**Riyadh Cables Group Co.**
**Electric Utilities – Utilities**
RIYADHCA AB: Saudi Arabia
30 January 2023

الراجحي المالية
Al Rajhi Capital

| US$1.684bn | 31.06% | US$2.92mn |
|---|---|---|
| Market cap | Free float | Avg. daily volume |

| | | |
|---|---|---|
| **Target price** | **46.60** | **10.5% above current** |
| **Current price** | **42.15** | **as at 29/01/2023** |

Research Department
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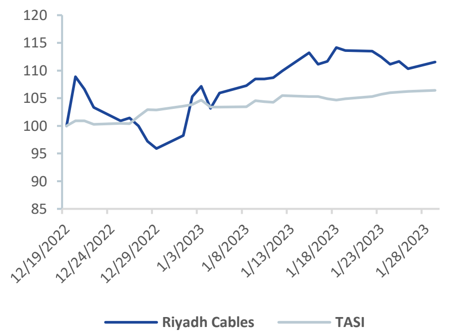
Existing rating

| Underweight | Neutral | Overweight |
|---|---|---|

**Performance**




**Earnings**

| Period End (SARmn) | 2021 | 2022E | 2023E |
|---|---|---|---|
| Revenue | 4,883 | 6,076 | 6,276 |
| YoY % | 19.5% | 24.4% | 3.3% |
| Gross Profit | 463 | 656 | 720 |
| GM Margin % | 9.5% | 10.8% | 11.5% |
| YoY % | 6.1% | 41.8% | 9.7% |
| EBITDA | 368 | 512 | 560 |
| EBITDA Margin | 7.5% | 8.4% | 8.9% |
| Net Income | 240 | 338 | 374 |
| Net Income Margin % | 4.9% | 5.6% | 6.0% |
| YoY % | | | |
| EPS | 1.60 | 2.25 | 2.50 |
| YoY % | 10% | 41% | 11% |
| DPS | 1.44 | 1.92 | 2.12 |
| Dividend payout ratio (%) | 90% | 85% | 85% |
| ROE | 12% | 16% | 17% |

Source: Company data, Al Rajhi Capital

# Riyadh Cables Group Co.

## Initiating coverage with a TP of SAR46.6/sh

*We initiate coverage on Riyadh Cables Group with an "Overweight" rating, providing a total return (including dividend yield) of 15.6% to our target price of SAR46.6/sh. Riyadh Cables is the biggest cable manufacturer in the MENA region having a diversified product portfolio and provides power cables during the generation, transmission, distribution as well as end-use stages. The company can be termed as a complete solution provider having repair, monitoring, maintenance, and turnkey services. The Kingdom's vision to diversify its economy and transition to cleaner energy is already resulting in higher cable demand. Riyadh Cable, being the market leader, is set to benefit from the aforementioned boom. In addition, to fully benefit from the upcoming demand surge, the company is looking to expand its capacity by 6% per annum till 2026. The company fixes margin per ton making it relatively immune to commodity price fluctuations while it remains highly levered to the quantity of cable volumes sold. We expect the profitability to grow by a 4-year CAGR of 10% during 2022-2026E. Lastly, the strong operating cash flows (adjusted for working capital variability) allow the company to maintain a healthy stream of dividend pay-out. Hence, we initiate the company with an* ***"Overweight"*** *recommendation.*

**Cable Demand in the region to remain robust:** The KSA's power cables market is expected to grow at a CAGR of 8.3% between 2022-2027. Similarly, the GCC's power cables market is also expected to grow at a healthy rate of 6.0% between 2022-2027 led by the UAE. Riyadh Cable is set to benefit from an uptick in cable demand from the ongoing as well as upcoming infrastructure projects. The company has an impressive, confirmed order backlog of SAR3.4bn (128k tons) as of FY2022 which is expected to be booked in the coming 2 years. More importantly, the bid pipeline is expected to be 4-5x the existing order backlog and is expected to mature in the next 12 months.

**Expanding to capitalizing on the growth opportunities:** Riyadh Cables is looking to fully capitalize on the upcoming boom in construction activities. The company is planning to expand its capacity from the current 264k tons to 333k tons representing an increase of 6% p.a. for the next 5 years. The selling quantity is set to increase by a 4-year CAGR of 7.3% to 238k tons by 2026. In our terminal year, the utilization levels have been kept at 75% representing sold quantities of 265k tons.

**Prudent pricing strategy guarantees profitability:** The cost-plus pricing model ensures that the profitability of the company remains intact no matter the commodity prices. The majority of the raw material costs are passed on to the customers while all other exposures are mainly hedged. This strategy has allowed the company to maintain and even gradually increase its profit/ton. Moreover, the company plans to improve its product mix to higher margin value-added products gradually. Currently, the company relies on low margin low voltage cables, however, an increase in sales of extra high voltage cables will help the company to improve its margin/ton significantly.

**Dividend pay-out to remain strong:** Riyadh Cables has managed to maintain a good track record of a consistent pay-out ratio of 90% in the last three years. The company has been able to achieve this feat thanks to a stable generation of strong cash flow from operations adjusted for working capital changes which are financed via short debt. This has remained at a consistently healthy level of SAR380mn in the last three years. Going forward, we believe that the company will be able to maintain its healthy pay out and have assumed a pay-out ratio of 85% which results in an effective dividend yield of 5.0% in 2023.

**Attractive valuation:** We value Riyadh Cables using the Discounted Cash Flow (DCF) methodology to arrive at a target price of SAR46.6/sh. Riyadh Cables fit into our theme of shifting towards stocks that provide exposure to growth story of the GCC region. Hence, we foresee Riyadh Cables as a lucrative investment opportunity as the stock provides a unique blend of growth amid a stable pay-out. We initiate our coverage on Riyadh Cables with an “Overweight” recommendation, providing a total return (including dividend yield) of **15.6%** to the last closing.

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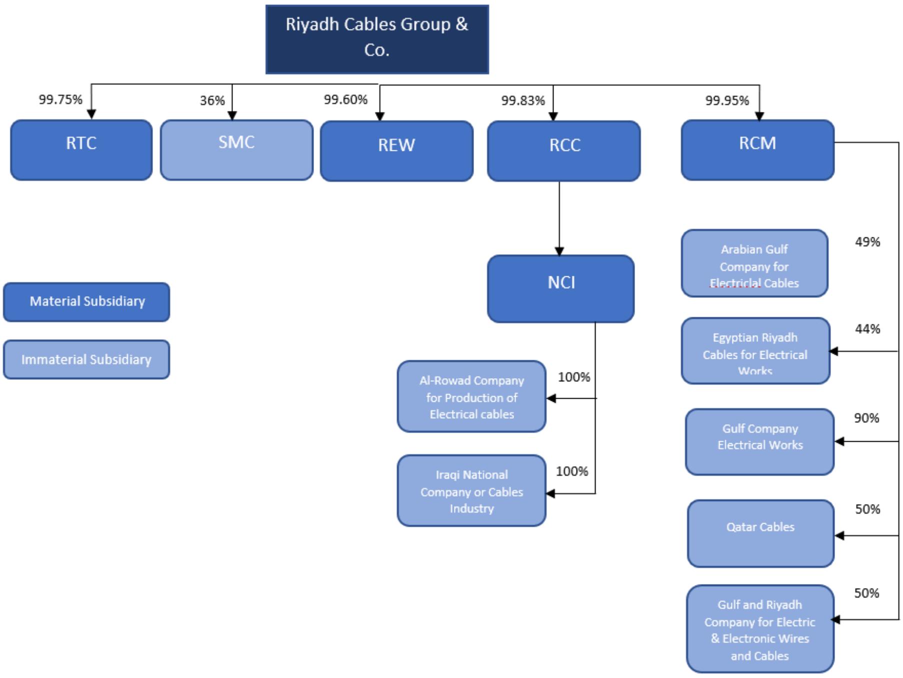
## Company Overview

Riyadh Cables Group Company is a Saudi Arabian manufacturer of cables and other electrical products. The company was founded in 1984 and is headquartered in Riyadh, Saudi Arabia. It is one of the largest cable manufacturers in the Middle East and North Africa region, with a wide range of products including power cables, instrumentation cables, control cables, and building wires. The company has a strong presence in the construction and infrastructure sectors and has several international partnerships and collaborations to expand its reach globally.

