# Southern Province Cement Co
**Cement – Industrial**
SOCCO AB: Saudi Arabia
26 Oct 2017

الراجحي المالية
Al Rajhi Capital

| | | |
|---|---|---|
| Target price | 43.0 | 4.6% over current |
| Current price | 41.0 | as at 25/10/2017 |

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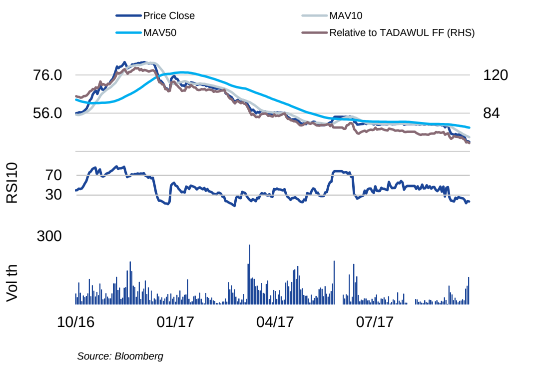
**Existing rating**

**Underweight** | **Neutral** | **Overweight**

### Performance




### Earnings

| Period End (SAR) | 12/15A | 12/16A | 12/17E | 12/18E |
|---|---|---|---|---|
| Revenue (mn) | 2047 | 1776 | 1032 | 1164 |
| Revenue Growth | 9.0% | -13.2% | -41.9% | 12.9% |
| EBITDA (mn) | 1220 | 1076 | 518 | 567 |
| EBITDA Growth | 9.8% | -11.8% | -51.9% | 9.5% |
| EPS | 7.4 | 6.3 | 2.4 | 2.9 |
| EPS Growth | -0.7% | -15.1% | -61.8% | 18.7% |

**Source:** Company data, Al Rajhi Capital

# Southern Province Cement Co
## Q3: Weak results; margins contract

*Southern cement reported a Q3 net profit of SAR57mn (-67% y-o-y, -40% q-o-q), below our estimate of SAR84mn as well as consensus forecast of SAR86mn. The main reason for the miss was lower than expected sale price as well as higher than expected cost per ton. The company attributed the decline in profit to the drop in sales volume (-19% y-o-y) and sale price (-29% y-o-y) due to sluggish demand and stiff competition. The company's average realized price/ton dropped to a new low of SAR170/ton. Going forward, we expect the company's sale price to remain stable at the current level in the backdrop of oversupply situation in the western region persisting. We maintain Neutral rating on Southern cement with a target price of SAR43/share. Downside risks are related to lower than expected sales volume and selling prices. Upside risks are related to potential benefits from exports if the government decides to cancel current export fees.*

- **Revenue:** Southern cement reported revenue of SAR 216mn (down 43% y-o-y). The company's sales volume declined 19% y-o-y in Q2 to 1.27mn tons. The company holds 2.8mn tons of inventories, representing 50% of last 12-month sales volume. For Q4, we anticipate a drop of 14% y-o-y in the company's sales volume.

- **Gross and Operating margins:** Southern cement's gross profit declined 63% y-o-y to SAR65mn, below our estimate by wide margin. The company's operating profit came at SAR61mn (-66% y-o-y). The company's gross and operating margins declined to 30% and 28% respectively (from 41% and 38% in Q2 2017).

- **Net profit and valuation:** Reported net profit of SAR57mn was below our estimate of SAR84mn. The stock is currently trading at 14.2x P/E based on our 2018e EPS. Based on the current weak market conditions and high inventories, we expect the company's capacity addition of 3mn (1.5mn tons at both Bisha and Tuhama plants) will only be utilized partially. We value the company based on an equal weighted average of DCF and relative valuation. Our target price stands at SAR43 per share which implies 4.6% upside from current price. Maintain Neutral rating.

**Figure 1 Southern Cement: summary of Q3 2017 results**

| | Q3 2016 | Q2 2017 | Q3 2017 | % chg y-o-y | % chg q-oq | ARC Estimate |
|---|---|---|---|---|---|---|
| Revenue | 379.8 | 242.8 | 216.0 | -43.1% | -43.1% | 235 |
| Gross Profit | 184.0 | 100.0 | 65.0 | -64.7% | -35.0% | 94 |
| Gross Margin | 48% | 41% | 30% | NA | NA | 40% |
| Operating Profit | 177.0 | 92.0 | 61.0 | -65.5% | -33.7% | 81 |
| Net Profit | 174.0 | 95.0 | 57.0 | -67.2% | -40.0% | 84 |

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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