

1Q20 Results Update

June 17, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	52.5
Target Price (SAR)	52.0
Upside/Downside (%)	(1.0%)

As of June 14th, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	7.4
52-Wk High (SAR)	74.8
52-Wk Low (SAR)	42.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	50.8%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	18.2%	9.1%
6m	(20.8%)	(11.9%)
12m	11.8%	30.3%

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 June 14th, 2020

Higher sales and lower financial charges boost SPCC's net income in 1Q'20

Southern Province Cement Company (SPCC)'s net profit jumped 52.6% YoY to SAR 183mn in 1Q20 from SAR 120mn in 1Q19. The sharp rise was driven by a 33.7% YoY increase in sales revenues due to the higher sales volume and average realized price of cement. The company's operating profit increased sharply by 44.2% YoY to SAR 181mn owing to decline in S,G& A expenses. Furthermore, a drop in financial charges and an increase in other miscellaneous income also contributed to the improvement in the bottom line.

A rebound in domestic public projects and increase in exports during 2019 led to an uptick in demand and improved average realized prices, propelling the impressive growth of the Saudi cement industry. The industry continued to perform well in the first quarter of 2020; however, the onset of the COVID-19 pandemic and the ensuing implementation of social norms led to a delay in projects and consequently a slowdown of the cement industry. Additionally, the crash in oil prices hit government revenues, which would eventually limit government spending and thus disrupt housing and infrastructure projects. During April 2020, however, aggregate sales of 17 Saudi cement companies fell 28.8% YoY to 2.863 million tons, with declines in local as well as export markets. Thus, in view of the above factors, we maintain our Neutral rating on the stock.

- Revenues increased 33.7% YoY to SAR 457mn in 1Q20, aided by higher sales volume and improved average realized prices. Increase of 27.47% in domestic sales volume and 48.6% rise in export sales contributed to the overall revenue increase.
- Gross profit advanced 40.3% YoY to SAR 193mn, as the growth in the cost per ton sold was slower than the rise in revenues. Consequently, gross profit margin improved to 42.1% in 1Q20 from 40.2% in 1Q19.
- Due to the factors mentioned above, the company's operating profit increased 44.2% YoY to SAR 181mn. Consequently, it reported an operating margin of 39.6% for the period vis-à-vis 36.7% in 1Q19. On a quarterly basis, the operating income was up 10.6%.
- Net profit surged 52.6% YoY to SAR 183mn in 1Q20. EPS stood at SAR 1.31 compared with SAR 0.86 in the same quarter a year ago. Net profit margin was 40.1% in 1Q20 compared with 35.2% in 1Q19.

Valuation: We revise our target price to a fair value of SAR 52.0 and maintain our "Neutral" rating on the stock.

	1Q'20	1Q'19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	457	342	33.7%	1,162	1,300	(10.6%)
Gross Profit (SAR mn)	193	137	40.3%	439	538	(18.3%)
Operating Profit (SAR mn)	181	126	44.2%	381	483	(21.1%)
Net Profit (SAR mn)	183	120	52.6%	373	463	(19.4%)
EPS Basic (SAR)	1.31	0.86	52.6%	2.66	3.31	(19.4%)
Gross Margin (%)	42.1%	40.2%	2.0%	37.8%	41.3%	(3.5%)
Operating Margin (%)	39.6%	36.7%	2.9%	32.8%	37.2%	(4.4%)
Net Profit Margin (%)	40.1%	35.2%	5.0%	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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