The Group is the leading manufacturer of cables in the MENA region and one of the top power cable manufacturers in the world. They have a total production capacity of 264,000 tons of metal and produce over 3,000 different items. With over four decades of experience, they have manufactured enough cables to encircle the globe nearly 2,000 times. They currently have full industrial operations in 3 countries, with plans to expand to a fourth by the end of 2023. Their products can be found in 37 countries across 5 continents. Riyadh Cables operates across the whole spectrum, producing wires, low-voltage, medium-voltage, high/extra-high and instrumentation cables.

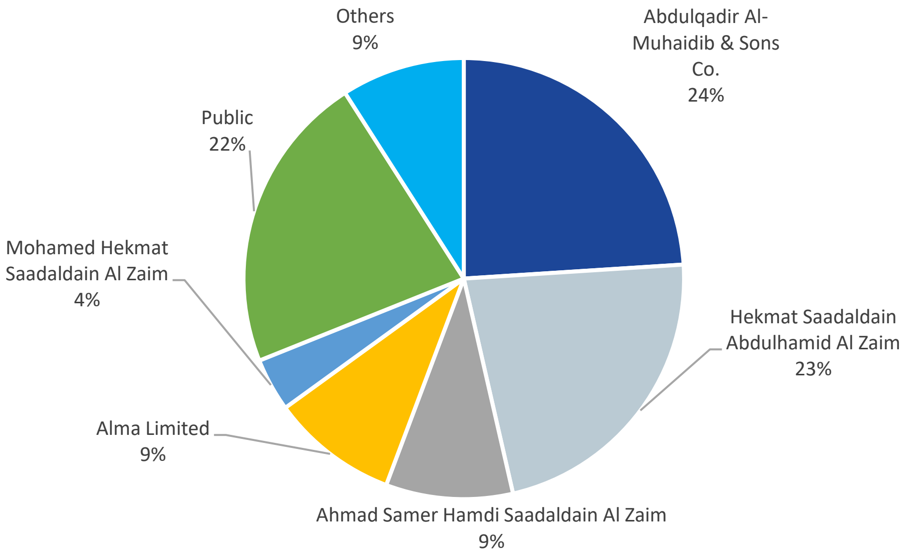
The company operates across the entire cable value chain, including: Wires, Low-voltage cables (LV), Medium-voltage cables (MV), High/Extra-high voltage cables (HEV) and Instrumentation, specialty & communication cables. The Company owns thirteen subsidiaries, five of which are considered "Material" and eight of which are considered "non-material". Moreover, the company has 15 factories of which 13 are within KSA, 1 is in Sharjah and 1 in UAE. The Group's business is divided into four key sections: Manufacturing activities, Sales activities, Electrical contracting projects and Maintenance activities.

Figure 1. **Organizational Structure**



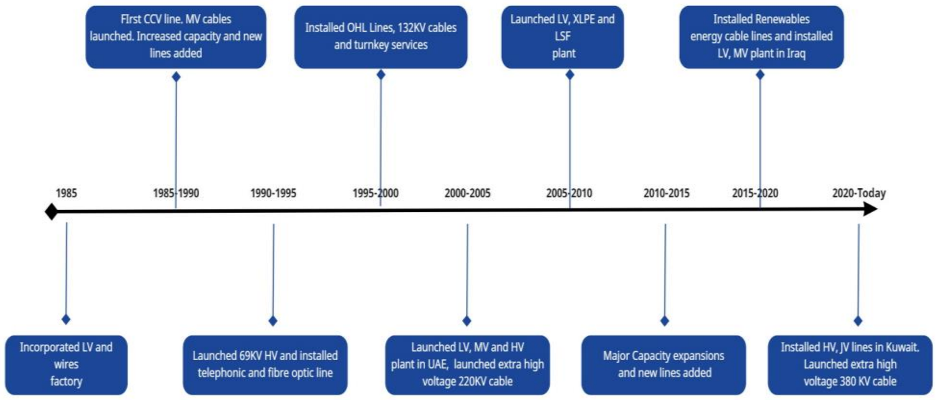

Source: Company Data, Al Rajhi Capital

Figure 2. **Shareholding Structure**




Source: Company Data, Al Rajhi Capital

Figure 3. **Business Timeline**

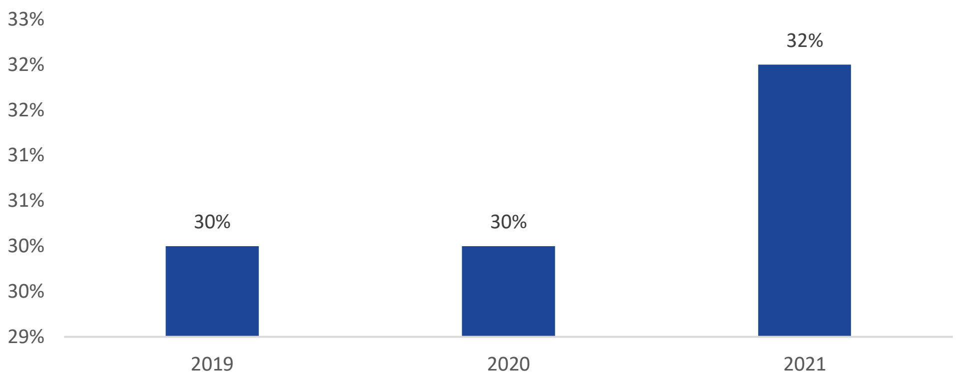



Source: Company Data, Al Rajhi Capital

## Market Share

Power and communication cables are essential for the functioning of modern societies, as they facilitate energy and data transmission. The Group, with its extensive experience of almost four decades, its competitive production capacity and its established relationships with customers and suppliers, aims to maintain its position as a market leader in Saudi Arabia and to establish itself as a leading player in the regional and global cable markets.

Figure 4. **Market Share in KSA**




Source: Company Data, Al Rajhi Capital

The Group is the largest cable manufacturer in the KSA and ranks 15th globally in terms of production and hold an estimated 30% market share in the KSA. The Company's extensive local presence in KSA through 18 branches and regional presence in the GCC allows them to quickly reach and serve customers. This has led to them gaining a significant market share in key markets. In 2021, they held a 30% market share in the KSA and 22% in the UAE. The group aspires to increase its market share in the Kingdom through following ways:

