

3Q 2018 Results Update

Nov 5, 2018

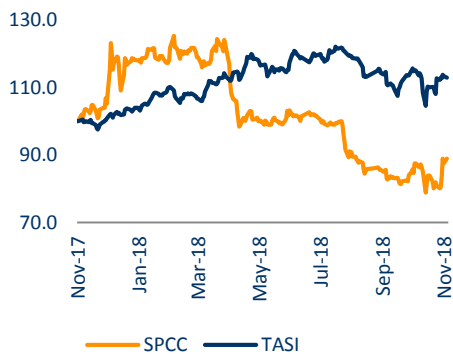
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	35.0
Target Price (SAR)	36.3
Upside/Downside (%)	3.8%

As of Nov 04, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	4.9
52 Wk High (SAR)	52.3
52 Wk Low (SAR)	30.0
Total Outstanding shares (in mn)	140.0
Free Float (%)	41.8%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	1.6%	3.5%
6m	(10.2%)	(7.0%)
12m	(12.0%)	(24.3%)

Major Shareholders (%)

Public Investment Fund	37.43%
General Org. for Social Insurance	15.82%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 04th Nov 2018

Earnings disappoint due to lower prices and higher costs

Southern Province Cement Company (SPCC)'s net profit fell 91% YoY and 85% QoQ to SAR 5mn during 3Q18, mainly due to a decline in revenue (-9% YoY and 10% QoQ) amid increase in cost of sales (18% YoY and 40% QoQ). SPCC's top line contracted inspite of increase in volumes (16% YoY and 13% QoQ) as drop in sales price (-21% YoY and -3% QoQ) more than offset the expansion in sales volume.

The company's inventory continues to rise (3.7mn tons in September 2018, the highest since 2011) due to weak demand and limited scope for exports. We expect the recovery in the cement demand in 4Q18 due to seasonally weak third quarter. We also foresee limited export opportunity for Southern since it is located close to East African markets which currently face over-supply. On an LTM YoY dispatches growth, SPCC has been underperforming the sector since October 2016 (SPCC average -17% Y/Y vs. sector average -14% Y/Y); while recently the gap has been narrowing.

- Revenues declined to SAR 196mn owing to a lower-than-expected sales price. The company's sales volume improved (13% Q/Q, 16% Y/Y) ahead of the Southern Region sales volume (10% Q/Q, 15% Y/Y) in 3Q18, while prices were hit, declining 21% YoY to SAR 134/ton.
- Gross profit reduced to almost one-third to SAR 18mn vis-à-vis SAR 65mn in 2Q18 owing to a slowdown in sales and increase in costs per ton during the quarter. Gross profit margin declined to 9.3% from 30.2% in 3Q17 and 28.6% in 2Q18.
- Operating profit fell 82.3% YoY and 73.6% QoQ to SAR 11mn from SAR 60mn in 3Q17 and SAR 51mn in 2Q18, affected by lower revenues. Operating margin declined 22.3% YoY to 5.4% in 3Q18.
- Net profit dipped 90.6% YoY to SAR 5mn in 3Q18, much below consensus and our estimate. On QoQ basis, net profit declined 85.6% due to depressed selling prices. Net profit margin stood at 2.7% vis-à-vis 26.5% in 3Q17 and 20.3% in 2Q18.
- SPCC has relatively good inventory management (inventory-to-LTM sales ratio of 66% vis-à-vis industry average of 95%). We expect the construction work at the SAR 2.5bn (USD 670mn) King Abdullah bin Abdulaziz Airport in Jazan, expected to start in 4Q18, along with winter season upturn to support demand in the next few quarters. However, the price competition remains high in the market, and SPCC (15.5%, highest share since 2012) is gaining market share at the cost of price realization. Southern Region witnessed a pickup in demand (10% Q/Q, 15% Y/Y) although pricing remained subdued. We do not foresee price competition to ease off in the coming quarters.

Valuation: We revise our target price slightly downwards to SAR 34.8 post the weak 3Q18 performance. The stock has already corrected 25% YTD (underperforming TASI by 34%) and is trading at reasonable valuations. We maintain our 'Neutral' rating on the stock.

	3Q'18	3Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	196	216	-9.1%	939	1,064	-11.7%
Gross Profit (SAR mn)	18	65	-72.0%	385	424	-9.0%
Operating Profit (SAR mn)	11	60	-82.3%	337	384	-12.2%
Net Profit (SAR mn)	5	57	-90.6%	316	370	-14.5%
EPS basic (SAR)	0.04	0.41	-90.6%	2.26	2.65	-14.7%
Gross Margin (%)	9.3%	30.2%	-20.9%	41.0%	39.8%	1.2%
Operating Margin (%)	5.4%	27.7%	-22.3%	35.9%	36.1%	-0.2%
Net Profit Margin (%)	2.7%	26.5%	-23.8%	33.7%	34.8%	-1.1%

Source: Company Financials, FALCOM Research

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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