

August 01, 2017

Rating **Neutral**
12- Month Target Price **SAR 24.00**

SAUDI CERAMICS COMPANY (SCC)
2Q2017 First Look

Expected Total Return

Price as on July-31, 2017	SAR 27.45
Upside to Target Price	(8.9%)
Expected Dividend Yield	0.0%
Expected Total Return	(8.9%)

Market Data

52 Week H/L	SAR 36.1/22.3
Market Capitalization	SAR 1,373 mln
Enterprise Value	SAR 2,146 mln
Shares Outstanding	50.0 mln
Free Float	83.8%
12-Month ADTV (000's)	215.7
Bloomberg Code	SCERCO AB

1-Year Price Performance



Fig in SAR mln	RC. Est	Actuals
Revenue	281	275
Gross Profit	62	66
EBIT	22	7
Net Income	11	(5)
EPS (SAR)	0.22	(0.10)

2Q Fails to Deliver

Saudi Ceramics Company (SCC) announced 2Q2017 results with a loss of SAR (5) million, which turned out to be an unpleasant surprise for RC and street's expectations. At first look, SCC saw a nudged quarter with its third loss in the last four quarters as LTM losses reached at SAR (11) million. Earnings in 1Q2017 were partially driven by one-off income; else would have stayed in single digits. With such subdued earnings and sector at a continuous slowdown, SCC could see a tough growth trajectory in the coming quarters. We further revise our 2017-19 estimates and our target price to SAR 24.00 (earlier SAR 27.00), but continue to maintain Neutral. The poor earnings trends in cement and other allied sectors prove our bearish view on the sector. 2017E P/E of 68.6x is expensive to TASI's 14.3x, also suggests valuations are unjustified with its current earnings trends. We recommend Neutral.

Revenue in-line with estimate

Revenue of SAR 275 million in 2Q2017 was close to our expectations of SAR 281 million, declined -21% Y/Y and -13% Q/Q. We believe partial impact of Ramadan and slowdown in construction activity is weighed clearly in the revenue numbers. In addition, the negative impact of influx of Chinese and Spanish imports in KSA tiles market continues to affect realization as competition levels rose. We reiterate SCC could be one of the beneficiaries for developments in the housing sector over the long term, but limitations to grow in a 50% import market is a tough task.

Ceramic segment faces huge challenges

SCC saw its gross profit declining by -40% Y/Y and -19% Q/Q to SAR 66 million in 2Q, in-line with our estimate of SAR 62 million. Higher levels of fixed costs (COGS to Sales of 76%) at times of declining revenue led to gross margin drop of 190 bps to 24.1%, while being significantly lower to 31.3% reported in 2Q2016. We expect lower margins from ceramic segment, which has seen exorbitant erosion from 32% in 2Q2016 and expected to have contracted to 18% in 2Q2017. Additionally, margins from heater segment is expected to stay around 35% in 2Q, we await more clarity from detailed filings.

Margins continue to erode

SCC reported operating profit of SAR 7 million versus our SAR 22 million estimate. It declined by -63% Q/Q and -83% Y/Y due to a scenario of uneven rise in selling costs, grew by +4% Q/Q versus revenue decline of -13% Q/Q. We believe dealer discounts are weighed in heavily during 2Q, evident from its operating margin decline of 530 bps Q/Q versus lower decline in gross margins to 2.6% in 2Q. SCC's loss of SAR (5) million was a negative surprise to our SAR 11 million estimate as we expected margin to stay at same levels.

Maintain Neutral

We revise our target price to SAR 24.00 from earlier SAR 27.00 as we do not see immediate earnings revival. The recent announcements in the housing market are encouraging but not enough to see a topline growth for SCC; as competition plays out. We wait for next 2-3 quarters to see any re-rating, till then maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	1,304	1,154	1,234
EBITDA*	265	154	253
Net Profit	25	20	37
EPS (SAR)	0.50	0.40	0.74
DPS (SAR)	0.50	-	0.50
BVPS (SAR)	37.50	37.90	38.14

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	1%	1%	1%
ROAE	1%	1%	2%
P/E	54.9x	68.6x	37.1x
P/B	0.7x	0.7x	0.7x
EV/EBITDA	8.1x	13.9x	8.5x
EV/Sales	1.6x	1.9x	1.7x

Santhosh Balakrishnan

santhosh.balakrishnan@riyadcapital.com
+966-11-203-6809

Seham M Alzayed

siham.m.alzaed@riyadcapital.com
+966-11-203-6813

Riyad Capital is licensed by the Saudi Arabia
Capital Market Authority (No. 07070-37)

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

Disclaimer

The information in this report was compiled in good faith from various public sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated in this report are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable. Riyad Capital makes no representations or warranties whatsoever as to the accuracy of the data and information provided and, in particular, Riyad Capital does not represent that the information in this report is complete or free from any error. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any financial securities. Accordingly, no reliance should be placed on the accuracy, fairness or completeness of the information contained in this report. Riyad Capital accepts no liability whatsoever for any loss arising from any use of this report or its contents, and neither Riyad Capital nor any of its respective directors, officers or employees, shall be in any way responsible for the contents hereof. Riyad Capital or its employees or any of its affiliates or clients may have a financial interest in securities or other assets referred to in this report.

Opinions, forecasts or projections contained in this report represent Riyad Capital's current opinions or judgment as at the date of this report only and are therefore subject to change without notice. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or projections which represent only one possible outcome. Further, such opinions, forecasts or projections are subject to certain risks, uncertainties and assumptions that have not been verified and future actual results or events could differ materially.

The value of, or income from, any investments referred to in this report may fluctuate and/or be affected by changes. Past performance is not necessarily an indicative of future performance. Accordingly, investors may receive back less than originally invested amount.

This report provides information of a general nature and does not address the circumstances, objectives, and risk tolerance of any particular investor. Therefore, it is not intended to provide personal investment advice and does not take into account the reader's financial situation or any specific investment objectives or particular needs which the reader may have. Before making an investment decision the reader should seek advice from an independent financial, legal, tax and/or other required advisers due to the investment in such kind of securities may not be suitable for all recipients.

This research report might not be reproduced, nor distributed in whole or in part, and all information, opinions, forecasts and projections contained in it are protected by the copyright rules and regulations.