

Qassim Cement posted a weak set of results, reporting a net income of SAR 29.0mn, below AJC and market estimates of SAR 49.5mn and SAR 39.8mn, respectively. The deviation from our estimates was mainly due to higher-than-expected cost per ton (SAR 116.5/ton Vs our estimate of SAR 94.0/ton). Revenue stood at SAR 152.1mn, against our estimate of SAR 139.7mn, as sales of 914KT were slightly higher than our estimate of 873KT. Price realization on sales stood at SAR 166.4/tonne, above our estimates of SAR 160.0/tonne but below SAR 179/tonne recorded during Q2-21. Selling prices improved by 32.2% Q/Q, during the quarter and expected to increase further in coming quarters. We maintain our “Neutral” recommendation on the stock with a TP of SAR 75.9/share.

- Qassim Cement posted net income of SAR 29.0mn in Q2-22 (EPS: SAR 0.32/share), compared to SAR 100.2mn in Q2-21. Net income came in below our estimate of SAR 49.5mn and the market estimate of SAR 39.8mn. The Y/Y decline of 71.1% in net income is mainly attributed to a decline in sales volume by 17.1%, lower selling prices which decreased by 7.2% Y/Y, and a significant increase in cost per ton by 31.5% Y/Y. Moreover, booking unrealized losses from investments also dragged net income
- Revenue stood at SAR 152.1mn (a decline of 23.1% Y/Y, while an increase of 6.8%Q/Q), against our estimate of SAR 139.7mn. During Q2-22, the company registered an increase of 32.2%Q/Q in its average price realization at SAR 166.4/tonne, above our estimates of SAR 160.0/tonne and below SAR 179.3/tonne in Q2-21. Sales volume stood at 914KT compared to 1,103KT in Q2-21 and 1,132KT in Q1-22; our estimate was 873KT.
- Gross profit of SAR 45.6mn below our estimate of SAR 57.6mn due to higher-than-expected cost of sales. Cost per tonne was recorded at SAR 116.5/tonne, above our expectation of SAR 94.0/tonne and the average of SAR 95.2/tonne during FY21, which indicates that the firm might be incurring additional transport cost.
- Operating profit stood at SAR 37.0mn, below our expectation of SAR 49.2mn. OPEX came at SAR 8.7mn, posting an increase of 3.2%Y/Y.

AJC view: The average selling prices in Q2-22 were reported at SAR 166.4/ton, reflecting a growth of 32.2% Q/Q, but still below ASP of SAR 179.3 per ton in Q2-21. We believe sales prices to continue to rise in the coming quarters, due to the easing of pricing pressure. The company recorded a decrease in its inventory by 17.5%Y/Y to stand at 2.0MT. The current inventory level could be enough to cover more than 45% of the total sales volume during TTM. The loss of market share from 9.62% in Q2-21 to 8.45% in Q2-22, and the sharp increase in cost per ton (up 31.5%Y/Y, and 14.5% Q/Q) to stand at SAR 116.5/ton, are concerns. Qassim Cement’s local dispatches stood at 2.37mn tons in 7M-22 compared to 2.64mn tons in 7M-21, depicting a decrease of 10.2%Y/Y. The company is expected to post SAR 187.7mn in net income (2.09 EPS) in FY22, a decline of 36.4%Y/Y. Qassim Cement is expected to pay dividend of SAR 3.5/share (4.3% D/Y) in FY22, owing to its strong balance sheet and zero debt. We maintain our “Neutral” recommendation on the stock with a TP of SAR 75.9/share.

Results Summary

SARmn	Q2-21	Q1-22	Q2-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	197.8	142.5	152.1	-23.1%	6.8%	8.9%
Gross Profit	100.1	27.4	45.7	-54.4%	66.9%	-20.7%
Gross Margin	50.6%	19.2%	30.0%			-
EBIT	91.7	18.9	37.0	-59.6%	96.2%	-24.7%
Net Profit	100.2	25.1	29.0	-71.1%	15.4%	-41.5%
EPS	1.11	0.28	0.32			

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	75.9
Upside / (Downside)*	-7.1%

Source: Tadawul *prices as of 15th of August 2022

Key Financials

	FY21	FY22E	FY23E
Revenue	722.8	663.9	801.1
Growth %	-19.5%	-8.1%	20.7%
Net Income	295.3	187.7	301.6
Growth %	-29.7%	-36.4%	60.7%
EPS	3.28	2.09	3.35

Source: Company reports, AlJazira Capital

Key Ratios

	FY21	FY22E	FY23E
Gross Margin	40.0%	33.4%	49.5%
Net Margin	40.9%	28.3%	37.6%
P/E (x)	23.07	39.18	24.38
P/B (x)	3.9	4.6	4.6
EV/EBITDA (x)	16.4	24.4	15.0
Dividend Yield	4.4%	4.3%	4.3%

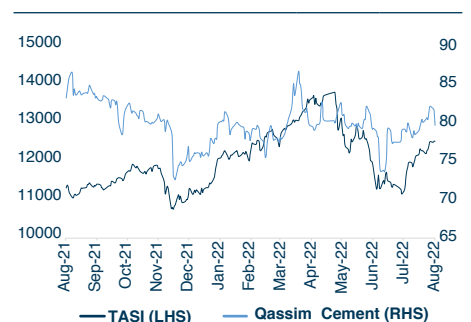
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	7.17
YTD %	5.28%
52 Week (High)/(Low)	92.6/71.8
Shares Outstanding (mn)	90.0

Source: Company reports, AlJazira Capital

Price Performance



Source: Tadawul, AlJazira Capital

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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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