

**FY20 Results Update**

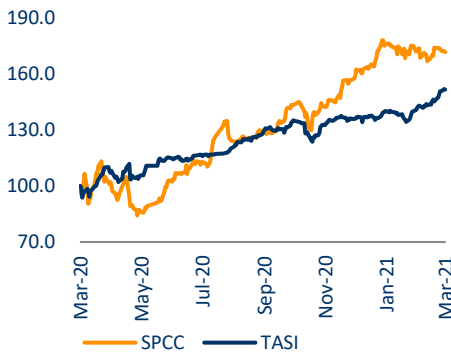
**March 16, 2021**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	87.6
Target Price (SAR)	85.0
Upside/Downside (%)	(3.0%)
<i>As of March 15, 2021</i>	

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	12.3
52-Wk High (SAR)	91.2
52-Wk Low (SAR)	42.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	50.6%

**SPCC vs. TASI (Rebased)**

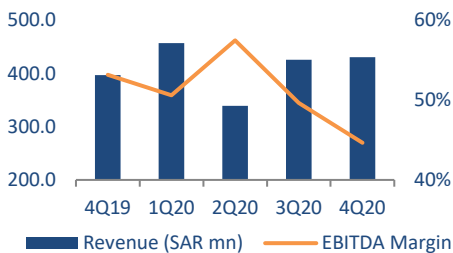


Price Performance (%)	Absolute	Relative
1m	(0.8%)	(7.5%)
6m	32.9%	16.1%
12m	71.8%	20.0%

**Major Shareholders (%)**

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

**Revenue (SAR mn) and EBITDA Margin (%)**



Source: Bloomberg, Company Financials, FALCOM Research; Data as of March 15, 2021

**Higher sales volume, lower finance costs support bottom line in FY20**

Southern Province Cement Company (SPCC)'s net profit soared 31.7% YoY to SAR 609.4mn in FY20. The improvement in the bottom line was largely due to the 27.1% YoY growth in revenue to SAR 1.7bn owing to a 23.7% YoY increase in sales volume during the year. Gross profit inched up 26.3% YoY to SAR 678.9mn, but gross margin narrowed 27.5 bps to 41.1%. Operating profit scaled up 30.0% YoY to SAR 628.4mn on lower SG&A expense, resulting in an 84.8 bps widening in operating margin to 38.0%. Reduced financing charges and higher other income boosted the bottom line and led to a 127.7 bps expansion in net margin for the year to 36.9%.

Despite the headwinds created by the COVID-19 pandemic, the Saudi cement industry witnessed a steady recovery in cement demand in 2H20. Aggregate sales volume of the 17 Saudi cement companies surged 20.2% YoY to 53.2mn tons in FY20, whereas it rose 13.0% YoY to 15.1mn tons in 4Q20. This was primarily driven by the surge in demand from the construction sector as the Kingdom progresses toward its housing goals under the Saudi Vision 2030 program. Moreover, megaprojects undertaken by the government also contributed to the growth in sales volume in FY20. We expect the trend to continue in FY21 on strong demand from the domestic mortgage sector. The company also managed to pare its debt during the year and bring down its debt-to-equity ratio to 0.12x from 0.14x in FY19. However, new variants of coronavirus could result in more restrictions and affect the pace of completion of existing projects, which could create headwinds for the Saudi cement companies. Therefore, we maintain our "Neutral" rating on the stock.

- Revenue soared 27.1% YoY to SAR 1.7bn in FY20, led by a 23.7% YoY rise in sales volume. Revenue increased 8.6% YoY and 1.2% QoQ to SAR 430.8mn in 4Q20.
- Gross profit (up 26.3% YoY to SAR 678.9mn) grew at a slower pace than that of revenue as the 27.7% YoY rise in cost of sales was offset by a higher top line. Subsequently, gross margin narrowed to 41.1% in FY20 from 41.3% in FY19.
- Operating profit went up 30.0% YoY to SAR 628.4mn during the year as total SG&A expense dipped 7.1% YoY to SAR 50.4mn. Consequently, operating margin widened to 38.0% in FY20 against 37.2% in FY19.
- EBITDA increased 22.2% YoY to SAR 830.2mn in FY20, whereas EBITDA margin contracted to 50.2% from 52.2% in FY19.
- Lower net finance charges and higher other income counterbalanced the rise in zakat expense and resulted in a 31.7% YoY advance in net profit to SAR 609.4mn in FY20. As a result, net margin expanded to 36.9% in FY20 against 35.6% in FY19.
- EPS for FY20 stood at SAR 4.35 compared with SAR 3.31 per share in FY19.
- On January 4, SPCC announced the appointment of Dr. Hamad Bin Suliman Al-Bazai as Chairman of its Board for a three-year period, effective January 1, 2021.
- On March 3, the Board recommended a cash dividend of SAR 2.5 per share for 2H20, equivalent to SAR 350mn or 25% of the company's share capital.

**Valuation:** We revise our target price upward to a fair value of SAR 85.0 per share and maintain our "Neutral" rating on the stock.

	4Q20	4Q19	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	430.8	396.7	8.6%	1,740.6	1,653.1	5.3%
Gross Profit (SAR mn)	163.4	179.3	(8.8%)	730.9	678.9	7.7%
EBIT (SAR mn)	150.3	163.8	(8.3%)	677.8	628.4	7.9%
Net Profit (SAR mn)	141.2	161.4	(12.5%)	673.4	609.4	10.5%
EPS Basic (SAR)	1.01	1.15	(12.5%)	4.81	4.35	10.5%
Gross Margin (%)	37.9%	45.2%	(7.3%)	42.0%	41.1%	0.9%
Operating Margin (%)	34.9%	41.3%	(6.4%)	38.9%	38.0%	0.9%
Net Profit Margin (%)	32.8%	40.7%	(7.9%)	38.7%	36.9%	1.8%

Source: Company Financials, FALCOM Research

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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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