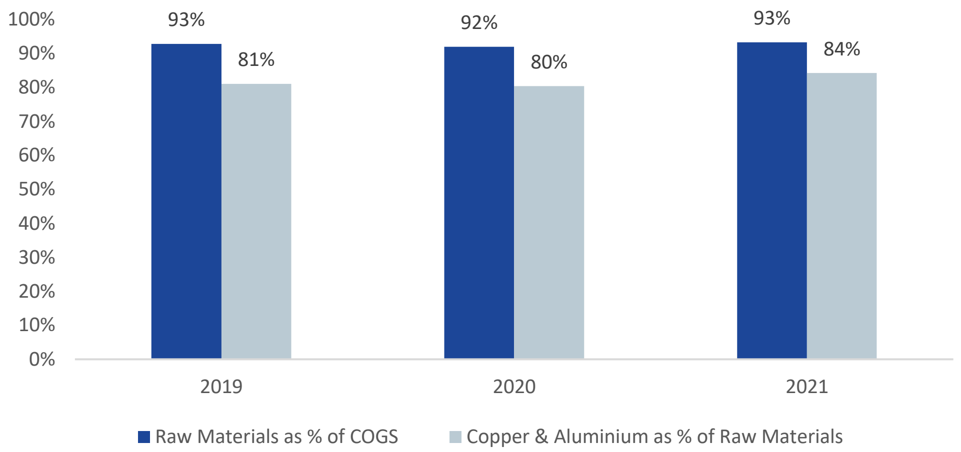
- The company is dedicated to constantly monitoring market trends and customer needs, in order to proactively provide integrated solutions (products and services) and maintain its position as the preferred provider of cable solutions in the KSA.
- The Company's extensive sales and distribution network, which includes 18 branches throughout the KSA, is relied upon to increase its share in urban projects and small and medium-sized infrastructure projects.
- Obtaining the largest share in upcoming mega-projects, due to the Group's possession of a wide portfolio of power cable products, compared to peer KSA manufacturers (from 0.3 kV – 500 kV)

The Group seeks to increase its market share by managing its costs through two main factors: enhancing operational efficiency and making use of high production capacity which requires purchasing raw materials in bulk.

## Business Model

Riyadh Cables is responsible for manufacturing low, medium, high, and extra-high-voltage cables to name a few. On the services side, the company provides turnkey solutions, along with maintenance, monitoring, and repair jobs. Riyadh Cables also produces raw materials like copper/aluminium rods used in the manufacture of its final products. Hence, raw materials cost represents the single major portion of CoGS, accounting for on average 93% of the total CoGS. Digging a bit deeper reveal that copper and aluminium costs represent 84% of the total raw material costs.

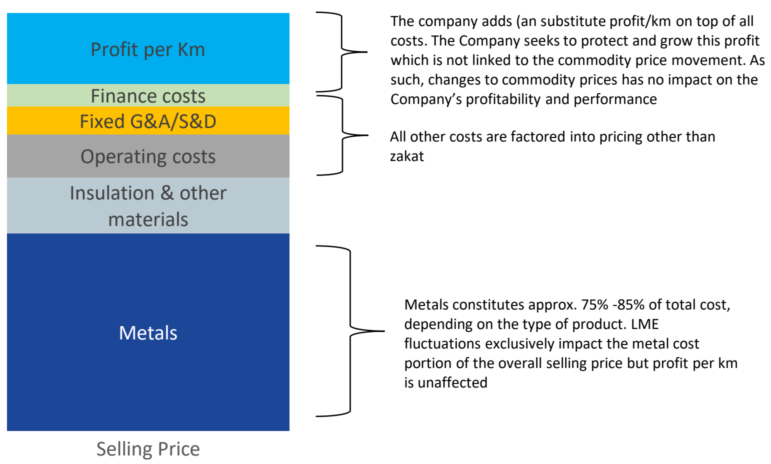
Figure 5. **Raw Materials as % of COGS**




Source: Company Data, Al Rajhi Capital

Theoretically speaking, this would expose the cable manufacturer to fluctuations in commodity prices, especially copper and aluminium. However, Riyadh cable's business model allows itself to remain relatively immune to fluctuating raw material prices. The company manages to achieve this by following a cost-plus pricing model for the bids its participating in. The costs usually represent all the raw materials cost, operating and finance costs as well as any hedging expenses involved. After which an absolute profit in terms of margin per ton is added to all the costs providing the company with a guaranteed profit.

Figure 6. **Illustrative price breakup**

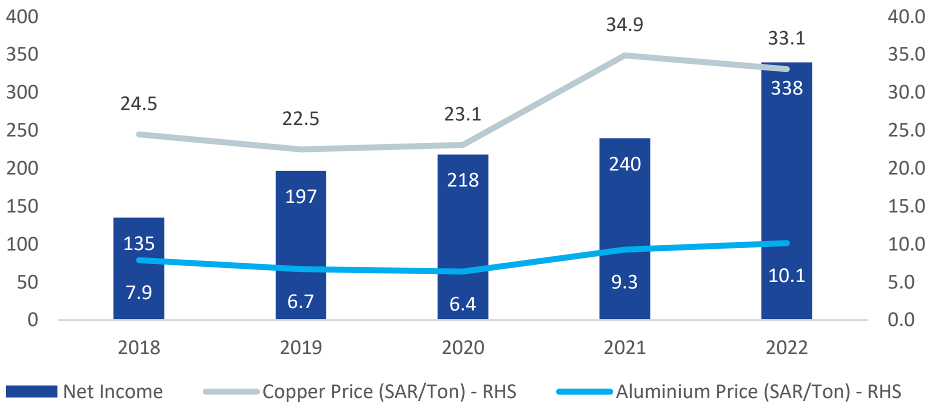



Source: Company Data, Al Rajhi Capital

For projects, once the purchase order is received, the company specifies the quantity and agreed London Metal Exchange (LME) price for the day effectively billing the customer on the bases of the LME price. On other occasions, contracts are done on a pre-agreed LME adjusting formula. When the call-off order is issued, the company books the quantity based on the following day's LME prices which are then used in the LME formula. The customer is again billed based on the LME price.

Cable providers globally rely on this approach of fixing absolute profits per ton providing them some stability in a world of ever-fluctuating commodity prices. Resultantly, the gross profit margin will keep on varying as the prices of copper and aluminium move, however, profit per ton will remain relatively stable. This business model has allowed the company to never record a loss since its inception.

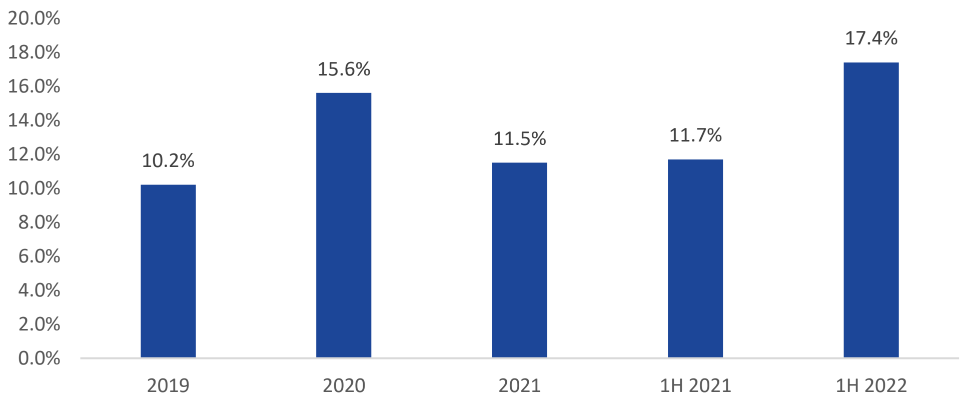
Figure 7. **Profits remain steady despite volatility in commodity prices**




Source: Company Data, Al Rajhi Capital

Riyadh Cables has a diversified clientele base which can be classified into 3 main categories: 1) utility companies, 2) EPC contractors, and 3) developers. Saudi Electric Company (SEC), Dubai Electricity and Water Authority (DEWA), Siemens, Samsung Engineering, ACWA Power, and NEOM are just some examples of the extensive client base the company has. SEC remains one of the group's major customers accounting for 10.2%, 15.6%, 11.5%, and 17.4% of the total revenues in 2019, 2020, 2021, and 1H2022 respectively.

