

### What do we think?

Stock	Rating	Price Target	Upside
ACC	Neutral	SAR34.0	-2.0%
YSCC	Neutral	SAR33.0	-1.2%
Saudi Cement	Neutral	SAR56.0	2.8%
QACCO	UW	SAR60.0	-11.0%
YCC	Neutral	SAR33.0	-9.7%
SPCC	Neutral	SAR46.0	-2.5%
Najran Cement	Neutral	SAR12.0	-7.1%
Riyadh Cement	Neutral	SAR34.0	1.2%

Note: UW: Underweight

## Saudi Cement Sector Update

### Soft volume recovery seems visible in H2 although realisations to be a key monitorable

The cement sector in KSA continued to face demand woes in H1 2023 driven by the lingering increase in interest rates affecting the overall sentiment. Elevated inflation and interest rates dented the sales volume for the cement industry by about 5.6% in the first half of 2023 versus H1 2022. Although volumes recovered slightly in July 2023 (+8.2% m-o-m and +4.5% y-o-y), the recovery was mostly concentrated in the Central region. Nevertheless, pressure in demand continues to persist as a result of mortgage slowdown across all regions barring the Central region and hence, overall sales volumes for FY23 might end lower than FY22. However, we believe that the long-term demand story for cement remains intact underpinned by the sea of megaprojects announced in the Kingdom. Besides, we expect mortgage originations to hover around the YTD average of FY23 levels (~SAR6.5bn) thereby making the cement industry poised for a stable demand outlook in the second half of the year.

**YTD (Jan-Jul'23) Volume Breakdown:** On an aggregate basis, export volumes partially offset the drop in demand for local cement sales. Cement sales in the local KSA market declined by 6.6% YTD whereas exports almost doubled. Categorically, the Western region registered the sharpest drop in volumes at 10.7% followed by the Southern region at 7.1%. The Central region witnessed a moderate drop of 4.7% in cement sale volumes to 8.9 mn tons. However, volumes in the Eastern region grew by ~10%.

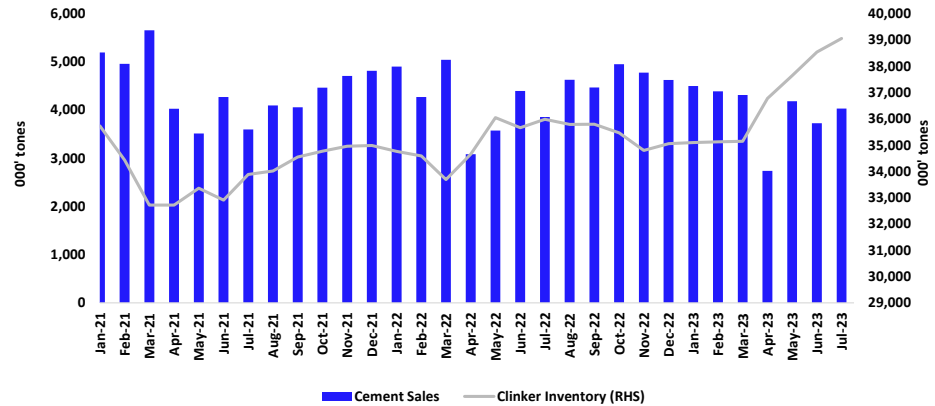
**Clinker stock build-up back at Oct'2020 levels:** We observe that most regions are sitting at high clinker stock-piles in contrast to the Central region which reported almost flattish inventory levels. Clinker inventory levels are up by almost 9% y-o-y in July 2023 implying pain in pricing to follow through in the quest to liquidate inventory levels. The share of the Western region appears to be the highest (35%) in terms of clinker reserves with Yanbu and Arabian Cement reporting a steep rise of ~30% and ~43% respectively as of Jul'23. Nevertheless, in the Central region, Yamama cement managed to curb their clinker inventory pool, and this may be attributed to optimisation of production lines.

**Uptick in Construction activity to push demand:** Mortgage offtake for Jun'23 came in at SAR5.97mn post hitting the apparent bottom in Apr'23. The cool-off in the mortgage lending may have contributed to the drop in cement demand to some extent. However, cement sales will continue to rise gradually as broad-based acceleration in investment kicks in with regard to the several mega and giga projects in the Kingdom.

**Market share competition to affect prices:** We believe competition for market share may further intensify in H2 2023 which shall weigh on the realizations for most cement companies thereby putting pressure on earnings. However, in our view prices might head towards slight recovery in Q4 2023.

