

**2Q21 Results Update**

**October 5, 2021**

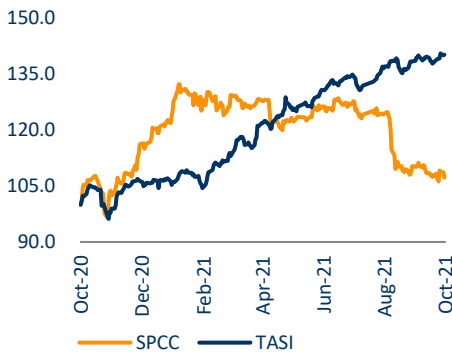
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	73.7
Target Price (SAR)	78.0
Upside/Downside (%)	5.8%

As of October 4, 2021

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	10.3
52-Wk High (SAR)	91.2
52-Wk Low (SAR)	65.8
Total Outstanding Shares (in mn)	140.0
Free Float (%)	44.2%

**SPCC vs. TASI (Rebased)**

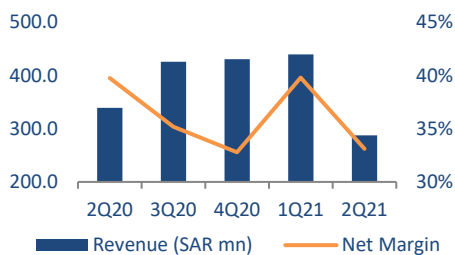


Price Performance (%)	Absolute	Relative
1m	(2.6%)	(3.8%)
6m	(16.2%)	(31.3%)
12m	7.3%	(32.9%)

**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 October 4, 2021

**Lower sales volume impact company's topline in 2Q21**

Southern Province Cement Company (SPCC)'s revenue fell 15.3% YoY to SAR 287.3mn in 2Q21 due to lower sales volume of products during the quarter. Gross profit declined 27.2% YoY to SAR 111.0mn, while gross profit margin shrank 629 bps YoY to 38.6% in 2Q21. Operating profit nosedived 28.3% YoY to SAR 98.5mn, while operating margin contracted 621 bps YoY to 34.3% in 2Q21. Due to higher zakat expense, SPCC reported a 29.4% YoY slump in net profit to SAR 95.2mn in 2Q21. As a result, net profit margin for the period tightened 662 bps to 33.1%.

SPCC's local cement sales volume dropped 10.9% YoY to 1.4mn tons in 2Q21, even though aggregate cement sales volume of the 17 Saudi cement companies in KSA grew 22.8% YoY to 11.5mn tons on account of improvement in economic activity in the country. Due to lower sales volume, the company recorded lower revenue at the Jazan (down 23.8% YoY to SAR 83.1mn), Beshra (down 13.4% YoY to SAR 92.4mn) and Tehama (down 9.5% YoY to SAR 111.9mn) factory locations. 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 2Q20. The company also generates stable cash flows and has historically distributed dividends at a healthy payout rate. We expect growth in cement volumes to improve, aided by a pickup in infrastructure spending. However, resurgence in COVID-19 cases due to the Delta variant could impact economic activity, which could delay new housing and infrastructure projects. This could hurt the demand for cement and create headwinds for Saudi cement companies. In view of the factors mentioned above, we maintain our 'Neutral' rating on the stock.

- Revenue dipped 15.3% YoY to SAR 287.3mn in 2Q21 owing to the lower sales volume of products on yearly as well as quarterly basis. Revenue dropped 34.6% QoQ from SAR 439.3mn in 1Q21.
- Gross profit fell 27.2% YoY to SAR 111.0mn. Consequently, gross margin shrank to 38.6% in 2Q21 from 44.9% in 2Q20.
- Operating profit slipped 28.3% YoY to SAR 98.5mn during the quarter as total SG&A expense dropped 16.9% YoY to SAR 12.5mn. Consequently, operating margin tightened to 34.3% in 2Q21 vis-à-vis 40.5% in 2Q20.
- EBITDA declined 22.3% YoY to SAR 151.6mn in 2Q21, whereas EBITDA margin stood at 52.8% as compared to 57.5% in 2Q20.
- Lower finance cost offset the rise in zakat expense and led to a 29.4% YoY fall in net profit to SAR 95.2mn in 2Q21. As a result, net margin contracted to 33.1% in 2Q21 from 39.7% in 2Q20.
- EPS for 2Q21 stood at SAR 0.68 compared with SAR 0.96 in 2Q20.
- On August 10, SPCC's Board of Directors announced a cash dividend of SAR 1.25 per share for 1H21, totaling SAR 175mn.

**Valuation:** We revise our target price to a fair value of SAR 78.0 per share but retain our 'Neutral' rating on the stock.

	2Q21	2Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	287.3	339.3	(15.3%)	1,540.0	1,653.1	(6.8%)
Gross Profit (SAR mn)	111.0	152.4	(27.2%)	625.1	678.9	(7.9%)
EBIT (SAR mn)	98.5	137.4	(28.3%)	571.2	628.4	(9.1%)
Net Profit (SAR mn)	95.2	134.9	(29.4%)	568.2	609.4	(6.8%)
EPS Basic (SAR)	0.68	0.96	(29.4%)	4.06	4.35	(6.8%)
Gross Margin (%)	38.6%	44.9%	(6.3%)	40.6%	41.1%	(0.5%)
Operating Margin (%)	34.3%	40.5%	(6.2%)	37.1%	38.0%	(0.9%)
Net Profit Margin (%)	33.1%	39.7%	(6.6%)	36.9%	36.9%	0.0%

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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