



US\$0.882bn	77%	US\$11.35mn
Market cap	Free float	Avg. daily volume

Target price **62.00** 12.5% over current
 Current price **55.10** as at 16/2/2021

Research Department

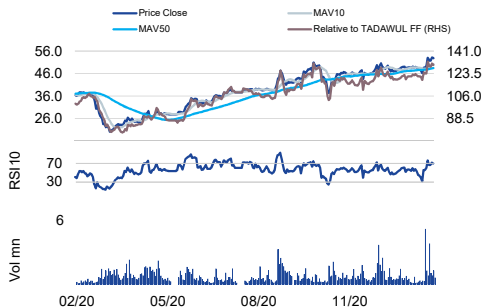
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Existing rating

Underweight	Neutral	Overweight
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Performance



Earnings

SAR(Mn)	2020A	2021E	2022E
Revenue	1,516	1,677	1,885
Revenue growth	23%	11%	12%
Gross Profit	392	475	581
Gross Margin %	26%	28%	31%
Operating Income	127	204	305
Operating margin %	8%	12%	16%
Net income	78	177	276
Net margins	5%	11%	15%
EPS	1.30	2.95	4.60
DPS	0.00	0.89	1.38
Payout	0%	30%	30%
P/E	42.5x	18.7x	12.0x
EV/EBITDA	16.5x	12.6x	9.4x

Source: Company data, Al Rajhi Capital

Saudi Ceramic

Revenue growth story remains intact; Remain bullish

Saudi Ceramic Q4 2020 revenue came in at SAR368mn (+2% y-o-y) lower than our estimate of SAR414mn by 11%. Revenue was aided by the price hike taken by the company at the beginning of Q4 2020, though revenue seems to have been impacted by volumes that were lower than our expectations. The gross margin at 26.3% was lower (-241 bps q-o-q) and was impacted likely by unfavourable sales mix and the resultant fall in operating leverage. However, lower selling and administration cost, aided profitability, as net income came in at SAR28mn (+103% y-o-y). However, this was lower than our estimate of SAR37mn. Despite the weak Q4 2020 volumes, our outlook on Saudi Ceramic continues to remain bullish at the back of continued strong demand for housing projects. Added to this, the company is one of the largest players in the region with an attractive market share in the Kingdom. This along with the recent steps taken by the government to curb cheap imports from China and India gives Saudi Ceramic strong pricing power. With an improvement in revenue, we also see the potential for Saudi Ceramic's margins to improve, at the back of improved operating leverage. Thus, post-Q4 2020 earnings we increase our target price from SAR48/sh to SAR62/sh and maintain our "overweight rating"

Figure 1 Earnings Summary

SAR(mn)	Q4 2020	Q3 2020	Q4 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	368	373	360	2%	-1%	414
Gross Profit	97	107	105	-8%	-10%	119
Gross Margin	26%	29%	29%	NM	NM	29%
Net income	28	32	14	103%	-14%	37
Net Margin	8%	9%	4%	NM	NM	9%

Source: Company data, Al Rajhi Capital

Key growth drivers:

- 1) Continued momentum in retail mortgage loans provides a strong lead indicator on the company's potential revenue pipeline.
- 2) Inventory days of Saudi Ceramic have been on a decline in 2020 and we expect this trend to continue in Q4 2020 and 2021. There is also a potential for improvement in margins, as the company liquidates its inventory in a favourable market
- 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 9.4% WACC and terminal growth of 2%) is SAR65/sh and the relative valuation-based target price based on 11x EV/EBITDA is SAR60/sh, resulting in a weighted average target price of SAR62/sh which implies 12.5% upside from CMP of SAR55.1/sh.

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

- 1) Lower than expected government spending, due to a fall in oil prices could have an impact on the offtake of the company's products
- 2) Any unexpected surge in Covid cases, resulting in fresh lockdowns could have a negative impact on the revenue of the company
- 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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