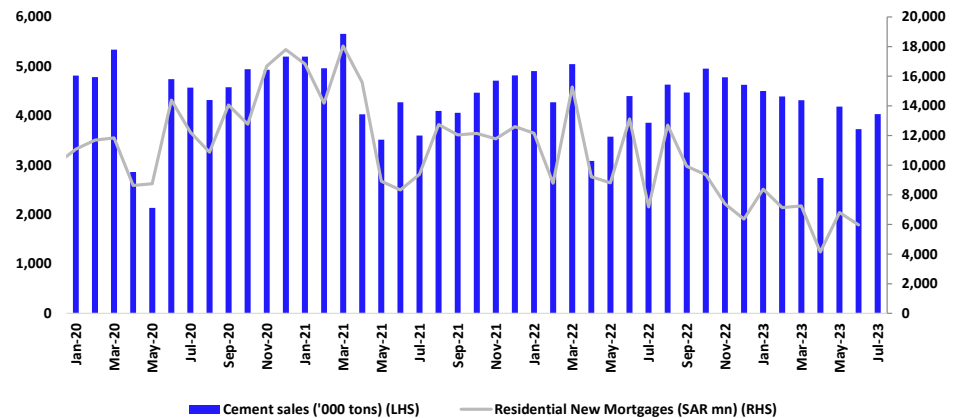
Overall, we mostly continue to remain Neutral on the sector and hence maintain our rating for most companies. However, we downgrade our rating for Riyadh Cement and Qassim Cement while we upgrade our rating for Saudi Cement owing to the fundamental factors surrounding volumes and realisations.

Figure 1 Cement Sales versus Clinker Inventory



Source: Argaam, Al Rajhi Capital

Figure 2 Trend of Residential New Mortgages vis-à-vis Cement sales



Source: SAMA, Al Rajhi Capital.

Figure 3 Cement Sales Volume and Clinker Inventory Breakdown across Regions (%)

Cement Sales Volume (in '000 tons)	Jul'23 (YTD)	Jul'22 (YTD)	Growth (%)	Clinker Inventory (in mn tons)	Jul'23	Jul'22	Growth (%)
Central	8,918	9,362	-5%	Central	7	7	-1%
West	6,589	7,377	-11%	West	14	11	28%
East	4,992	4,544	10%	East	7	6	5%
South	4,513	4,857	-7%	South	6	5	15%
North	2,880	2,999	-4%	North	6	7	-15%
<b>Total</b>	<b>27,892</b>	<b>29,139</b>	<b>-4%</b>	<b>Total</b>	<b>39</b>	<b>36</b>	<b>9%</b>

Source: Argaam, Al Rajhi Capital.

### Valuation Changes:

Post updating the latest 2Q 2023 financials along with the YTD cement sale metrics, we have revised our estimates for all cement companies under our coverage as shown below. Our valuation methodology consists of pure DCF for some companies except for Yanbu, Southern and Riyadh Cement for which we have used a blended average of DCF and Dividend Yield (with different weights across companies). Key upside risks to our valuations include stronger than expected recovery in volumes and lower than expected fall in realisations. Key downside risks include slowdown in infrastructure spending and lower than expected volumes.

Figure 4 Revised Estimates and target Price

Companies	Old Tp SAR/sh	New Tp SAR/sh	Revision in TP %	CMP*	Up/down to CMP %	Rating	Previous Rating
Arabian Cement	43	34	-20.9%	35	-2.0%	Neutral	Neutral
Yamama Cement	30	33	10.0%	33	-1.2%	Neutral	Neutral
Saudi Cement	66	56	-15.2%	55	2.8%	Neutral	Underweight
Qassim Cement	60	60	0.0%	67	-11.0%	Underweight	Neutral
Yanbu Cement	48	33	-31.3%	37	-9.7%	Neutral	Neutral
Southern Cement	48	46	-4.2%	47	-2.5%	Neutral	Neutral
Najran Cement	25	12	-52.0%	13	-7.1%	Neutral	Neutral
Riyadh Cement Co.	36	34	-5.6%	34	1.2%	Neutral	Overweight

Source: Al Rajhi Capital. \*As of 27<sup>th</sup> Aug 2023.

Figure 5 Income Statement - Arabian Cement

(SARmn)	2022	2023E	2024E
Revenue	971	875	904
Revenue growth	-6%	-10%	3%
Gross profit	275	231	249
Gross margin	28%	26%	28%
EBITDA	337	297	312
EBITDA margin	35%	34%	35%
Net profit	181	147	155
Net margin	19%	17%	17%
EPS	1.81	1.47	1.55
DPS	2.20	1.50	2.50
Payout ratio	122%	102%	162%
EV/EBITDA	10.0x	11.5x	10.7x
P/E	19.2x	23.6x	22.4x
RoE	6.9%	5.6%	6.1%