Figure 8. **SEC revenues as % of Total Revenues**




Source: Company Data, Al Rajhi Capital

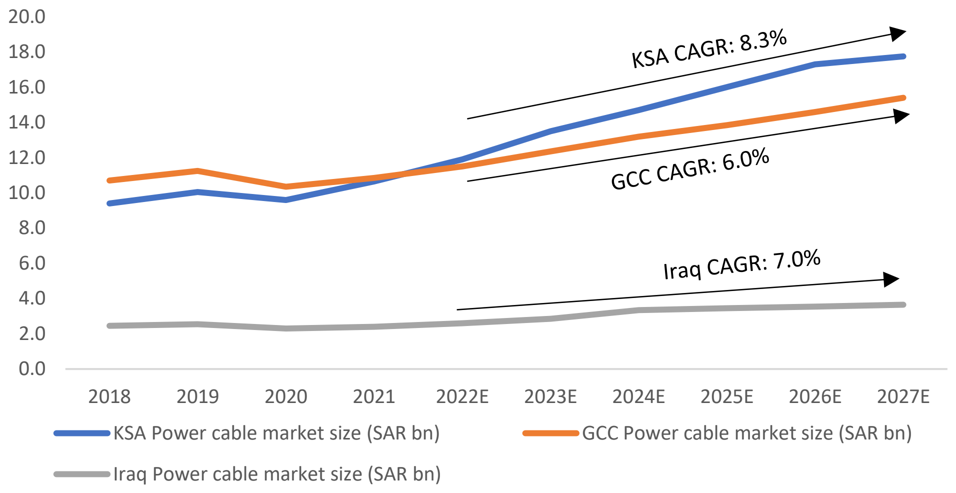
# Investment Case

## Cable Demand in the region to remain robust

The Kingdom is ready to transition to a more sustainable and diversified economy which in turn will stroke up power cable demand. The KSA's power cables market is expected to grow at a CAGR of 8.3% between 2022-2027. Similarly, the GCC's power cables market is also expected to grow at a healthy rate of 6.0% between 2022-2027 led by the UAE. The UAE is the second largest market in the region after KSA and is aggressively pushing towards the development of new infrastructure and real estate projects, and like the KSA is expected to be at the forefront of the energy transition. Moreover, the GCC boasts a healthy population growth with the age distribution tilted more towards younger people which is expected to boost demand for residential housing in the near future.

Riyadh Cable being the largest cable manufacturer in the MENA region and having its product available in 37 countries, is set to benefit from an uptick in cable demand from the ongoing as well as upcoming infrastructure projects. For the company, the main demand drivers include 1) the ongoing energy transition, 2) grid renewals/upgrades, 3) industrial development, 4) mega projects, and 5) housing expansion. The company has an impressive, confirmed order backlog of SAR3.4bn (128k tons) as of FY2022 which is expected to be booked in the coming 2 years. More importantly, the bid pipeline is expected to be 4-5x the existing order backlog and is expected to mature in the next 12 months.

Figure 9. **Power cable market size**

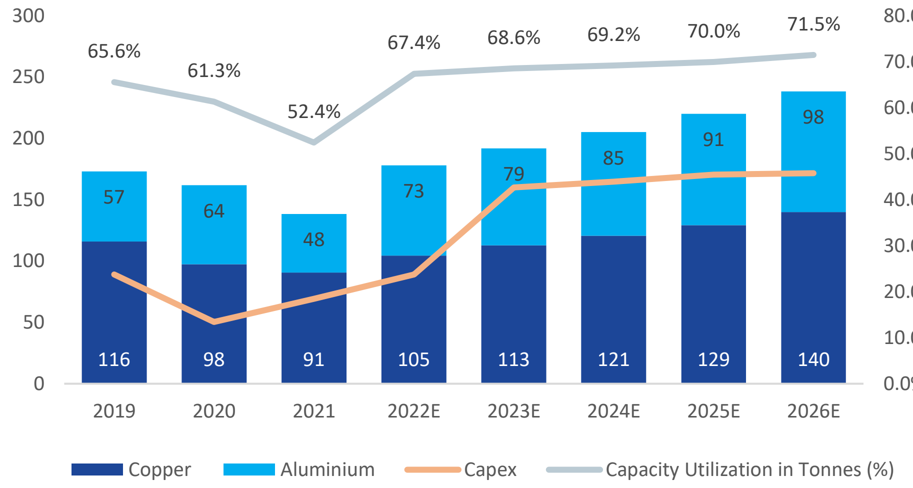



Source: Company Data, Al Rajhi Capital

## Expanding to capitalizing on the growth opportunities

Riyadh Cables is looking to fully capitalize on the upcoming boom in construction activities. In order to do so, the company is planning to expand its capacity from the current 264k tons to 333k tons representing an increase of 6% p.a. for the next 5 years. The resultant CAPEX from the said expansions would be to the tune of SAR150-170mn per year. Given Riyadh cable's business model, the only way to achieve significant bottom-line growth is via an increase in volumes as the primary margin normally remains stable. Moreover, the utilization levels for the company are dependent on the product mix and adding capacities will help improve these levels. Going forward, we have assumed an average per year capacity addition of 13k tons, as per management guidance. However, we have increased utilization levels gradually from the current 67.4% in 2022E to 71.5% by 2026E. The selling quantity is set to increase by a 4-year CAGR of 7.3% to 238k tons by 2026. In our terminal year, the utilization levels have been kept at 75% representing sold quantities of 265k tons.

Figure 10. **Growing volumes and Utilization supported by capex**




Source: Company Data, Al Rajhi Capital

## Prudent pricing strategy guarantees profitability

The cost-plus pricing model ensures that the profitability of the company remains intact no matter the commodity prices. The majority of the raw material costs are passed on to the customers while all other exposures are mainly hedged. This strategy has allowed the company to maintain and even gradually increase its profit/ton. However, this also implies that the only way the company can manage to grow is via an increase in volumes. As the company strives to remain immune to commodity price fluctuation, a more intuitive way to look at the profitability would be on a per-ton basis. The primary margin for the company has remained stable in 2019 and 2020 at around ~SAR7,600/ton. However, a spike in primary margin per ton was witnessed in 2021 and 1H22 to SAR8,980/ton and 10,812/ton respectively. Going forward, we remain conservative, assuming primary margins to decline and to hover at an average of ~SAR9,486 per ton from 2023-2026.

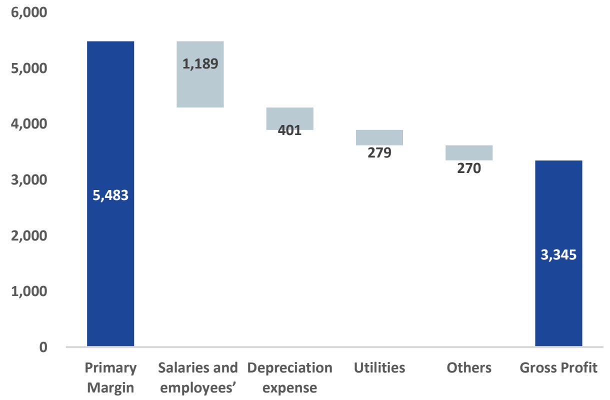
Moreover, due to continuous expansions planned, we expect the fixed cost of the company namely salaries per ton to decrease resulting in an increasing GP per ton. The spreading of fixed costs over a larger level of output results in GP margin accretion for the company. We expect the GP/ton for the company to rise from the current SAR3,688/ton to 3,958/ton by 2026E, up by 7.3%. The company plans to improve its product mix to higher margin value-added products gradually. Currently, the company relies on low margin low voltage cables, however, an increase in sales of extra high voltage cables will help the company to improve its margin/ton significantly.

