

## FY21 Results Update

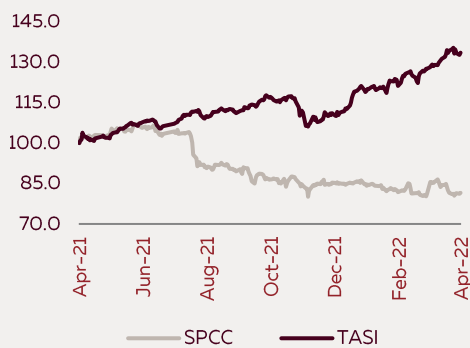
April 25, 2022

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	67.2
Target Price (SAR)	70.0
Upside/Downside (%)	4.2%
As of April 25, 2022	

### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.4
52-wk High (SAR)	89.0
52-wk Low (SAR)	66.0
Total Outstanding shares (in mn)	140.0
Free Float (%)	58.4%

### SPCC vs. TASI (Rebased)

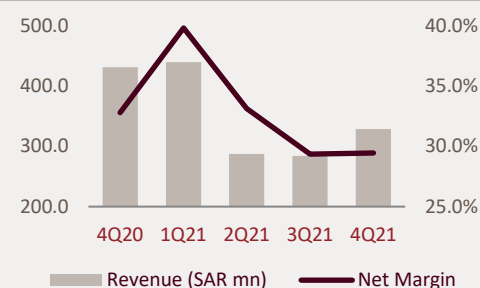


Price Performance (%)	Absolute	Relative
1m	0.3%	(4.3%)
6m	(5.8%)	(19.7%)
12m	(18.4%)	(52.0%)

### Major Shareholders (%)

Public Investment Fund	37.43%
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### Revenue (SAR mn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital; Data as of April 25, 2022

### Lower demand dents SPCC's topline in FY21

Southern Province Cement Company (SPCC)'s revenue fell 19.0% YoY to SAR 1.3bn in FY21, primarily due to local sales volumes falling 16% YoY to 6.6mn tons during the year. Cost of sales dropped slower than the top line as gross profit decreased 22.5% YoY to SAR 526.4mn, while gross profit margin contracted 176 bps YoY to 39.3% during the year. A 23.3% YoY increase in selling, general, and administrative expenses led to SPCC's operating profit to drop 26.1% YoY to SAR 464.2mn, while operating margin narrowed 335 bps YoY to 34.7% in FY21. The lower topline resulted in a 26.1% YoY slump in net profit to SAR 450.2mn in FY21. Consequently, net profit margin for the period tightened 325 bps to 33.6%.

SPCC reported weak performance in FY21 as the top line dragged 19.0% YoY during the year, primarily due to lower local volumetric sales. The fall in sales could be ascribed to lower construction activities owing to new regulations being implemented under the Saudi Building Code and shortage in labor caused by COVID-19 restrictions. SPCC's local cement sales volume dropped 16.0% YoY to 6.6mn tons in FY21; however, aggregate cement sales volume of the 17 Saudi cement companies in the KSA increased a marginal 0.3% YoY to 53.3mn in F21, as the country's economy continues to recover. On YoY basis, revenue from Jazan, Bisha, and Tehama factories fell 23.0% to SAR 420.1mn, 18.7% to SAR 408.5mn, and 15.5% YoY to SAR 510.7mn, respectively, during the year. In FY21, SPCC managed to reduce its total debt as well as debt-to-equity ratio from 0.12x to 0.10x. The company has been distributing dividend at a healthy payout rate and generating stable cash flow. Furthermore, rising real estate prices, especially in the residential segment, during the year led to slow rise in mortgages, which impacted the sector. However, we expect growth in cement volume to improve, aided by a pickup in infrastructure spending planned megaprojects and higher government spending on increasing oil prices. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Revenue dropped 19.0% YoY to SAR 1.3bn in FY21 owing to low local sales volume of products. In 4Q21, revenue dropped 23.8% YoY to SAR 328.5mn in 4Q21.
- Cost of sales declined 16.6% YoY to SAR 812.9mn in FY21. Consequently, gross profit fell 22.5% YoY to SAR 526.4mn; gross margin contracted to 39.3% in FY21 from 41.1% in FY20.
- Operating profit decreased 26.1% YoY to SAR 464.2mn during the year, as total SG&A expense grew 23.3% YoY to SAR 62.2mn. Consequently, operating margin tightened to 34.7% in FY21 vis-à-vis 38.0% in FY20.
- EBITDA declined 19.4% YoY to SAR 669.5mn in FY21, whereas EBITDA margin stood at 50.0% compared with 50.2% in FY20.
- The lower top line translated into a 26.1% YoY fall in net profit to SAR 450.2mn in FY21. Consequently, net margin contracted to 33.6% in FY21 from 36.9% in FY20.
- EPS stood at SAR 3.22 for FY21 compared with SAR 4.35 in FY20.
- SPCC's board of directors recommended a 12.5% cash dividend for 2H22 at SAR 1.25 per share, amounting to SAR 175mn.

**Valuation:** We revise our target price to a fair value of SAR 70.0 per share but retain our "Neutral" rating on the stock.

	4Q21	4Q20	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	328.5	430.8	(23.8%)	1,361.5	1,339.4	1.7%
Gross Profit (SAR mn)	117.7	163.4	(28.0%)	580.4	526.4	10.3%
EBIT (SAR mn)	103.1	150.3	(31.4%)	520.6	464.2	12.1%
Net Profit (SAR mn)	96.7	141.2	(31.5%)	501.9	450.2	11.5%
EPS Basic (SAR)	0.69	1.01	(31.5%)	3.58	3.22	11.5%
Gross Margin (%)	35.8%	37.9%	(2.1%)	42.6%	39.3%	3.3%
Operating Margin (%)	31.4%	34.9%	(3.5%)	38.2%	34.7%	3.6%
Net Profit Margin (%)	29.5%	32.8%	(3.3%)	36.9%	33.6%	3.3%

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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