



US\$0.678bn Market cap
77% Free float
US\$8.24mn Avg. daily volume

Target price **48.00** 13.5% over current
 Current price **42.35** as at 3/11/2020

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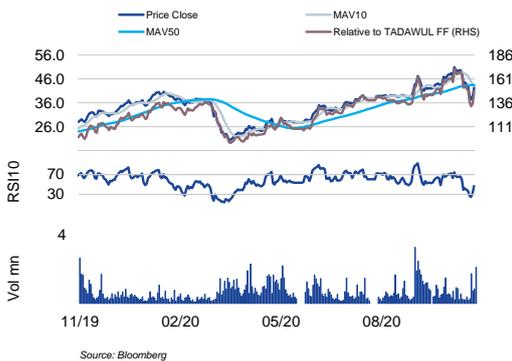
Existing rating

Underweight

Neutral

Overweight

Performance



Earnings

SAR(Mn)	2019	2020E	2021E
Revenue	1,235	1,523	1,719
Revenue growth	20%	23%	13%
Gross Profit	327	408	489
Gross Margin %	26%	27%	28%
Operating Income	74	135	211
Operating margin %	6%	9%	12%
NI before minority	2	79	177
NI Margin %	0%	5%	10%
EPS	0.12	1.25	2.88

Source: Company data, Al Rajhi Capital

Saudi Ceramic

Revenue aided by strong volume and price; Remain bullish

Saudi Ceramic Q3 2020 revenue came in at SAR373mn (+28% y-o-y) beating our estimate of SAR351mn by 6%. Revenue growth was aided by growth in both volume and price, at the back of strong construction activity in the country. Added to this, the company continued to increase tiles prices during the quarter, at the back of anti-dumping duty imposed on cheaper imported products from China and India. Gross margin at 28.7% saw an improvement (+184bps q-o-q) driven by favourable operating leverage and an increase in prices. On the operating front, the margins got healthier (+304bps q-o-q) owing to high operating leverage, favourable pricing scenario, and lower provisions on receivables. Our outlook on Saudi Ceramic continues to remain bullish given the strong demand from housing projects and tailwinds from the anti-dumping duty which provides purchasing power to the company. Moreover, all product segments of the company fall in the list of “local content” issued by the Local content and Government Procurement Authority which further protects the company from the imported supply. Thus, post-Q3 2020 earnings we increase our target price from SAR43 to SAR48/sh and maintain our “overweight rating”

Figure 1 Earnings Summary

SAR(mn)	Q3 2020	Q2 2020	Q3 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	373	382	292	28%	-2%	351
Gross Profit	107	102	109	-2%	4%	130
Gross Margin	29%	27%	37%	NM	NM	37%
Operating Income	41	30	45	-10%	35%	61
Net income	32	7	35	-6%	394%	41
Net Margin	9%	2%	12%	NM	NM	12%

Source: Company data, Al Rajhi Capital

Key growth drivers:

- 1) Mortgage data continues to show a strong offtake in housing demand post-Covid scenario. This is a lead indicator for the local ceramic industry and provides a strong pipeline for future demand.
- 2) The company currently maintains an inventory turnover of over 200 days, predominantly made up of finished goods. We feel that this provides for a potential uptick in margins, as Saudi Ceramic would be able to sell these at higher prices. Going forward, we expect the inventory days to come down gradually.
- 3) Government’s local content initiative protects Saudi Ceramic products against cheaper imports.
- 4) Steps taken by the government to impose anti-dumping duty on cheaper imports are a major positive for Saudi Ceramic, as it provides a flexible pricing option for the company.

Valuation: We use a 50% DCF and 50% relative valuation using EV/EBITDA of 11x to value Saudi Ceramic. Our DCF based target price (based on 8.9% WACC and terminal growth of 2%) is SAR56/sh and the relative valuation-based target price based on 11x EV/EBITDA is SAR40/sh, resulting in a weighted average target price of SAR48/sh which implies 13.5% upside from CMP of SAR42.35/sh.

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

- 1) If oil prices recovery takes longer than expected, government spending could be impacted, putting pressure on the offtake of the company's products.
- 2) Retail sales could be severely impacted if the second wave of Covid impacts the country, resulting in a fresh lockdown.
- 3) Increased competition from local GCC players



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"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 12 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 12 month time horizon.

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