

Southern Province Cement Co. (SPCC)

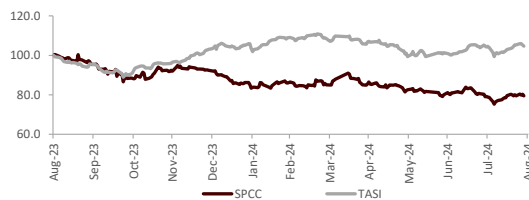
Recommendation

Hold

| | |
|---------------------------------|-------------|
| Current Market Price (SAR) | 35.6 |
| 52wk High / Low (SAR) | 47.2/33.5 |
| Mkt. Cap. (USD/SAR Mn) | 1,328/4,984 |
| Shares Outstanding (mn) | 140.0 |
| Free Float (%) | 62.6% |
| 3m Average Vol. (000) | 93.1 |
| 3m Avg Daily Turnover (SAR'000) | 3,392 |
| Dividend Yield '24e (%) | 2.6% |
| P/E'24e (x) | 23.5 |
| EV/EBITDA'24e (x) | 11.0 |

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%

Source: Bloomberg, Yaqeen Capital

Earnings rose amid higher sales realization

- SPCC's net profit surged by 57.9% YoY to SAR 30mn in 2Q2024, primarily due to higher sales realizations and lower costs for raw materials as well as selling and distribution expenses. However, on a quarterly basis, net profit dropped significantly by 51.6%, mainly because of a decrease in sales volume. The net profit margin improved by +5.6ppts compared to the previous year but declined by -10.8ppts from the previous quarter, settling at 14.0%.
- Revenue for 2Q2024 declined significantly, decreasing by 5.3% YoY and 14.7% QoQ, primarily due to a drop in sales volume, bringing the total to SAR 214mn.
- Gross profit in 2Q2024 increased by 48.6% YoY, reaching SAR 55mn, driven by better realizations and lower raw material costs compared to the previous year. However, on a quarterly basis, gross profit decreased by 40.9%. As a result, the gross margin improved by +9.3ppts YoY but declined by -11.5ppts QoQ, settling at 25.5%.
- Operating profit for the quarter rose by 43.5% YoY, supported by higher gross profit and lower selling and distribution expenses. However, on a quarterly basis, it declined by 52.9%. The operating margin reached 15.5%, reflecting a +5.2ppts increase YoY, but a -12.3ppts decrease compared to the previous quarter.
- The net profit for the 1H2024 reached SAR 92mn, representing a substantial increase of 35.3% compared to the same period last year. This growth was driven by higher average selling prices, lower cost of goods sold, and reduced selling and distribution expenses. The net profit margin improved by +6.9ppts, reaching 19.8% compared to the same period last year.
- Revenue for the 1H2024 rose by 11.6% to reach SAR 465mn.

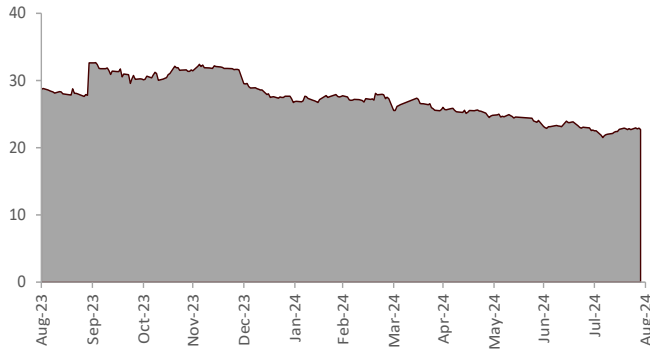
Outlook & Valuation: The medium to long-term demand for cement in the kingdom is expected to surge due to ongoing mega-projects like NEOM and Vision 2030. However, the Kingdom's cement industry is currently facing several short-term challenges, including a mortgage slowdown caused by higher interest 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 38.0/share, a strong upside of 6.7% from the current level. Hence, we recommend a Hold rating on the stock.

Financial Summary

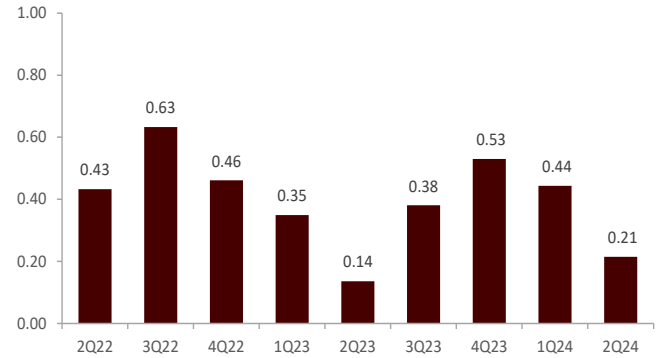
| SAR (mn) | 2Q2024 | 2Q2023 | YoY | 1Q2024 | QoQ |
|-------------------|--------|--------|-----|--------|------|
| Revenue | 214 | 226 | -5% | 251 | -15% |
| Gross profit | 55 | 37 | 49% | 93 | -41% |
| Gross profit (%) | 25% | 16% | 37% | 37% | - |
| EBIT | 33 | 23 | 42% | 70 | -52% |
| EBIT margin (%) | 15% | 10% | 28% | 28% | - |
| EBITDA | 84 | 73 | 15% | 121 | -31% |
| EBITDA margin (%) | 39% | 32% | 48% | 48% | - |
| Net Income | 30 | 19 | 58% | 62 | -52% |
| Net margin (%) | 14% | 8% | 25% | 25% | - |
| EPS (SAR) | 0.21 | 0.14 | 58% | 0.44 | -52% |

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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