

May 9, 2018

Rating **Neutral**
12- Month Target Price **SAR 47.00**

Expected Total Return

Price as on May-08, 2018	SAR 40.48
Upside to Target Price	16.1%
Expected Dividend Yield	3.7%
Expected Total Return	19.8%

Market Data

52 Week H/L	SAR 56.3/39.6
Market Capitalization	SAR 5,667 mln
Enterprise Value	SAR 6,118 mln
Shares Outstanding	140.0 mln
Free Float	45.6%
12-Month ADTV (000's)	92.3
Bloomberg Code	SOCCO AB

1-Year Price Performance



Source: Bloomberg



Fig in SAR mln	RC. Est	Actuals
Revenue	266	274
Gross Profit	100	122
Net Income	74	102
EPS (SAR)	0.53	0.73

SOUTHERN CEMENT COMPANY (SOCCO)

1Q2018 First Look

Rise in Selling Prices

Southern Cement Company (SOCCO) reported 1Q2018 earnings beyond our estimates but revenues were in-line. EPS of SAR 0.73 was above our forecast of SAR 0.53 and consensus SAR 0.59. SOCCO registered revenues of SAR 274 million in 1Q2018, declining by -10% Y/Y and -9% Q/Q, in-line with our SAR 266 million estimate. Southern has performed well despite the current tough market conditions. The stock's 2018E P/E of 14.6x is at par with TASI's 14.8x, but below peers. We revise our DPS for 2018 from SAR 2.50 to SAR 1.50 and lower our target price to SAR 47.00 from SAR 54.00 earlier. We maintain our Neutral recommendation as the outlook remains cloudy.

Focusing on western region

Revenues of SAR 274 million, down by -10% Y/Y and -9% Q/Q, came in-line with our SAR 266 million estimate. The quarterly decline in revenues is attributed to lower sales volume, which has decreased by -14% Y/Y and -12% Q/Q to 1.3 million tons. The company's selling prices witnessed a slight increase of +3% on a Q/Q basis to SAR 209/ton. In light of ongoing weak demand in the southern region, the company has shifted its focus to the western region as it is considered to be one of the demand centers in the coming quarters. Nonetheless, due to SOCCO's relatively high realization of SAR 209/ton, in a region where it is witnessing a price war amid overcrowding, its market share declined by -1.38% to 11.1% in 1Q2018. We believe that its market share was lost to Arabian (+142 bps to 8.7%) and Yanbu (+200 bps to 12.5%) as they offer much lower prices at SAR 123/ton and SAR 145/ton respectively. The company's clinker inventory increased by +14% Q/Q to 3.3 million tons whereas its cement inventory levels went up by +13% Q/Q to 124,000 tons, taking its adjusted inventory levels to 3.8 million tons (represents 70% of LTM sales), but still below the industry's 89%.

Net Income exceeds forecasts

Gross profit of SAR 122 million remained flat Y/Y but declined by -11% Q/Q, surpassed our SAR 100 million forecast. Gross margins contracted by 84 bps Q/Q to 44.5% on the back of lower sales volume. Operating profit of SAR 102 million, declined by -3% Y/Y and -18% Q/Q. Nonetheless, the company's EBIT/ ton of SAR 78 is high when compared to peers (Yamama: SAR 33/ton, Qassim: SAR 60/ton, and Yanbu: SAR 20/ton). Operating margins reached 37.2% in 1Q2018 from 41.1% in the preceding quarter on the back of higher operating expenses. Net income came in at SAR 102 million, down -3% Y/Y and -11% Q/Q, above our estimate of SAR 74 million while net margins contracted by 85 bps Y/Y to 37.2%.

Target price revised to SAR 47

The company has performed well in 1Q2018 compared to other producers despite the fierce competition in the sector. The stock is trading at 2018E P/E of 14.6x at par with TASI's 14.8x but below peers. We have revised our DPS estimate for 2018 from SAR 2.50 to SAR 1.50 and changed our target price from SAR 54.00 earlier to SAR 47.00. However, we maintain our Neutral recommendation on the stock as the outlook in the southern region remains cloudy.

Key Financial Figures

FY Dec31 (SAR mln)	2017A	2018E	2019E
Revenue	1,064	1,106	1,167
EBITDA	571	577	626
Net Profit	370	387	407
EPS (SAR)	2.64	2.76	2.91
DPS (SAR)	1.50	1.50	2.00
BVPS (SAR)	22.66	22.92	23.08

Key Financial Ratios

FY Dec31	2017A	2018E	2019E
ROAA	9%	9%	10%
ROAE	12%	12%	12%
P/E	15.3x	14.6x	13.9x
P/B	1.8x	1.7x	1.6x
EV/EBITDA	10.7x	10.6x	9.8x
EV/Sales	5.7x	5.5x	5.2x

Muhammad Faisal Potrik

muhammed.faisal@riyadcapital.com

+966-11-203-6807

Alanoud K. AlMoammar

alanoud.k.almoammar@riyadcapital.com

+966-11-203-6833

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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