Lastly, revenue growth is not the appropriate metric to gauge for the company given the fluctuation in copper and aluminium prices. However, based on the above-mentioned assumption of volume and margin growth, we foresee Riyadh cables bottom line to grow by a 4-year CAGR of 10% to SAR 501mn by 2026E from current levels of SAR 338mn in FY22.

## Dividend pay-out to remain strong

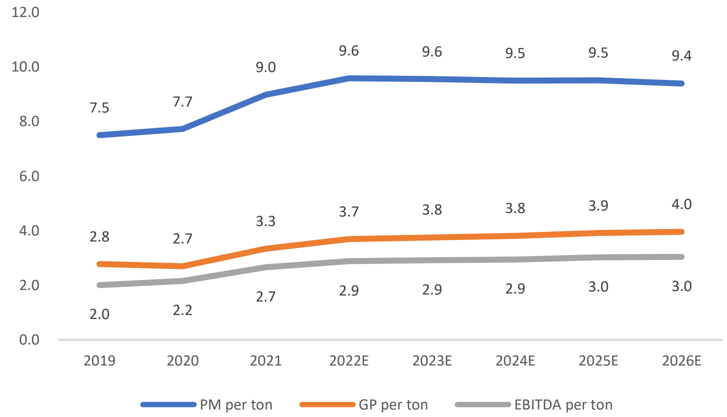
Riyadh Cables has managed to maintain a good track record of a consistent pay-out ratio of 90% in the last three years. The company has been able to achieve this feat thanks to a stable generation of strong cash flow from operations. The working capital needs are usually financed via short debt and the more the prices of raw materials increase more working capital requirements rise. So, the appropriate measure to look at is cash flow from operations excluding working capital changes. This has remained at a consistently healthy level of SAR380mn in the last three years. Going forward, we believe that the company will be able to maintain its healthy pay-out and have assumed a pay-out ratio of 85% which results in an effective dividend yield of 5.0% in 2023.

Figure 11. **Gross margin per ton 2021 (SAR mn)**



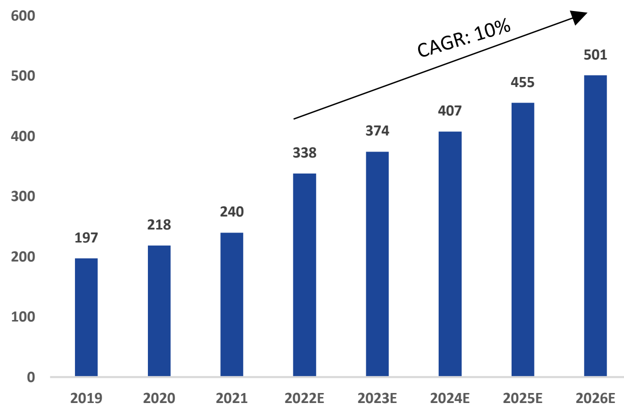

Source: Company Filings, Al Rajhi Capital

Figure 12. **Primary, Gross and EBITDA margin (kSAR/ton)**



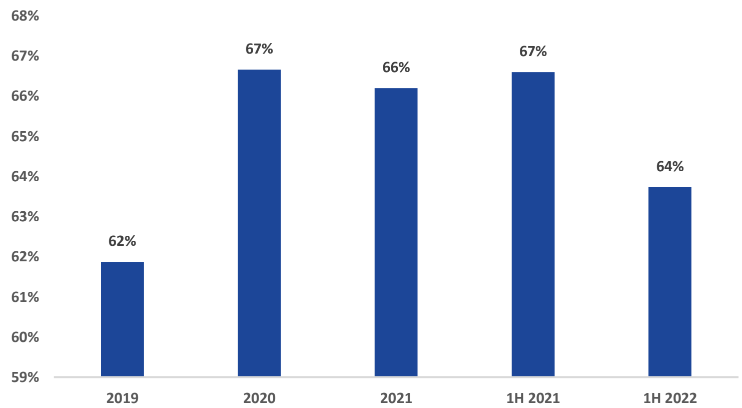

Source: Company Filings, Al Rajhi Capital

Figure 13. **Net profit to grow at CAGR 10%**



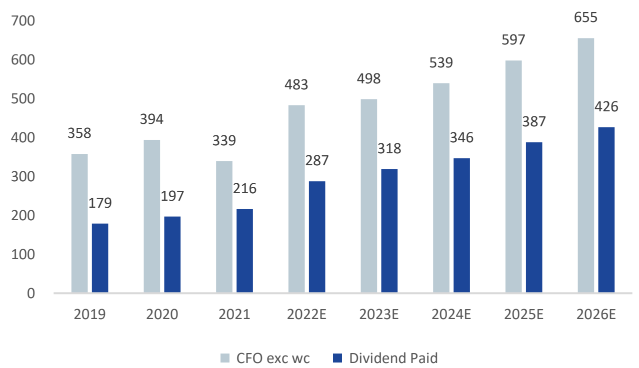

Source: Company Filings, Al Rajhi Capital

Figure 14. **Low voltage cable as % of sales**



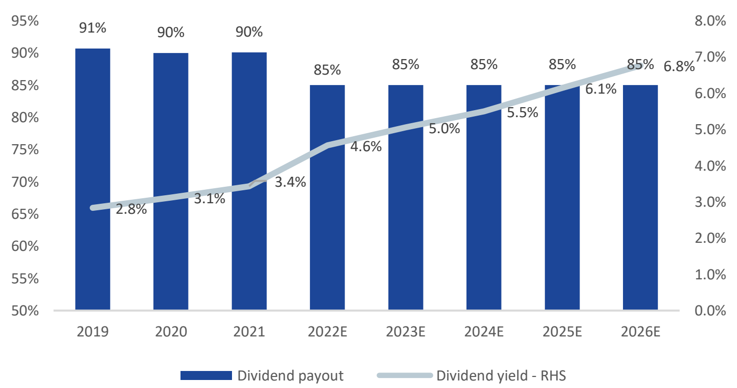

Source: Company Filings, Al Rajhi Capital

Figure 15. **CFO (ex-WC) to support dividend**




Source: Company Filings, Al Rajhi Capital

Figure 16. **Dividend payout vs Yield**




Source: Company Filings, Al Rajhi Capital

## Valuation

We value Riyadh Cables using the Discounted Cash Flow (DCF) methodology to arrive at a target price of SAR46.6/sh. Our value is based on the cost of equity assumption of 10.5% resulting in a WACC of 9.3% while we have taken a terminal growth rate of 3%. The stock provides an upside of 10.6% from its last closing. Riyadh Cables fit into our theme of shifting towards stocks that provide exposure to infrastructure projects in the GCC region. Hence, we foresee Riyadh Cables as a lucrative investment opportunity as the stock provides a unique blend of growth amid a stable pay-out. We initiate our coverage on Riyadh Cables with an "Overweight" recommendation, providing a total return (including dividend yield) of **15.6%** to the last closing.

Figure 17. **Sensitivity – Terminal growth and WACC**

| Sensitivity Analysis | | | | | | |
|---|---|---|---|---|---|---|
| | | WACC | | | | |
| | | 7.3% | 8.3% | 9.3% | 10.3% | 11.3% |
| Terminal Growth | 2.0% | 63 | 50 | 41 | 34 | 28 |
| | 2.5% | 69 | 54 | 43 | 36 | 30 |
| | 3.0% | 76 | 58 | 46 | 38 | 31 |
| | 3.5% | 85 | 64 | 50 | 40 | 33 |
| | 4.0% | 97 | 71 | 54 | 43 | 35 |

Source: Al Rajhi Capital

## Key Challenges and Risks

**Interest rate risks:** Risks associated with reliance on short-term debt to finance working capital requirements, which could result in a significant increase in interest expenses if interest rates rise.

