

Arabian Cement's posted a strong set of results at SAR 45.0mn in Q2-22 (up 34.3% Y/Y, and 7.4% Q/Q), above our and market estimates of SAR 36.0mn and SAR 29.0mn, respectively. The deviation from our estimate was mainly due to higher-than-expected contribution from subsidiary (Qutrana) and other income, which was partially offset by higher cost per tonne. GP margin expanded to 29.4% (up 240bps Y/Y), against our estimate of 27.4% and 26.7% recorded in Q1-22. We maintain our "Overweight" recommendation on the stock with a TP of SAR 45.3/share.

- Arabian Cement posted net income of SAR 45.0mn in Q2-22 (EPS: SAR 0.45/share), compared to SAR 33.5mn in Q2-21. Net income came in above our estimate of SAR 36.0mn and higher than market estimate of SAR 29.1mn. The Y/Y increase of 34.2% in net income is mainly attributed to improved selling prices and a higher-than-expected other revenue, which is expected to stand at SAR 7.30mn compared to SAR 1.94mn in Q2-21, and to our estimate of SAR 1.96mn.
- Revenue stood at SAR 231.0mn (decline of 0.8% Y/Y, and down 10.9% Q/Q), against our estimate of SAR 217.3mn, the deviation from our estimates was mainly due to increasing in revenues from its associate (Qutrana), which expected to stand at SAR 73.9mn compared to our expectation of SAR 63.4mn.
- Gross profit stood at SAR 67.9mn, above our estimate of SAR 62.8mn, due to higher-than-expected top line. Cost per ton was recorded at SAR 132.0/tonne, above our expectations of SAR 127.1/tonne and the average of SAR 123.4/tonne during FY21. GP expanded ~240bps Y/Y to 29.4%, due to lower sales of exports, which stood at 322K tons, compared to 456K tons.
- Operating profit stood at SAR 45.6mn, above our expectation of SAR 42.1mn. OPEX came at SAR 22.3mn (a decline of 12.0% Y/Y, and a decline of 9.8% Q/Q).

AJC view: In Q2-22, Arabian Cement's average domestic selling prices showed an improvement of 3.4% Y/Y. Moreover, subsidiary (Qutrana)'s revenue supported the total revenue of ACC. Volumetric sales declined by 9.4% Y/Y, due to a decline of 29.4% in export sales. The rise in other revenues also supported the company's bottom line (up by 34.3% Y/Y, and 7.4% Q/Q). We expect that the company will reduce its export sales, which could improve its margins because of lower export prices. The company's inventories in the first seven months of this year were down 22.0% Y/Y to 1.86MT. The company is currently trading at TTM PE of 24.0x compared to a forward PE of 15.9x based on FY23E earnings. Arabian Cement is expected to pay dividends of SAR 2.50/share (6.6%D/Y) in FY22. We maintain our "Overweight" recommendation on the stock with a TP of SAR 45.3/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	233.0	259.3	231.0	-0.8%	-10.9%	6.3%
Gross Profit	63.0	69.1	67.9	7.9%	-1.7%	8.1%
Gross Margin	27.0%	26.7%	29.4%	-	-	-
EBIT	37.6	44.4	45.6	21.3%	2.7%	8.3%
Net Profit	33.5	41.9	45.0	34.3%	7.4%	25.0%
EPS	0.34	0.42	0.45	-	-	-

Source: Company Reports, Aljazira Capital

Overweight

Target Price (SAR)	45.3
Upside / (Downside)*	18.7%

Source: Tadawul *prices as of 9th of August 2022

Key Financials

(in SAR mn, unless specified)	FY21	FY22E	FY23E
Revenue	1033.2	1014.0	933.9
Growth %	18.5%	-1.8%	-7.9%
Net Income	161.5	205.7	240.2
Growth %	-13%	27%	16.7%
EPS	1.6	2.0	2.4

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22E	FY23E
Gross Margin	29.9%	31.4%	39.5%
Net Margin	15.6%	20.3%	25.7%
P/E (x)	23.40	18.54	15.88
P/B (x)	1.33	1.37	1.37
EV/EBITDA (x)	11.74	11.53	9.59
Dividend Yield	6.6%	6.6%	6.8%

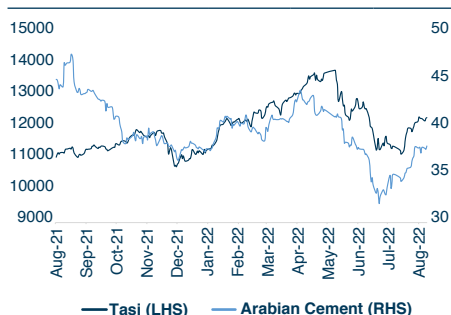
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.8
YTD %	0.93%
52 Week (High)/(Low)	48.0/31.85
Shares Outstanding (mn)	100

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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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.

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