

Saudi Ceramic Co.

Construction and Materials - Industrial
SCERCO AB: Saudi Arabia
12 March 2023



US\$0.649bn Market Cap 98.11% Free Float US\$4.64mn Avg. Daily Volume

Target price **32.00** 4.90% above current
Current price **30.50** as at 09/03/2023

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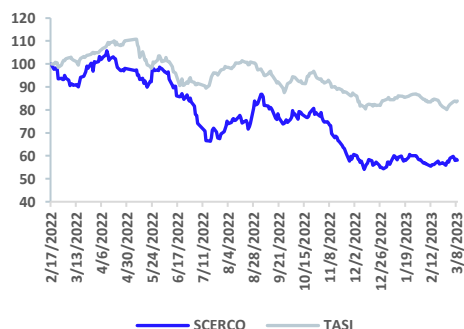
Existing rating

Underweight **Neutral** Overweight

Saudi Ceramic Co.

Target price maintained at SAR32/sh, remain Neutral

Performance



Earnings

SAR(Mn)	2022A	2023E	2024E
Revenue	1,485	1,499	1,595
Revenue growth	-3%	1%	6%
Gross Profit	452	471	523
Gross Margin	30%	31%	33%
EBITDA	316	327	365
EBITDA margin	21%	22%	23%
Net income	174	178	224
Net margins	12%	12%	14%
EPS	2.2	2.2	2.8
DPS	1.0	1.3	1.5
Payout	46%	56%	54%
P/E	14.0x	13.7x	10.9x
EV/EBITDA	9.9x	8.9x	7.7x
ROE	9.9%	9.7%	11.6%

Source: Company data, Al Rajhi Capital.

Saudi Ceramic Q4 2022 revenue came in flat at SAR383mn (+1.0% y-o-y) and is likely to have been impacted by lower demand owing to competition from the Chinese factories and higher raw material costs due to inflationary pressure. However, the revenue was higher than our estimate of SAR365mn due to higher revenues in heater segment because of increase in Average selling prices due to higher raw material prices. Gross profit fell by 14.0% y-o-y, while operating income fell by 9% y-o-y, at the back of higher cost of sales. Gross margins eroded (28.0% in Q4 2022 and 32.0% in Q3 2022). We expect overall revenues to be flat going forward, due to an increased competition in the Tiles segment and lower demand for Sanitaryware as a result of slowdown in mortgages. Overall, net income fell by 11.0% y-o-y as a resultant fall in gross margins. The net income too was marginally lower than our estimate of SAR44mn. We think the level of demand and revenues in 2023 will be quite similar to 2022. Revenues in the heater segment saw a pick-up in 2022 in line with higher steel prices but volumes remained flat. We expect a marginal uptick in demand for heaters in 2023 as Building and Construction segment in KSA may continue to remain under pressure, coupled with a slower mortgage offtake. However, Gross Margins in sanitaryware vertical may offset discounting in tiles space. Overall, post-Q4 2022 earnings we maintain our target price at SAR32/sh, and similarly maintain our rating at "Neutral".

Figure 1 Earnings Summary

SAR(mn)	Q4 2022	Q3 2022	Q4 2021	% chg y-o-y	% chg q-o-q	ARC est
Revenue	383	367	378	1%	5%	365
Gross Profit	108	116	126	-14%	-7%	116
Gross Margin	28%	32%	33%	NM	NM	32%
Operating Income	47	48	52	-9%	-2%	48
Net income	42	43	47	-11%	-2%	44
Net Margin	11%	12%	12%	NM	NM	12%

Source: Company data, Al Rajhi Capital

Valuations:

We apply a blended approach to value Saudi Ceramics with equal weight to relative valuation (50%) and 50% to DCF. Our DCF based target price (based on 11.4% WACC and terminal growth of 2%) is SAR31/sh and the relative valuation-based target price, based on 13.0x P/E, is SAR33/sh, resulting in a weighted average target price of SAR32/sh, which implies an upside of 4.9%.

Downside Risks: There are few risks to our valuation and assumptions, as below:

1. Pressure on the performance due to increasing competition from GCC and other local players.
2. Slower demand levels in the Sanitaryware and Heater segments owing to slowdown in mortgage demand in KSA.
3. Higher than expected inventory levels due to an impact on volumes across certain segments.

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