**Availability of raw materials:** If the Group is unable to obtain raw materials or base metals, or if suppliers are unable to provide the necessary quantities due to high demand from other industrial companies or for any other reason, it will negatively impact the Group's manufacturing operations and overall business, financial position, performance, and future prospects.

**Supply and demand fluctuations in domestic and regional markets:** Like other sectors, production volume in the electrical cables and wires industry is affected by changes in supply and demand in domestic and regional markets. If regional production does not adjust to a decrease in demand, it will negatively impact the productivity and sales of electrical cables and wires manufacturers, and ultimately the overall performance of the sector and the Group's business prospects, performance, financial position, and future prospects. Additionally, fluctuations in supply and demand in global markets may lead to an overproduction of electrical cables and wires, resulting in surplus stock domestically and regionally which could force the Group to reduce production or lower prices, negatively impacting its profit margins and overall business, performance, financial position and future prospects.

**Slowdown in demand:** During the pandemic, the construction industry saw a decline, affecting the demand for cables. The risk of another slowdown in demand owing to another pandemic wave or factors such as a significant decline in GCC GDP growth (e.g. regional recession, sharp drop in oil prices) can hurt the company's growth outlook.

**Risk to oil prices:** Any dramatic fall in oil prices can lead up to a slowdown of projects rolled out by the government impacting the company's future revenues and profitability directly.

**Risks related to the use of percentage-of-completion accounting:** If the company fails to define the main stages of the project output and assess the value of each stage, this will lead to inaccurate revenues based on the method of measuring the project completion percentage, which would have a material adverse effect on the company's business.

## Industry Overview

The global power cables market is projected to grow in response to the post-pandemic economic recovery and the ambitious energy transition plans of developed countries. The power cables market is expected to grow because of several key factors, including strong economic recovery post-pandemic, urbanization in emerging markets, transition to renewable energy and electrification & automation in construction segment.

The global power cable market is forecasted to grow at a CAGR of 4.4% to reach SAR 894 billion by 2027, from SAR 690 billion in 2021. The power cable market in the Company's main geographical areas (the Kingdom, GCC countries, and Iraq) is expected to exceed global growth rates due to national development plans, favourable macroeconomic and demographic factors, and the construction of large-scale mega-projects in various sectors. These plans include Vision 2030, diversification of income in GCC, energy transition, economic recovery post-pandemic and oil revenues. These factors are further supported by the increase in the region's construction portfolio, with over SAR 600 billion worth of construction projects expected to be awarded in the Kingdom, GCC, and Iraq by the end of 2022.

The power cable market in the Kingdom, GCC countries and Iraq has grown at a CAGR of 2.5% over the past four years, despite the pandemic's negative impact in 2020. With an increase in construction activities and supportive macroeconomic and demographic factors, the market is expected to accelerate to a CAGR of 7.2%, with a total market value of SAR 34.9-38.8 billion in the next five years. The Kingdom, being a leader in sustainable and diversified economies, is expected to strengthen its position as a major market in these geographies, with a projected growth of 8.3% CAGR, reaching SAR 16.8-18.7 billion over the next five years.

### Vision 2030 and National vision of GCC countries to boost the cable market

In 2016, Saudi Arabia unveiled "Vision 2030", a plan to diversify the economy and reduce dependency on oil to achieve sustainable growth in the Kingdom. The vision is structured on three key themes: "Vibrant Society," "Thriving Economy," and "Ambitious Nation." Under these themes, eleven Vision Realization Programs have been defined to develop new infrastructure, construction, industries, and megaprojects. Some of the major projects announced include the Mecca public transport, Riyadh Airport, Saudi Landbridge Rail, Kingdom National Schools Program, King Hamad, and King Fahd causeways, NEOM, Jeddah Economic City, Medina Knowledge Economic City, Red Sea Project, Qiddiya, AlUla tourism region, King Salman Park, Diriyah Gate, and Roshn real estate development.

All GCC countries have laid out plans for the next 10-15 years, with a focus on economic diversification and sustainable development. These plans rely on the development of new infrastructure, construction, industries, and mega-projects. The UAE has multiple national and emirate-specific plans, such as the Energy Strategy 2050, which aims to have 50% clean energy in the capacity mix by 2050 and SAR 611 billion investment to support energy and ensure sustainability in the UAE's economic growth. Kuwait's vision includes providing new infrastructure, appropriate legislation and enabling a business environment for development, as well as stimulating private sector investment. Qatar aims to have a reasonable and sustained rate of economic growth and stimulating business climate, with expanding industries and services having a competitive advantage. Oman is aiming to build a diversified and sustainable economy that ensures competitiveness and embraces industrial revolution. Bahrain aims to shift from an economy built on oil wealth to a productive and globally competitive economy driven by private sector growth.

Under the initiative of the Ministry of Planning and with the support of the UNDP, Iraq has laid out the "Iraq Vision for Sustainable Development 2030", which includes 5 priority themes: Human building, Good Governance, Diversified Economy, Safe Society, and Sustainable Environment. These themes focus on enabling access to basic public infrastructure and services, basic commodities, and fulfilling citizens' basic needs. The plan also encourages investment in federal public funding for projects such as electricity, water, transportation, communication, industry, and affordable housing.

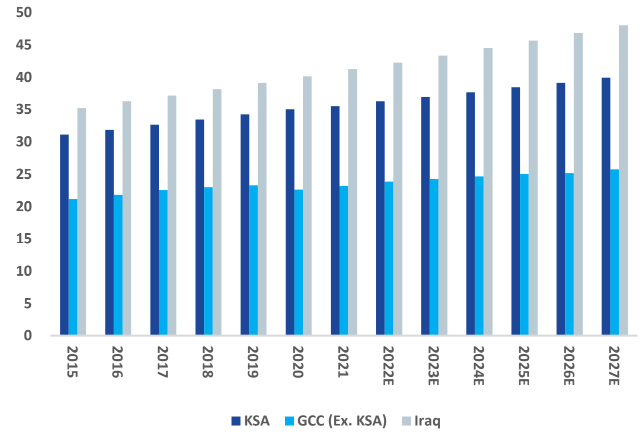
## Demographics to aid cable market growth

**KSA:** The population of Saudi Arabia is steadily growing, and a high proportion of this population is made up of young people. Between 2016 and 2020, the population grew at a CAGR of 2.4%, and is expected to reach 39.9 million in 2027, growing at a CAGR of 2.0% between 2022 and 2027. The population is skewed towards younger age groups, with the largest segment being 0-14-year-olds, followed by the working-age 25-44-year-old groups. 58% of the population is estimated to be below the age of 35, which suggests a strong need for housing for the coming generation of young adults.

**GCC:** The population in the GCC countries is steadily growing and a high proportion of this population is made up of young people. During 2017-2019, the population grew at a CAGR of 1.4% to reach 23.2 million. The population slightly declined in 2020 due to the outflow of expatriates during the pandemic, but it is expected to grow, reaching 25.7 million in 2027 at a CAGR of 1.7% between 2022 and 2027. Expatriates make up over half of the total population, with the largest proportion in Qatar at 86%, the UAE at 89%, and Kuwait at 70%. The population is skewed towards young working adults, with the largest segment being 25-34-year-olds, followed by 35-44-year-olds. More than 18% of the population is under 14 years of age and a total of 57% of the population is estimated to be below the age of 35. This population distribution indicates a need for accessible housing for the newer generation and affordable real estate for the foreign workforce.

