



US\$1.197bn Market cap
77% Free float
US\$5.65mn Avg. daily volume

Target price **121.0** 1.5% over current
Consensus price **120.0** 0.2% over current
Current price **119.8** as at 15/1/2014

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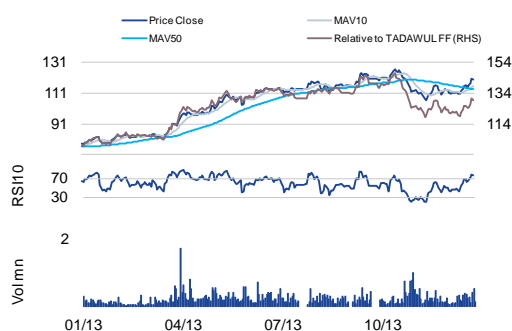
Existing rating

Underweight Neutral Overweight

Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

Performance

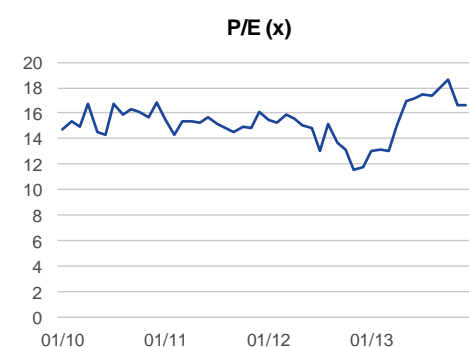


Earnings

| Period End (SAR) | 12/12A | 12/13E | 12/14E | 12/15E |
|------------------|--------|--------|--------|--------|
| Revenue (mn) | 1,445 | 1,673 | 1,867 | 1,993 |
| Revenue Growth | 18.3% | 15.7% | 11.6% | 6.8% |
| EBITDA (mn) | 370 | 396 | 448 | 484 |
| EBITDA Growth | 1.6% | 6.8% | 13.2% | 8.0% |
| EPS | 6.29 | 6.69 | 7.68 | 8.30 |
| EPS Growth | 1.6% | 6.4% | 14.9% | 8.1% |

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Saudi Ceramic Co. Bottom line ahead of estimates

Saudi Ceramic Company reported a net profit of SAR73.3mn (10.9% y-o-y) for Q4 2013, beating our SAR66.7mn estimate; whereas, the operating profit at SAR73.6mn (+0.4% y-o-y) came largely in line with our expectation. The company cited increase in production and sales volume as the main reasons for the growth, along with a decline in zakat. We will review our estimates once the detailed financials are released. For now, we reiterate our Neutral rating on the stock with a target price of SAR121 per share.

| Earnings vs our forecast | Above | In Line | Below |
|--------------------------|----------|-----------|-----------|
| Likely impact: | | | |
| Earnings estimates | Up | No Change | Down |
| Dividend estimates | Up | No Change | Down |
| Recommendation | Upgrade | No Change | Downgrade |
| Long term view | Stronger | Confirmed | Weaker |

- Revenue:** Saudi Ceramics is yet to publish its quarterly revenue, which we had estimated at SAR393mn (consensus estimate: SAR408.7mn). Considering the company's operating performance, we expect actual revenue to come in line with our estimate.
- Gross and operating profit:** The company's gross profit rose by a moderate 3.5% y-o-y to SAR136.5mn, in line with our estimate of SAR135mn. Operating profit came in at SAR73.6mn, flat from Q4 2012 (+0.4% y-o-y), and largely in line with our estimate of SAR71.3mn. For the full year 2013, gross profit is up 22.1% y-o-y to SAR579.1mn, while operating profit is up 28.4% y-o-y to SAR331.1mn.
- Net profit:** Saudi Ceramic's Q4 net profit came in at SAR73.3mn, up 10.9% y-o-y, and ahead of our estimate of SAR66.7mn and consensus estimate of SAR64.8mn, primarily supported by a lower Zakat provision. For 2013, the net profit is up 25% y-o-y to SAR309.4mn.
- Conclusion:** The Saudi construction sector has slowed down over the last few months, as a result of Government's crackdown on illegal workers. This slowdown has in turn affected Saudi Ceramics' business, and would continue to do so over the next quarter or so. We will review our estimates once the detailed financials are released. For now, we reiterate our Neutral rating with a target price of SAR121.

Figure 1 Saudi Ceramics: Summary of Q4 2013 results

| (SAR mn) | Q4 2012 | Q3 2013 | Q4 2013 | % chg y-o-y | % chg q-o-q | ARC est |
|-------------------|---------|---------|---------------|-------------|-------------|---------|
| Revenue | 372 | 383 | Not disclosed | n.a. | n.a. | 393 |
| EBITDA | 106.9 | 111.4 | Not disclosed | n.a. | n.a. | 103.6 |
| EBITDA margin (%) | 28.8% | 29.0% | n.a. | | | 26.3% |
| Operating profit | 73.3 | 76.5 | 73.6 | 0.4% | -3.7% | 71.3 |
| Net profit | 66.1 | 71.8 | 73.3 | 10.9% | 2.0% | 66.7 |

Source: Company data, Al Rajhi Capital



Major Q4 Developments

Saudi Ceramics declares cash dividend for 2013

Saudi Ceramics has announced a cash dividend of SAR3 per share for 2013, up from SAR2.5 per share for 2012. For 2014, we expect the dividend to remain mostly flat.



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Additional disclosures

1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

"Overweight": Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

"Neutral": We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

2. Definitions

"Time horizon": Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

"Fair value": We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

"Target price": This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

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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