



Target price **38.0** 2.7% Above current
 Current price **37.0** as at 26/7/2018

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Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	2017A	2018E	2019E
Revenue (mn)	1063	875	893
Revenue Growth	-40%	-18%	2%
EBITDA (mn)	571	524	524
EBITDA Growth	-47.1%	-8.1%	-0.2%
EPS	2.7	2.3	2.4
EPS Growth	-58%	-13%	2%

Source: Company data, Al Rajhi Capital

Southern Province Cement Co Q2: Misses Expectations on Lower Prices

Southern cement reported Q2 net profit at SAR36mn (-62% y-o-y, -65% q-o-q), lower than our estimate of SAR77mn as well as consensus forecast of SAR83mn. The main reason behind the miss was lower than expected sale price at SAR138/ton (-27% y-o-y, -34% q-o-q). The company attributed the decline in profit to the drop in sales volume (-0.1% y-o-y, -1.4% q-o-q) as a result of sluggish demand and stiff competition but we believe is only due to the low prices. Going forward, we forecast Southern cement's sales volume and prices to pick up slightly due to the partial end of seasonality factors. Downside risks are related to lower than expected sales volume and selling prices. Upside risks are related to potential benefits from exports as well as benefiting from the Government mega projects located in the western region. We continue with our Neutral rating but after H1 southern cement results and release of total cement market numbers, we have changed our estimates on the total expected volume and prices in the short run, thereby lowering our TP on Southern cement with a target price of SAR38/share.

Revenue: Southern cement reported revenue of SAR 178mn (down 27% y-o-y, -35% q-o-q). The company's sales volume declined 0.1% y-o-y in Q2 to 1.29mn tons. The company holds 3.5mn tons of inventories, representing 66% of last 12-month sales volume.

Gross and Operating margins: Southern cement's gross profit margin declined from 41% last year to 29% although the volume hasn't change but it is due to the drop in sales price which led to lower revenue. The company's operating profit margin came at 22% dropping from 38% last year. The company's net margin decreased to 20% (from 39% Q2 2017). The company was able to lower the cost/ton to SAR98 (-11% y-o-y, -15% q-o-q) despite the flat change in volume.

Conclusion and valuation: The trend of cement sales in the first half in 2018 gives an indication about short term demand which we believe it's unlikely to pick up. Thereby we have changed our estimates on the total expected volume and prices in the short run, thus we lowered our TP on Southern cement with a target price of SAR38/share (10.4% WACC, 1% terminal growth and 15.9 PE) which implies 2.7% upside.

Figure 1 Southern Cement: summary of Q2 2018 results

	Q2 2018	Q2 2017	Q1 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	178.0	242.8	273.8	-27%	-35%	222
Gross Profit	51.0	100.0	122.0	-49%	-58%	91
Gross Margin	29%	41%	45%	NA	NA	41%
Operating Profit	40.0	92.0	102	-57%	-61%	77
Net Profit	36.0	94.5	102	-62%	-65%	77

Source: Company data, Al Rajhi Capital



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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