

Southern Cement posted a strong set of result beating our estimates on higher than expected price realization per tonne and volumetric sales. Net income stood at SAR 120.0mn surpassing our expectation of SAR 56.8mn. Revenue came at SAR 342.0mn, above our estimates of SAR 249.8mn due to an increase in volumetric sales and higher than expected selling price of SAR 189.5/tonne against our estimates of SAR 145.6/tonne. We reiterate our "Neutral" recommendation on the stock with a revised TP at SAR 50.0/share.

- Southern Cement delivered a strong net income of SAR 120.0mn in Q1-19 (EPS; SAR 0.86/share); recording an increase of 132.5%Q/Q and 17.9%Y/Y. Net income surpassed our estimates and the market consensus estimates of SAR 56.8mn and SAR 65.9mn, respectively. The deviation of Q1-19 earnings from our estimates is mainly ascribed to larger than expected volumetric sales and higher than estimated sales prices, resulting in higher revenue.
- Southern cement posted sales of SAR 342.0mn (an increase of 42.5%Q/Q, 24.9%Y/Y), beating our estimates of SAR 249.8mn due to an increase in volumetric sales and higher than expected realization per tonne. Volumetric sales stood at 1.81MT in Q1-19 Vs. 1.31MT in Q1-18 recording an increase of 37.6%, well above our expectation of 1.72MT. Based on our calculation, domestic realization per tonne came at SAR 195/tonne, while export sales price is expected to stand at SAR 90.0/tonne. Average price realization/tonne came at SAR 189.5/tonne, against our estimates of SAR 145.6/tonne and SAR 139/tonne in Q4-18. Domestic selling price has increased and is expected to be sustained on the grounds that most of its peers have also increased their prices.
- Gross profit came at SAR 137.0mn (an increase of 93.9%Q/Q, 12.3%Y/Y), beyond our estimates of SAR 74.8mn, due to higher than expected revenue. However, cost per tonne stood at SAR 113.6/tonne in comparison to an average of SAR 107.8/tonne in FY18. We estimated cost per tonne to average at SAR 110/tonne in FY19.
- Operating profit stood at SAR 126.0mn, higher than our expectation of SAR 61.6mn as a result of an increase in gross profit. OPEX at SAR 11.0mn, showed a significant decrease of 24.6%Y/Y.

**AJC view:** Q1-19 financials indicate a robust recovery in price realization per tonne which stood at SAR 189.5/tonne from SAR 139/tonne in Q4-18, along with 37.6%Y/Y increase in volumetric sales. During FY19, Southern cement is likely to maintain its high export sales at 0.9MT, which can potentially result in revenues in-excess of SAR 80mn. The company signed a contract to export 1.5MT of clinker to Bangladesh, which could drag down the inventory level to around 3.1MT from the current level of 4.05MT (March-FY19). The company currently has an inventory of 4.0MT with an increase of 22.2%Y/Y, which can be enough to cover almost 60% of the expected volumetric sales during 2019. We believe, cement sector is starting to recover from its current downtrend due to producer's concentration on selling prices and an increase in export sales. Selling prices is expected to sustain the high level in FY19. Furthermore, mega projects and other housing initiatives are the key growth driver for the Saudi cement sector and could be realized beyond FY19. For 3M-19, total sector dispatches stood at 13.3mn tons (including exports) compared to 12.0mn tons in 3M-18, depicting an increase of 10.2%Y/Y. Southern cement is expected to post SAR 385.2mn in net income (2.75 EPS), for FY19, an increase of 97.8%Y/Y. The company is currently trading at TTM PE of 31.1x compared to a forward PE of 17.2x based on FY19 earnings. We reiterated our "Neutral" recommendation on the stock with a TP at SAR 50.0/share.

### Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	274.0	240.0	342.0	24.8%	42.5%	36.9%
Gross Profit	122.0	71.0	137.0	12.3%	93.0%	83.0%
Gross Margin	44.5%	19.4%	40.1%	-	-	-
EBIT	102.0	57.0	126.0	23.5%	121.1%	104.5%
Net Profit	102.0	52.0	120.0	17.6%	130.8%	111.4%
EPS	0.73	0.37	0.86	-	-	-

Source: Company Reports, Aljazira Capital \*NM: Not meaningful

### Neutral

Target Price (SAR)	50.0
Upside / (Downside)*	5.6%

Source: Tadawul \*prices as of 5<sup>th</sup> of May 2019

### Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	1,063.8	887.7	1,209.1
Growth %	-40.1%	-16.6%	36.2%
Net Income	370.2	194.8	385.3
Growth %	-57.8%	-47.4%	97.8%
EPS	2.64	1.39	2.75

Source: Company reports, Aljazira Capital

### Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	39.8%	29.5%	38.5%
Net Margin	34.8%	21.9%	30.5%
P/E	18.30x	36.85x	17.2x
P/B	2.14x	1.69x	2.11x
EV/EBITDA (x)	15.32x	27.42x	14.68x
Dividend Yield	4.1%	5.4%	4.6%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	6.89
YTD %	35.41%
52 Week (High)/(Low)	51.30/30.00
Shares Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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- 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.
- 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.
- 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.
- 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.

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