

Southern Cement result came in-line with our estimates. Net income stood at SAR 150.0mn, compared to our expectation of SAR 151.5mn. Revenue came at SAR 426.0mn, in-line with our estimates of SAR 410.7mn. Where volumetric sales stood at 2.17MT, compared to our forecast of 2.07MT. Average domestic price realization per tonne stood at SAR 213.0/tonne, compared to our expectation of SAR 206.1/tonne. We update our recommendation to **“Overweight”** on the stock with a TP at **SAR 78.0/share**.

- Southern Cement posted net income of SAR 150.0mn in Q3-20 (EPS; SAR 1.07/share); compared to SAR 90.3mn in Q3-19 and SAR 134.9mn in Q2-20. Net income came in-line with our estimates and higher than the market consensus estimates of SAR 151.5mn and SAR 156.9.5mn, respectively. The Y/Y increase in Q3-20 earnings is mainly ascribed to an increase in sales volume by 46.8%Y/Y and an increase of 9.1%Y/Y in domestic price per tonne.
- Southern cement posted sales of SAR 426.0mn (an increase of 48.9%Y/Y, 25.5%Q/Q), in-line with our estimates of SAR 410.7mn. Volumetric sales stood at 2.17MT in Q3-20 vs. 1.48MT in Q3-19 recording an increase of 46.8%, above our expectation of 2.07MT. Based on our calculation, domestic realization per tonne came at SAR 213.0/tonne, while export sales price is expected to stand at SAR 90.0/tonne. Average price realization/tonne came at SAR 196.1/tonne, against our estimates of SAR 197.9/tonne and SAR 196.8/tonne in Q2-20.
- Gross profit came at SAR 170.0mn showing an increase of 57.6%Y/Y and 11.6%Q/Q, in-line with our estimates of SAR 171.0mn. Cost per tonne stood at SAR 117.9/tonne, in comparison to an average of SAR 113.0/tonne in FY19 and we estimate cost per tonne to average at SAR 113.3/tonne in FY20.
- Operating profit stood at SAR 160.0mn, in-line with our expectation of SAR 159.3mn. Where OPEX came at SAR 10.0mn, showing a decline of 14.1%Y/Y and 33.4%Q/Q.

**AJC view:** Southern cement dispatches unexpectedly increased by 46.8%Y/Y in Q3-20. Domestic price per tonne increase to stand at SAR 213.0/tonne, and is expected to sustain the high level. During FY20, Southern cement is likely to maintain its high export sales at 455KT, which can potentially result in revenues in-excess of SAR 41.0mn. Clinker inventory witnessed a decline of 35.3%Y/Y by the end of Q3-20 to stand at 2.6MT, which could be enough to cover 20% of the total sales volume during TTM. We believe, cement sector showed a fast recovery, from the losses caused by the pandemic and the increase in VAT, due to an increase in mortgage loans which registered 85.7%Y/Y during Q2-20. For 9M-20, total sector dispatches stood at 41.3MT (including exports) compared to 35.7MT in 9M-19, depicting an increase of 15.6%Y/Y. Southern cement is expected to post SAR 650.1mn in net income (4.64 EPS), for FY20, an increase of 40.5%Y/Y. The company is currently trading at TTM PE of 15.8x compared to a forward PE of 13.9x based on FY21 earnings. We update our recommendation to **“Overweight”** on the stock with a TP at **SAR 78.0/share**.

### Results Summary

SARmn (unless specified)	Q3-19	Q2-20	Q3-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	286	339	426	48.95%	25.66%	3.74%
Gross Profit	108	152	170	57.41%	11.84%	-0.58%
Gross Margin	37.7%	44.9%	44.9%	-	-	-
EBIT	96	137	160	66.67%	16.79%	0.45%
Net Profit	90	135	150	66.67%	11.11%	-1.01%
EPS	0.64	0.96	1.07	-	-	-

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

### Overweight

Target Price (SAR)	78.0
Upside / (Downside)*	9.8%

Source: Tadawul \*prices as of 8<sup>th</sup> of November 2020

### Key Financials

	FY19	FY20E	FY21E
Revenue	1,300.3	1,658.7	1,759.7
Growth %	46.5%	27.6%	6.1%
Net Income	462.7	650.1	681.8
Growth %	137.6%	40.5%	4.9%
EPS	3.31	4.64	4.87

Source: Company reports, Aljazira Capital

### Key Ratios

	FY19	FY20E	FY21E
Gross Margin	41.3%	43.0%	45.2%
Net Margin	35.6%	39.2%	38.7%
P/E	19.5x	15.5x	14.6x
P/B	2.7x	2.8x	2.7x
EV/EBITDA	18.9x	14.9x	13.0x
Dividend Yield	5.4%	4.4%	4.5%

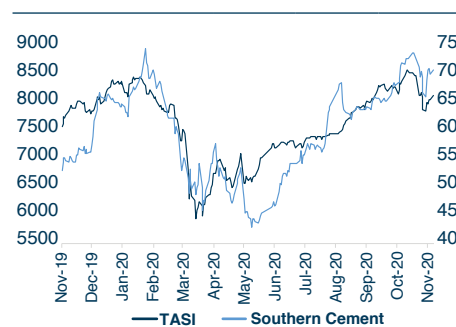
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	9.95
YTD %	9.32%
52 Week (High)/(Low)	75.20/42.00
Shares Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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RATING TERMINOLOGY

- 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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