

2Q20 Results Update

October 05, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	65.9
Target Price (SAR)	63.0
Upside/Downside (%)	(4.4%)

As of September 09, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.2
52-Wk High (SAR)	74.8
52-Wk Low (SAR)	42.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	50.8%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(4.2%)	(11.5%)
6m	34.5%	6.6%
12m	20.9%	20.6%

Major Shareholders (%)

Public Investment Fund	37.43%
General Org. for Social Insurance	10.87%

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of September 09, 2020

Higher sales volume supports margin expansion and boosts bottom line in 2Q20

Southern Province Cement Company (SPCC)'s net profit increased 48.6% YoY to SAR 134.9mn in 2Q20 from SAR 90.8mn in 2Q19. The surge in the bottom line was driven by a 23.1% YoY rise in revenue owing to the 23.0% YoY growth in sales volume during the quarter. Operating profit scaled up by 40.8% YoY to SAR 137.4mn due to decline in SG&A expenses. Besides these factors, a marginal dip in financial charges also contributed to the expansion in the bottom line for the period. The company's net profit margin for the quarter stood at 39.7% against 32.9% in 2Q19.

Although the COVID-19 pandemic resulted in several headwinds for the Saudi Arabian cement industry overall, the impact on SPCC remained largely subdued as the company recorded a 28.9% YoY and 50.7% YoY rise in revenue and the bottom line, respectively, during 1H20. The imposition of lockdowns right before the start of the quarter and the subsequent implementation of social distancing norms led to delays in real estate and housing projects across the nation, resulting in slowdown in the cement industry. Additionally, the situation led to 28.8% YoY and 19.7% YoY decline in the aggregate sales of Saudi cement companies in April and May, respectively. However, cement sales surged during June-August, providing some green shoots for the sector. SPCC maintains a strong balance sheet, with its debt-to-equity ratio improving to 0.13x in 2Q20 from 0.15x in 2Q19. However, in view of the recent run-up in the company's stock price, we see limited upside potential and maintain a Neutral rating on the stock.

- Revenue increased 23.1% YoY to SAR 339.3mn in 2Q20, aided by a 23.0% YoY rise in sales volume. On a quarterly basis, revenue was down 25.8% owing to the 26.4% QoQ decline in the sales volume.
- Cost of sales (up 15.0% YoY to SAR 186.9mn) grew at a slower pace than revenue during the quarter. This resulted in a 34.8% YoY surge in gross profit to SAR 152.4mn in 2Q20. Subsequently, the gross profit margin improved to 44.9% in 2Q20 from 41.0% in 2Q19.
- A slight drop in the company's SG&A expenses boosted its operating profit, which increased 40.8% YoY to SAR 137.4mn during the period. Consequently, SPCC reported an operating margin of 40.5% in 2Q20 against 35.4% in 2Q19.
- In addition to the above factors, a marginal fall in net finance charges resulted in 48.6% YoY advance in net profit to SAR 134.9mn in 2Q20. EPS for the quarter stood at SAR 0.96 compared with SAR 0.65 in 2Q19. The net profit margin was 39.7% in 2Q20 against 32.9% in 2Q19.
- On July 23, SPCC's Board of Directors approved SAR 2.25 per share cash dividend for 1H20, worth SAR 315.0mn.
- On July 11, the Board accepted Safar Mohammad Bin Dhufayer's resignation from the post of CEO and appointed Aqeel Futis Kadasa as new CEO, effective July 12, 2020.

Valuation: We revise our target price to a fair value of SAR 63.0 and maintain our "Neutral" rating on the stock.

	2Q20	2Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	339	276	23.1%	1,492	1,300	14.7%
Gross Profit (SAR mn)	152	113	34.8%	634	538	18.0%
Operating Profit (SAR mn)	137	98	40.8%	574	483	18.9%
Net Profit (SAR mn)	135	91	48.6%	522	463	12.8%
EPS Basic (SAR)	0.96	0.65	48.6%	3.73	3.31	12.8%
Gross Margin (%)	44.9%	41.0%	3.9%	42.5%	41.3%	1.2%
Operating Margin (%)	40.5%	35.4%	5.1%	38.5%	37.2%	1.3%
Net Profit Margin (%)	39.7%	32.9%	6.8%	35.0%	35.6%	(0.6%)

Source: Company Financials, FALCOM Research

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FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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