

Cement Sector

Maintain Hold: 12M TP @ 47

Valuation Summary (TTM)

Price (SAR)	46.6		
PER TTM (x)	29.9		
P/Book (x)	2.0		
P/Sales (x)	5.5		
EV/Sales (x)	6.3		
EV/EBITDA (x)	14.9		
Dividend Yield (%)	2.7		
Free Float (%)	60%		
Shares O/S (mn)	140		
YTD Return (%)	-9%		
Beta	1.0		
(mn)	SAR	USD	
Market Cap	6,524	1,739	
Total Assets	3,932	1,048	
Price performance (%)	1M	3M	12M
Southern Province Cement	-7%	-14%	-20%
Tadawul All Share Index	-3%	3%	-9%
Industry Index	-3%	3%	-9%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (SAR ,000)	3,518	5,197	5,160
Avg Daily Volume (,000)	73	99	99
52 week	High	Low	CTL*
Price (SAR)	58.70	46.30	0.6

* CTL is % change in CMP to 52wk low

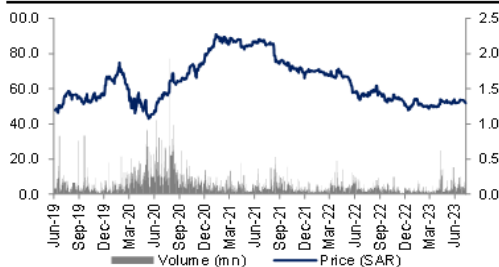
Major shareholders

PIF	37%
Vanguard Group Inc	1.8%
BlackRock Inc	1.0%
Others	59.8%

Other details

Exchange	Saudi Arabia
Sector	Building Materials
Index weight (%)	0.2%

Key ratios	2020	2021	2022
EPS (SAR)	4.35	3.07	2.15
BVPS (SAR)	23.43	22.76	22.90
DPS (SAR)	4.75	2.50	1.25
Payout ratio (%)	109%	81%	58%



Southern Province Cement – Stressful quarter

Southern Province Cement (SPCC) is the largest cement company operating in the Southern region of Saudi Arabia. The company has a market share of 11% of the cement volume and was the 3rd largest player in the Kingdom in YTD'Jul-23. For the seven months ended Jul-23, SPCC's cement sales volume fell by 8.1% YoY to 3.0mn tons, underperforming the industry, which fell by 4.3% for the same period. The 2Q23 performance of SPCC has been weak, with the company registering a fall in both the revenue and profitability on a YoY basis. Lower-than-expected cement and clinker volumes impacted the financial performance of the company, resulting in both the revenue and the net income coming below our forecasts. Eid holidays occurring in the month of June and a weak demand scenario impacted the operating performance of the company during the quarter. Going forward, we expect cement volumes to recover in 2H23, though on a full year basis, 2023e performance is likely to lag 2022 volumes. Lower scale of operations also resulted in a pressure on the gross margins and the overall profitability. Though we expect 2H23 margins to improve from 1H23 levels, the company's 2023e gross margins are likely to be c.320bps lower on a YoY basis. Overall, we expect SPCC's net income for 2023e to come 26.8% lower YoY to SAR220mn. In line with our moderated estimates, we revise our 1-year target price downwards for SPCC from SAR54/share to SAR47/share while maintaining HOLD recommendation.

Lower cement volume impacts 2Q23 revenue: Revenue of SPCC fell by a 3.4% YoY for 2Q23 and was impacted by a 7.4% YoY fall in domestic cement volume to 1.1mn tons. The weak performance was a result of Eid-Al-Adha holidays occurring in Jun-23. The cement volumes were also lower than our expectation by 5.0%. The revenue was supported to a certain extent by a near 5x increase in clinker volumes. The blended realization on the other hand fell by 9.2% YoY to SAR172 per ton and was impacted by the increase in the proportion of clinker sales to total sales. This was slightly lower than our estimates of SAR179 per ton. Overall, the revenue of SPCC was 12% lower than our estimate of SAR257mn for 2Q23. Going forward, we expect the performance of SPCC to improve, and will be aided by an c.10.5% improvement in 2H23 cement volume over 1H23. Despite this, we expect 2023e revenue at SAR1.2bn to be lower by 4.1% YoY.

