

**1Q 2018 Results Update**
**June 13, 2018**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	41.1
Target Price (SAR)	43.3
Upside/Downside (%)	5.4%
<i>As of June 12, 2018</i>	

**Key Data (Source: Bloomberg)**

Market Cap (SAR bn)	5.7
52 Wk High (SAR)	55.80
52 Wk Low (SAR)	39.60
Total Outstanding shares (in mn)	140
Free Float (%)	41.8%

**SPCC vs. TASI (Rebased)**


Price Performance (%)	Absolute	Relative
1m	2.1%	-2.5%
6m	-16.3%	-32.2%
12m	-17.8%	-38.4%

**Major Shareholders (%)**

Public Investment Fund	37.4%
General Org. for Social Insurance	15.8%

**Quarterly Sales (SAR mn) and Operating Margin**


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 12<sup>th</sup> June 2018

**Demand continues to remain weak; signs of price stabilization visible**

SPCC's net profit declined 2.7% YoY to SAR 102mn during 1Q18, mainly due to 9.7% YoY decline in revenue. SPCC reported revenue of SAR 274mn in 1Q18, which was impacted by a 14.1% YoY decline in the quantities sold due to subdued cement demand. The trend was in line with the ongoing demand weakness in the Southern Region (-10% Q/Q, -14% Y/Y). However, SPCC was able to improve its gross margin by charging higher prices in 1Q18. Realized prices improved 5% YoY and 3% QoQ to SAR209/ton. Thus, the gross margin improved by 430bps to 44.5% and operating margin by 240bps YoY to 37.0% in 1Q18.

Saudi Arabia's cement sector is expected to recover slightly in 2018 as the recent oil price rally has provided the government some headroom to increase spending. The government, in its budget for 2018, intends to increase capex 13.6% YoY to SAR 205bn to finance projects under its Vision 2030. Moreover, to accelerate cement exports, the government cancelled export duties on cement since February 2018. We believe SPCC has limited opportunity to export surplus production, given its proximity to the Yemen and East Africa markets. Despite a few upcoming infrastructure projects in the cities Najran and Asir, we do not foresee substantial pick-up in regional demand over the next few quarters. Hence, we reiterate our neutral view on the stock.

- Revenue declined 9.7% YoY to SAR 273.8mn due to a 14.1% YoY decline in the quantities sold during 1Q18. Revenue declined 9.3% QoQ in 1Q18 from SAR 302mn in 4Q17.
- The gross profit remained stable at SAR 122mn in 1Q18 despite of the decline in revenue as the company was able to charge higher prices. However, gross profit declined 10.7% QoQ mainly affected by lower revenue in 1Q18.
- Operating profit declined to SAR 102mn, a 3% YoY decline vis-à-vis the SAR 105mn recorded in 1Q17, due to a 21% YoY increase in selling, general and administrative expenses. Operating profit declined 18.2% QoQ due to 39.9% QoQ increase in selling, general and administrative expenses.
- The net profit declined 3% YoY to SAR 102mn in 1Q18 due to the 3% YoY decrease in operating profit. It declined 10.4% QoQ due to lower revenue and higher selling, general and administrative expenses, slightly offset by lower finance expenses.
- Cash flow from operations grew by 44% YoY to SAR 151mn in 1Q18 compared to SAR 105mn for 1Q17 mainly due to less inventory additions and increased non-cash charges. Cash flow from operations grew 2.3% QoQ due to higher accounts payables in 1Q18, slightly offset by an increase in inventories.
- Capital expenditure rose 65% YoY to SAR 60mn in 1Q18 compared with SAR 36mn in 1Q17.
- SPCC's prudent inventory management (inventory-to-LTM sales ratio of 61% vis-à-vis the industry average of 78%) and decent operating performance in the current quarter provides reason for optimism. We believe earnings have bottomed out, and foresee limited downside to the stock; however, we await concrete signs of pick-up in demand to revise our rating upwards.

**Valuation:** We maintain our target price at SAR 43.3 per share, and retain our 'Neutral' view on the stock.

	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues (SAR mn)	274	303	-9.7%	1,091	1,064	2.6%
Gross Profit (SAR mn)	122	122	-0.1%	454	424	7.2%
Operating Profit (SAR mn)	102	105	-3.5%	398	384	3.7%
Net Profit (SAR mn)	102	105	-2.7%	376	370	1.6%
EPS basic (SAR)	0.73	0.75	-2.7%	2.69	2.65	1.4%
Gross Margin (%)	44.5%	40.3%	4.3%	41.6%	39.8%	1.8%
Operating Margin (%)	37.1%	34.7%	2.4%	36.5%	36.1%	0.4%
Net Profit Margin (%)	37.2%	34.5%	2.7%	34.5%	34.8%	-0.3%

Source: Company Financials, FALCOM Research

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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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