

Southern Province Cement Co

Cement – Industrial

SOCCO AB: Saudi Arabia

06 November 2019

الراجحي المالية
Al Rajhi Capital



US\$2.068bn Market cap
47% Free float
US\$1.822mn Avg. daily volume

Target price 52.00 -6.1% below current
Current price 55.40 as at 04/11/2019

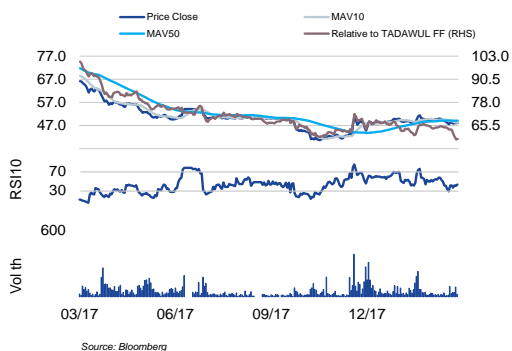
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

(SARmn)	2018	2019e	2020e
Revenue	888	1,194	1,248
Revenue growth	-16%	34%	5%
Gross profit	262	262	512
Gross margin	29.5%	21.9%	41.0%
EBITDA	401	595	643
EBITDA margin	45.2%	49.8%	51.5%
Net profit	195	396	442
Net margin	21.9%	33.2%	35.4%
EPS	1.4	2.8	3.2
P/E	26.5x	19.3x	17.3x
EV/EBITDA	13.9x	13.3x	12.0x
RoE	6.2%	12.3%	13.5%

Source: Company data, Al Rajhi Capital

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Southern Province Cement Co. Q3 earnings miss; Flattish volume and lower selling price, maintained TP at SAR52/sh.

Southern Cement reported Q3 net profit of SAR90mn (1572% y-o-y, -1% q-o-q), lower than our estimate of SAR113mn and consensus estimate of SAR90mn. Quantity sold locally came mostly flattish at 1.45mn tons and slightly above our forecast, however the gain from higher quantities was offset by lower than expected price. The miss was mainly due to tighter margins at 37.8% vs. estimate of 44.6%, and was attributable to: 1-Average cement selling price being lower than expected and previous quarter prices at SAR195/ton (-3% q-o-q, +46% y-o-y). 2- Average production cost per ton being higher than expected and previous quarter. (+14% q-o-q, -4% y-o-y). Also, exports were only 27k tons in Q3 2019 compared to 184k in Q2 2019. However, we expect the exports to pick-up in the coming quarters as the company still has many outstanding exports contracts not filled. Post Q3 results, we have adjusted our estimates for volume and prices reflecting the current price level and market share of the company, and have maintained our target price of SAR 52/share for Southern Province Cement and have also maintained "Neutral" rating.

Revenue & Profitability: Southern Cement reported Q3 revenue of SAR286mn (+46% y-o-y, +4% q-o-q), below our estimate of SAR296mn due to flattish volume as well as lower prices. The total quantity sold was 1.4mn tons (-1% y-o-y, +11% q-o-q). Also, the average realized selling price as per our estimates has decreased to SAR195/ton (+46% y-o-y, -3% q-o-q). Further, the company inventory declined to 4.1mn tons of clinker, representing 66% of last 12-month sales volume.

Figure 1 Southern Cement: summary of Q3 2019 results.

(SAR mn)	Q3 2018	Q2 2019	Q3 2019	%chg y-o-y	%chg q-o-q	ARC Estimate
Revenue	196	276	286	46%	4%	296
Gross Profit	18	113	108	493%	-4%	132
Gross Margin	9.3%	41.0%	37.8%	307%	NA	44.5%
Operating profit	10	98	96	836%	-2%	121
Net Profit	5	91	90	1584%	-1%	113

Source: Company data, Al Rajhi Capital

Valuation and risks: We believe the company is well positioned in the market and resilient towards changes in macro-economic conditions, even if the new pricing strategy couldn't hold, given the large capacity and dominant market share. However, the stock price has already factored in most of the positives as it rallied by ~50% since the start of the year. We value the company based on an equal mix of DCF and relative valuation (forward P/E of 16.9x). The company currently trades at a forward P/E of 17.5x vs Saudi cement peers at 20.5x. **The key downside risks** are lower than expected clinker exports and further decrease in market share. **The key upside risks** are higher than expected selling prices and higher than forecasted pick up in government's infrastructure spending.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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