

## SOUTHERN CEMENT



## EVENT FLASH

## Good 2Q12 results, in line with our estimates

Southern Cement announced its preliminary 2Q12 results on 15 July 2012 before market hours. All profit lines grew 7-10% YoY driven by good sales volumes due to the start of operations at its new line. We await full details before updating our model.

- **Gross profit:** 2Q12 came in at SR269mn increasing 6.9% YoY, but 4.3% below the NCBC estimate of SR281mn. 2Q12 was a decrease of 10.6% QoQ.
- **Operating profit:** 2Q12 came in at SR261mn increasing 9.1% YoY, but 2.4% below the NCBC estimate of SR267mn. 2Q12 was a decrease of 9.4% QoQ
- **Net Income:** 2Q12 came in at SR262mn increasing 9.6% YoY and in-line with the NCBC estimate of SR263mn. 2Q12 was a decrease of 7.9% QoQ.
- In general, this is a good set of results from SPCC, mainly attributed to increased sales volume in 2Q12 due to the operation of its new line. However, the results are in-line with our estimates.
- SPCC's press release attributed the YoY growth to the contribution of the new line in Tihama. However, it attributed the decline QoQ to lower prices due to the government intervention which lowered the price limit from SR250/ton to SR240/ton.
- From our Cement Monthly publication, we know that SPCC's sales volume increased 8% YoY in 2Q12, higher than the sector average of 6%. Moreover, the data shows that SPCC has a stock level of 641k tons (107% of monthly sales) which is the highest in the sector.
- The company started production at its new line in March 2012. The new line has a capacity of 1.5mn tons and is an addition of 25% to the previous capacity of 6.0 mn tons per year. Moreover, the company announced plans to build a new 1.65mn tons line, with this new line expected to be operational in two years. We believe SPCC is well positioned to benefit from any increase in cement demand in KSA.
- Relatively, Southern Cement is one of our top picks in the sector due to its plant locations close to the western region, excess capacity and high stock level. However, we are currently Neutral on the stock with a PT of SR97.1 as we believe many of the positives have already been priced-in.

## 2Q12 Results Summary

SR mn	2Q12A	2Q11A	% Y o Y	2Q12E	% Var <sup>^</sup>
Gross income	269	252	6.9	281	(4.3)
Operating income	261	239	9.1	267	(2.4)
Net income	262	239	9.6	263	(0.4)
EPS (SR)	1.87	1.71	9.6	1.88	(0.4)

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC forecasts

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## NEUTRAL

**Target price (SR)** 97.1

**Current price (SR)** 101.0

## STOCK DETAILS

M52-week range H/L (SR)	107/60
Market cap (\$mn)	3,776
Shares outstanding (mn)	140
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.2	4.4	34.7
Rel. to market	0.9	15.3	31.7

Avg daily turnover (mn)	SR	US\$
3M	3.9	1.0
12M	3.9	1.0

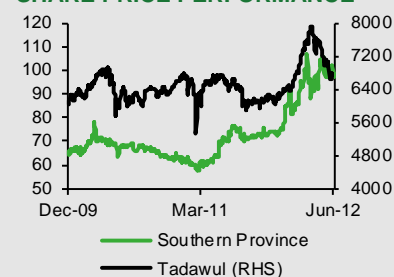
Reuters code	3050.SE
Bloomberg code	SOCCO AB
	<a href="http://www.spcc.com.sa">www.spcc.com.sa</a>

## VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	15.8	13.4	12.4
P/B (x)	5.3	5.0	4.7
EV/EBITDA (x)	13.1	11.3	10.7
Div Yield (%)	6.2	6.2	6.9

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Reuters

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