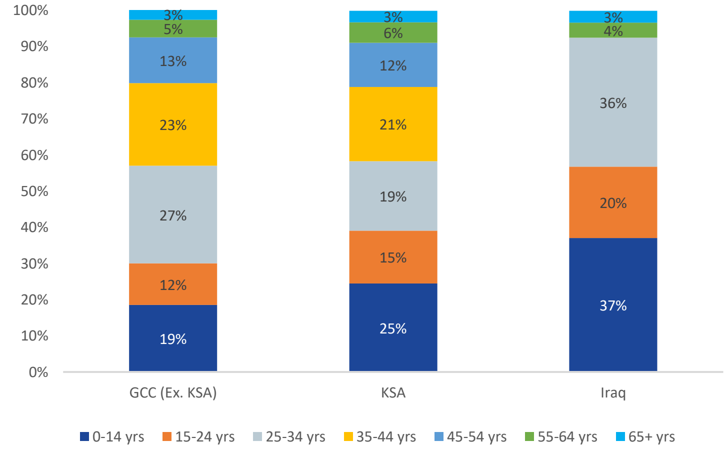
**Iraq:** Iraq's population has been increasing at a rate of 2.3% annually, which is higher than the global average of 1%. A significant proportion of the population is young, as 57% of the people are less than 25 years old. This steady rise in the young population is expected to increase the need for affordable housing and drive growth in construction activity.

Figure 18. **Population growth**



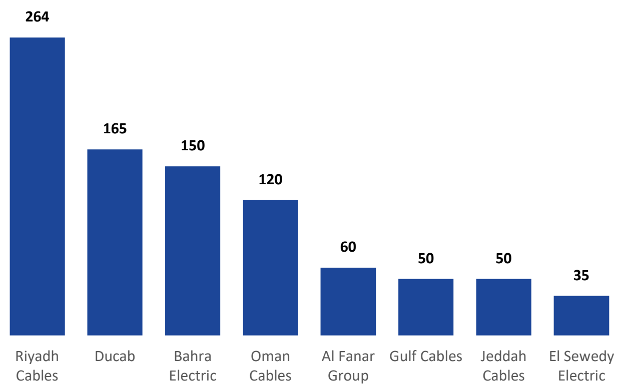

Source: Company Filings, Al Rajhi Capital

Figure 19. **Age wise distribution**



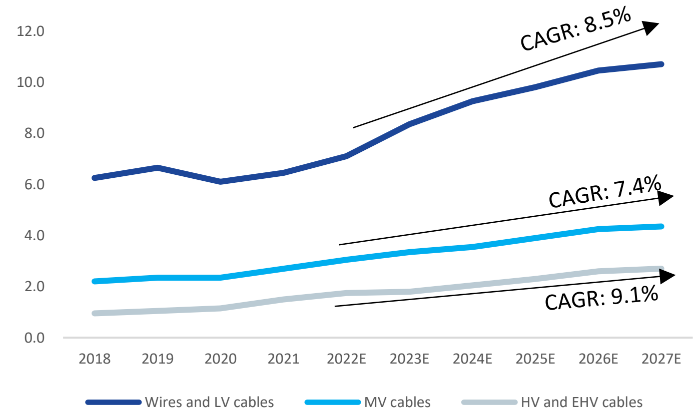

Source: Company Filings, Al Rajhi Capital

Figure 20. **Key Competitors' production capacities (ktons)**




Source: Company Filings, Al Rajhi Capital

Figure 21. **Categorical market size in KSA**




Source: Company Filings, Al Rajhi Capital

Figure 22. **Key competitor's product portfolio & Manufacturing presence per geography**

| Competitor | Wires | LV power cable | MV power cable | HV power cable | EHV power cable | Overhead lines | Special and control cables | Communi cation cables | Rods | Fiber optic cables |
|---|---|---|---|---|---|---|---|---|---|---|
| Riyadh Cable | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Al Fanar Group | ✓ | ✓ | ✓ | ✓ | | | | | | |
| Bahra Electric | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | | | |
| Ducab | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | |
| El Sewedy Electric | ✓ | ✓ | ✓ | ✓ | | ✓ | | | | |
| Gulf Cables | ✓ | ✓ | ✓ | | | ✓ | ✓ | ✓ | | |
| Jeddah Cables | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | |
| Oman Cables | ✓ | ✓ | ✓ | | | ✓ | ✓ | | | |

| Competitor | KSA | UAE | Oman | Kuwait | Qatar | Bahrain | Iraq |
|---|---|---|---|---|---|---|---|
| Riyadh Cable | ✓ | ✓ | | ✓ | | | ✓ |
| Al Fanar Group | ✓ | | | | | | |
| Bahra Electric | ✓ | | | | | | |
| Ducab | | ✓ | | | | | |
| El Sewedy Electric | ✓ | | | | ✓ | | |
| Gulf Cables | | | | ✓ | | | |
| Jeddah Cables | ✓ | | | | | | |
| Oman Cables | | | ✓ | | | | |

Source: Company Data, Al Rajhi Capital

## Financial Analysis

**Revenue:** The group's revenue from the Kingdom represents approximately 66% of the total revenue of which 35% is sold to KSA distributors. The rest of the sales i.e., 34% of revenues come from exports. The major products of the company include low voltage cables, medium voltage, high voltage cables, and others making up 66%, 17%, 12%, and 6% respectively in FY2021.

The revenue of the company is influenced by the ongoing fluctuation in commodity prices; hence we need to understand the volume mix and growth of the company. In terms of volumes, the company's product mix is tilted towards copper which represents on average 65% of the total volumes sold while the rest is aluminium. The utilization levels for the company took a hit in 2020 and 2021, declining from 65.6% in 2019 to 61.3% and 52.4%. However, in 2022 recovery in utilization was witnessed owing to the post-pandemic resurgence in demand from infrastructure projects. Going forward, we expect demand to remain strong on the back of the aforementioned factors and we expect utilization levels to improve with the product mix.

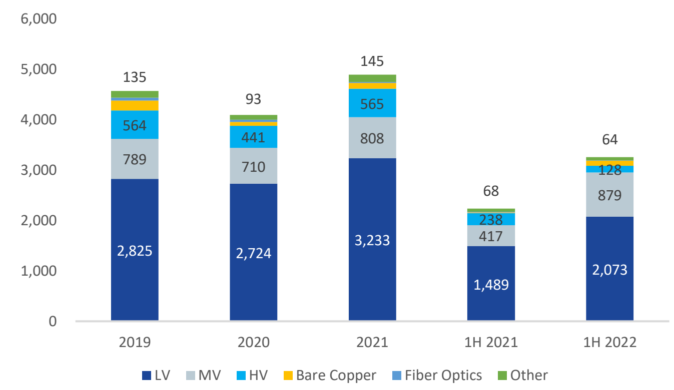
**Gross Margins:** Historically, the company has been able to achieve relatively stable levels of gross margins amid high volatility in copper and aluminium prices. GP margins have clocked in the range of 9.5-10.7% since 2019. On a GP margin basis, Aluminium margins have remained at an average level of 12.3% while copper is at 9.2%. Fiber optics cables have the highest margins of 26.6%, but their contribution in absolute value is negligible. However, it is not accurate to look at the GP margins as it incorporates fluctuation in commodity prices. The company was able to record gross profits of SAR 480/436/463, and SAR463mn in FY19/20/21, and 9M22 respectively. Diving a bit deeper, gross profit per ton for copper has remained relatively high when compared with aluminium. The premium has remained at an average of 1,200/ton historically. Hence, the more copper wires the company produces the higher its gross profit per ton.

