

Southern Province Cement Co. (SPCC)

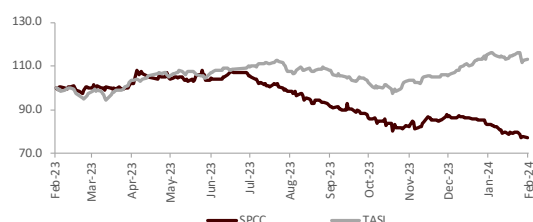
Recommendation

Buy

Current Market Price (SAR)	38.7
52wk High / Low (SAR)	54.6/38.3
Mkt. Cap. (USD/SAR Mn)	1,453/5,453
Shares Outstanding (mn)	140.0
Free Float (%)	62.6%
3m Average Vol. (000)	65.4
3m Avg Daily Turnover (SAR'000)	2,710
Dividend Yield '24e (%)	3.7%
P/E'24e (x)	25.9
EV/EBITDA'24e (x)	12.2

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2021	2022	2023e	2024e
Revenue	1,339	1,222	1,097	1,175
Gross profit	505	357	255	291
GPM (%)	38%	29%	23%	25%
EBIT	443	294	189	220
EBIT margin (%)	33%	24%	17%	19%
EBITDA	648	507	414	443
EBITDA margin (%)	48%	41%	38%	38%
Net Income	429	301	177	209
Net margin (%)	32%	25%	16%	18%
EPS (SAR)	3.07	2.15	1.26	1.49
RoE (%)	13%	9%	6%	7%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Public Investment Fund	37.43%
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Source: Bloomberg, Yaqeen Capital

Earnings decline amid reduced revenue due to lower demand

- SPCC's net income showed a YoY decline of 39.9% to SAR 53mn in 3Q2023, attributed to a decrease in sales revenue due to lower demand and an increase in general and administration expenses. However, a 179.8% QoQ surge in net income was driven by increased sales quantities and reduced costs per unit in the same period. The net income margin contracted by 8.8ppts YoY (+10.2ppts QoQ) to 18.6% in 3Q2023.
- In 3Q2023, revenue experienced a 11.4% YoY dip but a 26.8% QoQ increase, reaching SAR 286mn. For 9M2023, revenue fell by 8.5% to SAR 812mn.
- Gross profit in 3Q2023 declined by 23.7% YoY to SAR 81mn, with a corresponding gross margin decrease of 4.5ppts YoY. However, the gross profit witnessed a 120.6% QoQ surge, accompanied by a +11.9ppts QoQ increase in gross margin.
- Operating profit for 3Q2023 stood at SAR 58mn, reflecting a YoY fall of 37.1% (+150.8% QoQ), attributed to higher SG&A expenses. Operating margin came at 20.3%, indicating an 8.5ppts YoY contraction but a 10.1ppts QoQ expansion.
- For 9M2023, net profit amounted to SAR 121mn, compared to SAR 238mn in 9M2022, with corresponding margin at 14.9%, marking an 11.9ppts decline compared to the same period in 9M2022.
- In 9M2023, gross profit declined by 29.9% YoY to SAR 188mn. Additionally, the gross margin for this period stood at 23.3%, down from 30.2% in 9M2022.
- The total shareholders' equity as on September 30, 2023, amounted to SAR 3,208mn, compared with SAR 3,134mn as on September 30, 2022.

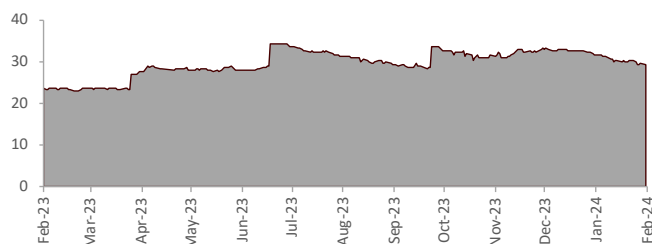
Outlook & Valuation: The medium to long-term demand for cement in the kingdom is anticipated to soar due to ongoing mega-projects like NEOM and Vision 2030. However, the Kingdom's cement industry is facing several short-term headwinds, such as a mortgage slowdown due to a higher interest rate, increased competition, and rising fuel prices. In the short to medium term, Southern Cement may experience a decrease in domestic sales as the retail segment faces sluggish demand. Additionally, with rising fuel prices, the company's profitability margins may be squeezed. Despite that, the company's long-term growth prospects remain strong due to its established presence in the market. Based on DCF valuation, we arrive at a fair value of SAR 47.0/share, a strong upside of 21.6% from the current level. Hence, we recommend a Buy rating on the stock.

Financial Summary

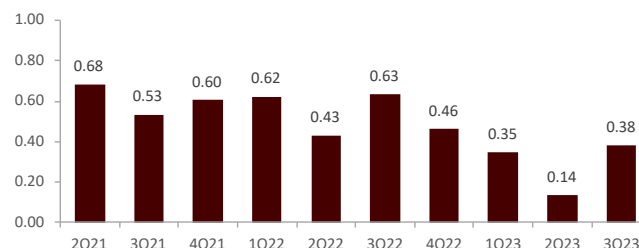
SAR (mn)	3Q2023	3Q2022	YoY	2Q2023	QoQ
Revenue	286	323	-11%	226	27%
Gross profit	81	106	-24%	37	121%
GPM (%)	28%	33%		16%	
EBIT	58	93	-37%	23	151%
EBIT margin (%)	20%	29%		10%	
EBITDA	107	146	-27%	73	46%
EBITDA margin (%)	37%	45%		32%	
Net Income	53	89	-40%	19	180%
Net margin (%)	19%	27%		8%	
EPS (SAR)	0.38	0.63	-40%	0.14	180%

Source: Company Reports, Yaqeen Capital

Price to Earnings Ratio Trend



EPS (SAR) Trend



Rating Methodology

Buy: The Target share price exceeds the current share price by $\geq 10\%$

Hold: The Target share price is either more or less than the current share price by 10%

Sell: The Target share price is less than the current share price by $\geq 10\%$

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