

Rating **Neutral**  
 12- Month Target Price **SAR 36.00**

## SOUTHERN CEMENT COMPANY (SOCCO)

3Q2018 First Look

### Expected Total Return

Price as on Oct-29, 2018	SAR 31.65
Upside to Target Price	13.7%
Expected Dividend Yield	4.7%
Expected Total Return	18.5%

### Market Data

52 Week H/L	SAR 52.3/30
Market Capitalization	SAR 4,431 mln
Enterprise Value	SAR 5,781 mln
Shares Outstanding	140.0 mln
Free Float	45.6%
12-Month ADTV ('000's)	134.7
Bloomberg Code	SOCCO AB

### 1-Year Price Performance



Source: Bloomberg

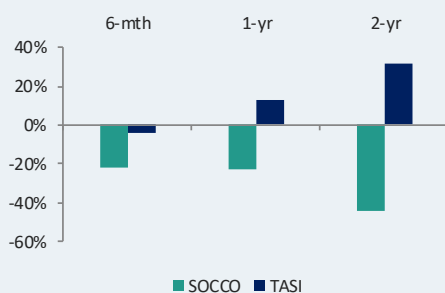


Fig in SAR mln	RC. Est	Actuals
Revenue	218	196
Gross Profit	62	18
Net Income	46	5.3
EPS (SAR)	0.33	0.04

## Weak Realization

Southern Cement Company (SOCCO) reported weak earnings for 3Q2018. EPS for the quarter stood at SAR 0.04 versus our forecast of SAR 0.33 and consensus' SAR 0.29. The low profitability is attributed to the weak selling prices of SAR 134/ton amid intense competition in the sector and to the significant rise in direct costs (+18% Y/Y and +40% Q/Q). The stock is trading at a 2018E P/E of 27.5x, expensive versus peers as well as to TASI's 14.7x. We have revised our estimates for 2018-2019 and lowered our target price to SAR 36.00 but maintain our Neutral recommendation.

### Highest market share

Southern Cement reported revenues of SAR 196 million in the third quarter, declining by -9% Y/Y but improving by +10% Q/Q on the back of higher sales volume. Selling prices of SAR 134/ton witnessed a slight drop from 2Q2018 levels of SAR 137/ton, which were already deeply discounted Y/Y and Q/Q (-27% and -34% respectively). As a result, sales volume increased by +16% Y/Y and +13% Q/Q to 1.5 million tons. We believe that the Company offered record low selling prices to grow its market share as it managed to increase it by 230 bps on a sequential basis to reach a multi-year high of 16.1% in 3Q2018.

### Gross margins contract to a record low

Gross profit of only SAR 18 million declined by -72% Y/Y and -65% Q/Q. Gross margins contracted to 9.2% in 3Q2018 from 28.7% in the preceding quarter as a result of record low selling prices and due to the significant rise in direct costs by +18% Y/Y and +40% Q/Q to SAR 178 million. We believe that the rise in direct costs partly represents higher depreciation and other expenses due to the transfer of work in process to PPE, as shown on the cash-flow statement. Southern's operating profit declined by -82% Y/Y and -75% Q/Q to reach SAR 10 million taking operating margins to 5.1% in 3Q2018 vs 22.5% in 2Q2018 and 28% last year.

### Net income trails forecasts

The Company reported net income of only SAR 5 million, which declined by -91% Y/Y and -85% Q/Q, below our SAR 46 million forecast and street's SAR 41 million mainly on the back of the significant drop in selling prices and an increase in direct costs. The management also cited a drop in other revenues by -10% Y/Y and -77% Q/Q to SAR 0.6 million as another contributing factor for the decline in the Company's net income. As a result, net margins contracted to a record low level at 2.7% in 3Q2018 from the preceding quarter levels of 20.2% and 26.4% last year.

### Maintain Neutral rating

Southern Cement reported weak earning in 3Q2018 with an EPS of SAR 0.04 versus our forecast of SAR 0.33 and street's SAR 0.29. The stock is trading at a 2018E P/E of 27.5x, expensive to peers (average between 15-16x) and to TASI's 14.7x. We have revised our estimates for 2018-2019 and lowered our target price to SAR 36.00 but maintain our Neutral recommendation.

### Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	1,064	856	902
EBITDA	571	343	395
Net Profit	370	161	209
EPS (SAR)	2.64	1.15	1.49
DPS (SAR)	1.50	1.50	2.00
BVPS (SAR)	22.66	22.31	21.80

### Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	9%	9%	10%
ROAE	12%	5%	7%
P/E	12.0x	27.5x	21.2x
P/B	1.4x	1.4x	1.5x
EV/EBITDA	8.4x	13.9x	12.1x
EV/Sales	4.5x	5.6x	5.3x

## 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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