

3Q19 Results Update

December 16, 2019

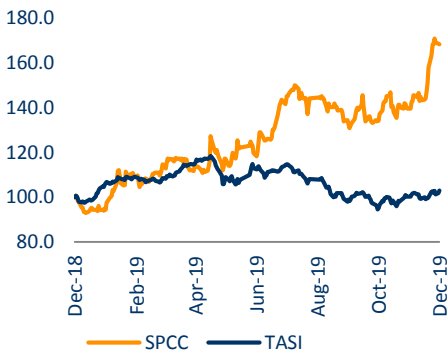
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	66.0
Target Price (SAR)	61.0
Upside/Downside (%)	(7.6%)

As of December 16th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.2
52-Wk High (SAR)	67.1
52-Wk Low (SAR)	36.6
Total Outstanding Shares (in mn)	140.0
Free Float (%)	46.8%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	20.7%	17.9%
6m	42.2%	50.7%
12m	68.4%	65.4%

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 December 16, 2019

SPCC's net income surges on higher sales and lower financial charges

Southern Province Cement Company (SPCC)'s net profit increased manifold to SAR 90.3mn in 3Q19 against the same period last year, aided by a surge in revenues over the comparable period. Sequentially, there was a minor contraction in profit as the rise in the cost of sales was higher than revenues. The benefits from the gains at the revenue level were reflected in the improvement in the operating profit on an annual basis. The operating margins surged to 33.6% in 3Q19, against 5.2% in 3Q18. Despite an increase in the SG&A expense, the company managed to record substantial gain in the bottom line.

Following a rebound in public projects, domestic demand for cement rose, leading to higher cement dispatches and better selling prices. These factors had considerable positive impact on the cement industry in KSA, which remained one of the best performing sectors during 2019. Cement firms also benefitted from the government's decision to partially lift a long-standing ban on cement exports and slash export fees. The Ministry of Commerce and Investment has granted 22 permits for cement exports in 2019 alone. Although SPCC has performed much better than in the previous year owing to favorable external factors, there is further room for improvement in the company's operational efficiency. Despite the rise in net profit compared with last year, the company failed to meet analyst estimates for the same. Sequentially, the performance was unimpressive as the company recorded flattish volumes and lower selling prices. In addition, given the recent run up in the share price, we see limited upside potential and therefore, maintain our "Neutral" stance on the stock.

- Revenues increased 45.9% YoY to SAR 286.0mn in 3Q19, aided by a higher sales volume and improved prices. Revenues, however, grew 3.8% QoQ due to flattish volumes and lower-than-expected average selling prices for cement.
- Gross profit surged 492.5% YoY to SAR 107.9mn as the cost per ton sold reduced annually. The quarterly gross profit fell 4.6% as the cost of sales rose faster than revenues. Consequently, the gross profit margin for 3Q19 stood at 37.7%, against 41.0% in 2Q19 and 9.3% in 3Q18.
- In view of the reasons mentioned above, the company's operating profit surged 838.3% YoY, but declined 1.5% QoQ to SAR 96.2mn. SG&A expense rose 46.3% YoY, but fell 25.0% QoQ to SAR 11.6mn. Thus, the operating margin for the period was 33.6%, vis-à-vis 35.5% and 5.2% in 2Q19 and 3Q18, respectively.
- Net profit soared 1686.6% YoY to SAR 90.3mn in spite of declining 0.5% on a quarterly basis. The net profit margin stood at 31.6% in 3Q19, compared with 32.9% in 2Q19 and 2.6% in 3Q18.

Valuation: We revise our target price upward to SAR 61.0 and maintain our "Neutral" rating on the stock.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	286	196	45.9%	1,221	888	37.6%
Gross Profit (SAR mn)	108	18	492.5%	476	262	81.7%
Operating Profit (SAR mn)	96	10	838.3%	427	216	97.6%
Net Profit (SAR mn)	90	5	1686.6%	417	195	114.2%
EPS Basic (SAR)	0.64	0.04	1686.6%	2.98	1.39	114.2%
Gross Margin (%)	37.7%	9.3%	28.4%	38.9%	29.5%	9.5%
Operating Margin (%)	33.6%	5.2%	28.4%	34.9%	24.3%	10.6%
Net Profit Margin (%)	31.6%	2.6%	29.0%	34.2%	21.9%	12.2%

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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