

FY 2018 Results Update

April 01, 2019

| Recommendation | Neutral |
|-----------------------------|---------|
| Previous Recommendation | Neutral |
| Current Price (SAR) | 46.0 |
| Target Price (SAR) | 42.1 |
| Upside/Downside (%) | (8.5%) |
| <i>As of March 31, 2019</i> | |

Key Data (Source: Bloomberg)

| | |
|----------------------------------|-------|
| Market Cap (SAR bn) | 6.4 |
| 52 Wk High (SAR) | 51.3 |
| 52 Wk Low (SAR) | 30.0 |
| Total Outstanding shares (in mn) | 140.0 |
| Free Float (%) | 41.8% |

SPCC vs. TASI (Rebased)



| Price Performance (%) | Absolute | Relative |
|-----------------------|----------|----------|
| 1m | 9.0% | 5.5% |
| 6m | 35.6% | 24.6% |
| 12m | (9.4%) | (19.8%) |

Major Shareholders (%)

| | |
|-----------------------------------|--------|
| Public Investment Fund | 37.43% |
| General Org. for Social Insurance | 15.82% |

Revenue (SAR bn) and Operating Profit Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 31st March 2019

Recovery in 4Q18 fails to lift FY18 net profits that continued declining

Southern Province Cement Company (SPCC)'s net profit continued to slide for the fourth consecutive year and fell 47.4% YoY to SAR 195mn in FY18. The most important factor remained the shrinking topline, which has remained a concern for the Saudi cement industry. Revenues in FY18 declined 16.6% YoY to SAR 888mn despite an increase in the sales volumes (3.5% YoY) as drop in sales price more than offset the expansion in sales volume. During 4Q18, the company's revenues improved 22.4% QoQ to SAR 240mn, driven by higher average selling price and increased quantity sold.

SPCC has the highest market share in the Saudi cement industry, with strong presence in the southern region, and it continues to consolidate its position in the western region. The company's inventory continues to rise (4.0mn tons in 2018, the highest since 2011) due to weak demand even though the company's cement sales as a percentage of the sector grew to 14.1% in FY18 from 11.8% in FY17. We expect the company to add some revenues from exports following the renewal of the export license and a deal with Yemen and Bangladesh.

- Revenues declined to 16.6% YoY to SAR 888mn in FY18 due to lower-than-expected sales price even though the company's sales volume improved 3.5% YoY.
- Gross profit declined 38.2% YoY to SAR 262mn weighed by a slowdown in sales even though the cost per ton declined during the year. The gross profit margin declined to 29.5% from 39.8% in FY17 and 52.4% in FY16.
- Operating profit fell 42.5% YoY to SAR 215mn from SAR 373mn in FY17 and SAR 879mn in FY16, affected by lower revenues. Operating margin declined to 24.2% in FY18 from 35.1% in FY17.
- Net profit slipped 47.4% YoY to SAR 195mn in FY18, much below the consensus estimates. The net profit margin stood at 21.9% in FY18, compared with 34.8% in FY17 and 49.4% in FY16. In 4Q18, net profit recovered on a quarterly basis but declined 54.3% YoY to SAR 52mn.
- The company proposed a dividend of SAR 1 per share for 2H18 for its 140 mn shareholders, raising the total dividend for the year to SAR 2 per share, amounting to SAR 280mn.
- SPCC announced the renewal of its export license from the Ministry of Trade and Investment. It would export up to 1Mt of clinker and 0.5Mt of cement for a year from 13th February 2019. In 4Q18, SPCC won a contract to export 20,000 tons of cement to Yemen. SPCC has signed a deal with Peakward Enterprises in Hong Kong to export 1.5Mt of clinker to Bangladesh between 2019 and mid 2020.

Valuation: The Saudi Cement industry started FY19 on a good note with positive growth in sales of Clinker and Cement. We revise our target price upwards to SAR 42.1, following the performance recovery in 4Q18 and recent upturn in the cement industry. We maintain our 'Neutral' rating on the stock.

| | 4Q'18 | 4Q'17 | % YoY | FY19E | FY18 | % YoY |
|---------------------------|-------|-------|--------|-------|-------|-------|
| Revenues (SAR mn) | 240 | 302 | -20.6% | 994 | 888 | 12.0% |
| Gross Profit (SAR mn) | 71 | 137 | -48.3% | 282 | 262 | 7.9% |
| Operating Profit (SAR mn) | 63 | 116 | -46.0% | 232 | 215 | 7.9% |
| Net Profit (SAR mn) | 52 | 114 | -54.3% | 224 | 195 | 14.9% |
| EPS basic (SAR) | 0.37 | 0.81 | -54.3% | 1.60 | 1.39 | 14.9% |
| Gross Margin (%) | 29.4% | 45.2% | -15.8% | 28.4% | 29.5% | -1.1% |
| Operating Margin (%) | 26.1% | 38.4% | -12.3% | 23.3% | 24.2% | -0.9% |
| Net Profit Margin (%) | 21.6% | 37.6% | -16.0% | 22.5% | 21.9% | 0.6% |

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.

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