, which registered a fall of 20.6%. Going forward, 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 the volume 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 reduce our target price to SAR17/share from SAR19/share, but maintain our rating at "Neutral".

Q1 results: Total volume sold during the quarter came at 0.8mn tons in Q1 2022, compared to 0.7mn tons in Q4 2021 and 0.9mn tons a year back. At the back of lower volume and higher input costs, gross margins fell to 27.4% in Q1 2022, compared to 40.9% a year back, and 42.2% in the previous quarter. Net margins at 16.6% in Q1 2022 was lower than 32.7% a year back, and 25.8% in Q4 2021.

Figure 1 Najran Cement: Summary of Q1 2022 results

(SARmn)	Q1 2022	Q1 2021	Q4 2021	% chg y-o-y	% chg q-oq	ARC Estimates
Revenue	140	184	140	-24%	0%	138
Gross Profit	38	75	59	-49%	-35%	47
Gross Margin	27%	41%	42%	NA	NA	34%
Operating Profit	26	63	43	-59%	-40%	34
Net Profit	23	60	36	-61%	-35%	31

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 9.0% and comes to SAR21/share. Dividend capitalization is based on a fair value yield of 4.0% and comes to SAR13/share. Overall, we have reduced our target price for the company to SAR17 per share, a upside of 3.8%, 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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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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