

Southern cement posted a weak set of results with a net income of SAR 83.0mn, below our estimates of SAR 110.1mn. The deviation from our estimate is mainly due to lower-than-expected gross margin by 328bps and higher-than-expected OPEX. Revenue came at SAR 284.0mn, against our estimates of SAR 297.9mn, where realization per tonne stood at SAR 197.8/tonne, in line with our expectation of SAR 202.4/tonne. Volumetric sales came at 1.44MT, in line with our estimates of 1.47MT. Although the cement outlook is expected to be under pressure in the short run due to the revised building code and labor shortage, strong housing demand and healthy mortgage loan growth are key catalysts for our mid-to-long-term outlook. Accordingly, we maintain our “Neutral” recommendation on the stock with a TP of SAR 78.3/share.

- Southern Cement posted a net income of SAR 83.0mn in Q3-21 (EPS: SAR 0.59/share) compared to SAR 149.8mn in Q3-20. As a result, net income came lower than our estimate of SAR 110.1mn. The Y/Y decline of 44.6% in net income is mainly attributed to a decline in volumetric sales by 33.9%.
- Revenue stood at SAR 284.0mn (a decline of 1.2%Q/Q, 33.9%Y/Y), against our estimates of SAR 297.9mn. During Q3-21, the company registered a decrease of 33.9%Y/Y in volumetric sales, which stood at 1.44MT, in line with our expectations of 1.47MT and 1.43MT in Q2-21. Realization per tonne stood at SAR 197.8/tonne vs. SAR 201.4/tonne in Q2-21 and SAR 205.1/tonne in Q3-20, coming in line with our estimates of SAR 202.4/tonne.
- Gross profit stood at SAR 108.0mn, below our estimates of SAR 123.0mn due to lower-than-expected gross margin, which stood at 38.0% vs. SAR 40.0% in Q3-20, coming below our estimates of 41.3%. On the other hand, the cost per tonne came in line with our expectations at SAR 122.6/tonne and above the average of 116.8/tonne in FY20.
- Operating profit stood at SAR 86.0mn, below our expectation of SAR 114.4mn due to higher-than-expected OPEX, which stood at SAR 22.0mn, posting an increase of 103.9%Y/Y.

AJC view: Q3-21 price realization for the sector significantly declined. However, Southern Cement did not decrease its selling price, which led to a decline in its market share in Q3-21 by 2.9%Y/Y. Volumetric sales declined by 33.9%Y/Y, to stand at 1.44MT compared to 2.17MT in Q3-20. The cement sector witnessed a decline in dispatches in Q3-21 by 9.9%Y/Y, which we believe is due to the revised building code, which has resulted in a long time for approving the commencement of construction and labor shortage in the market. However, we remain positive on the sector’s mid-to-long-term outlook, driven by solid housing demand backed by mortgage loans growth and government-initiated Giga projects as mortgage loans started to pick up again to register strong growth in Aug-21 by 32.7%Y/Y. For 9M-21, dispatches stood at 45.15mn tons (including exports) compared to 41.32mn tons in 9M-20, depicting an increase of 9.3%Y/Y. Southern cement is expected to post SAR 489.7mn in net income (3.50 EPS) in FY21, a decline of 19.6%Y/Y. We maintain our “Neutral” recommendation on the stock with a TP of SAR 78.3/share.

Results Summary

SARmn (unless specified)	Q3-20	Q2-21	Q3-21	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	425.8	287.3	284.0	-33.3%	-1.2%	-4.7%
Gross Profit	170.4	111.0	108.0	-36.6%	-2.7%	-12.2%
Gross Margin	40.0%	38.6%	38.0%	-	-	-
EBIT	159.6	98.5	86.0	-46.1%	-12.7%	-24.8%
Net Profit	149.8	95.2	83.0	-44.6%	-12.8%	-24.6%
EPS	1.07	0.68	0.59	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Neutral

Target Price (SAR)	78.3
Upside / (Downside)*	11.7%

Source: Tadawul *prices as of 2nd of November 2021

Key Financials

	FY19	FY20	FY21E
Revenue	1,300.3	1,653.1	1,421.4
Growth %	46.5%	27.1%	-14.0%
Net Income	462.7	609.4	489.7
Growth %	137.6%	31.7%	-19.6%
EPS	3.31	4.35	3.50

Source: Company reports, AlJazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	41.3%	41.1%	39.8%
Net Margin	35.6%	36.9%	34.5%
P/E (x)	19.5	19.4	20.0
P/B (x)	2.7	3.6	2.8
EV/EBITDA (x)	19.0	18.6	18.5
Dividend Yield	3.5%	5.3%	3.2%

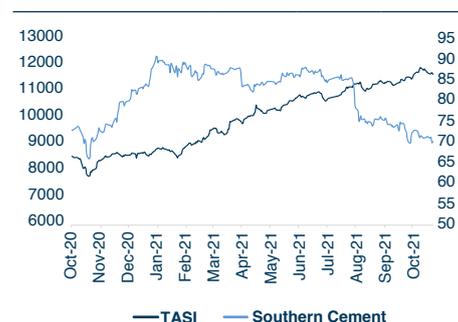
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	9.78
YTD %	-16.84%
52 Week (High)/(Low)	91.20/69.50
Shares Outstanding (mn)	140.00

Source: Company reports, AlJazira Capital

Price Performance



Source: Tadawul, AlJazira Capital

Analyst
 Abdulrahman Al-Mashal
 +966 11 2256374
 A.Almashal@Aljaziracapital.com.sa



RESEARCH DIVISION

Head of Sell-Side Research
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Corporate Finance | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia. Tel: 011 2256000 - Fax: 011 2256068