

Cement Sector

Southern Province Cement Co.

First Cut – Southern Province Cement Co.

Fall in cement and clinker volumes impact topline: Southern Province Cement (SPCC) 3Q23 revenue at SAR286mn was down by 11.5% YoY and was impacted by a 12.8% YoY fall in cement volume to 1.3mn and a 5.3% YoY fall clinker volume to 0.4mn ton. Blended realization on the other hand was flat, despite the pricing pressure on cement, and is likely to have been aided by strong clinker realization on exports. The revenue reported by SPCC was close to our expectation of SAR294mn, with the lower-than-expected cement volume and realization made up by higher clinker volume and a potentially higher clinker realization.

Profitability impacted by lower revenue: Gross profit fell by 23.6% YoY to SAR81mn for 3Q23 and was impacted by lower revenue, and a 6.3% YoY increase in cost of sales per ton to SAR122. Gross margins fell to 28.3% for 3Q23, compared to 32.8% for the same period previous year. Operating expenses on the other hand increased by 76.9% YoY to SAR23mn, as net income fell by 40.4% YoY to SAR53mn. The net income was however better than our expectation of SAR47mn, as lower than expected cement volume and realization was more than made up by higher-than-expected clinker revenue and lower than expected cost of sales per ton.

Pressure on financial performance in line with its peers: Though the financial performance of SPCC came under pressure in line with its peers, it has been better than our expectation. We have a HOLD rating on the company at a target price of SAR47 per share and the stock is currently quoting at 36x its 2023e EPS. We will be revising our target price once the detailed results are made available.

in SAR mn	3Q23	2Q23	QoQ	3Q22	YoY	3Q23e	VaR	9M23	9M22	YoY	2022	2021	YoY	2023E	YoY
Revenue	286	226	26.5%	323	-11.5%	294	-2.7%	812	887	-8.5%	1,222	1,339	-8.7%	1,093	-10.6%
Gross profit	81	37	118.9%	106	-23.6%	65	24.6%	188	268	-29.9%	357	505	-29.3%	250	-30.0%
Gross margins	28.3%	16.4%		32.8%		22.1%		23.2%	30.2%		29.2%	37.7%		22.9%	
Operating profit	58	23	152.2%	93	-37.6%	50	16.9%	135	227	-40.5%	294	443	-33.6%	181	-38.5%
Operating margins	20.3%	10.2%		28.8%		16.9%		16.6%	25.6%		24.1%	33.1%		16.6%	
Net income	53	19	178.9%	89	-40.4%	47	12.8%	121	238	-49.2%	301	429	-29.9%	160	-46.8%
Net margins	18.5%	8.4%		27.6%		16.0%		14.9%	26.8%		24.6%	32.0%		14.6%	



Key contacts

Research Team

Sr. Manager - Research E-Mail: joice@usoman.com

Tel: +968 2476 3311

Joice Mathew

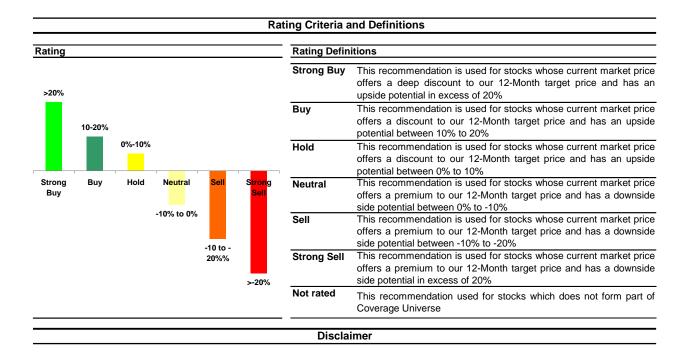
Email: manna.t@usoman.com

Manna Thomas ACCA

Research Associate

Tel: +968 2476 3347

Contact Address P. O Box: 2566; P C 112 Sultanate of Oman Tel: +968 2476 3300



This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. Opinion expressed is our current opinion as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we endeavor to update on a reasonable basis the information discussed in this material, United Securities, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. United Securities LLC, and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions. United Securities LLC and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.