

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%	

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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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