

Rating Summary

Stock	Rating	Fair Value	Upside/Downside
Arabian Cement	Neutral	30.0	-6.4%
Najran Cement	Neutral	11.0	+4.6%
Qassim Cement	Neutral	54.0	-10.0%
Riyadh Cement	Neutral	30.0	-2.1%
Saudi Cement	Neutral	50.0	+2.7%
Southern Cement	Neutral	42.0	+5.4%
Yamama Cement	Neutral	30.0	-3.4%
Yanbu Cement	Neutral	30.0	-4.3%

Source: Al Rajhi Capital. CMP is considered as of 28 January 2024

Saudi Cement

Underweight Maintained

After the recent increase in energy prices (details shown in Figure 1) we revise down our earnings and fair value for the cement stocks under coverage. Given the weak demand supply dynamics in 2024, we believe that cement companies would not be able to increase cement prices despite the increase in energy prices but would start partially doing so from 2025 onwards. Furthermore, we continue to maintain an underweight stance on the sector as was highlighted in our 1Q2024 Strategy Report.

Figure 1 Changes in energy prices

Fuel	Previous	New	Change
Diesel (SAR/Ltr)	0.75	1.15	53%
High Sulphur Fuel Oil (HSFO) (SAR/Ltr)	0.08	0.19	138%
Natural gas (Methane) (SAR/mmbtu)	1.25	1.75	40%

Company	Energy Source & Details	Expected Impact on production cost
Arabian Cement		
Najran Cement	High Sulphur Fuel Oil (HSFO) is used for the plants energy requirements.	~13% to 14%
Qassim Cement	As per our understanding ~110ltrs of HSFO is used per ton of cement.	
Riyadh Cement		
Southern Cement		
Yanbu Cement		
Saudi Cement	High Sulphur Fuel Oil (HSFO) & Natural gas (methane) is used for the plants energy requirements.	~13%
Yamama Cement	Natural gas (methane) is used for the plants energy requirements.	~12%

Source: Al Rajhi Capital

While rationality would dictate that the increase in cost is passed on to the end consumer, our discussion with market players has revealed that till this point that has not been the case. Furthermore, the absence of significant growth in mortgage finance (limiting growth in cement demand from the private sector) similar to what was witnessed between 2019-2022 and elevated clinker inventory levels make us believe that cement companies might not be able to pass on the impact of the increase in energy prices in 2024.

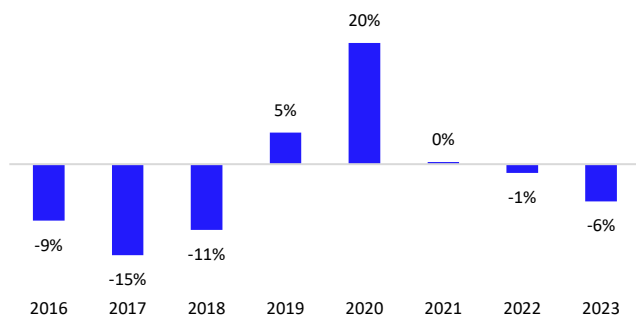
Hence on account of the above-mentioned reasons, we revise our earnings and fair value for the cement companies under our coverage. It is important to mention that apart from the type of fuel used and the change in fuel prices, the existing inventory levels of each company would determine the impact on cost of sales.

Figure 2 Earnings and Valuation Revision

Cement Sector	2024			2025			TP		
	SAR/sh	Old	New	Change	Old	New	Change	Old	New
Arabian Cement	1.08	0.90	-16%	1.20	1.13	-6%	34.0	30.0	-12%
Najran Cement	0.51	0.42	-16%	0.64	0.61	-6%	12.0	11.0	-8%
Qassim Cement	2.38	2.08	-13%	2.86	2.66	-7%	60.0	54.0	-10%
Riyadh Cement	1.81	1.55	-14%	1.93	1.75	-9%	34.0	30.0	-12%
Saudi Cement	2.72	2.32	-15%	2.96	2.71	-8%	56.0	50.0	-11%
Southern Cement	1.86	1.54	-17%	2.22	2.02	-9%	46.0	42.0	-9%
Yamama Cement	1.81	1.66	-8%	2.19	2.08	-5%	33.0	30.0	-9%
Yanbu Cement	0.79	0.65	-17%	1.02	0.93	-9%	33.0	30.0	-9%

