



EVENT FLASH

Higher than expected results driven by other income

Southern Cement reported a higher than expected set of 2Q16 results. Net income declined 0.7% YoY to SR268mn. This is 6.1% higher than the NCBC estimates of SR253mn. We believe the YoY decline came from lower sales quantities, which declined 7.3% YoY in 2Q16. However with gross profit and EBIT being in-line, we believe the deviation from our estimates is due to higher other income. The company trades at a 2016E P/E of 12.2x vs. the cement sector average at 10.6x.

- **Gross profit:** 2Q16 came-in at SR266mn, down 5.6% YoY. This compares to the NCBC estimate of SR266mn.
- **Net income:** 2Q16 net income stood at SR268mn, a decline of 0.7% YoY. This is 6.1% higher than NCBC estimates of SR253mn.
- **NCBC view on the results:** Southern Cement reported a net income of SR268mn for 2Q16, declining 0.7% YoY to SR268mn. We believe this YoY decline came mainly from lower sales quantities. These earnings are higher than the NCBC and consensus estimates of SR253mn and SR246mn, respectively. With gross profit and EBIT being in-line, we believe the deviation came from higher than expected other income. We estimated other income at SR3mn and believe it may have been as high as SR18mn.
- Total sales quantities of Southern Cement stood at 2.05mn tons in 2Q16, decreasing 7.3% YoY. This compares to the industry's sales quantity decline of 9.4% YoY in 2Q16. Sales quantities of Southern Cement came 3.9% lower than our expectations of 2.13mn tons. We believe these declines are a result of the overall weak demand and also due to the Ramadan effect, with 25 days of Ramadan being in 2Q16 vs. 13 days in 2Q15.
- Based on our calculations, we believe selling prices were in-line with our estimates at SR241/ton, coming-in flat YoY. Southern Cement is one of a few companies which did not offered discounts so far, despite the muted sector outlook and smaller companies in remote regions offering discounts to sell in high demand areas. We believe the financial burden from capacity expansions at the company may lead Southern Cement to offer discounts.
- We are Neutral on Southern Cement with a PT of SR79.7. Key positives include the company's ability to benefit from exports due to its favourable location. However, negatives include not receiving fuel allocation yet for its expansions and low inventory-to-capacity ratio of 8.2% (sector at 31.1%) which may limit the ability of the company to export. Southern Cement trades at a 2016E P/E of 12.2x vs. sector average at 10.6x.

2Q16 Results Summary

SR mn	2Q16A	2Q15A	% YoY	2Q16E	% Var^
Gross income	266	282	(5.7)	266	(0.1)
Operating income	256	272	(5.9)	256	(0.2)
Net income	268	270	(0.7)	253	5.9
EPS	1.91	1.93	(0.7)	1.81	5.9

Source: Company, NCBC Research ^ % Var indicates variance from NCBC estimates

NEUTRAL

Target price 79.7

Current price (SR) 72.3

STOCK DETAILS

52-week range H/L (SR)	99.4/57.8
Market cap (\$ mn)	2,697
Shares outstanding (mn)	140
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.2)	(9.7)	(27.3)
Rel. to market	(4.8)	(7.1)	3.1

Avg daily turnover (mn)	SR	US\$
3M	2.2	0.6
12M	4.4	1.2

Reuters code	3050.SE
Bloomberg code	SOCCO AB
	www.spcc.com.sa

VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	9.7	12.2	13.2
P/B (x)	3.1	3.3	3.0
EV/EBITDA (x)	7.9	9.8	10.1
Div Yield (%)	8.3	6.9	5.5

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

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