

SOUTHERN CEMENT



EVENT FLASH

In-line results supported by lower Opex

Southern Cement reported an in-line set of 2Q17 results. Net income declined -64.5% YoY to SR95mn. This is the lowest net income on record and compares to the NCBC estimates of SR99.6mn. We believe the YoY weakness came from 1) lower sales quantities (-36.7% YoY), 2) lower selling prices (-22.1% YoY) and weak gross margins of 41.2% vs 54.1% in 2Q16. Southern Cement trades at a 2018E P/E of 10.2x vs covered peers at 12.3x.

- NCBC View on Results:** Southern Cement reported an in-line set of 2Q17 results, with net income declining -64.5% YoY (-9.1% QoQ) to SR95mn. This is in-line with the NCBC and consensus estimates of SR99.6mn and SR91.8mn, respectively. We believe the YoY decline was driven by 1) lower sales quantities due to the slowdown in the construction sector, 2) weak margins due to the discounts offered, despite the Opex efficiencies specifically in general and administrative costs (SR8mn vs our estimates of SR15mn in 2Q17).
- Total sales quantity of Southern Cement stood at 1.30mn tons in 2Q17, coming in-line with our estimates of 1.37mn tons. Sales quantities declined by -36.7% YoY (-15.2% QoQ). This is higher on a YoY basis than the industry declines of -23.4% YoY (-17.7% QoQ) during 2Q17.
- Sales stood at SR243mn, coming 11.2% lower than our estimates of SR274mn. Average selling prices stood at SR188/ton vs. the NCBC estimates of SR200/ton (-22.1% YoY, -5.6% QoQ). We believe these discounts came as a result of the slowdown in the construction sector and increased competition. Moreover, we believe the discounts by Southern Cement were also triggered by the limited export potential as a result of the high export tariff.
- Gross margins contracted significantly from 54.1% in 2Q16 to 41.2% in 2Q17. This compares to our estimates of 41.0%, leading to a lower variance of -10.9% at the gross profit level. We believe the main reason behind lower margins and -62.4% YoY (-18.1% QoQ) decline in gross profits is revised fuel support, in addition to the steep discounts offered by Southern Cement. We expect an average gross margin of 32.8% till 2021E.
- We are Neutral on Southern Cement with a PT of SR69.9. Lower prices due to competition and limited export potential due to the high tariff are key risks for the company. Southern Cement trades at a 2018E P/E of 10.2x vs. peer average of 12.3x.

2Q17 Results Summary

SR mn	2Q17A	2Q16A	% YoY	2Q17E	%Var^	% QoQ
Revenues	243	493	(50.7)%	274	(11.2)%	(19.9)%
Gross income	100	266	(62.4)%	112	(10.9)%	(18.1)%
Gross margin (%)	41.2%	54.1%	(1,290)bps	41.0%	15bps	90bps
EBIT	92	256	(64.0)%	98	(6.1)%	(13.8)%
EBIT Margin (%)	37.9%	51.9%	(1,405)bps	35.8%	206bps	268bps
Net income	95	268	(64.5)%	100	(4.6)%	(9.1)%
Net Margin (%)	39.1%	54.3%	(1,521)bps	36.4%	272bps	463bps
EPS (SR)	0.68	1.91	(64.5)%	0.71	(4.6)%	(9.1)%

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

NEUTRAL

Target price (SR) 69.9

Current price (SR) 50.1

STOCK DETAILS

M52-week range H/L (SR)	83/50
Market cap (\$mn)	1,870
Shares outstanding (mn)	140
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(7.4)	(11.0)	(30.1)
Rel. to market	(3.2)	(12.4)	(42.4)

Avg daily turnover (mn)	SR	US\$
3M	3.0	0.8
12M	2.9	0.8

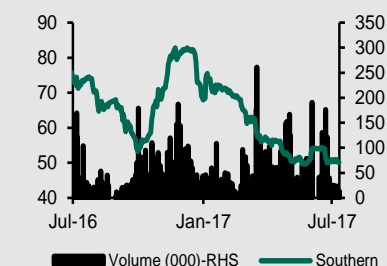
Reuters code	3050.SE
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VALUATION MULTIPLES

	16A	17E	18E
P/E (x)	8.0	9.6	10.2
P/B (x)	2.1	1.9	1.9
EV/EBITDA (x)	6.1	7.5	7.7
Div Yield (%)	9.5	10.0	9.0

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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