

1Q22 Results Update

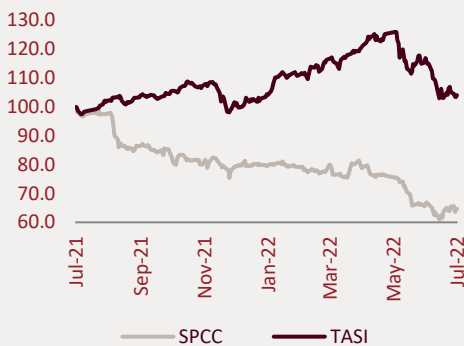
July 12, 2022

Recommendation	Overweight
Previous Recommendation	Neutral
Current Price (SAR)	56.7
Target Price (SAR)	63.0
Upside/Downside (%)	11.1%
<i>As of July 6, 2022</i>	

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.9
52-wk High (SAR)	87.8
52-wk Low (SAR)	53.0
Total Outstanding shares (in mn)	140.0
Free Float (%)	62.4%

SPCC vs. TASI (Rebased)

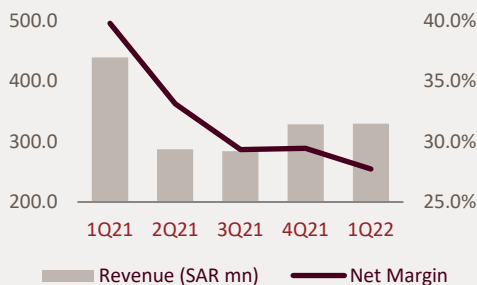


Price Performance (%)	Absolute	Relative
1m	(2.6%)	8.4%
6m	(18.9%)	(18.8%)
12m	(35.3%)	(39.3%)

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 July 6, 2022

Lower volumes, prices drag topline in 1Q22

Southern Province Cement Company (SPCC)'s revenue plummeted 24.9% YoY to SAR 330.0mn in 1Q22, primarily due to a 23.7% YoY fall in cement sales volumes during the quarter. Cement sales volume for 1Q22 stood at 1.6mn tons. Cost of sales dropped 12.4% YoY to SAR 223.6mn, resulting in a 42.3% YoY decline in gross profit to SAR 106.3mn in 1Q22. Meanwhile, gross profit margin contracted 969 bps YoY to 32.2% during the quarter. Selling, general, and administrative expenses advanced 19.3% YoY to SAR 15.7mn, resulting in SPCC's operating profit dropping 47.0% YoY to SAR 90.7mn, while operating margin narrowed 1,145 bps YoY to 27.5% in 1Q22. The decline in finance and zakat expenses was offset by lower topline and other income and led to a 48.5% YoY slump in net profit to SAR 87.0mn in 1Q22. Consequently, net profit margin for the period tightened 1,212 bps to 26.4%.

SPCC underperformed in 1Q22 as the topline nosedived 24.9% YoY during the quarter, primarily due to lower local volumetric sales and decline in sales price. SPCC's local cement sales volume decreased 23.7% YoY in 1Q22. Despite a fall in average selling prices, cement prices were relatively steady and better than those of companies operating in other regions. Increase in volumetric sales and average sales price is expected due to pick up in construction activities. Execution of mega and giga projects is expected to trigger recovery in volumes in the second half of the year. The company recently announced it plans to construct two new lines, each with a production capacity of 5,000 tons per day, which is set to replace its current lines at Jazan Cement Factory. The project is expected to commence during the second half of the year and will boost its production and topline going forward. Considering the abovementioned factors, we revise our rating to "Overweight" on the stock.

- Revenue declined 24.9% YoY to SAR 330.0mn in 1Q22 due to lower local sales volume and average sales prices of products. On quarterly basis, topline rose a marginal 0.5% QoQ from SAR 328.5mn in 4Q21 on higher sales volume.
- Gross profit nosedived 42.3% YoY to SAR 106.3mn, as cost of sales fell slower than the topline. Consequently, gross margin contracted to 32.2% in 1Q22 from 41.9% in 1Q21.
- Operating profit decreased 47.0% YoY to SAR 90.7mn during the quarter, following lower topline and rise in SG&A expense. Consequently, operating margin tightened to 27.5% in 1Q22 vis-à-vis 38.9% in 1Q21.
- EBITDA declined 33.1% YoY to SAR 147.2mn in 1Q22, whereas EBITDA margin stood at 44.6% compared with 50.1% in Q1 FY21.
- A lower topline and other income led to a 48.5% YoY decline in net profit to SAR 87.0mn in 1Q22. Consequently, net margin deteriorated to 26.4% in 1Q22 from 38.5% in 1Q21.
- EPS stood at SAR 0.62 for 1Q22 compared with SAR 1.21 in 1Q21.
- SPCC recently announced plans to begin construction on two new lines with a total capacity of 10,000 tons per day to replace its current lines at Jazan Cement Factory.

Valuation: We revise our target price to a fair value of SAR 63.0 per share and rating on the stock to "Overweight."

	1Q22	1Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	330.0	439.3	(24.9%)	1,229.8	1,339.4	(8.2%)
Gross Profit (SAR mn)	106.3	184.2	(42.3%)	383.8	526.4	(27.1%)
EBIT (SAR mn)	90.7	171.0	(47.0%)	321.7	464.2	(30.7%)
Net Profit (SAR mn)	87.0	169.1	(48.5%)	309.9	450.2	(31.1%)
EPS Basic (SAR)	0.62	1.21	(48.5%)	2.21	3.22	(31.1%)
Gross Margin (%)	32.2%	41.9%	(9.7%)	31.2%	39.3%	(8.1%)
Operating Margin (%)	27.5%	38.9%	(11.4%)	26.2%	34.7%	(8.5%)
Net Profit Margin (%)	26.4%	38.5%	(12.1%)	25.2%	33.6%	(8.4%)

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.

Yaqeen Capital

Contact us on the below phone numbers:

Customer Services: 8004298888

Brokerage Services: 920004711

Fax or Email us at the below number:

Fax: +966 11 2032546

Email: addingvalue@yaqeen.sa

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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