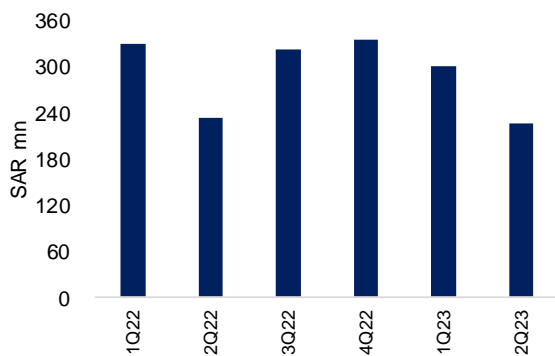
Gross margins under pressure, due to lower cement volumes and product mix: Gross profit fell by 34.8% YoY to SAR37mn for 2Q23, at the back of lower revenue, as gross margins fell to 16.2% in 2Q23, from 24.0% a year earlier. Cost of sales per ton for 2Q23 was almost flat at SAR156/ton in 2Q23 compared to SAR157/ton for the same period previous year. However, gross margins were impacted by an increase in the proportion of clinker sales to total sales on a YoY basis. Going forward, we expect the level of margins to improve in 2H23, compared to 1H23 levels, in line with the expected improvement in cement volumes in 2H23.

Net income comes lower than expected in 2Q23: Operating cost increased marginally by 0.3% YoY to SAR13mn, with net income falling by 68.5% YoY to SAR19mn for 2Q23, and was impacted by a weak operating performance. The net income for the quarter was also substantially lower than our estimate of SAR38mn.

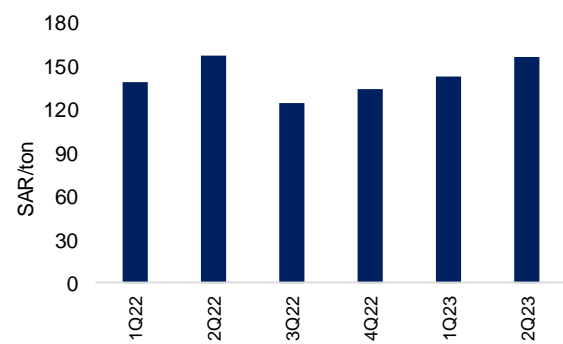
Going forward, we expect the financial performance of SPCC to improve in 2H23, relative to its 1H23, as we expect both the cement volumes and the margins to improve. However, we forecast SPCC to report a 26.8% YoY fall in net income to SAR220mn for 2023e.

Valuation and view: We had initiated coverage on the stock in May '23 with a target of SAR54 per share. The stock is currently trading at SAR46.60 per share, after reaching a high of SAR54.4 per share, since initiation. Based on our revised estimate we assign a target price of SAR47 per share, and retain our Hold rating on the stock.

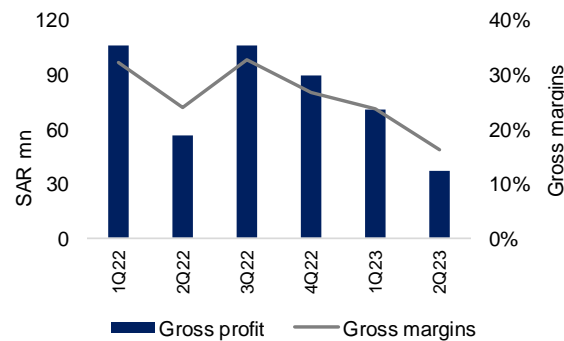
2Q23 revenue under pressure



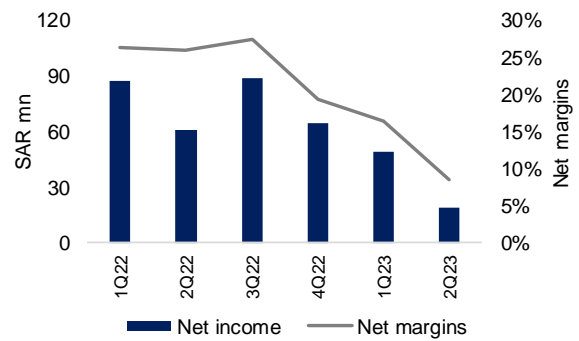
Cost of sales per ton in 2Q23 almost flat