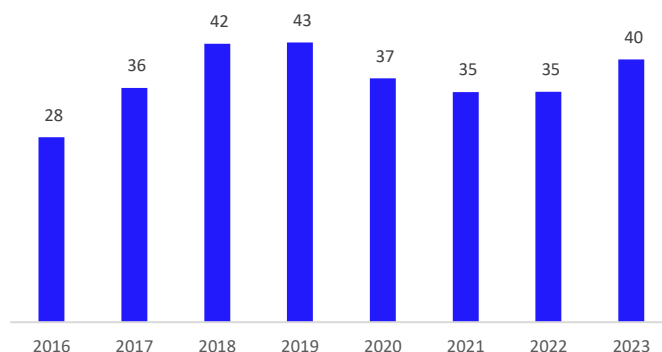
Source: Al Rajhi Capital

Figure 3 Growth in Cement Sales Volume



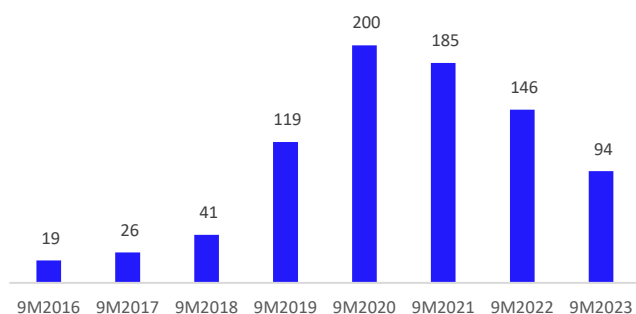
Source: Yamama Cement, Al Rajhi Capital

Figure 4 Clinker Inventory (mn tons)



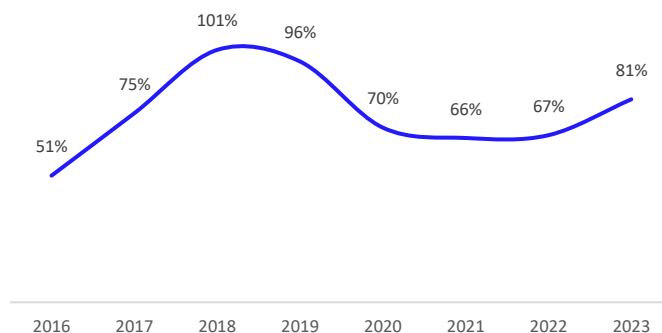
Source: Yamama Cement, Al Rajhi Capital

Figure 5 New Residential Mortgages for Individuals by Banks (SAR bn)



Source: SAMA, Al Rajhi Capital

Figure 6 Ending Clinker inventory/Annual Sales volume



Source: Yamama Cement, Al Rajhi Capital

Recommendation & Valuation Method: Hence due to the absence of sizable growth in cement demand from the private sector and rising clinker inventory levels we remain underweight in the sector. We have valued the companies in our universe using discounted cashflows with the below mentioned weighted average cost of capital and a growth rate of 2.5%.

Figure 7 Fair value and WACC

Cement Companies	Fair Value (SAR)	WACC
Arabian Cement	30.0	9.5%
Najran Cement	11.0	8.5%
Qassim Cement	54.0	8.5%
Riyadh Cement	30.0	9.4%
Saudi Cement	50.0	8.6%
Southern Cement	42.0	9.6%
Yamama Cement	30.0	9.6%
Yanbu Cement	30.0	8.5%

Source: Al Rajhi Capital

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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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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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