



US\$1.015bn Market cap
77% Free float
US\$6.26mn Avg. daily volume

Target price UR
Consensus price 120.0 18.1% over current
Current price 101.6 as at 15/1/2015

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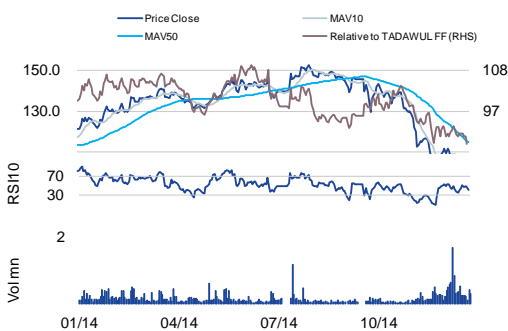
Existing rating

Underweight Under Review 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

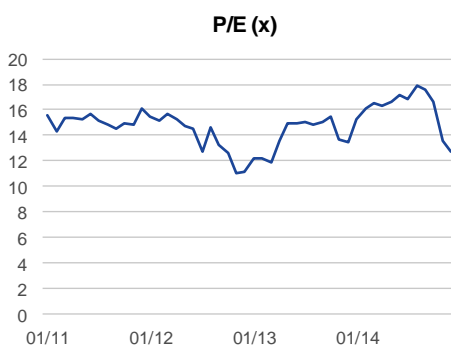


Earnings

Period End (SAR)	12/13A	12/14E	12/15E	12/16E
Revenue (mn)	1,601	1,647	1,880	2,058
Revenue Growth	10.6%	2.9%	14.2%	9.5%
EBITDA (mn)	472	429	492	570
EBITDA Growth	21.9%	-9.1%	14.7%	16.0%
EPS	8.25	8.34	8.31	10.01
EPS Growth	25.0%	1.1%	-0.3%	20.4%

Source: Company data, Al Rajhi Capital

Valuation



Source: Company data, Al Rajhi Capital

Saudi Ceramic

Q4 results disappoint

Saudi Ceramic's Q4 net profit fell 18.3% y-o-y to SAR59.8mn, missing our SAR66.7mn estimate. The company's gross and operating profits declined as well. Although the company has not announced its revenue figures yet, we believe the company's top-line may have declined, while we had forecasted a marginal 3% y-o-y increase. Saudi Ceramic does not seem to have benefitted from the revival in construction activity, as gauged from the rising cement sales. We will keep a close watch on the developments in the construction and ceramics industry. We will revisit our estimates after a discussion with the management and the release of detailed financials. For now, we put Saudi Ceramic "Under Review".

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

- Revenues:** Saudi Ceramic has not announced its revenue figures yet. With its gross profit missing our estimate, we believe the company's revenues to be below our forecast of SAR398mn (+3% y-o-y) as well.
- Operating and net profits:** The company's operating profit fell 22.1% y-o-y to SAR57.3mn (our forecast: SAR64.9mn). Net profit stood at SAR59.8mn (-18.3% y-o-y), missing both our (SAR66.7mn) and consensus (SAR65.8mn) estimates. The fall in profits was due to higher selling, general & administrative expenses as well as higher zakat. However, the bottom-line was supported by an increase in other income.
- Conclusion:** It was a disappointing set of results from Saudi Ceramic. Even though construction activity is reviving in the Kingdom, as can be gauged from the improvement in cement sales, demand for Saudi Ceramic's products (tiles, sanitary-ware, heaters) has not seen a recovery yet. The company's stock has fallen from a high of SAR152.7 in August 2014 to SAR101.6 currently. We will keep a close watch on the progress of the company and revisit our estimates after the release of its detailed financials. For now, we put the company Under Review.

Figure 1 Saudi Ceramic: summary of Q4 2014 results

(SAR mn)	Q4 2013	Q3 2014	Q4 2014	% chg y-o-y	% chg q-o-q	ARC est
Revenue	381.9	386.6	NA	-	-	398.2
Gross profit	136.5	131.8	126.5	-7.3%	-4.0%	142.6
Gross profit margin (%)	35.7%	34.1%	-	-	-	35.8%
Operating profit	73.6	56.0	57.3	-22.1%	2.3%	64.9
Net profit	73.3	78.9	59.8	-18.3%	-24.2%	66.7

Source: Company data, Al Rajhi Capital



Major Developments

Recommends bonus shares

Saudi Ceramic's board of directors has recommended to issue one bonus share for every three existing shares. A total of 12.5mn bonus shares will be issued, taking the total outstanding shares to 50mn. As a result, the company's total capital will increase by 33.3% to SAR500mn.

Opening investment portfolio to participate in IPOs

Saudi Ceramic plans to open an investment portfolio for participating in initial public offerings in Saudi Arabian stock market. The portfolio will be internally funded. The portfolio will help the company generate additional income. However, the company has not selected a party to manage the portfolio yet.

Dividend of SAR2 per share for 2014

Saudi Ceramic has decided to distribute a dividend of SAR2 per share of 2014 (2013: SAR3 per share), amounting to a total of SAR100mn (2013: SAR112.5mn).

Delay in completion of red bricks plant

The company announced that the trial production from the red bricks plant project has been delayed to Q3 2015 due to lack of manpower with the contractor. By mid-December 2014 the plant reached 50% completion. Saudi Ceramic also clarified that the costs related to the delay are limited and immaterial to the company.

Saudi Ceramic to acquire Ceramic Pipe Company

The company announced that it plans to acquire all the shares of Ceramic Pipe Company. Saudi Ceramic currently holds a 50% stake in Ceramic Pipe. Ceramic Pipe Company's capital amounts to SAR193mn, with 19.3mn outstanding shares. The purpose of the acquisition is to merge the activities of both companies in order to improve efficiencies.



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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 10% 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 10% below the current share price and 10% above the current share price on a 6-9 month time horizon.

"Underweight": Our target price is more than 10% 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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