

## 3Q22 Results Update

December 14, 2022

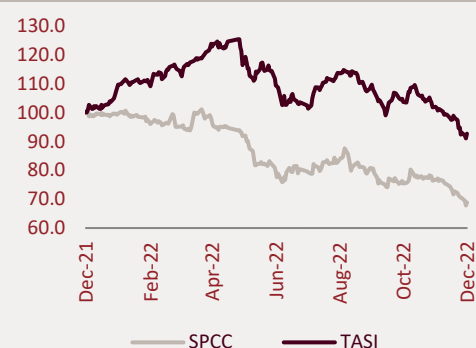
Recommendation	Overweight
Previous Recommendation	Overweight
Current Price (SAR)	48.6
Target Price (SAR)	60.0
Upside/Downside (%)	23.6%

As of December 13, 2022

### Key Data (Source: Bloomberg)

Market Cap (SAR bn)	6.8
52-wk High (SAR)	71.8
52-wk Low (SAR)	47.6
Total Outstanding shares (in mn)	140.0
Free Float (%)	62.4%

### SPCC vs. TASI (Rebased)

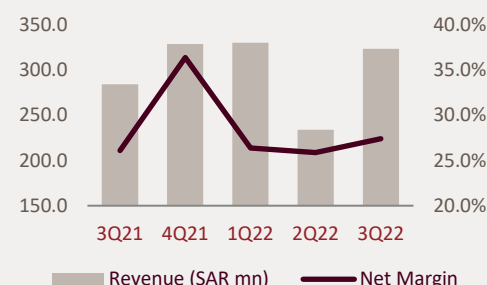


Price Performance (%)	Absolute	Relative
1m	(10.3%)	(1.1%)
6m	(13.3%)	1.9%
12m	(31.1%)	(23.9%)

### Major Shareholders (%)

Public Investment Fund	37.43%
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### Revenue (SAR mn) and Net Margin (%)



Source: Bloomberg, Company Financials, Yaqeen Capital;  
Data as of December 13, 2022

### Surge in sales volume drives top line

Southern Province Cement Company (SPCC)'s revenue surged 13.8% YoY to SAR 323.3mn in 3Q22, primarily on an increase in volumetric sales. Cement sales volume stood at 1.5mn tons in 3Q22. Gross profit climbed 7.3% YoY to SAR 105.7mn in 3Q22. However, gross profit margin contracted 198bps YoY to 32.7% as cost of sales grew at a faster pace than the topline during the quarter. Selling, general, and administrative (SG&A) expenses plunged 41.9% YoY in 3Q22, resulting in a 21.4% YoY rise in the company's operating profit to SAR 93.0mn. Consequently, operating margin expanded 180bps YoY to 28.8% in 3Q22. The increase in top line and other income offset the rise in finance and zakat expenses. Consequently, net profit increased 19.6% YoY to SAR 88.6mn in 3Q22; meanwhile, net profit margin for the period widened 133bps to 27.4%.

SPCC reported robust performance in 3Q22 as top line and bottom line advanced 13.8% and 19.6% YoY, respectively. The rise in revenue was primarily driven by an increase in sales volume, slightly offset by a fall in the selling prices of products. SPCC's local cement sales volume increased slightly to 1.45mn tons during the quarter from 1.44mn tons in 3Q21. Additionally, export sales improved significantly in 3Q22. Mortgage loans dropped over 20% on interest rate hikes, which impacted local cement sales, especially in the areas without government projects. However, a pickup in construction activities is likely to boost sales volume and average selling prices. Furthermore, local demand may increase due to already announced projects, which may increase cement selling prices. Execution of mega and giga projects is likely to trigger recovery in volumes. Considering the abovementioned factors, we reaffirm our "Overweight" rating on the stock.

- Revenue increased 13.8% YoY to SAR 323.3mn in 3Q22, primarily on a surge in sales volume. On a quarterly basis, top line climbed 38.2% from SAR 233.9mn in 2Q22 on a rise in volumetric sales.
- Gross profit surged 7.3% YoY to SAR 105.7mn during the quarter. However, as cost of sales rose faster (up 17.2% YoY to SAR 217.6mn) than top line, gross margin narrowed to 32.7% in 3Q22 from 34.7% in 3Q21.
- The company's operating profit advanced 21.4% YoY to SAR 93.0mn in 3Q22 on a 41.9% YoY decline in SG&A expenses. Consequently, operating margin improved to 28.8% in 3Q22 vis-à-vis 27.0% in 3Q21.
- EBITDA grew 13.6% YoY to SAR 146.0mn in 3Q22. However, EBITDA margin contracted marginally by 5bps to 45.2% in 3Q22.
- SPCC's net profit surged 19.6% YoY to SAR 88.6mn during the quarter, as the rise in finance and zakat expenses were offset by the increase in top line and other income. Consequently, net margin expanded to 27.4% in 3Q22 from 26.1% in 3Q21.
- On a quarterly basis, net income advanced 46.4% from SAR 60.5mn in 2Q22 on the rise in top line.
- EPS stood at SAR 0.63 in 3Q22 compared with SAR 0.53 in 3Q21.

**Valuation:** We revise our target price to a fair value of SAR 60.0 per share but reaffirm our "Overweight" rating on the stock.

	3Q22	3Q21	% YoY	FY22E	FY21	%YoY
Revenues (SAR mn)	323.3	284.2	13.8%	1,189.5	1,339.4	(11.2%)
Gross Profit (SAR mn)	105.7	98.6	7.3%	362.7	526.4	(31.1%)
EBIT (SAR mn)	93.0	76.6	21.4%	307.5	464.2	(33.8%)
Net Profit (SAR mn)	88.6	74.1	19.6%	316.4	450.2	(29.7%)
EPS Basic (SAR)	0.63	0.53	19.6%	2.26	3.22	(29.7%)
Gross Margin (%)	32.7%	34.7%	(2.0%)	30.5%	39.3%	(8.8%)
Operating Margin (%)	28.8%	27.0%	1.8%	25.8%	34.7%	(8.8%)
Net Profit Margin (%)	27.4%	26.1%	1.3%	26.6%	33.6%	(7.0%)

Source: Company Financials, Yaqeen Capital

## Yaqeen Capital Rating Methodology

Yaqeen Capital 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 Yaqeen Capital.

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