Eastern Province Cement Co.

Results Flash Note Q1-24

A 21.4% Y/Y growth in earnings on the back of healthy growth across segments and improved margins.

Eastern Cement posted a net income of SAR 68.0mn during Q1-24 (up 21.4% Y/Y and 36.0% Q/Q), above our estimate and market consensus of SAR 61.6mn and SAR 58.2mn, respectively. The deviation from our estimate is mainly due higher-than expected top-line and margins. Volumetric sales came at 0.63MT (stable on Y/Y and up 7% on Q/Q basis), while selling prices averaged above SAR 300.0/tonne for the second consecutive quarter (Vs. around 280 in Q1-23); due higher contribution of cement used in Oil &Gas industry. Meanwhile, precast segment posted another healthy growth on volumes and margins. We believe that the impact of feedstock hikes on Eastern is expected to be marginal and the lower amongst the cement companies. We stay positive on Eastern after posting a resilient performance in relatively tough conditions for the sector. We maintain our TP of SAR 44/Share and keep our "Overweight" recommendation.

- Eastern Cement posted a net income of SAR 68.0mn in Q1-24 (EPS: SAR 0.79/share); compared to SAR 56mn in Q1-23, beating our estimate and market consensus of SAR 61.6mn and SAR 58.2mn, respectively. The deviation from our estimate is mainly due to the higher than expected top-line and margins. The Q/Q improvement of 36.0% in net income is mainly attributed to the higher top-line in Q1-24 and on-off impact of impairment expense related to investment in an associate and loses from the same associate (Arab Yemen Cement Company) of around SAR 11.0mn in the previous quarter.
- Revenue totaled SAR 302.0mn in Q1-24 (Up 27.6%Y/Y and 4.5%Q/Q), higher than our estimate of SAR 289.2mn by 4.4%. This resulted from the improvement on Cement and Precast segments revenues. According to our primary calculations, average realization prices (ASP) for cement since last quarter are still skyrocketing above the level of SAR 300/tonne (compared to SAR 282.6 in Q1-23), which is most likely related to cement used on Oil and gas explorations. Cement volume sales come at 0.63MT, stable on Y/Y basis and Q/Q basis. Precast revenue continued its growth in volume and margins, which we expect to contribute more than 30% of the quarter sales. We are positive on the company's strategic focus on precast business, and believe that its contribution is likely to increase further on the coming periods. We highlight again to the improved margins of this sector (net margins of 13.8% in FY23 compared to 3.7% in FY22) due to better pricing and terms negotiations of the company.
- Gross profit stood at SAR 96.0mn (up 22.3% Y/Y and 8.4% Q/Q), surpassing our estimates by 12.7%; mainly due to the higher top-line. However, GP margin came at 31.8% compared to our estimated 30.7%; as ASP came higher than expected. According to our primary analysis, cost/tonne is likely to be impacted by the production of cement related to Oil & Gas industry. Meanwhile, we expect impact of the feedstock hike on the company is marginal (the lowest in the sector) due to dependency on Methane. However, we await the company's financials to comment on specific numbers in this regard.
- Operating profit amounted to SAR 75.0mn, higher than our estimates by 9.2% and above the SAR 63.1mn in Q1-23 by 18.8%. OPEX came around SAR 21.0mn (up 36.7% Y/Y and 12.5% Q/Q), compared to our estimated SAR 16.5mn. As a result, the OPEX-to-sales ratio for Q1-24 reached 7.0%, compared to 6.5% in both Q1-23 and Q4-23, leading to an operating margin of 24.8%, compared to our estimate of 23.7%, and 26.7% in Q1-23.

AJC view and valuation: The company posted some strong growth earnings on the back of the growth in the top-line. ASP of cement for the second consecutive quarter averaged above SAR 300/tonne, thanks to the sales of special cement related to Oil &Gas industry. Moreover, Eastern Cement is amongst the least impacted companies by the latest feedstock hikes as the company uses Methane in production and the higher ASP in the eastern region protecting its margins. The company is currently establishing new more-energy-efficient production line (value of USD 270.53m) to replace the old lines which is expected to improve production efficiency when it starts commercial operations after 2 years. The company just obtained 10 years credit facilities worth of SAR 1bn for this project, which we expect to translate into higher interest expenses on the coming periods. We however expect the company to not fully depend on external finance and utilize its strong financial position for the project, evidenced by the recent transfer of SAR 430 million from statutory reserve to the voluntary reserve account. We revise up revise up our forecast on Eastern in FY24 to SAR 1.18bn in revenue (up 19.6% Y/Y) and to earnings of 249.5mn (up 26.2% Y/Y). we expect to company to keep FY23 DPS during FY24 due to the Capex requirements. The stock is currently trading at 13.5x compared to a forward P/E of 11.4x based on FY24 earnings. We keep our "**Overweight**" recommendation on Eastern Cement with a TP of **SAR 44.0/Share**.

Results Summary

SAR mn	Q1-FY23	Q4-FY23	Q1-FY24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	236.6	289.0	302.0	27.6%	4.5%	4.4%
Gross Profit	78.5	88.6	96.0	22.3%	8.4%	12.7%
Gross Margin	*33.2%*	*30.7%*	*31.8%*	-	-	-
EBIT	63.1	69.9	75.0	18.8%	7.3%	9.2%
Net Profit	56.0	50.0	68.0	21.4%	36.0%	10.4%
EPS	0.65	0.58	0.79	-	-	-

Source: company report, Aljazira Capital

Recommendation	**Overweight**
Target Price (SAR)	**44.0**
Upside / (Downside)*	**31.0%**

Source: Tadawul *prices as of 5th of May 2024

Key Financials

SARmn (unless specified)	FY21	FY22	FY23	FY24E
Revenues	757.7	748.2	984.6	1,177
Growth %	2.1%	3.05%	25.6%	19.6%
Net Income	192.9	143.3	197.6	249.5
Growth %	-11.2%	-25.7%	37.9%	26.2%
EPS	2.24	1.67	2.30	2.90
DPS	2.50	2.00	1.60	1.60

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23	FY24
Gross Margin	34.4%	31.6%	31.4%	30.4%
Net Margin	25.5%	18.3%	20.1%	21.4%
P/E (x)	19.6	24.2	16.6	11.4
P/B (x)	1.57	1.47	1.37	1.26
EV/EBITDA (x)	11.3	12.3	9.7	8.7
Dividend Yield	5.7%	5.0%	4.2%	4.8%

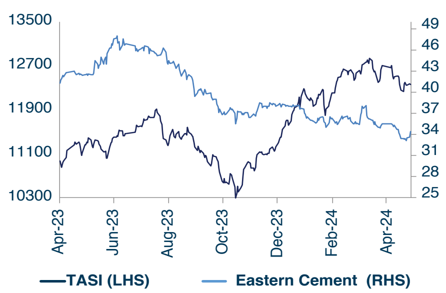
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	2.95
YTD%	(11.8%)
52 week (High)/(Low)	48.0/33.10
Share Outstanding (mn)	86.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Equity Analyst
Ahmed AlMutawah
+966 11 2256250
a.almutawah@aljaziracapital.com.sa

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer