Southern Province Cement Co
Cement – Industrial
SOCCO AB: Saudi Arabia
15 Mar 2018

الراجحي المالية
Al Rajhi Capital

Target price	**44.0**	10% below current
Current price	**48.5**	as at 14/3/2018

Research Department
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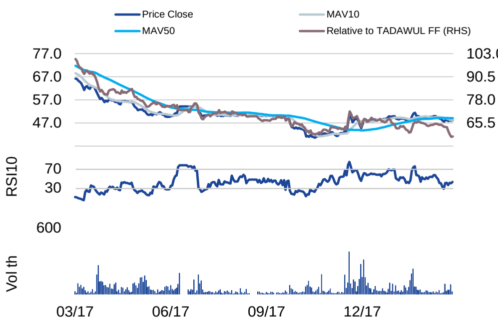
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SAR)	12/15A	12/16A	12/17E	12/18E
Revenue (mn)	2047	1776	1064	950
Revenue Growth	9.0%	-13.2%	-40.1%	-10.7%
EBITDA (mn)	1220	1079	589	532
EBITDA Growth	9.8%	-11.6%	-45.4%	-9.7%
EPS	7.4	6.3	2.7	2.4
EPS Growth	-0.7%	-15.1%	-57.8%	-9.0%

Source: Company data, Al Rajhi Capital

Southern Province Cement Co

Q4: Lower costs led to higher than expected profits.

Southern cement reported a Q4 net profit of SAR115 mn (-26% y-o-y, 100% q-o-q), above our estimate of SAR61mn as well as consensus forecast of SAR69mn. the main reasons behind the miss were lower than expected cost per ton as well as higher than expected sale price. The company attributed the decline in profit to the drop in sales volume (-15% y-o-y) and sale price (-12% y-o-y) as a result of sluggish demand and stiff competition. The company's average realized price/ton jumped to at SAR202/ton, going forward, we expect the company's sale price to remain stable at the current level with a slight decrease as the oversupply situation in the southern region is expected to continue. We continue with our Neutral rating on Southern cement with a target price of SAR44/share. Downside risks are related to lower than expected sales volume and selling prices. Upside risks are related to potential benefits from exports as well as benefiting from the government mega projects located in the western region.

- **Revenue:** Southern cement reported revenue of SAR 302mn (down 15% y-o-y). The company's sales volume declined 2% y-o-y in Q4 to 1.49mn tons. The company holds 3.2mn tons of inventories, representing 61% of last 12-month sales volume. For Q1 2018, we anticipate a drop of 17% y-o-y in the company's sales volume.

- **Gross and Operating margins:** Southern cement's gross profit declined 24% y-o-y to SAR137mn, higher than our estimate by wide margin. The company's operating profit came at SAR124mn (-21% y-o-y). The company's gross and operating margins increased to 45% and 41%, respectively (from 30% and 28% in Q3 2017).

- **Net profit and valuation:** Reported net profit of SAR115mn was above our estimate of SAR61mn. We value the company based on a DCF model (10.4 WACC and 1% terminal growth) . Our target price stands at SAR44 per share which implies 10% downside from current price, hence maintain Neutral rating.

Figure 1 Southern Cement: summary of Q4 2017 results

	Q2 2017	Q3 2017	Q4 2017	% chg y-o-y	% chg q-oq	ARC Estimate
Revenue	242.8	216.0	302.0	-14.7%	39.8%	268
Gross Profit	100.0	65.0	137.0	-23.9%	110.8%	81
Gross Margin	41%	30%	45%	NA	NA	30%
Operating Profit	92.0	61.0	124.0	-20.5%	103.3%	71
Net Profit	95.0	57.0	115.0	-26.3%	101.8%	61

Source: Company data, Al Rajhi Capital

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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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