



**US\$3.641bn** Market cap  
**78.3%** Free float  
**US\$4.146mn** Avg. daily volume

Target price **98.00** 9.7% over current  
Consensus price **89.40** 0.2% over current  
Current price **89.25** as at 14/7/2012

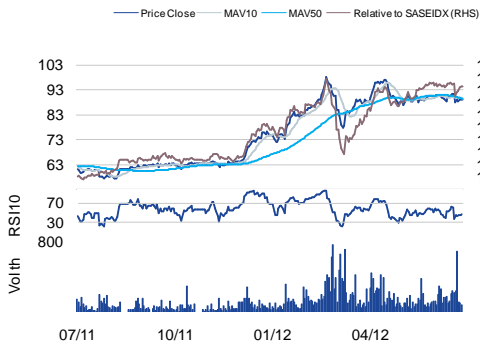
Existing rating

Underweight **Neutral** Overweight

**Flash view**

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

**Performance**



**Earnings**

Period End (SAR)	12/12E	12/13E	12/14E	12/15E
Revenue (mn)	2,172	2,368	2,322	2,365
Revenue Growth	26.6%	9.0%	-1.9%	1.9%
EBITDA (mn)	1,294	1,362	1,324	1,294
EBITDA Growth	23.0%	5.3%	-2.8%	-2.3%
EPS	6.97	7.25	7.14	7.30
EPS Growth	28.2%	4.1%	-1.6%	2.3%

Source: Company data, Al Rajhi Capital

**Valuation**



Source: Company data, Al Rajhi Capital

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**Saudi Cement**  
**Robust Q2 2012, in line with estimates**

Saudi Cement reported Q2 2012 preliminary results with a 36% year-on-year increase in net profits, mainly driven by rise in sales. Operating profits grew by 32% y-o-y, on the back of strong demand coupled with an increase in clinker inventory. Results were broadly in line with our estimates. As mentioned in our sector report dated 26<sup>th</sup> May 2012, the company is well positioned to cater to any increase in cement demand due to its high inventory levels and newly installed production line. However, we believe all positives have already been reflected in its share price. For the moment, we remain Neutral on Saudi Cement with a target price of SAR98.

Earnings vs. our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	No Change	Down
Dividend estimates	Up	No Change	Down
Recommendation	Upgrade	No Change	Downgrade
Long term view	Stronger	Confirmed	Weaker

- Revenues not yet announced:** Saudi Cement has not yet reported its revenue numbers for Q2 2012. We expect revenue to be around SAR603mn in Q2 (-5.6% q-o-q and +30.3% y-o-y), mainly driven by high capacity utilization (our expectation 110%) and an average realized price of SAR253/ton.
- Gross profit and Operating profit, largely in line:** Saudi Cement recorded gross profit of SAR316mn for Q2, a 29.9% y-o-y increase, below our estimate of SAR331mn, while operating profit was slightly below our estimates at SAR294mn versus SAR303mn. In all, the company's profits were about 3%-5% lower than our expectations.
- Strong growth in bottom-line:** Net profit in Q2 came in at SAR290mn, increasing 36% y-o-y and only 1% below Al Rajhi estimate of SAR292mn.
- Valuation & Conclusion:** Overall, Q2 results were strong and mostly in line with our estimates. We believe, the next couple of quarters will be modest for Saudi Cement and for the cement sector in general due to slowdown in construction activity and Ramadan season. Thus, we have accordingly adjusted our forecasts for the industry going ahead. For the moment, we remain Neutral on Saudi Cement with an unchanged target price of SAR98.



### Corporate summary

Saudi Cement Company (SCC) was established in 1955 to produce cement, cement products and invest in cement-related fields. The company operates two plants in the eastern region of Saudi Arabia. It produces ordinary portland, sulphate resistant as well as oil well cement, which is used for oil and gas infrastructure purposes. Saudi Cement used to export its products to the GCC countries; however, the 2008 export ban has somewhat slowed its growth and production volumes.

### Share information

Market cap (SAR/US\$) 13.66bn / 3.641bn  
52-week range 57.25 - 98.00  
Daily avg volume (US\$) 4.146mn  
Shares outstanding 153.0mn  
Free float (est) 78.3%

Performance: 1M 3M 12M  
Absolute -1.4% 1.1% 46.3%  
Relative to index -0.7% 12.1% 43.3%

Major Shareholder:  
GOSI 8.5%  
Khaled Abdulrahman Saleh Al Rajhi 7.9%

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/12E	12/13E	12/14E	12/15E
Revenue (SARmn)	2,172	2,368	2,322	2,365
EBITDA (SARmn)	1,294	1,362	1,324	1,294
Net Profit (SARmn)	1,066	1,109	1,092	1,117
EPS (SAR)	6.97	7.25	7.14	7.30
DPS (SAR)	6.50	6.00	6.00	6.00
EPS Growth	28.2%	4.1%	-1.6%	2.3%
EV/EBITDA (x)	10.6	10.0	10.3	10.6
P/E (x)	12.8	12.3	12.5	12.2
P/B (x)	4.1	3.9	3.8	3.6
Dividend Yield	7.3%	6.7%	6.7%	6.7%

Source: Company data, Al Rajhi Capital

**Figure 1 Saudi Cement: Q2 2012 results**

	Q2 2011	Q1 2012	Q2 2012	% chg y-o-y	% chg q-o-q	ARC est.
Revenue	463	639	not yet disclosed			603
Gross Profit	243	353	316.2	29.9%	-10.3%	331
Gross profit margin (%)	52.6%	55.2%				54.9%
Operating Profit	223	329	294.1	32.1%	-10.7%	303
Net Profit	214	326	290.2	35.8%	-10.9%	292

Source: Company data, Al Rajhi Capital



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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

**"Overweight"**: Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

**"Neutral"**: We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

**"Underweight"**: Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

**"Time horizon"**: Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

**"Fair value"**: We estimate fair 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.

**"Target price"**: This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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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