

3Q21 Results Update

December 30, 2021

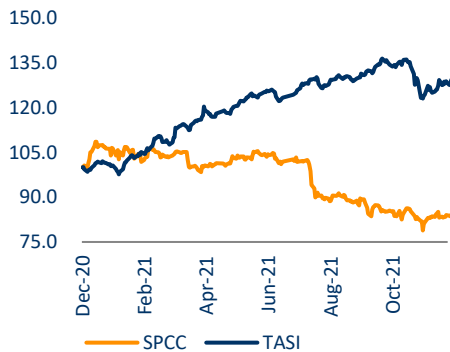
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	70.1
Target Price (SAR)	76.0
Upside/Downside (%)	8.7%

As of December 29, 2021

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	9.8
52-Wk High (SAR)	91.2
52-Wk Low (SAR)	66.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	44.2%

SPCC vs. TASI (Rebased)

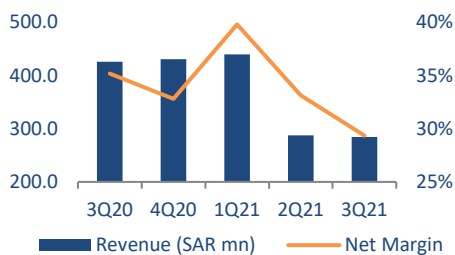


Price Performance (%)	Absolute	Relative
1m	2.0%	(1.6%)
6m	(19.4%)	(21.2%)
12m	(16.5%)	(44.5%)

Major Shareholders (%)

Public Investment Fund	37.43%
General Org. for Social Insurance	14.17%

Revenue (SAR mn) and Net Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 29, 2021

Lower demand hurts SPCC's topline in 3Q21

Southern Province Cement Company (SPCC)'s top line declined by 33.2% YoY to SAR 284.2mn in 3Q21, primarily due to lower demand which translated into lower sales volume of products during the quarter. Gross profit dropped 36.7% YoY to SAR 107.9mn, while gross profit margin shrank 206 bps YoY to 38.0% in the quarter. Operating profit nosedived 46.1% YoY to SAR 85.9mn, while operating margin narrowed 724 bps YoY to 30.2% in 3Q21. The lower topline resulted in 44.3% YoY slump in net profit to SAR 83.4mn in 3Q21. As a result, net profit margin for the period tightened 583 bps to 29.4%.

SPCC reported weak results in 3Q21 as the top line tumbled 33.2% YoY during the quarter owing to lower volumetric sales, following lower demand due to revised building code. SPCC's local cement sales volume nosedived 28.4 YoY to 1.4mn tons in 3Q21; however, aggregate cement sales volume of the 17 Saudi cement companies in KSA fell at a much slower rate (down 12.3% YoY to 11.8mn tons) as the country's economy continues to recover. On a YoY basis, revenues from Jazan, Beshra, and Tehama factories fell 40.9% to SAR 83.8mn, 28.4% to SAR 90.8mn, and 30.2% YoY to SAR 109.6mn, respectively, during the quarter. Moreover, in 3Q21, SPCC managed to reduce its total debt as well as debt-to-equity ratio, from 0.13x to 0.11x. The company has been distributing dividends at a healthy payout rate and generating stable cash flows. We expect growth in cement volumes to improve, aided by a pickup in infrastructure spending. However, resurgence in COVID-19 cases due to the Omicron variant could impact economic activity and hurt the demand for cement; this, in turn, could create certain headwinds for Saudi cement companies. In view of the factors mentioned above, we maintain our "Neutral" rating on the stock.

- Revenue dipped 33.2% YoY to SAR 284.2mn in 3Q21 owing to lower sales volume of products, which was caused by a drop in demand. On a QoQ basis, revenue dropped 1.1% from SAR 287.3mn in 2Q21.
- Gross profit fell 36.7% YoY to SAR 107.9mn. Consequently, gross margin shrank to 38.0% in 3Q21 from 40.0% in 3Q20.
- Operating profit dropped 46.1% YoY to SAR 85.9mn during the quarter as total SG&A expense grew 103.4% YoY to SAR 21.9mn. Consequently, operating margin tightened to 30.2% in 3Q21 vis-à-vis 37.5% in 3Q20.
- EBITDA declined 34.8% YoY to SAR 137.8mn in 3Q21, whereas EBITDA margin stood at 48.5% as compared to 49.6% in 3Q20.
- The lower top line translated into a 44.3% YoY fall in net profit to SAR 83.4mn in 3Q21. As a result, net margin contracted to 29.4% in 3Q21 from 35.2% in 3Q20.
- EPS for 3Q21 stood at SAR 0.60 compared with SAR 1.07 in 3Q20.
- SPCC announced that implementation of its Jazan Cement Factory line with a capacity of 10,000 tons per day is likely to begin in 2H22. The company added that technical studies related to establishing a production line at the Jazan plant is underway.

Valuation: We revise our target price to a fair value of SAR 76.0 per share but retain our "Neutral" rating on the stock.

	3Q21	3Q20	% YoY	FY21E	FY20	% YoY
Revenues (SAR mn)	284.2	425.8	(33.2%)	1,369.5	1,653.1	(17.2%)
Gross Profit (SAR mn)	107.9	170.4	(36.7%)	540.6	678.9	(20.4%)
EBIT (SAR mn)	85.9	159.6	(46.1%)	479.0	628.4	(23.8%)
Net Profit (SAR mn)	83.4	149.8	(44.3%)	464.6	609.4	(23.8%)
EPS Basic (SAR)	0.60	1.07	(44.3%)	3.32	4.35	(23.8%)
Gross Margin (%)	38.0%	40.0%	(2.1%)	39.5%	41.1%	(1.6%)
Operating Margin (%)	30.2%	37.5%	(7.2%)	35.0%	38.0%	(3.0%)
Net Profit Margin (%)	29.4%	35.2%	(5.8%)	33.9%	36.9%	(2.9%)

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, FALCOM Research.

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