

**FY19 Results Update**

**April 05, 2020**

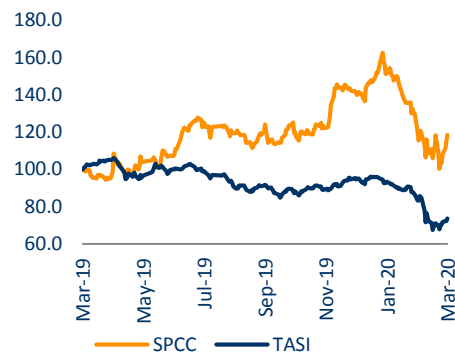
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	56.4
Target Price (SAR)	59.0
Upside/Downside (%)	4.6%

As of April 02<sup>nd</sup>, 2020

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	7.9
52-Wk High (SAR)	74.8
52-Wk Low (SAR)	41.5
Total Outstanding Shares (in mn)	140.0
Free Float (%)	50.8%

**SPCC vs. TASI (Rebased)**



Price Performance (%)	Absolute	Relative
1m	(8.7%)	6.0%
6m	(4.6%)	15.1%
12m	18.5%	44.7%

**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 April 02, 2020

**Sharp rise in sales volume and prices boost net income in FY19**

Southern Province Cement Company (SPCC)'s net profit jumped to SAR 463mn in FY19 from SAR 195mn in FY18. The sharp rise was driven by a 46.5% YoY increase in sales revenues that grew due to higher sales volume and average realized price of cement. The rise in average cost per ton was much less vis-à-vis the growth in revenue; consequently, gross profit more than doubled to SAR 538mn in FY19 from SAR 262mn in FY18. The company's bottom line also benefitted from a drop in cost of finance and lower zakat provisions in FY19 over the comparable period a year earlier.

The Saudi cement industry fared well in 2019 owing to uptick in demand as well as average realized prices following a rebound in domestic public projects and increase in exports. Cement firms also benefitted from the government's decision to partially lift a long-standing ban on cement exports and slash export fees. The Ministry of Commerce granted 22 permits for cement exports in 2019 alone. The industry started 2020 on a positive note; however, the COVID-19 pandemic and escalation of the oil price war as Russia refused to comply with OPEC production-cuts have jeopardized macroeconomic stability, while scarce availability of labor has rendered continuity of projects uncertain. Even though as of March 2020 all cement plants in Saudi Arabia were operating normally, which has kept prices under control, demand may decrease in the coming quarters due to adoption of isolation and quarantine measures. We remain cautious and maintain our Neutral rating on the stock.

- Revenues increased 46.5% YoY to SAR 1.3bn in FY19, aided by higher sales volume and improved average realized prices. In 4Q19, revenues were up 38.7% QoQ to SAR 397mn.
- Gross profit surged 105.4% YoY to SAR 538mn as sharp rise in revenues offset the increase in cost per ton sold. Consequently, gross profit margin jumped to 41.3% for FY19 from 29.5% in FY18.
- Due to the factors mentioned above, the company's operating profit increased 125.2% YoY to SAR 483mn. Consequently, it reported an operating margin of 37.2% for the period vis-à-vis 24.2% in FY18. In 4Q19, operating income jumped 70.2% QoQ to SAR 164mn.
- Net profit soared 137.6% YoY to SAR 463mn in FY19. EPS stood at SAR 3.31 compared to SAR 1.39 a year earlier. Net profit margin was 35.6% in FY19 compared to 21.9% in FY18.

**Valuation:** We revise our target price to a fair value of SAR 59.0 and maintain our "Neutral" rating on the stock.

	4Q'19	4Q'18	% YoY	FY20E	FY19	% YoY
vRevenues (SAR mn)	397	240	65.3%	1,375	1,300	5.8%
Gross Profit (SAR mn)	179	71	153.7%	519	538	(3.4%)
Operating Profit (SAR mn)	164	57	186.9%	451	483	(6.7%)
Net Profit (SAR mn)	162	52	213.4%	442	463	(4.5%)
EPS Basic (SAR)	1.16	0.37	213.4%	3.15	3.31	(4.5%)
Gross Margin (%)	45.2%	29.4%	15.7%	37.8%	41.3%	(3.6%)
Operating Margin (%)	41.3%	23.8%	17.5%	32.8%	37.2%	(4.4%)
Net Profit Margin (%)	40.8%	21.5%	19.3%	32.1%	35.6%	(3.5%)

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.

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