Gross margins under pressure



Lower revenue and high costs impacts net income



Source: Company filings and US Research

Income Statement (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,300	1,653	1,339	1,222	1,172	1,218	1,266	1,316	1,367
Cost of sales	(763)	(974)	(834)	(865)	(867)	(868)	(884)	(902)	(922)
Gross profit	538	679	505	357	305	350	382	413	445
Operating expenses	(54)	(50)	(62)	(63)	(64)	(65)	(67)	(68)	(70)
Operating profit	483	628	443	294	242	285	315	345	375
Other income	7	13	12	9	9	9	9	9	9
Finance expenses	(20)	(15)	(9)	(10)	(13)	(9)	(9)	(10)	(8)
Earnings before tax	470	627	446	293	238	285	315	344	376
Tax	(8)	(17)	(17)	8	(18)	(18)	(19)	(18)	(18)
Net income	463	609	429	301	220	266	296	326	358
Minority interest	0	0	0	0	0	0	0	0	0
Net income post MI	463	609	429	301	220	266	296	326	358

Balance Sheet (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
PP&E	3,098	2,965	2,821	2,756	2,602	2,461	2,332	2,214	2,106
Intangibles	0	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0	0
Investment	0	0	0	0	277	553	830	830	830
Others	5	5	5	5	5	5	5	5	5
Total non-current assets	3,103	2,971	2,826	2,762	2,884	3,020	3,167	3,049	2,941
Inventory	708	547	573	669	671	672	684	698	714
Receivables, Net	36	41	51	78	75	78	81	84	87
Cash & Cash Equivalents	325	543	504	320	300	300	300	300	300
Investments	0	0	0	0	0	0	0	0	0
Other current assets	28	43	51	42	42	42	42	42	42
Total current assets	1,097	1,174	1,178	1,110	1,088	1,092	1,108	1,125	1,143
Total assets	4,200	4,144	4,005	3,872	3,973	4,112	4,275	4,174	4,085
Share Capital	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Total reserves	1,906	1,880	1,786	1,806	1,851	1,942	2,063	2,039	2,012
Total Equity	3,306	3,280	3,186	3,206	3,251	3,342	3,463	3,439	3,412
Short-term & current debt	60	70	75	80	220	357	398	320	257
Lease liabilities - Current	0	0	0	0	0	0	0	0	0
Payable	39	43	53	48	48	48	49	50	52
Other current liab.	287	307	319	245	245	245	245	245	245
Total current liabilities	386	420	447	373	514	650	692	615	553
Long-Term Debt	398	328	253	173	88	0	0	0	0
Long-term lease liabilities	0	0	0	0	0	0	0	0	0
Other non-current liab.	110	117	118	120	120	120	120	120	120
Total non-current liabilities	508	445	371	293	208	120	120	120	120
Total Liabilities	894	865	818	666	722	770	812	735	673
Equity and liabilities	4,200	4,144	4,005	3,872	3,973	4,112	4,275	4,174	4,085

Cash Flows (SAR mn)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	647	958	611	320	423	452	461	481	503
Cash from investments	(46)	(47)	(58)	(148)	(324)	(325)	(327)	(53)	(55)
Cash from financing	(366)	(693)	(592)	(356)	(120)	(127)	(134)	(428)	(448)
Net changes in cash	235	218	(39)	(183)	(20)	(0)	0	0	0
Closing balance	325	543	504	320	300	300	300	300	300

