

Southern Cement result beats our estimates on higher than expected volumetric sales. Net income stood at SAR 134.9mn above our expectation of SAR 95.5mn. Revenue came at SAR 339.3mn, above our estimates of SAR 272.9mn. Where volumetric sales stood at 1,724KT, compared to our forecast of 1,414KT. We maintain our **“Neutral”** recommendation on the stock with a revised TP at **SAR 70.0/share**.

- Southern Cement posted net income of SAR 134.9mn in Q2-20 (EPS; SAR 0.96/share); compared to SAR 90.8mn in Q2-19 and SAR 183.5mn in Q1-20. Net income came above our estimates and the market consensus estimates of SAR 95.5mn and SAR 100.5mn, respectively. The deviation of Q2-20 earnings from our estimates is mainly ascribed to higher than expected sales volume.
- Southern cement posted sales of SAR 339.3mn (an increase of 23.1%Y/Y, and a decline of 25.8%Q/Q), beating our estimates of SAR 272.9mn due to an increase in volumetric sales. Volumetric sales stood at 1,724KT in Q2-20 vs. 1,486KT in Q2-19 recording an increase of 16.0%, above our expectation of 1,414KT. Based on our calculation, domestic realization per tonne came at SAR 205.0/tonne, while export sales price stood at SAR 90.0/tonne. Average price realization/tonne came at SAR 196.8/tonne, against our estimates of SAR 193.0/tonne and SAR 197.2/tonne in Q1-20.
- Gross profit came at SAR 152.4mn showing an increase of 34.8%Y/Y and a decline of 20.9%Q/Q, higher than our estimates of SAR 115.9mn. Cost per tonne stood at SAR 108.4/tonne, in comparison to an average of SAR 113.0/tonne in FY19 and we estimate cost per tonne to average at SAR 112.9/tonne in FY20.
- Operating profit stood at SAR 137.4mn, higher than expected of SAR 102.5mn as a result of an increase in gross profit. OPEX came at SAR 15.0mn, showing an increase of 30.7%Q/Q and a decline of 3.2%Y/Y.

AJC view: Southern cement dispatches unexpectedly increased by 16.0%Y/Y in Q2-20 and 53.0%Y/Y in Jul-20. Domestic price per tonne sustained at SAR 205.0/tonne, and is expected to stand at SAR 210.2/tonne in FY20. During FY20, Southern cement is likely to maintain its high export sales at 396KT, which can potentially result in revenues in-excess of SAR 35.6mn. Clinker inventory witnessed a decline of 30.6%Y/Y by the end of Jul-20 to stand at 2.9MT, which could be enough to cover 40% of the total sales volume during TTM. We believe, cement sector will face some short-term challenges, that will effect dispatches, however outlook is expected to improve in the mid to long-term. We don't expect any price war among players due to the recognized impacts on the companies' financials during the price war era. For 7M-20, total sector dispatches stood at 31.4MT (including exports) compared to 28.1MT in 7M-19, depicting an increase of 11.7%Y/Y. Southern cement is expected to post SAR 588.2mn in net income (4.20 EPS), for FY20, an increase of 27.1%Y/Y. The company is currently trading at TTM PE of 15.7x compared to a forward PE of 15.2x based on FY20 earnings. We maintain our **“Neutral”** recommendation on the stock with a revised TP at **SAR 70.0/share**.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	276	457	339	22.83%	-25.82%	24.35%
Gross Profit	113	193	152	34.51%	-21.24%	31.54%
Gross Margin	41.0%	42.1%	44.9%	-	-	-
EBIT	98	181	137	39.80%	-24.31%	34.06%
Net Profit	91	183	135	48.35%	-26.23%	41.27%
EPS	0.65	1.31	0.96	-	-	-

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

Neutral

Target Price (SAR)	70.3
Upside / (Downside)*	10.0%

Source: Tadawul *prices as of 23rd of August 2020

Key Financials

	FY19	FY20E	FY21E
Revenue	1,300.3	1,511.7	1,542.8
Growth %	46.47%	16.26%	2.05%
Net Income	462.7	588.2	577.7
Growth %	137.6%	27.1%	-1.8%
EPS	3.31	4.20	4.13

Source: Company reports, AlJazira Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	41.3%	43.4%	44.4%
Net Margin	35.6%	38.9%	37.4%
P/E	19.49x	15.21x	15.49x
P/B	2.73x	2.59x	2.50x
EV/EBITDA	18.93x	14.74x	13.78x
Dividend Yield	3.5%	4.9%	5.0%

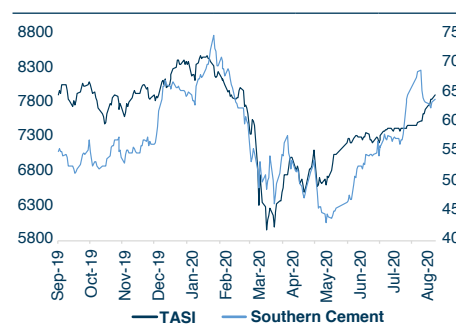
Source: Company reports, AlJazira Capital

Key Market Data

Market Cap (bn)	8.95
YTD %	-1.55%
52 Week (High)/(Low)	74.80/42.00
Shares Outstanding (mn)	140.0

Source: Company reports, AlJazira Capital

Price Performance



Source: Tadawul, AlJazira Capital

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- 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.
- 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.
- 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.
- 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.

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