



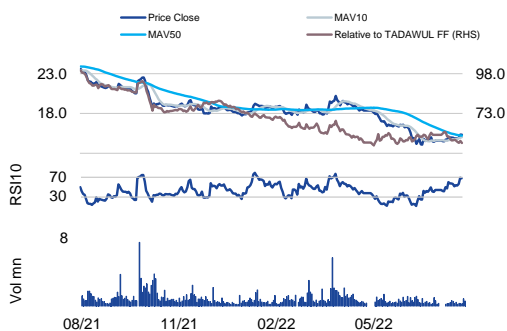
US\$0.663bn Market cap
71% Free float
US\$2.012mn Avg. daily volume

Target price **15.00** +2.3% over current
Current price **14.66** as at 2/8/2022

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Performance



Earnings

(SARmn)	2021	2022E	2023E
Revenue	582	500	517
Revenue growth	-7%	-14%	3%
Gross profit	230	142	151
Gross margin	40%	28%	29%
EBITDA	255	161	167
EBITDA margin	44%	32%	32%
Net profit	166	74	83
Net margin	28%	15%	16%
EPS	0.97	0.44	0.49
DPS	1.00	0.50	0.70
Payout ratio	103%	114%	144%
EV/EBITDA	10.6x	16.3x	15.7x
P/E	15.1x	33.5x	30.2x
RoE	8.4%	3.8%	4.3%

Source: Company data, Al Rajhi Capital

Najran Cement

Revenue continues to remain under pressure

Najran Cement Co registered a revenue of SAR108mn, a y-o-y fall of 17.9%, and was attributed to a 6.6% y-o-y fall in cement volume, and lower average realization. However, the revenue was higher than our estimate of SAR98mn, due to higher-than-expected cement volume, even as the realization was broadly in line with expectations. Gross profit fell by 34.0% y-o-y, while operating profit fell by 52.3% y-o-y. Lower revenue and the resultant fall in operating leverage impacted profitability, as gross margins fell to 28.5% for Q2 2022, compared to 35.5% a year back. For Q2 2022, the cement volume of Najran Cement fell by 6.6% y-o-y, close to the industry performance, which on an average fell by 6.4%, but was better than the performance of the Southern region, which registered a fall of 13.2%. Cement volume for the period was impacted by lower construction activity, though we feel that the cement volume fall has reached the bottom and expect the performance to gradually improve. We expect the sector performance to improve, aided by stable mortgage offtake and favorable movement of construction material prices, which have started to fall. We also expect the average cement realizations of Najran Cement to remain at these levels. Overall, we reduce our target price to SAR15/share from SAR17/share and maintain our rating at “Neutral”.

Q2 results: Total volume sold during the quarter came at 0.6mn tons in Q2 2022, compared to 0.7mn tons in Q2 2021 and 0.8mn tons in the previous quarter. Gross margins declined to 28.5% in Q2 2022, compared to 35.5% a year back, and were impacted by lower volume and average realization, though it was an improvement from 27.4% in the previous quarter, and was aided by lower cost of sales per unit.

Figure 1: Najran Cement: Summary of Q2 2022 results

(SARmn)	Q2 2022	Q2 2021	Q1 2022	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	108	132	140	-18%	-23%	98
Gross Profit	31	47	38	-34%	-20%	25
Gross Margin	29%	35%	27%	NA	NA	25%
Operating Profit	17	35	26	-52%	-36%	13
Net Profit	13	33	23	-59%	-43%	10

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 SAR16/share. Dividend capitalization is based on a fair value yield of 5.0% and comes to SAR14/share. Overall, we have reduced our target price for the company to SAR15 per share, an upside of 2.3%, 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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