

3Q20 Results Update

December 30, 2020

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	81.9
Target Price (SAR)	76.0
Upside/Downside (%)	(7.2%)

As of December 22, 2020

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	11.5
52-Wk High (SAR)	83.9
52-Wk Low (SAR)	42.0
Total Outstanding Shares (in mn)	140.0
Free Float (%)	50.6%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	10.2%	9.2%
6m	50.3%	30.7%
12m	24.3%	19.7%

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 December 22, 2020

Higher sales volume, good inventory management support bottom line in 3Q20

Southern Province Cement Company (SPCC)'s net profit inched up 65.9% YoY to SAR 149.8mn in 3Q20 from SAR 90.3mn in 3Q19. The rise in the bottom line was largely driven by a 48.9% YoY rise in revenue owing to the 38.2% YoY growth in sales volume during the quarter. Operating profit increased by 65.8% YoY to SAR 159.6mn due to a decline in SG&A expenses. Besides these factors, a marginal dip in financial charges and slight rise in other income contributed to the expansion in the bottom line for the period. The company's net profit margin for the quarter stood at 35.2% against 31.6% in 3Q19.

Despite the slowdown in the economy due to the COVID-19 pandemic, the Saudi Arabian cement industry experienced strong demand. During 3Q20, total cement dispatches grew 28.5% YoY and 38.3% QoQ. Moreover, inventory decreased by 7.0% YoY and 4.9% QoQ. The inventory to LTM sales ratio stood at 34.1% in 3Q20 compared with 65.9% in 3Q19. SPCC recorded a 35.3% YoY and 55.4% YoY rise in revenue and the bottom line, respectively, during 9M20. Growth in dispatches was driven by robust demand from the real estate sector in the domestic market. We expect the trend to continue in 2021. However, in view of the recent run-up in the company's stock price, we see limited upside potential and maintain a Neutral rating on the stock.

- Revenue increased 48.9% YoY to SAR 425.8mn in 3Q20, aided by a 38.2% YoY rise in sales volume. On a sequential basis, revenue soared 25.5% supported by a 25.2% QoQ gain in the sales volume.
- Cost of sales (up 43.4% YoY to SAR 255.4mn) grew at a slower pace than revenue during the quarter. This resulted in a 57.9% YoY increase in gross profit to SAR 170.4mn in 3Q20. Subsequently, the gross profit margin improved to 40.0% in 3Q20 from 37.7% in 3Q19.
- A drop in the company's SG&A expenses lifted its operating profit, which increased 65.8% YoY to SAR 159.6mn during the quarter. Consequently, the company reported an operating margin of 37.5% in 3Q20 against 33.6% in 3Q19.
- In addition to the above factors, a marginal fall in net finance charges and slight rise in other income resulted in a 65.9% YoY advance in net profit to SAR 149.8mn in 3Q20. EPS for the quarter stood at SAR 1.07 compared with SAR 0.64 in 3Q19. The net profit margin was 35.2% in 3Q20 against 31.6% in 3Q19.
- During the quarter, the company significantly reduced its inventory compared with the same quarter last year (2.6mn tons in 3Q20 from 4.1mn tons in 3Q19).

Valuation: We revise our target price to a fair value of SAR 76.0 and maintain our "Neutral" rating on the stock.

	3Q20	3Q19	% YoY	FY20E	FY19	% YoY
Revenues (SAR mn)	426	286	48.9%	1,658	1,300	27.5%
Gross Profit (SAR mn)	170	108	57.9%	719	538	33.7%
Operating Profit (SAR mn)	160	96	65.8%	660	483	36.7%
Net Profit (SAR mn)	150	90	65.9%	622	463	34.3%
EPS Basic (SAR)	1.07	0.64	65.9%	4.44	3.31	34.3%
Gross Margin (%)	40.0%	37.7%	2.3%	43.3%	41.3%	2.0%
Operating Margin (%)	37.5%	33.6%	3.8%	39.8%	37.2%	2.7%
Net Profit Margin (%)	35.2%	31.6%	3.6%	37.5%	35.6%	1.9%

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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