

# Southern Province Cement Co

Cement – Industrial

SOCCO AB: Saudi Arabia

19 May 2022

الراجحي المالية  
Al Rajhi Capital



**US\$2.303bn** Market cap  
**42%** Free float  
**US\$1.849mn** Avg. daily volume

Target price **63.00** +2.1% over current  
Current price **61.70** as at 19/5/2022

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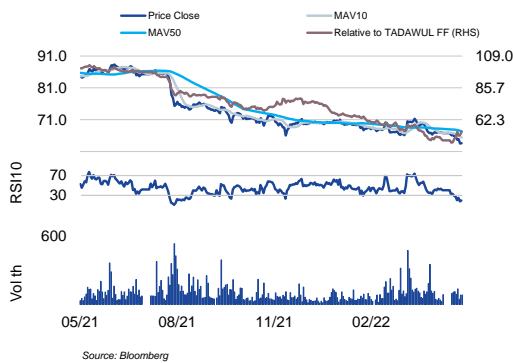
## Existing rating

Underweight

Neutral

Overweight

## Performance



## Earnings

(SARmn)	2021	2022E	2023E
Revenue	1,339	1,038	1,080
Revenue growth	-19%	-23%	4%
Gross profit	526	326	369
Gross margin	39%	31%	34%
EBITDA	680	469	499
EBITDA margin	51%	45%	46%
Net profit	450	268	310
Net margin	34%	26%	29%
EPS	3.22	1.92	2.21
DPS	2.50	2.50	2.50
Payout ratio	78%	131%	113%
EV/EBITDA	12.5x	17.7x	16.4x
P/E	19.2x	32.2x	27.9x
RoE	14.0%	8.6%	10.0%

Source: Company data, Al Rajhi Capital

# Southern Province Cement Co

## Performance to remain under pressure; TP at SAR63/sh

Southern Province Cement Co (SPCC) registered a revenue of SAR330mn, a y-o-y fall of 24.9%, but was higher than our estimate of SAR273mn. Fall in sales was attributed to a 23.7% y-o-y fall in cement volume. Cement sales volume for Q1 2022 came in at 1.6mn tons, broadly in line with our estimate. Gross profit fell by 42.3% y-o-y, while operating profit fell by 47.0% y-o-y. Lower revenue and the resultant fall in operating leverage impacted profitability, as gross margins fell to 32.2% for Q1 2022, compared to 41.9% a year back. Apart from this, we also expect the profitability to have been impacted by higher royalty, due to the changes in the method of calculating the same. For Q1 2022, cement volume of SPCC fell by 23.7% y-o-y, underperforming the industry, which on an average fell by 10.1%, and the performance of the Southern region, which registered a fall of 20.6%. However, cement prices were relatively stable and better than the companies operating in other regions. Going forward, we expect construction activity to remain weak; along with this, with a clinker inventory of 34.7 mn tons, in April-22, which is around seven months of production (LTM), we expect the average realization to remain under pressure. However, there could be a slight recovery in the volume post H1 2022, as we expect marginal recovery in demand backed by an improvement in the execution of mega and giga projects. However, this recovery is likely to be limited, resulting in cement sales volume coming lower in 2022, compared to 2021. Overall, we reduce our target price to SAR63/share from SAR75/share, but maintain our rating at "Neutral".

**Q1 results:** Total volume sold during the quarter came at 1.6mn tons in Q1 2022, compared to 1.7mn tons in Q4 2021 and 2.1mn tons a year back. At the back of lower volume, gross margins fell to 32.2% in Q1 2022, compared to 41.9% a year back, and 33.2% in the previous quarter. Net margins at 26.4% in Q1 2022 was lower than 38.5% a year back, and 26.8% in Q4 2021.

## Figure 1 SPCC: Summary of Q1 2022 results

(SARmn)	Q1 2022	Q1 2021	Q4 2021	% chg y-o-y	% chg q-o-q	ARC Estimates
Revenue	330	439	328	-25%	0%	273
Gross Profit	106	184	109	-42%	-2%	81
Gross Margin	32%	42%	33%	NA	NA	30%
Operating Profit	91	171	94	-47%	-4%	67
Net Profit	87	169	88	-49%	-1%	66

Source: Company data, Al Rajhi Capital

**Valuation and risks:** For our estimates, we expect input and energy prices to remain flat. We value the company based on an average mix of DCF and dividend capitalization. The DCF target price is based on a 2.0% terminal growth and WACC of 8.3% and comes to SAR63/share. Dividend capitalization is based on a fair value yield of 4.0% and also comes to SAR63/share. Overall, we have reduced our target price for the company to SAR63 per share, a upside of 2.1%, which implies a "Neutral" rating. The key downside risk is a decline in volume and lower than expected cement prices. The key upside risks are higher than the forecasted pick up in the construction activity, resulting in improved volume and prices.

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