

**1Q21 Results Update**

June 14, 2021

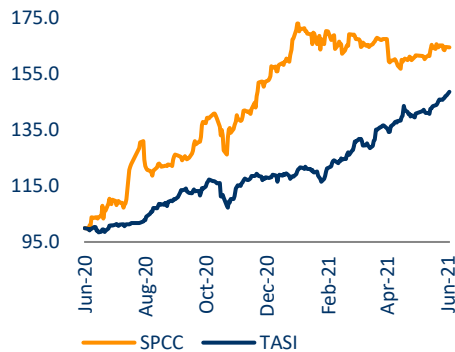
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	86.4
Target Price (SAR)	85.0
Upside/Downside (%)	(1.6%)

As of June 13, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	12.1
52-Wk High (SAR)	91.2
52-Wk Low (SAR)	52.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	47.5%

**SPCC vs. TASI (Rebased)**

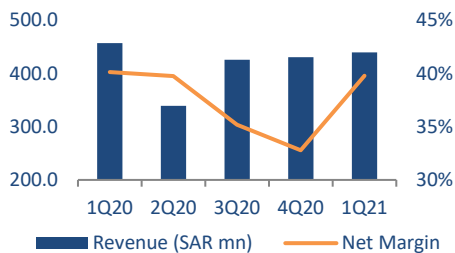


Price Performance (%)	Absolute	Relative
1m	1.8%	(3.8%)
6m	7.7%	(18.3%)
12m	64.6%	15.9%

**Major Shareholders (%)**

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

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of June 13, 2021

**Reduced top line, higher operating expense weigh on bottom line in 1Q21**

Southern Province Cement Company (SPCC)'s revenue dropped 3.9% YoY to SAR 439.3mn in 1Q21 due to the lower average selling price of products during the quarter. Gross profit fell 1.5% YoY to SAR 189.9mn, while gross profit margin expanded 107 bps YoY to 43.2% in 1Q21. Higher total SG&A expense led to a 2.5% YoY decline in operating profit to SAR 176.7mn; however, operating margin widened 60 bps YoY to 40.2%. Net profit slumped 4.7% YoY to SAR 174.8mn in 1Q21 owing to the decline in other income. As a result, net profit margin for the period tightened 33 bps to 39.8%.

Despite the headwinds created by the COVID-19 pandemic, demand for cement remained steady in 1Q21. Aggregate cement sales volume in KSA of the 17 Saudi cement companies grew 5.3% YoY to 15.1mn tons on account of improvement in economic activity in the country. However, SPCC's local cement sales volume dropped 3.1% YoY to 2.1mn tons, trailing that of the industry. Sales dipped in 1Q21, primarily due to lower revenue recorded at the Jazan (down 23.4% YoY to SAR 129.0mn) and Beshra (down 2.8% YoY to SAR 132.4mn) factory locations. Moreover, stiff competition in the Saudi cement sector resulted in lower average selling price of the company's products. SPCC managed to reduce its total debt during the quarter and bring down its debt-to-equity ratio to 0.11x from 0.13x in 1Q20. The company also generates stable cash flows and has historically distributed dividends at a healthy payout rate. We expect positive trend in the housing sector and ongoing infrastructure projects to be key catalysts for the KSA cement sector in the near term. However, resurgence in COVID-19 cases could impact economic activity and cause delay in the announcement of new housing and infrastructure projects. This could hurt demand for cement and create headwinds for Saudi cement companies. Therefore, based on these factors, we maintain our "Neutral" rating on the stock.

- Revenue dipped 3.9% YoY to SAR 439.3mn in 1Q21, owing to the decline in the average selling price of products. However, revenue inched up 2.0% QoQ from SAR 430.8mn in 4Q20.
- Gross profit (down 1.5% YoY to SAR 189.9mn) fell at a slower pace than the top line, as the drop in revenue offset the 5.7% YoY decline in cost of sales to SAR 249.5mn. Consequently, gross margin widened to 43.2% in 1Q21 from 42.1% in 1Q20.
- Operating profit slipped 2.5% YoY to SAR 176.7mn during the quarter as total SG&A expense surged 14.4% YoY to SAR 13.1mn. However, operating margin expanded to 40.2% in 1Q21 vis-à-vis 39.6% in 1Q20.
- EBITDA declined 2.5% YoY to SAR 225.7mn in 1Q21, whereas EBITDA margin improved to 51.4% from 50.6% in 1Q20.
- Lower other income counterbalanced the drop in net finance charges and zakat expense, and resulted in a 4.7% YoY decline in net profit to SAR 174.8mn in 1Q21. As a result, net margin contracted to 39.8% in 1Q21 against 40.1% in 1Q20.
- EPS for 1Q21 stood at SAR 1.25 compared with SAR 1.31 in 1Q20.
- On April 11, SPCC's shareholders approved the Board's recommendation of a SAR 2.5 per share cash dividend for 2H20, equivalent to SAR 350mn (25% of share capital).
- On June 3, SPCC announced plans to construct a new production line with a capacity of 10,000 tons per day (tpd) at its Jazan cement factory and replace the current lines, which have a capacity of 6,000 tpd. Construction of the projected is expected to commence in 2H21.

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

	1Q21	1Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	439.3	457.2	(3.9%)	1,749.2	1,653.1	5.8%
Gross Profit (SAR mn)	189.9	192.7	(1.5%)	729.6	678.9	7.5%
EBIT (SAR mn)	176.7	181.2	(2.5%)	676.2	628.4	7.6%
Net Profit (SAR mn)	174.8	183.5	(4.7%)	670.6	609.4	10.0%
EPS Basic (SAR)	1.25	1.31	(4.7%)	4.79	4.35	10.0%
Gross Margin (%)	43.2%	42.1%	1.1%	41.7%	41.1%	0.6%
Operating Margin (%)	40.2%	39.6%	0.6%	38.7%	38.0%	0.6%
Net Profit Margin (%)	39.8%	40.1%	(0.3%)	38.3%	36.9%	1.5%

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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