Southern Cement Co.

Result Flash Note Q4-20

Southern Cement result came below estimates due to higher than expected COGS. Net income stood at SAR 140.9mn, compared to our expectation of SAR 184.5mn. Revenue came at SAR 430.7mn, in-line with our estimates of SAR 448.4mn. Volumetric sales stood at 2.13MT, compared to our forecast of 2.18MT. Whereas average domestic price realization per tonne stood at SAR 202.9/tonne, in-line with our expectation of SAR 206.2/tonne. We update our recommendation to "**Neutral**" on the stock with a TP at **SAR 78.0/share.**

- Southern Cement posted net income of SAR 140.9mn in Q4-20 (EPS; SAR 1.01/share); compared to SAR 161.8mn in Q4-19 and SAR 149.8mn in Q3-20. Net income came below our estimate and market consensus estimates of SAR 184.5mn and SAR 166.1mn, respectively. The Y/Y decline in Q4-20 earnings is mainly ascribed to an increase in cost per tonne by 14.2%Y/Y.
- Southern cement posted sales of SAR 430.7mn (an increase of 8.6%Y/Y, 1.2%Q/Q), in-line with our estimates of SAR 448.4mn. Volumetric sales stood at 2.13MT in Q4-20 vs. 1.98MT in Q4-19 recording an increase of 7.6%, in-line with our expectation of 2.18MT. Based on our calculation, domestic realization per tonne came at SAR 202.9/tonne, while export sales price is expected to stand at SAR 90.0/tonne. Average price realization/tonne came at SAR 202.5/tonne, in-line with our estimate of SAR 206.7/tonne and SAR 196.8/tonne in Q3-20.
- Gross profit came at SAR 163.6mn showing a decline of 8.7%Y/Y and 4.0%Q/Q, below estimate of SAR 205.1mn, due to an increase in COGS. Cost per tonne stood at SAR 125.6/tonne, higher than our expectation of SAR 111.6/tonne and in comparison to an average of SAR 113.0/tonne in FY19.
- Operating profit stood at SAR 149.9mn, below our expectation of SAR 191.0mn. Where OPEX came at SAR 13.7mn, showing a decline of 11.1%Y/Y

AJC view: Southern cement cost per tonne unexpectedly increased by 14.2%Y/Y in Q4-20, which we believe is a one off. Whereas domestic price per tonne sustained at its high levels to stand at SAR 202.9/tonne, unlike its peers where prices declined significantly during Q4-20. Clinker inventory witnessed a decline of 41.3%Y/Y by the end of Jan-21 to stand at 2.2MT, which could be enough to cover 26% of the total sales volume during TTM. We believe, cement sector will show a short-term decline in net income due to selling price discount. However, we are optimistic on the sector for the long-term with the increase in mortgage loans by 83.2%Y/Y in FY20, and the future demand form Giga projects. For FY20, total sector dispatches stood at 58.4MT (including exports) compared to 50.2MT in FY19, depicting an increase of 16.3%Y/Y. Southern cement is expected to post SAR 647.7mn in net income (4.63 EPS), for FY21, an increase of 6.4%Y/Y. The company is currently trading at TTM PE of 20.4x compared to a forward PE of 19.2x based on FY21 earnings. We update our recommendation to "**Neutral**" on the stock with a TP at **SAR 78.0/share.**

Results Summary

SARmn (unless specified)	Q4-19	Q3-20	Q4-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**396.7**	**425.8**	**430.7**	8.57%	1.15%	-3.96%
Gross Profit	179.3	170.4	163.6	-8.75%	-3.98%	-20.26%
Gross Margin	45.2%	40.0%	38.0%	-	-	-
EBIT	163.8	159.6	149.9	-8.53%	-6.08%	-21.53%
Net Profit	**161.8**	**149.8**	**140.9**	-12.93	-5.95%	-23.67%
EPS	1.16	1.07	1.01	-	-	-

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

Neutral

Target Price (SAR)	78.0
Upside / (Downside)*	-12.2%

Source: Tadawul *prices as of 7th of Marchg 2021

Key Financials

	FY19	FY20	FY21E
Revenue	1,300.3	1,653.0	1,726.1
Growth %	46.5%	27.1%	4.4%
Net Income	462.7	609.0	647.7
Growth %	137.6%	31.6%	6.4%
EPS	3.31	4.35	4.63

Source: Company reports, Aljazira Capital

Key Ratios

	FY19	FY20	FY21E
Gross Margin	41.3%	41.1%	41.5%
Net Margin	35.6%	36.8%	37.5%
P/E (x)	19.5	19.4	19.2
P/B (x)	2.7	3.6	3.7
EV/EBITDA (x)	18.9	19.1	18.8
Dividend Yield	3.5%	5.6%	4.2%

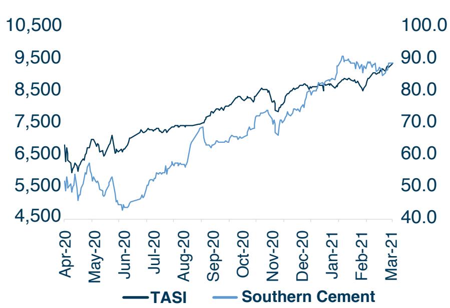
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	12.43
YTD %	5.46%
52 Week (High)/(Low)	91.20/42.00
Shares Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

AGM-Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

Analyst
Faisal Alsuwelimy
+966 11 2256115
F.alsuweilmy@aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutions
Ahmad Salman, CFA
+966 11 2256201
a.salman@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Central & Western Region Investment Centers
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. 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.
2. 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.
3. 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.
4. 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.

Disclaimer