



Target price 41.00 8.4% below current
Current price 44.75 as at 19/5/2019

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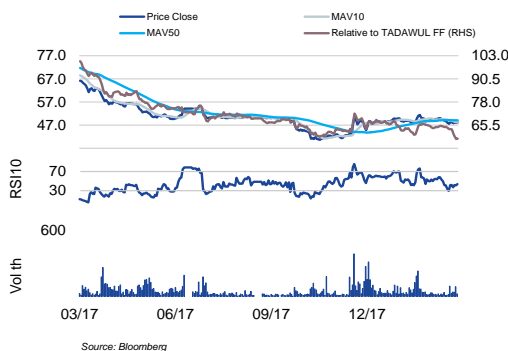
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

Period End (SAR)	2018A	2019E	2020E
Revenue (mn)	888	1245	1265
Revenue Growth	-16%	40%	2%
EBITDA (mn)	401	569	587
EBITDA Growth	-29.7%	41.8%	3.3%
EPS	1.4	2.4	2.5
EPS Growth	-47%	74%	5%

Source: Company data, Al Rajhi Capital

Southern Province Cement Co

Q1 earnings beat, TP at SAR41 per share

Southern Cement reported Q1 net profit of SAR120mn (17.8% y-o-y, +132% q-o-q), beating our estimate of SAR59mn and consensus estimate of SAR66mn. The beat was primarily driven by higher than expected selling price even though demand remained flat on a quarterly basis. The company started to focus on higher prices rather than maintaining market share, which is the similar strategy followed by most of the Saudi cement companies during the last two quarters. Going forward, we believe cement demand to go down significantly in the coming two quarters due to seasonality factors (Ramadan, Eid and summer vacation). On the other hand, we expect prices to remain high irrespective of the demand. Further, we believe Southern Cement to continue to dominate the southern region and consolidate its presence in the western region, given its strong production capacity (spread across three locations in south west of the Kingdom) and a leading market share with close client ties-ups. Further, in order to boost sales, the company is focussed on exporting clinker to Bangladesh after signing an year and a half agreement to export 1.5mn ton of clinker starting from January 2019. The move will also help liquidate part of its inventory. Post Q1 results, we have adjusted our estimates for volume and prices for short term, resulting in a revised target price of SAR41/share for Southern Province Cement. As such, we have changed our recommendation to “Neutral”.

Revenue & Profitability: Southern Cement reported Q1 revenue of SAR342mn (+25% y-o-y, +42.5% q-o-q), beating our estimate of SAR252mn as average prices went up to SAR200 per ton (-4% y-o-y, +41% q-o-q). However, quantity sold locally remained flat on quarterly basis reaching 1.7mn ton (+30% y-o-y, 0.5% q-o-q). On the other hand, Southern Cement exported only 95 ton of clinker. Further, the company holds 4mn tons of inventories, representing 66% of last 12-month sales volume. Gross profit margin jumped to 40% in Q1 2019 from 29% in Q4 2018 due to price increase. Moreover, the company’s operating profit margin went up to 37% in Q1 2019 from 24% in Q4 2018.

Figure 1 Southern Cement: summary of Q1 2019 results.

	Q1 2019	Q1 2018	Q4 2018	% chg y-o-y	% chg q-o-q	ARC Estimate
Revenue	341.9	273.8	240.0	24.9%	42.5%	252
Gross Profit	137.3	122.0	70.7	12.6%	94.4%	78
Gross Margin	40%	45%	29%	NA	NA	31%
Operating Profit	126	102	57	24%	120%	62
Net Profit	120	102	52	18%	132%	59

Source: Company data, Al Rajhi Capital

Conclusion and valuation: Southern Province cement was one of the few companies which was able to increase its quantity sold (~30% y-o-y to 1.7mn ton), reflective of the company’s dominance and strong demand in the southern region. We believe the company is resilient towards changes in macro-economic conditions, even if the new pricing strategy couldn’t hold. However, the stock price has already factored in most of the positives, in our view. Our new TP on Southern Cement stands at SAR41/share (8.5% WACC, 19x Forward PE and 1% terminal growth). We change our recommendation to “Neutral ” with ~8.4% downside.



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