October 2019

Southern Cement Co.

Result Flash Note Q3-19

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Southern Cement result came below our estimates on higher than expected cost per tonne of SAR 120.4/tonne against our estimates of SAR 115.0/tonne. Net income stood at SAR 90.3mn slightly below our expectation of SAR 96.2mn. Revenue came at SAR 286.0mn, above our estimates of SAR 276.4mn due to an increase in volumetric sales. We reiterate our "**Neutral**" recommendation on the stock with a revised TP at **SAR 53.2/share**.

- Southern Cement posted net income of SAR 90.3mn in Q3-19 (EPS; SAR 0.65/share); compared to SAR 90.8mn in Q2-19 and SAR 5.4mn in Q3-18. Net income came under our estimates and the market consensus estimates of SAR 96.2mn and SAR 105.5mn, respectively. The deviation of Q3-19 earnings from our estimates is mainly ascribed to higher than estimated cost per tonne, resulting in lower margins.
- Southern cement posted sales of SAR 286.0mn (an increase of 3.6%Q/Q, 45.9%Y/Y), beating our estimates of SAR 276.4mn due to an increase in volumetric sales. Volumetric sales stood at 1.48MT in Q3-19 vs. 1.46MT in Q3-18 recording an increase of 0.8%, above our expectation of 1.38MT. Based on our calculation, domestic realization per tonne came at SAR 195.3/tonne, while export sales price is expected to stand at SAR 90.0/tonne. Average price realization/tonne came at SAR 193.5/tonne, against our estimates of SAR 200/tonne and SAR 185.5/tonne in Q2-19. Domestic selling price has increased and is expected to be sustained on the grounds that most of its peers raised their prices.
- Gross profit came at SAR 108.0mn showing an increase of 500%Y/Y and a decline of 4.4%Q/Q, lower than our estimates of SAR 118.3mn, due to lower than expected margins. Cost per tonne stood at SAR 120.4/tonne, which we believe is a one off, in comparison to an average of SAR 107.8/tonne in FY18 and we estimate cost per tonne to average at SAR 113.9/tonne in FY19.
- Operating profit stood at SAR 96.0mn, below than expected of SAR 103.6mn as a result of a decrease in gross profit. OPEX came at SAR 12.0mn, showing a significant increase of 50.9%Y/Y.

AJC view: Southern cement selling price have recovered considerably during the past three quarters to reach SAR 193.5/tonne, along with 0.8%Y/Y increase in volumetric sales. We believe price realization per tonne has the potential to further improve on improving volumetric sales. During FY19, Southern cement is likely to maintain its high export sales to reach 500KT, which can potentially result in revenues in-excess of SAR 43.7mn. The company signed a contract to export 1.5MT of clinker to Bangladesh, where only 304KT was delivered till 3Q-19. This contract could drag down the inventory level to around 2.9MT from the current level of 4.1MT (SEP-FY19), which could be enough to cover almost 65% of TTM volumetric sales. We believe, cement sector is continuing the recovery from its downtrend due to producer's concentration on selling prices and an increase in both local & export sales. Southern cement is expected to post SAR 414.9mn in net income (2.96 EPS), for FY19, an increase of 113.0%Y/Y. The company is currently trading at TTM PE of 21.9x compared to a forward PE of 15.7x based on FY20 earnings. We reiterate our "**Neutral**" recommendation on the stock with a TP at **SAR 53.2/share**.

Results Summary

SARmn	Q3-18	Q2-19	Q3-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**196**	**276**	**286**	45.9%	3.6%	3.5%
Gross Profit	18	113	108	500.0%	-4.4%	-8.7%
Gross Margin	*9.2%*	*40.9%*	*37.8%*	-	-	-
EBIT	10	98	96	860.0%	-2.0%	-7.3%
Net Profit	**5.4**	**91**	**90.3**	1,572.2%	-0.8%	-6.2%
EPS	0.04	0.65	0.65	-	-	-

Source: Company Reports, AlJazira Capital

Neutral

Target Price (SAR)	53.2
Upside / (Downside)*	-3.7%

Source: Tadawul *prices as of 29th of October 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E	FY20E
Revenue	1,063.8	887.7	1,248	1,366
Growth %	-40.1%	-16.6%	40.6%	9.4%
Net Income	370.2	194.8	415	491
Growth %	-57.8%	-47.4%	113.0%	18.3%
EPS	2.64	1.39	2.96	3.51

Source: Company reports, Aljazira Capital

Key Ratios

	FY17	FY18	FY19E	FY20E
Gross Margin	39.8%	29.5%	39.7%	42.1%
Net Margin	34.8%	21.9%	33.2%	35.9%
P/E	18.30x	36.85x	18.56x	15.68x
P/B	2.14x	1.69x	2.33x	2.18x
EV/EBITDA (x)	15.32x	27.42x	13.44x	11.39x
Dividend Yield	4.1%	5.4%	4.1%	5.9%

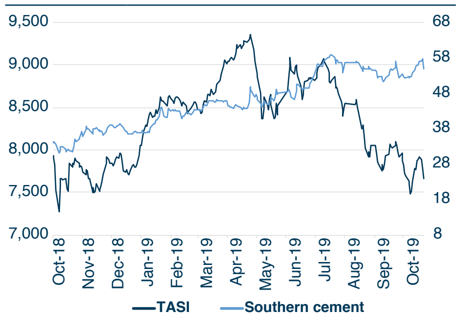
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	7.70
YTD %	56.31%
52 Week (High)/(Low)	59.20/31.70
Shares Outstanding (mn)	140.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RATING TERMINOLOGY

1. 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.
2. 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.
3. 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.
4. 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.

Disclaimer