City Cement Co.

Results Flash Note Q4-22

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Weak earnings, impacted by unusual increase in the COGS.

City Cement posted a net income of SAR 27.6mn (up 60.9% Y/Y), below our and consensus estimates of SAR 44.2mn and SAR 38.0mn, respectively. The deviation from our estimate is mainly due to higher than expected COGS. Volumetric sales were reported at 603KT (down 23.6%Y/Y, and 15.3%Q/Q), below our estimate of 669KT. Realization per ton is expected to stand at SAR 179.5/tonne vs. SAR 137/tonne in Q1-22 (up 31.0% Y/Y), but below our estimate of SAR 189.5/tonne. Cost per ton was reported at SAR 124.8/ton (up 16.8%Q/Q) which led to a GP margin of 30.5%, down from 43.2% in Q4-22. We maintain our recommendation at "Neutral" with a TP of SAR 22.50/Share.

- City Cement posted a net income of SAR 27.6mn in Q1-23 (EPS: SAR 0.20/share); compared to SAR 17.2mn in Q1-22 and SAR 47.8mn in the previous quarter. Net income came below our and the market consensus estimates of SAR 44.2mn, and SAR 38.0mn; respectively. The Q/Q decline of 42.2% in net income is attributed to an increase in the cost per tonne and lower selling prices. The deviation from our estimate is mainly due to higher-than-expected cost per tonne.
- Revenue totaled SAR 108.2mn in Q1-23 (down 19.2%Q/Q, and stable on yearly basis), came below our estimate of SAR 126.8mn. The company's average price realization saw a decrease of 4.5%Q/Q, standing at SAR 179.5/tonne, which was below our estimate of SAR 189.5/tonne and SAR 188.1/tonne registered in the previous quarter. Sales volume stood at 603KT, missing our estimate of 669KT, and below 789KT recorded in Q1-22 and 712KT in Q4-22.
- Gross profit stood at SAR 33.0mn, below our estimate of SAR 55.2mn. The Y/Y improved average realisation prices were offset by a decline in volumetric sales and the unusually increased COGS. The cost per tonne was recorded at SAR 124.8/tonne, well above our estimated SAR 107/tonne, and also above the Q4-22 average of SAR 107/tonne.
- Operating profit amounted to SAR 24.3mn, missing our forecast of SAR 44.8mn, driven by the contracted gross margin. OPEX declined by 8.5%Q/Q, totaling SAR 8.7mn. But, the OPEX-to-sales ratio for Q1-23 reached 8.1%, higher than the 7.1% in Q4-22 and in line with 8.1% in Q1-22, leading to an operating margin of 22.4%, lower than a margin of 36.1% recorded in Q4-22.

AJC view and valuation: The higher-than-expected cost per ton is the key highlight in Q1-2023 results, which we expect is not sustainable. City cement's cost per tonne was SAR 124.8, higher than the SAR 106.9 in Q4-22, and the highest since Q4-17. However, it is important to note that the current high cost per ton may not be sustainable and needs to be monitored closely in the upcoming quarters. Although the company experienced a decline of 23.6%Y/Y in sales volume, improved selling prices (up 31%Y/Y) mitigated the impact on the top line. Meanwhile, the average selling prices declined to SAR 179.5/tonne from SAR 188.1/tonne in Q4-22, indicating some pricing pressure in the central region, as it is consistent with the results of other competitors in the region. We expect the company to raise its dividends distribution to a DPS of SAR 1.0 for FY23 vs. SAR 0.90 in FY2022, leading to a DY of 4.7%. The stock is currently trading at 26.4x compared to a forward P/E of 22.0x based on FY23 earnings. We maintain our recommendation to "**Neutral**" on City cement with a TP of **SAR 22.5/Share.**

Results Summary

SAR mn	Q1-22	Q4-22	Q1-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**108.1**	**134.0**	**108.2**	0.1%	(19.2%)	(14.6%)
Gross Profit	26.3	57.8	33.0	25.5%	(43.0%)	(40.2%)
Gross Margin	*24.3%*	*43.2%*	*30.5%*	-	-	-
EBIT	17.5	48.3	24.3	38.4%	(49.8%)	(46.0%)
Net Profit	**17.2**	**47.8**	**27.6**	60.9%	(42.2%)	(37.6%)
EPS	0.12	0.34	0.20	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	Neutral
Target Price (SAR)	22.50
Upside / (Downside)*	3.5%

Source: Tadawul *prices as of 17th of May 2023

Key Financials

(in SAR mn, unless specified)	FY20	FY21	FY22	FY23E
Revenue	572.7	496.7	431.4	432.3
Growth %	7.8%	-13.3%	-13.2%	0.22%
Net Income	220.5	160.3	115.0	137.0
Growth %	16.0%	-27.3%	-28.2%	19.9%
EPS	1.57	1.14	0.82	0.99

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22	FY23E
Gross Margin	44.9%	41.9%	33.7%	47.6%
Net Margin	38.5%	32.3%	26.7%	31.9%
P/E (x)	16.3	19.7	24.3	22.0
P/B (x)	1.9	1.7	1.5	1.7
EV/EBITDA (x)	11.6	12.1	13.8	13.4
Dividend Yield	5.9%	5.5%	4.5%	4.6%

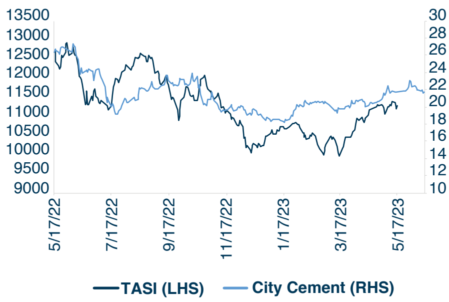
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	3.04
YTD%	8.0%
52 week (High)/(Low)	26/18.6
Share Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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

Ahmed AlMutawah
a.almutawah@aljaziracapital.com.sa

RESEARCH DIVISION

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

RESEARCH DIVISION

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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