



Target price 37.0 14% below current
Current price 43.5 as at 10/3/2019

Research Department
Yazeed Alsaqaaby

Tel +966 1 211 9398, alsaqaaby@alrajhi-capital.com

Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	2017A	2018A	2019E
Revenue (mn)	1063	888	1013
Revenue Growth	-40.1%	-16.5%	14.0%
EBITDA (mn)	571	416	435
EBITDA Growth	-47.1%	-27.2%	4.7%
EPS	2.6	1.4	1.7
EPS Growth	-58.0%	-47.2%	20.9%

Source: Company data, Al Rajhi Capital

Southern Province Cement Co

Q4 earnings beat, TP at SAR37 per share

Southern Cement reported Q4 net profit of SAR52mn (-54% y-o-y, +865% q-o-q), beating our estimate of SAR23mn and consensus estimate of SAR27mn. The beat was driven by higher than expected selling price and lower than anticipated cost. Going forward, we expect the company to continue to dominate the southern region and consolidate its presence in the western region, given the strong production capacity in the region (spread across three locations in south west of the kingdom) with leading market share and having close client tie-ups. Further, as a part of driving sales, the company is focussed on exporting clinker to Bangladesh after signing an year and a half agreement to export 1.5mn ton of clinker starting from January 2019. The move will also help liquidate part of its inventory. Post Q4 results, we have changed our estimates for volume and prices for the short term, resulting in a revised target price of SAR37/share for Southern Province Cement. We have also changed our recommendation to “Underweight”.

Revenue & Profitability: Southern cement reported Q4 revenue of SAR240mn (-20% y-o-y, +22.5% q-o-q), beating our estimate of SAR221mn. The sequential growth was driven by higher quantity sold (+16% q-o-q, 1.7mn ton) and increase in average selling price (+6% q-o-q, SAR141 per ton). Also, the company holds 3.9mn tons of inventories, representing 66% of last 12-month sales volume. Gross profit margin declined to 30% from 45% in Q4 2017 as cost came under pressure. Further, the company’s operating profit margin contracted to 24% from 41% last year.

Figure 1 Southern Cement: summary of Q4 2018 results.

	Q4 2018	Q4 2017	Q3 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	240.3	300.9	196.1	-20.2%	22.5%	221
Gross Profit	71.0	135.9	18.2	-47.8%	289.8%	40
Gross Margin	30%	45%	9%	NA	NA	18%
Operating Profit	57.5	124.0	10.3	-53.7%	460.4%	28
Net Profit	51.8	114.6	5.4	-54.8%	865.1%	23

Source: Company data, Al Rajhi Capital

Dividends: Southern cement announced dividend of SAR1 per share (SAR140mn) for H2 2018, taking total dividend for the year to SAR2 per share (SAR 280mn). The stock offers an attractive 2018 dividend yield of 4.6%. We expect the company will be able to maintain the same level of dividend for 2019.

Conclusion and valuation: Southern Province cement was one of the few companies which was able to increase its quantity sold (by around 3.5% y-o-y to 5.7mn ton) despite any downward pressure on prices. This reflects the company ability to keep average prices on a convenient level without lowering sales and focusing only on prices like the strategy of most other companies. We think the company is resilient towards changes in macro-economic conditions, However, we believe the stock price has already factored in most of the positives. We change our recommendation to “Underweight” with ~14% downside. Our new TP on Southern Cement stands at SAR37/share (10.4% WACC and 1% terminal growth).



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"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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Contact us

Mazen AlSudairi
Head of Research
Tel : +966 1 211 9449
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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