Source: Company Data, AL Rajhi Capital

Figure 6 Income Statement - Yamama Cement

(SARmn)	2,022	2023E	2024E
Revenue	1,023	941	1,008
Revenue growth	39%	-8%	7%
Gross profit	423	347	410
Gross margin	41%	37%	41%
EBIT	333	272	332
EBIT margin	33%	29%	33%
Net profit	356	287	338
Net margin	35%	30%	33%
EPS	1.76	1.42	1.67
DPS	1.00	0.00	0.50
Payout ratio	57%	0%	30%
EV/EBITDA	18.9x	15.2x	12.8x
P/E	19.0x	23.6x	20.0x
RoE	8%	6%	7%

Source: Company Data, AL Rajhi Capital

Figure 7 Income Statement- Saudi Cement

(SARmn)	2022E	2023E	2024E
Revenue	1,420	1,458	1,541
Revenue growth	1%	3%	6%
Gross profit	569	566	633
Gross margin	40%	39%	41%
EBITDA	635	597	642
EBITDA margin	45%	41%	42%
Net profit	399	358	424
Net margin	28%	25%	28%
EPS	2.61	2.34	2.77
DPS	3.25	3.00	3.50
Payout ratio	125%	128%	126%
EV/EBITDA	13.5x	14.2x	13.2x
P/E	20.9x	23.3x	19.7x
RoE	17.4%	16.3%	20.4%

Source: Company Data, AL Rajhi Capital

Figure 8 Income Statement- Qassim Cement

(SARmn)	2022	2023E	2024E
Revenue	678	607	687
Revenue growth	-6%	-11%	13%
Gross profit	188	137	220
Gross margin	28%	23%	32%
EBITDA	214	169	248
EBITDA margin	32%	28%	36%
Net profit	131	130	194
Net margin	19%	21%	28%
EPS	1.45	1.45	2.16
DPS	2.20	1.30	1.50
Payout ratio	152%	90%	69%
EV/EBITDA	23.9x	30.0x	20.1x
P/E	46.5x	46.5x	31.2x
RoE	7.8%	7.8%	11.2%

Source: Company Data, AL Rajhi Capital

Figure 9 Income Statement- Yanbu Cement

(SAR mn)	2022	2023E	2024E
Revenue	981	799	829
Revenue growth	5%	-19%	4%
Gross profit	285	244	277
Gross margin	29%	31%	33%
EBITDA	399	353	379
EBITDA margin	41%	44%	46%
Net profit	215	166	198
Net margin	22%	21%	24%
EPS	1.37	1.06	1.26
DPS	1.50	1.80	2.00
Payout ratio	110%	170%	159%
EV/EBITDA	14.5x	16.9x	15.6x
P/E	26.7x	34.6x	29.1x
RoE	7.8%	6.3%	7.8%

Source: Company Data, AL Rajhi Capital

Figure 10 Income Statement- Southern Cement

(SARmn)	2022	2023E	2024E
Revenue	1,222	1,142	1,194
Revenue growth	-9%	-7%	5%
Gross profit	357	247	328
Gross margin	29%	22%	28%
EBITDA	507	377	440
EBITDA margin	41%	33%	37%
Net profit	301	164	247
Net margin	25%	14%	21%
EPS	2.15	1.17	1.76
DPS	1.25	2.25	2.50
Payout ratio	58%	192%	142%
EV/EBITDA	12.9x	17.5x	14.8x
P/E	22.0x	40.3x	26.8x
RoE	9.4%	5.4%	8.4%

Source: Company Data, AL Rajhi Capital

Figure 11 Income Statement- Najran Cement

(SARmn)	2022	2023E	2024E
Revenue	536	510	534
Revenue growth	-8%	-5%	5%
Gross profit	172	147	172
Gross margin	32%	29%	32%
EBITDA	203	177	202
EBITDA margin	38%	35%	38%
Net profit	114	79	107
Net margin	21%	16%	20%
EPS	0.67	0.46	0.63
DPS	0.50	0.50	0.75
Payout ratio	75%	108%	119%
EV/EBITDA	12.1x	14.1x	12.1x
P/E	19.3x	27.8x	20.5x
RoE	5.7%	4.0%	5.4%

Source: Company Data, AL Rajhi Capital

Figure 12 Income Statement- Riyadh Cement

(SARmn)	2022	2023E	2024E
Revenue	598	639	679
Revenue growth	-11%	7%	6%
Gross profit	232	252	283
Gross margin	39%	40%	42%
EBITDA	296	313	337
EBITDA margin	49%	49%	50%
Net profit	190	206	233
Net margin	32%	32%	34%
EPS	1.58	1.71	1.94
DPS	1.50	1.75	2.00
Payout ratio	95%	102%	103%
EV/EBITDA	13.3x	12.4x	11.4x
P/E	21.2x	19.6x	17.3x
RoE	11.3%	12.3%	14.0%

Source: Company Data, 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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