

2Q 2018 Results Update

Aug 13, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	35.5
Target Price (SAR)	37.6
Upside/Downside (%)	6.0%

As of Aug 12, 2018

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	5.0
52 Wk High (SAR)	52.30
52 Wk Low (SAR)	35.35
Total Outstanding shares (in mn)	140
Free Float (%)	41.8%

SPCC vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(11.3%)	(11.1%)
6m	(28.7%)	(39.6%)
12m	(29.3%)	(44.2%)

Major Shareholders (%)

Public Investment Fund	37.43%
General Org. for Social Insurance	15.82%

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



Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12th Aug 2018

Earnings disappointment amid weak seasonal quarter

Southern Province Cement Company (SPCC)'s net profit fell 62.1% YoY and 64.7% QoQ to SAR 36mn during 2Q18, mainly due to a decline (-26.8% YoY and -35.0% QoQ) in revenues significantly missing consensus and our expectations. SPCC's top line was impacted by a major drop in realization price (-34% QoQ, -27% YoY), while it was able to maintain the downturn in volumes (-1% QoQ, flat YoY). The cost of sales was down only by 11% YoY and 16% QoQ, the gross profits, consequently witnessed a severe drop. SPCC has recommended a 1H18 dividend of SAR 1.00 per share (100% dividend payout); ahead of our expectations of SAR 1.75 per share for 2018E.

The inventories rose to (36.2mn tons in June 2018, the highest monthly level in a year), owing to an increase in production and subdued sales. We do not expect the recovery in the cement demand before 4Q18 due to seasonally weak third quarter. We also foresee limited export opportunity for Southern since it is located close to East African markets which currently faces over-supply. On an LTM YoY growth basis, SPCC has been underperforming the sector since October 2016 (SPCC average -19% Y/Y vs. sector average -14% Y/Y); while recently the gap has been narrowing.

- Revenues declined to SAR 178mn owing to a lower-than-expected sales price and stable sales volume. The company's sales volume improved marginally by 0.2% YoY in 2Q18, while prices were hit, declining 27% YoY to SAR 137/ton.
- Gross profit almost halved to SAR 51mn vis-à-vis SAR 100mn in 2Q17 owing to a slowdown in sales due to increase in costs per ton during the quarter. Gross profit margin declined to 28.7% from 41.2% in 2Q17 and 44.5% in 1Q18.
- Operating profit fell 55.1% YoY and 60.8% QoQ to SAR 40mn from SAR 92mn in 2Q17 and SAR 102mn in 1Q18, affected by lower revenues. Operating margin declined 15.5% YoY to 22.5% in 2Q18.
- Net profit dipped 62.1% YoY to SAR 36mn in 2Q18, below consensus estimate. On quarter on quarter basis, net profit declined 64.7% due to lower selling volumes and prices. Net profit margin stood at 20.2% vis-à-vis 39.1% in 2Q17 and 37.3% in 1Q18.
- SPCC has relatively good inventory management (inventory-to-LTM sales ratio of 66% vis-à-vis industry average of 84%). However, we do not expect any major uptick in demand over the next few quarters in the Southern Region. We believe the earnings have bottomed out, and foresee limited downside to the stock.

Valuation: We revise our target price downwards to SAR 37.6 post incorporating weak 2Q18 performance. The stock price has dropped 14% since previous earnings. Feeble cement demand in the Southern Region (-8% Q/Q, -3% Y/Y) continues to weigh on the stock performance. We maintain our 'Neutral' rating on the stock.

	2Q'18	2Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	178	243	(26.7%)	1,091	1,064	2.6%
Gross Profit (SAR mn)	51	100	(49.0%)	454	424	7.2%
Operating Profit (SAR mn)	40	92	(55.1%)	398	384	3.7%
Net Profit (SAR mn)	36	95	(62.1%)	376	370	1.6%
EPS basic (SAR)	0.26	0.68	(62.1%)	2.69	2.65	1.4%
Gross Margin (%)	28.7%	41.2%	(12.5%)	41.6%	39.8%	1.8%
Operating Margin (%)	22.5%	38.0%	(14.2%)	36.5%	36.1%	0.4%
Net Profit Margin (%)	20.2%	39.1%	(18.9%)	34.5%	34.8%	-0.3%

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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