



US\$2.860bn Market cap
42% Free float
US\$2.677mn Avg. daily volume

Target price **75.00** -2.1% over current
 Current price **76.60** as at 18/8/2021

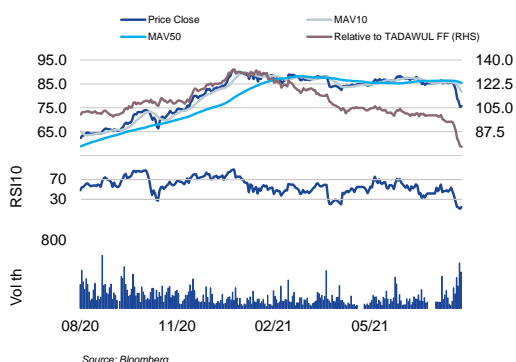
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

(SARmn)	2020	2021E	2022E
Revenue	1,653	1,390	1,488
Revenue growth	27%	-16%	7%
Gross profit	715	567	631
Gross margin	43%	41%	42%
EBITDA	866	710	769
EBITDA margin	52%	51%	52%
Net profit	609	500	564
Net margin	37%	36%	38%
EPS	4.35	3.57	4.03
DPS	4.75	3.75	3.75
Payout ratio	109%	105%	93%
EV/EBITDA	12.2x	14.9x	13.4x
P/E	17.6x	21.4x	19.0x
RoE	18.6%	15.4%	17.1%

Source: Company data, Al Rajhi Capital

Southern Province Cement Co

Expect dividend to fall on account of capex; TP at SAR 75/sh

Southern Province Cement Co (SPCC) registered a revenue of SAR287mn, for Q2 2021, a y-o-y fall of 15.3%, but was higher than our estimate of SAR269mn. Revenue was impacted by a 10.9% y-o-y fall in cement volume. Cement sales volume for Q2 2021 came in at 1.4mn tons, 9.8% higher than our estimate. Gross profit and operating profit fell by 27.2% y-o-y and 28.3% y-o-y respectively. The fall in profitability was at the back of lower volume and the resulting fall in operating leverage. For Q2 2021, cement volume for the industry grew by 21.3% y-o-y, while the Southern region offtake fell by 5.1% y-o-y. The performance of both the industry and the region was better than SPCC. Going forward, we expect cement volumes of SPCC to remain under pressure in Q3 2021 at the back of lower construction activity in the Kingdom due to uncertainties relating to the new building permit norms and shortage in labour. However, we expect the situation to improve by Q4 2021. We also expect SPCC's dividend in 2021 to come under pressure and fall below 2020 levels, due to its ongoing capex plan of replacing its production line in Jizan. Overall, we reduce our target price to SAR75/share from the earlier target price of SAR97/share, and maintain our rating at "Neutral".

Q2 results: Total volume sold during the quarter came in at 1.4mn tons in Q2 2021, compared to 2.1mn tons in Q1 2021 and 1.6mn tons a year back. Gross margins fell to 38.6% in Q2 2021, corresponding to 44.9% a year back and 43.2% in Q1 2021. Lower revenue and the resultant fall in operating leverage impacted the gross margins of the company. Net margins at 33.1% in Q2 2021, was lower compared to 39.7% a year back and 39.8% in Q1 2021.

Figure 1 Southern Province Cement Co: Summary of Q2 2021 results

(SARmn)	Q2 2021	Q2 2020	Q1 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	287	339	439	-15%	-35%	269
Gross Profit	111	152	190	-27%	-42%	101
Gross Margin	39%	45%	43%	NA	NA	38%
Operating Profit	98	137	177	-28%	-44%	88
Net Profit	95	135	175	-29%	-46%	85

Source: Company data, Al Rajhi Capital

Valuation and risks: For our estimates, we expect input and energy prices to remain flat. We value the company based on an equal mix of DCF and dividend capitalization methods. The DCF target price is based on a 2.0% terminal growth and WACC of 9.6% and comes to SAR76/share. Dividend capitalization is based on a fair value dividend yield of 5% and also comes to SAR75/share. Overall, we have reduced our target price for the company to SAR75 per share, a downside of 2.1%, which implies a "Neutral" rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the 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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