

Southern Province Cement Co. (SPCC)

Target Price: SAR 41.0/share

Upside: 9.9%

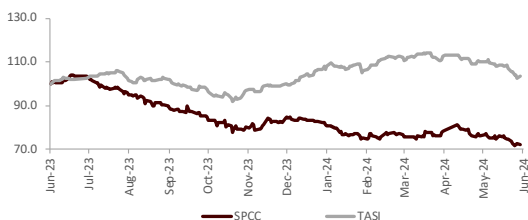
Recommendation

Buy

Current Market Price (SAR)	37.3
52wk High / Low (SAR)	54.2/36.9
Mkt. Cap. (USD/SAR Mn)	1,392/5,222
Shares Outstanding (mn)	140.0
Free Float (%)	62.6%
3m Average Vol. (000)	90.1
3m Avg Daily Turnover (SAR'000)	3,581
Dividend Yield '24e (%)	2.9%
P/E'24e (x)	21.2
EV/EBITDA'24e (x)	11.2

Source: Bloomberg

Relative Price Performance



Key Indicators

SAR (mn)	2022	2023	2024e	2025e
Revenue	1,222	1,070	1,310	1,445
Gross profit	361	277	358	417
Gross profit (%)	30%	26%	27%	29%
EBIT	299	203	261	310
EBIT margin (%)	24%	19%	20%	21%
EBITDA	512	399	477	532
EBITDA margin (%)	42%	37%	36%	37%
Net Income	301	195	248	298
Net margin (%)	25%	18%	19%	21%
EPS (SAR)	2.15	1.40	1.77	2.13
RoE (%)	9%	6%	7%	9%

Source: Company Reports, Yaqeen Capital

Major Shareholders (%)

Public Investment Fund	37.43%
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Source: Bloomberg, Yaqeen Capital

Earnings rose amid lower cost of revenue

- SPCC's net income rose by 27.1% YoY to SAR 62mn in 1Q2024, driven by an increase in the average selling price and a decrease in the cost of goods sold and selling and distribution expenses, enhancing profitability. However, on a quarterly basis, net income declined by 16.3% due to decreased sales volume and increased zakat provision. The net income margin improved by 8.5ppts YoY (-4.0ppts QoQ) to 24.8%.
- In 1Q2024, revenue experienced a 16.4% YoY decrease (-2.8% QoQ) due to a decrease in sales volume, reaching SAR 251mn.
- Gross profit in 1Q2024 improved by 30.4% YoY (+4.9% QoQ) to SAR 93mn, due to a greater fall in the cost of revenue compared to revenue. The gross profit margin improved by 13.3ppts YoY (+2.7ppts QoQ) to 36.9%.
- Operating profit for 1Q2024 stood at SAR 70mn, reflecting a YoY rise of 28.9% (+4.5% QoQ), attributed to higher gross profit. The operating margin came in at 27.8%, indicating an improvement of 9.8ppts YoY (+2.0ppts QoQ).

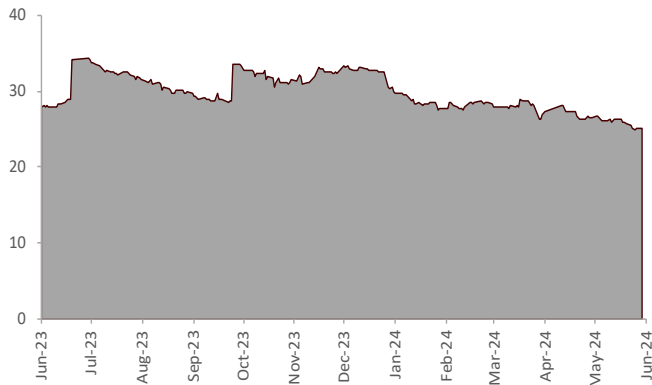
Outlook & Valuation: The medium to long-term demand for cement in the kingdom is expected to surge due to ongoing mega-projects like NEOM and Vision 2030. However, the Kingdom's cement industry is currently facing several short-term challenges, including a mortgage slowdown caused by higher interest rates, increased competition, and rising fuel prices. In the short to medium term, Southern Cement might see a decline in domestic sales as the retail segment experiences weak demand. Additionally, rising fuel prices could compress the company's profit margins. Despite these issues, the company's long-term growth prospects remain robust due to its established market presence. Based on DCF valuation, we arrive at a fair value of SAR 41.0/share, a strong upside of 9.9% from the current level. Hence, we recommend a hold rating on the stock.

Financial Summary

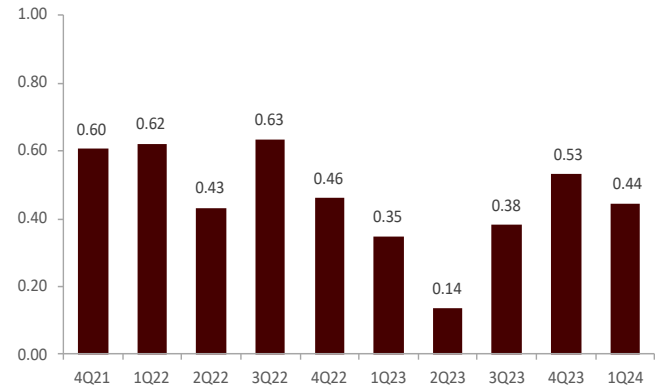
SAR (mn)	1Q2024	1Q2023	YoY	4Q2023	QoQ
Revenue	251	300	-16%	258	-3%
Gross profit	93	71	30%	88	5%
Gross profit (%)	37%	24%		34%	
EBIT	70	54	29%	67	5%
EBIT margin (%)	28%	18%		26%	
EBITDA	121	103	18%	116	4%
EBITDA margin (%)	48%	34%		45%	
Net Income	62	49	27%	74	-16%
Net margin (%)	25%	16%		29%	
EPS (SAR)	0.44	0.35	27%	0.53	-16%

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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