

1Q19 Results Update

May 21, 2019

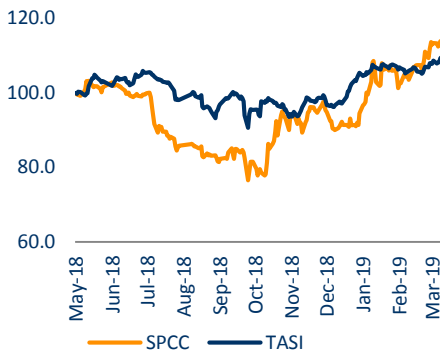
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	44.7
Target Price (SAR)	46.0
Upside/Downside (%)	2.9%

As of May 20, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.3
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	0.2%	8.1%
6m	17.6%	4.8%
12m	10.4%	4.8%

Major Shareholders (%)

Public Investment Fund	37.43%
General Org. for Social Insurance	10.87%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of May 20, 2019

SPCC net profit jumps 18%, beats consensus estimates by huge margin

Southern Province Cement Company (SPCC)'s net profit recovered sharply in 1Q19, following consecutive quarters of decline, rising 17.8% YoY and 130.8% QoQ to SAR 120mn in 1Q19. The company benefitted from strong improvement in the top line, aided by growth in sales volumes. The gross profit growth was limited by a surge in cost of sales. Operating profit grew 23.5% YoY as SG&A expenses plummeted. In 1Q19, although margins declined on YoY basis, they improved substantially on a quarterly basis.

SPCC continued to lead the market in terms of cement dispatches at 1.7mn tons, accounting for 15.2% of the market in 1Q19. The company has strong presence in the southern region and continues to consolidate its position in the western region. SPCC's cement dispatch volumes improved 30.3% YoY, which offset the reduction in realized prices. Despite low utilization rates, the company's inventory continues to pile up even though its inventory days remain below the industry average. The concern, however, comes from low performance in the domestic cement sector, where dispatches declined 5.8% YoY to 11.2mn tons. Though the KSA government has increased infrastructure spending, which may boost cement demand as some of the megaprojects are expected to go online during the year, the following couple of quarters may witness slower demand due to seasonality factors. Thus, given the current cement domestic market scenario, we maintain our neutral stance.

- Revenues increased 24.9% YoY to SAR 342mn in 1Q19 aided by higher sales volume, up 30.3% YoY to 1.7mn tons.
- Gross profit rose merely 12.6% YoY to SAR 137mn in 1Q19 as cost of sales grew 34.7% YoY to SAR 205mn, much faster than the revenue growth. This caused gross profit margins to shrink to 40.2% in 1Q19 from 44.5% in 1Q18.
- Operating profit declined 23.5% YoY to SAR 126mn as SG&A expenses recorded a significant drop of 42.2% YoY to SAR 12mn. This helped contain the fall in the operating margin level, which declined slightly to 36.7% in 1Q19 from 37.1% in 1Q18.
- Net profit improved 17.8% YoY and 130.8% QoQ to SAR 120mn in 1Q19, much ahead of the street expectations. The net profit margin stood at 35.1% in 1Q19 compared to 37.2% in 1Q18 and 21.6% in 4Q18.
- The company approved a dividend of SAR 1 per share for its 140 mn shareholding amounting to SAR 140mn for its 2H18. The total dividend paid for the entire year FY18 stood at SAR 2 per share amounting to SAR 280mn.

Valuation: We revise our target price upward to SAR 46.0, following strong performance in 1Q19. We maintain our "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	342	274	24.9%	1,191	888	34.2%
Gross Profit (SAR mn)	137	122	12.6%	443	262	69.1%
Operating Profit (SAR mn)	126	102	23.5%	382	215	77.9%
Net Profit (SAR mn)	120	102	17.8%	366	195	88.1%
EPS Basic (SAR)	0.86	0.73	17.8%	2.62	1.39	88.1%
Gross Margin (%)	40.2%	44.5%	-4.4%	37.2%	29.5%	7.7%
Operating Margin (%)	36.7%	37.1%	-0.4%	32.1%	24.2%	7.9%
Net Profit Margin (%)	35.1%	37.2%	-2.1%	30.8%	21.9%	8.8%

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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