

# Southern Province Cement Co.

Cement - Industrial  
SOCCO AB: Saudi Arabia  
31 May 2023



US\$1.974bn Market Cap    62.43% Free Float    US\$1.43mn Avg. Daily Volume

Target price 48.00 9.3% below current  
Current price 52.90 as at 31/05/2023

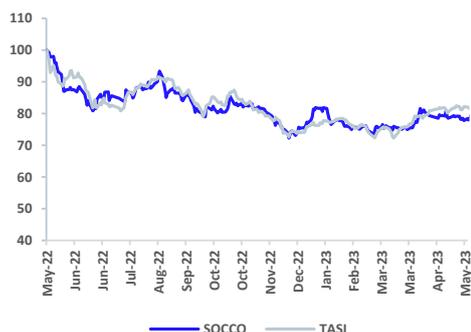
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Existing rating

Underweight    **Neutral**    Overweight

## Performance (Rebased to 100)



## Earnings

(SARmn)	2022	2023E	2024E
Revenue	1,222	1,222	1,284
Revenue growth	-9%	0%	5%
Gross profit	357	317	407
Gross margin	29%	26%	32%
EBITDA	507	451	523
EBITDA margin	41%	37%	41%
Net profit	301	241	330
Net margin	25%	20%	26%
EPS	2.15	1.72	2.35
DPS	1.25	2.25	2.50
Payout ratio	58%	131%	106%
EV/EBITDA	14.5x	16.2x	13.6x
P/E	24.6x	30.7x	22.5x
RoE	9.4%	7.7%	10.6%

Source: Company data, Al Rajhi Capital.

# Southern Province Cement Co.

## Target price revised to SAR48/sh, maintain Neutral

Southern Province Cement reported Q1 2023 revenue at SAR300mn, a 9.0% decline y-o-y at the back of lower cement and clinker sales. The revenue was modestly lower than our estimate of SAR329mn due to lower-than-expected volumes. As of April 2023, the YTD cement sales fell by 11.3% for SPCC compared to 7.2% fall in volumes for the industry. The decline in volumes can be attributed to a ~40% y-o-y drop in residential new mortgage finance during the period Jan-Apr'23. On the other hand, Gross profits fell by 33% y-o-y and margins too were hurt on account of higher cost of sales and lower volumes. We note that overall cement demand in KSA has been limited despite the announcement of several Giga projects. However, y-o-y cement realizations have been strong for SPCC. The net income for SPCC fell by 44.0% y-o-y in 1Q 2023 due to higher interest burden. Going forward we expect cement sales volume for Southern Cement to be moderately lower in FY 2023 compared to FY 2022. As a result, margins shall take a hit, albeit average realizations may offset some piece of the margin decline. However, cost of sales for 2023 will continue to be elevated as a result of inflationary pressures. Meanwhile, lower sales may have some impact on inventory levels implying a longer cash conversion cycle. In our view, mortgage offtake may remain subdued in the near-term due to the rising interest rate scenario. Nonetheless, H2 2023 might see some pick-up in overall cement demand owing to the execution of mega and giga projects. Overall, post-Q1 2023 earnings we revise our estimates and decrease our target price to SAR48/sh, from the earlier target price of SAR63/sh and maintain our rating at "Neutral".

### Figure 1 Earnings Summary Q1 2023

(SARmn)	Q1 2023	Q4 2022	Q1 2022	% chg q-o-q	% chg y-o-y	ARC Estimates
Revenue	300	335	330	-11%	-9%	329
Gross Profit	71	89	106	-20%	-33%	101
Gross Margin	24%	27%	32%	NA	NA	31%
Operating Profit	53	68	91	-21%	-41%	85
Operating Margin	18%	20%	27%	NA	NA	26%
Net Profit	49	65	87	-24%	-44%	81
Net Margin	16%	19%	26%	NA	NA	25%

Source: Company data, Al Rajhi Capital

**Valuations:** We value the company based on an equal mix of DCF and dividend capitalization method. The DCF-based target price at a 2% terminal growth and 9.4% WACC comes to SAR51/sh. Dividend capitalisation is based on a fair value yield of 5% and implies a target price of SAR45/sh. Thus, we revise our target price for the company to SAR48/sh, implying a downside of 9.3%, and maintain our rating at "Neutral".

**Risks:** The key upside risks to our valuation assumptions are higher than expected pickup in cement volumes and further increase in average realizations.

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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