

2Q19 Results Update

September 24, 2019

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	54.5
Target Price (SAR)	55.0
Upside/Downside (%)	0.9%

As of September 24, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.6
52-Wk High (SAR)	59.2
52-Wk Low (SAR)	30.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	46.8%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(6.4%)	(0.6%)
6m	17.9%	26.6%
12m	67.4%	65.0%

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 September 24, 2019

SPCC continues to improve quarterly profit on annual basis yet misses consensus estimates

Southern Province Cement Company (SPCC)'s net profit more than doubled in comparison to the same period last year but fell 24.3% QoQ to SAR 90.8mn. The quarterly contraction in net profit can be attributed to the fall in revenues and rise in finance charges. Nonetheless, the company managed to maintain its cost of sales well, leading to a slight improvement in the gross profit margin. On annual basis, the company's revenues rose considerably on improved sales volume and prices. Despite an increase in SG&A expense, the company managed to record a substantial gain in the bottom line.

The cement sector in KSA has been witnessing an upturn since the beginning of 2019 owing to better selling prices and higher cement dispatches. This augurs well for the sector, which had a very forgettable 2018. Moreover, the government remains committed to increasing infrastructure spending, which is expected to boost the prospect of important construction materials such as cement, as some of the megaprojects are anticipated to go online this year. The company has a strong presence in the southern region and continues to consolidate its position in the western region. There is further room for improvement in the company's high operating expense, even though it has performed much better compared to the previous year owing to favorable external factors. Although the company is well on the path of recovery, given the recent run up in the share price, we maintain our "Neutral" stance on the stock.

- Revenues increased 55.0% YoY to SAR 275.7mn in 2Q19 aided by higher sales volume and improved prices; however, revenues declined 19.4% QoQ.
- Gross profit jumped 122.3% YoY to SAR 113.1mn as the cost per ton sold reduced annually. The quarterly gross profit fell 17.7% even though the cost of sales per ton declined. Consequently, the gross profit margin for 2Q19 stood at 41.0% as against 40.2% in 1Q19 and 28.6% in 2Q18.
- In view of the reasons mentioned above, the company's operating profit too declined 22.3% QoQ but gained 144.5% YoY to SAR 97.6mn. SG&A expense rose 41.3% YoY and 32.5% QoQ to SAR 15.5mn. Thus, the operating margin for the period was 35.4% vis-à-vis 36.7% and 22.4% in 1Q19 and 2Q18, respectively.
- Net profit soared 151.8% YoY to SAR 90.8mn in spite of declining 24.3% on quarterly basis, missing the street expectations. The net profit margin stood at 32.9% in 2Q19 compared to 35.1% in 1Q19 and 20.3% in 2Q18.
- SPCC has proposed a dividend payout of 12.5% that totals SAR 1.25 per share for 1H19 for its 140 million shares. The total dividend to be paid for each quarter amounts to SAR 175mn.
- SPCC topped the monthly local sales for August 2019 at 425,000 tons.

Valuation: We revise our target price upward to SAR 55.0, and maintain our "Neutral" rating on the stock.

	2Q'19	2Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR mn)	276	178	55.0%	1,221	888	37.6%
Gross Profit (SAR mn)	113	51	122.3%	473	262	80.6%
Operating Profit (SAR mn)	98	40	144.5%	412	216	90.5%
Net Profit (SAR mn)	91	36	151.8%	396	195	103.1%
EPS Basic (SAR)	0.65	0.26	151.8%	2.83	1.39	103.1%
Gross Margin (%)	41.0%	28.6%	12.4%	38.7%	29.5%	9.2%
Operating Margin (%)	35.4%	22.4%	11.7%	33.7%	24.3%	9.4%
Net Profit Margin (%)	32.9%	20.3%	12.7%	32.4%	21.9%	10.5%

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.

FALCOM Financial Services

Contact us on the below phone numbers:

Customer Services: **8004298888**

Brokerage Services: **920004711**

Fax or Email us at the below number:

Fax: **+966 11 2032546**

Email: **addingvalue@falcom.com.sa**

Mail us at the following address:

P.O. Box 884

Riyadh 11421

Kingdom of Saudi Arabia

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