Ratios	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Per Share (SAR)									
EPS	3.3	4.4	3.1	2.1	1.6	1.9	2.1	2.3	2.6
BVPS	23.6	23.4	22.8	22.9	23.2	23.9	24.7	24.6	24.4
DPS	3.5	4.8	2.5	1.3	1.3	1.3	1.3	2.5	2.8
FCF/share	4.3	6.5	4.0	1.2	0.7	0.9	1.0	3.1	3.2
Revenue/share	9.3	11.8	9.6	8.7	8.4	8.7	9.0	9.4	9.8
Valuations									
M.Cap (SAR mn)	6,524	6,524	6,524	6,524	6,524	6,524	6,524	6,524	6,524
EV (SAR mn)	6,658	6,380	6,349	6,457	6,256	6,028	5,792	5,714	5,651
P/E	14.1x	10.7x	15.2x	21.7x	29.6x	24.5x	22.0x	20.0x	18.2x
EV/EBITDA	9.8x	7.7x	9.8x	12.7x	14.1x	12.7x	11.7x	11.1x	10.5x
EV/Sales	5.1x	3.9x	4.7x	5.3x	5.3x	4.9x	4.6x	4.3x	4.1x
P/BV	2.0x	2.0x	2.0x	2.0x	2.0x	2.0x	1.9x	1.9x	1.9x
P/S	5.0x	3.9x	4.9x	5.3x	5.6x	5.4x	5.2x	5.0x	4.8x
Div. yield	7.5%	10.2%	5.4%	2.7%	2.7%	2.7%	2.7%	5.4%	5.9%
FCF yield	9.2%	14.0%	8.5%	2.6%	1.5%	1.9%	2.1%	6.6%	6.9%
Liquidity									
Cash Ratio	0.8x	1.3x	1.1x	0.9x	0.6x	0.5x	0.4x	0.5x	0.5x
Current ratio	2.8x	2.8x	2.6x	3.0x	2.1x	1.7x	1.6x	1.8x	2.1x
Quick ratio	1.0x	1.5x	1.4x	1.2x	0.8x	0.6x	0.6x	0.7x	0.8x
Return ratio									
ROA	11.0%	14.7%	10.7%	7.8%	5.5%	6.5%	6.9%	7.8%	8.8%
ROE	14.0%	18.6%	13.5%	9.4%	6.8%	8.0%	8.5%	9.5%	10.5%
ROCE	11.5%	15.2%	11.1%	7.6%	6.1%	6.9%	7.4%	8.3%	9.2%
Cash cycle									
Inventory turnover	1.1x	1.8x	1.5x	1.3x	1.3x	1.3x	1.3x	1.3x	1.3x
Payables turnover	19.5x	22.6x	15.6x	17.9x	17.9x	17.9x	17.9x	17.9x	17.9x
Receivables turnover	36.6x	40.3x	26.4x	15.6x	15.6x	15.6x	15.6x	15.6x	15.6x
Inventory days	334	202	248	279	279	279	279	279	279
Payable days	18	16	23	20	20	20	20	20	20
Receivables days	10	9	14	23	23	23	23	23	23
Cash Cycle	326	195	238	281	281	281	281	281	281
Profitability ratio									
Gross margins	41.3%	41.1%	37.7%	29.2%	26.0%	28.7%	30.1%	31.4%	32.5%
EBITDA margins	52.2%	50.2%	48.4%	41.5%	37.8%	39.0%	39.1%	39.2%	39.3%
Operating margins	37.2%	38.0%	33.1%	24.1%	20.6%	23.4%	24.9%	26.2%	27.4%
PBT margins	36.2%	37.9%	33.3%	23.9%	20.3%	23.4%	24.9%	26.1%	27.5%
Net margins	35.6%	36.9%	32.0%	24.6%	18.8%	21.9%	23.4%	24.8%	26.2%
Effective tax rate	1.6%	2.7%	3.8%	-2.8%	7.4%	6.4%	6.1%	5.2%	4.8%
Leverage									
Total debt (SAR mn)	458	398	328	253	309	357	398	320	257
Net debt (SAR mn)	134	(144)	(175)	(67)	9	57	98	20	(43)
Debt/Capital	12.2%	10.8%	9.3%	7.3%	8.7%	9.6%	10.3%	8.5%	7.0%
Debt/Total assets	10.9%	9.6%	8.2%	6.5%	7.8%	8.7%	9.3%	7.7%	6.3%
Debt/Equity	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Debt/EBITDA	0.7x	0.5x	0.5x	0.5x	0.7x	0.8x	0.8x	0.6x	0.5x
Net debt/EBITDA	0.2x	-0.2x	-0.3x	-0.1x	0.0x	0.1x	0.2x	0.0x	-0.1x

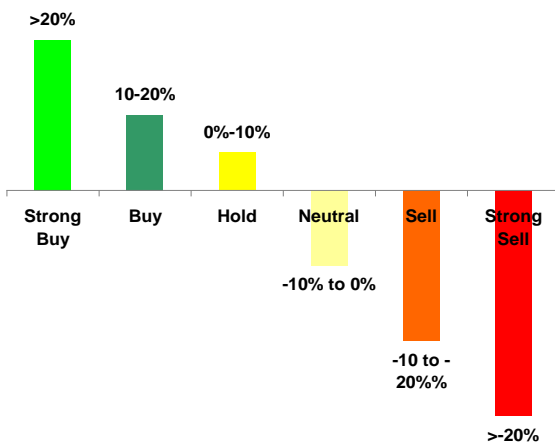
Key contacts

Research Team

Joice Mathew Sr. Manager - Research E-Mail: joice@usoman.com Tel: +968 2476 3311	Manna Thomas ACCA Research Associate Email: manna.t@usoman.com Tel: +968 2476 3347	Contact Address P. O Box: 2566; P C 112 Sultanate of Oman Tel: +968 2476 3300
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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