

March 21, 2019

Rating **Neutral**
12- Month Target Price **SAR 40.00**

SOUTHERN CEMENT COMPANY (SOCCO)
4Q2018 First Look

Expected Total Return

Price as on Mar-20, 2019	SAR 45.70
Upside to Target Price	(12.5%)
Expected Dividend Yield	4.4%
Expected Total Return	(8.1%)

Market Data

52 Week H/L	SAR 51.30/30.00
Market Capitalization	SAR 6,398 mln
Enterprise Value	SAR 6,851 mln
Shares Outstanding	140.0 mln
Free Float	41.8%
12-Month ADTV (000's)	170.5
Bloomberg Code	SOCCO AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC. Est	Actuals
Revenue	219	240
Gross Profit	34	71
Net Income	21	52
EPS (SAR)	0.15	0.37

Bright 4Q

Southern Cement Company (SOCCO) reported 4Q2018 numbers with a net profit of SAR 52 million beating our estimates of SAR 21 million and market consensus of SAR 28 million. Southern was helped by the increase in selling price to SAR 141/ton versus SAR 134/ton in the preceding quarter, along with better gross margins at 29%. The stock is trading at a 2019E P/E of 28.0x, expensive versus peers as well as to TASI's 15.4x. We have revised our demand forecasts upwards resulting in higher sales and profit forecasts going forward. Our target price rises from SAR 36.00 to SAR 40.00 but we maintain our Neutral recommendation.

Maintaining market share

Southern Cement maintains its position with the highest market share in the industry capturing 16% of the market in 4Q2018. Sales volume increased by +14% Y/Y and +16% Q/Q to 1.7 million tons in 4Q2018 as compared to 1.5 million tons in 3Q2018. We believe that the Company is in a good position to maintain its market share going forward as well, helped by its agreement to export clinker to Bangladesh. Southern owns three factories in Jazan, Asir and Makkah regions.

Selling price improves to SAR 141/ton

Southern Cement reported revenues of SAR 240 million in the fourth quarter, declining by -21% Y/Y but improving by +22% Q/Q on the back of higher selling price from SAR 134/ton in 3Q to SAR 141/ton in 4Q (+5% Q/Q). Sales volume of 1.7 million tons in the quarter were markedly above 1.5 million tons in 3Q and in 4Q2017. One concerning factor is the buildup in inventory levels. Inventory has risen to almost 4 million tons (66% of LTM sales) in February 2019 versus a stable 3.7 million tons between September and December 2018.

Margin expansion

We are happy to note an expansion in gross margins to 29% in 4Q2018 versus 9% in the preceding quarter on the back of better selling prices and higher dispatches. However, gross margins are still much lower than 45% in 4Q 2017. Similarly, both operating and net margins have fared better in the outgoing quarter. Net margins of 22% in 4Q are a substantial improvement over 3% in 3Q.

Maintain Neutral rating

Southern Cement reported elevated earnings in 4Q2018 with an EPS of SAR 0.37, beating our forecast of SAR 0.15. We have revised our demand forecasts upwards resulting in higher sales and profit forecasts going forward. We are positive on demand growth for the sector as a whole in 2019 from a low of 41 million tons in 2018. Our target price rises from SAR 36.00 to SAR 40.00 but we maintain our Neutral recommendation. The stock trades at a 2019E P/E of 28.0x, expensive versus peers as well as TASI's 15.4x.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018A	2019E
Revenue	1,064	888	932
EBITDA	571	401	404
Net Profit	370	195	228
EPS (SAR)	2.64	1.39	1.63
DPS (SAR)	1.50	2.00	2.00
BVPS (SAR)	22.66	22.47	31.73

*preliminary announced data

Key Financial Ratios

FY Dec31	2017A	2018A	2019E
ROAA	9%	4.7%	8.9%
ROAE	12%	6.2%	5.1%
P/E	12.0x	32.9x	28.0x
P/B	1.4x	2.0x	1.0x
EV/EBITDA	8.4x	17.1x	11.7x
EV/Sales	4.5x	7.7x	7.3x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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