

SOUTHERN CEMENT



EVENT FLASH

Strong 4Q11 results above our estimates

Southern Cement announced its preliminary 4Q11 results on 17 January 2012 after market hours. All profit lines grew 48-52% YoY driven by strong sales volumes, as well as lower costs, we believe. We await full details before updating our model.

- **Gross profit:** 4Q11 came in at SR267mn, increasing 48.3% YoY and 3% above the NCBC estimate of SR260mn. 4Q11 was an increase of 35% QoQ.
- **Operating profit:** 4Q11 came in at SR254mn, increasing 48.9% YoY and 3% above the NCBC estimate of SR247mn. 4Q11 was an increase of 37.4% QoQ.
- **Net Income:** 4Q11 came in at SR251mn, increasing 52.3% YoY and 3.7% above the NCBC estimate of SR242mn. 4Q11 was an increase of 39.6% QoQ.
- In summary, this is an excellent set of results from SPCC, due largely off the back of increased sales volume in 4Q11. We believe this was coupled with a YoY increase in price. We believe the better than expected demand base in the southern region of KSA, coupled with supply issues at competitor companies in the Western region has aided SPCC. With inventory of over two million tons, SPCC is well positioned to benefit from any increase in cement demand in KSA.
- The company attributed the higher profitability to increased local sales due to increased demand points in the southern region in 4Q11. From our cement monthly publications we know that Southern reported a 33.6% YoY rise in sales volumes in 4Q11 as compared to 15.6% increase for the sector.
- 4Q11 results came in around 3-4% higher than our expected numbers; we believe this was due mainly to higher than anticipated realized price and/or lower than expected costs.
- We believe the next major catalyst for SPCC is its new 1.5mn capacity line expected in mid-2012. With its location in the western region of KSA, it is likely to be a major driver for SPCC as it can meet demand in the Central/Western regions, as well as lowering the average cost per ton present at SPCC. However, due to the ongoing uncertainties with regard to fuel supply from Aramco, we conservatively assume the new line will commence in 2013, six months later than expected.

4Q11 Results Summary

SR mn	4Q11A	4Q10A	% Y o Y	4Q11E	% Var [^]
Sales	N/A	320	N/A	444	N/A
Gross income	267	180	48.3	260	2.7
Operating income	254	171	48.9	247	3.0
Net income	251	165	52.3	242	3.7
EPS (SR)	1.79	1.18	52.3	1.73	3.7

Source: Company, NCBC Research [^] % Var indicates variance from NCBC forecasts

NEUTRAL

Target price (SR) 84.7

Current price (SR) 81.5

STOCK DETAILS

M52-week range H/L (SR)	92/58
Market cap (\$mn)	3,047
Shares outstanding (mn)	140
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.5	12.4	32.5
Rel. to market	4.9	8.8	37.7

Avg daily turnover (mn)	SR	US\$
3M	3.4	0.9
12M	2.6	0.7

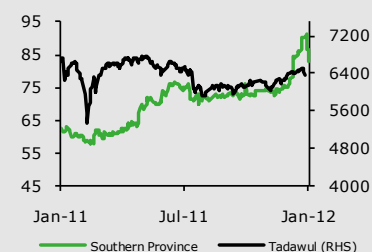
Reuters code	3050.SE
Bloomberg code	SOCCO AB
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VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	17.3	12.9	12.8
P/B (x)	4.6	4.2	3.9
EV/EBITDA (x)	13.3	10.3	10.2
Div Yield (%)	5.5	5.5	6.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Reuters

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18 JANUARY 2012

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NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
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