

# Southern Province Cement Co

Cement – Industrial

SOCCO AB: Saudi Arabia

09 November 2020

الراجحي المالية  
Al Rajhi Capital



**US\$2.654bn** Market cap  
**42%** Free float  
**US\$4.451mn** Avg. daily volume

Target price **82.00** 15.3% over current  
Current price **71.10** as at 8/11/2020

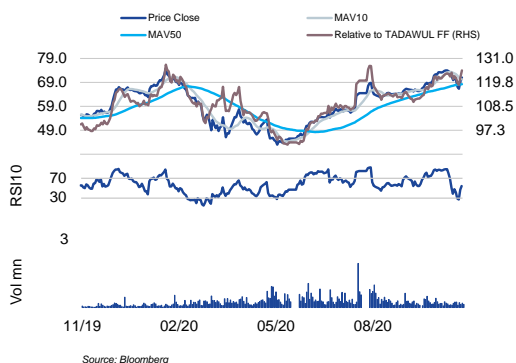
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## Existing rating

**Underweight** **Neutral** **Overweight**

## Performance



## Earnings

(SARmn)	2019A	2020E	2021E
Revenue	1,300	1,562	1,656
Revenue growth	46%	20%	6%
Gross profit	538	691	750
Gross margin	41%	44%	45%
EBITDA	679	835	895
EBITDA margin	52%	53%	54%
Net profit	463	619	665
Net margin	36%	40%	40%
EPS	3.31	4.42	4.75
DPS	3.50	4.42	4.75
Payout ratio	106%	100%	100%
EV/EBITDA	13.8x	12.1x	11.2x
P/E	19.9x	16.1x	15.0x
RoE	14%	19%	20%

Source: Company data, Al Rajhi Capital

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## Strong volume boost profitability; TP increased to SAR 82

Southern Province Cement (SPCC) registered revenue of SAR426mn, a y-o-y growth of 49.0% and, was higher than our estimate of SAR420mn by 1.4%. Growth in sales was supported by a 38.2% y-o-y growth in volume and a 7.8% growth in average realization. Cement sales volume for Q3 20 came in at 2.0mn tons, and was in line with our estimate. Gross profits and operating income increased by 57.4% y-o-y and 66.7% y-o-y respectively. Growth in profitability was aided by higher volumes and the resultant improvement in operating leverage and the improvement in realization. For the nine months, Saudi Cement registered a volume growth of 29.4% y-o-y. Growth was aided by strong momentum in real estate activities in the local market. Going forward, we expect this trend to continue, though growth rates for 2021 will be tempered by the higher base in 2020. Average realizations are likely to come under pressure, given the competitive nature of the local market. We increase our target price to SAR82/share from the earlier target price of SAR77/share and have maintained our rating at "Overweight".

**Q3 results:** Total volume sold during the quarter was at 2.0mn tons in 3Q20, compared to 1.6mn tons in 2Q20 and 1.5mn tons a year back. Aided by higher volumes, gross margins improved to 39.9% in 3Q20, corresponding to 37.8% a year back, though it was lower than 44.8% in 2Q20. Net margins at 35.2% in 3Q20, was marginally higher compared to 31.5% a year back, though was lower than 39.8% in 2Q20.

Figure 1 Southern Province Cement: Summary of Q3 2020 results

(SARmn)	Q3 2020	Q3 2019	Q2 2020	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	426	286	339	49%	26%	420
Gross Profit	170	108	152	57%	12%	187
Gross Margin	40%	38%	45%	NA	NA	45%
Operating Profit	160	96	137	66%	16%	172
Net Profit	150	90	135	66%	11%	164

Source: Company data, Al Rajhi Capital

**Valuation and risks:** For our estimates, we expect input and energy prices to remain flat. We value the company based on an equal mix of DCF and relative valuation. The DCF target price is based on a 2.0% terminal growth and WACC of 8.5% and comes to SAR87/share. P/E is based on a multiple of 17.5x and comes to SAR77/share. Overall, we have increased our target price for the company to SAR82 per share, an upside of 15.3%, which implies an "Overweight" rating. The key downside risk is a decline in volume and an upward revision to input prices such as fuel. The key upside risks are higher than expected cement price and higher than forecasted pick up in the government's infrastructure spending.



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

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