**Net profit:** Riyadh Cable's net profit has posted stable growth in the last few years. Even during the pandemic, the company managed to increase its net profit thanks to its cost-plus pricing model. The bottom line for the company has risen from SAR197mn in FY2019 to SAR240mn in 2021, up 22%. In 9M22, the company has already achieved a net profit of SAR246mn, and we expect the company to close FY22 with a profit of SAR 338mn.

**Working Capital:** As the commodity prices climb up, the working capital requirements for the company increased which has to be financed via short-term debt. The company has a cash conversion cycle of 177 days on average. The company manages to sell its inventory in 113 days while DSO and DPO stand at 77 days and 13 days respectively. Going forward, we expect the commodity cycle to cool, which would alleviate some pressure from the working capital needs. Hence, we expect the cash conversion cycle to reduce eventually to 150 days by 2026.

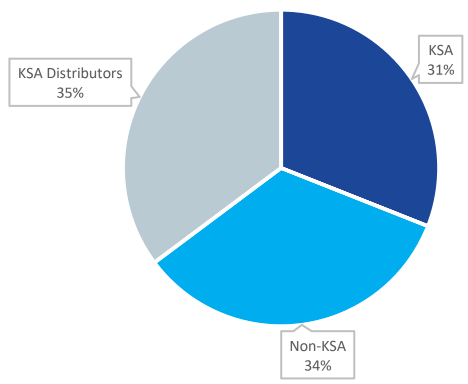
## Financial performance overview in charts

Figure 23. **Revenue mix by product wise (SAR mn)**



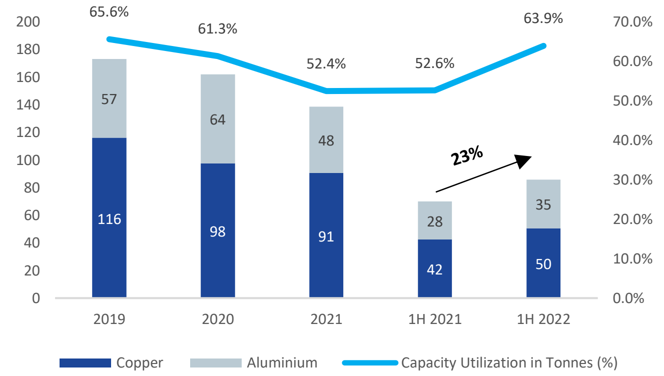

Source: Company Filings, Al Rajhi Capital

Figure 24. **Revenue by geography (2019-2021 Average SAR mn)**



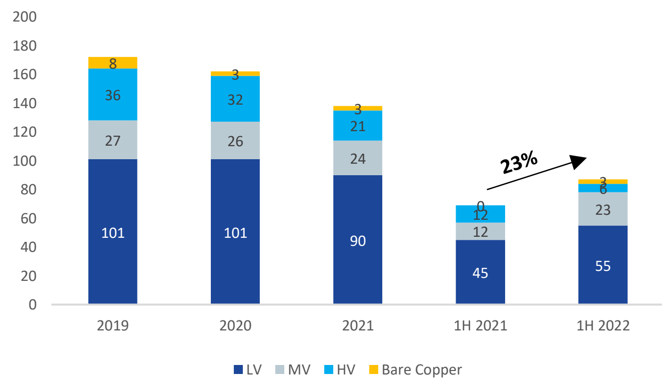

Source: Company Filings, Al Rajhi Capital

Figure 25. **Volume by Category (000' Tons)**



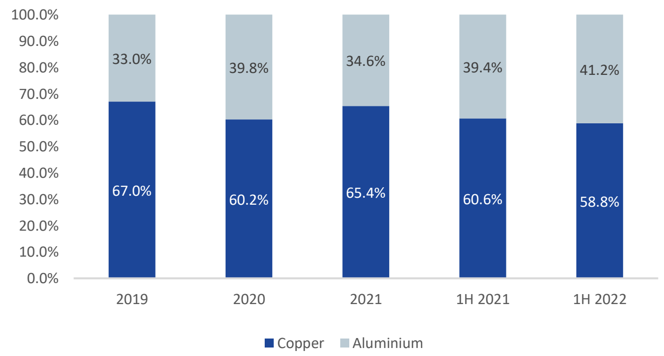

Source: Company Filings, Al Rajhi Capital

Figure 26. **Volumes by product (000' Tons)**



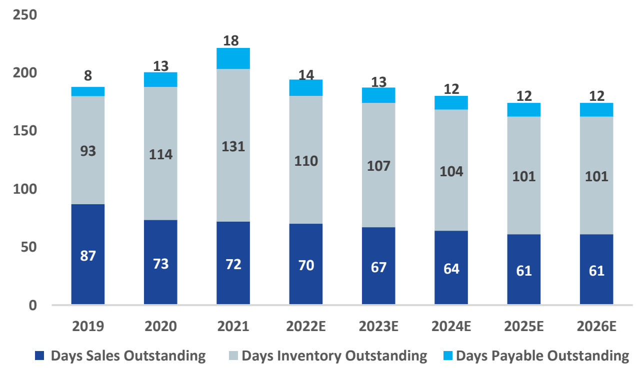

Source: Company Filings, Al Rajhi Capital

Figure 27. **Product Mix - Volume**



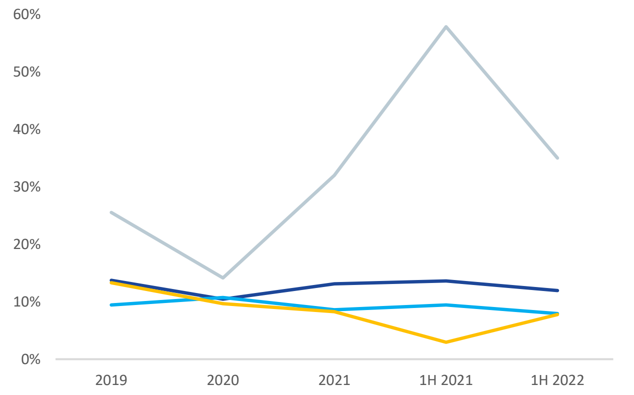

Source: Company Filings, Al Rajhi Capital

Figure 28. **Cash Conversion Cycle**



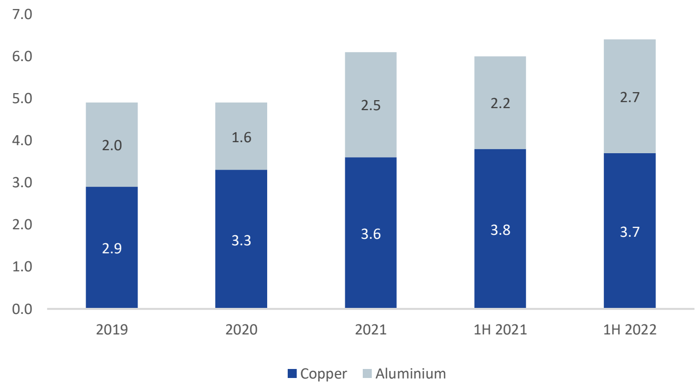

Source: Company Filings, Al Rajhi Capital

Figure 29. **Gross margin by product category (SAR mn)**




Source: Saudi Central Bank, Al Rajhi Capital

Figure 30. **Gross profit per ton (SAR '000/ton)**




Source: Saudi Central Bank, Al Rajhi Capital

# Key Financials

Figure 31. **Income Statement**

| SARmn | 2021 | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| **Revenue** | **4,883** | **6,076** | **6,276** | **6,464** | **6,688** |
| *y-o-y growth* | *19.5%* | *24.4%* | *3.3%* | *3.0%* | *3.5%* |
| Cost of Sales | (4,420) | (5,419) | (5,556) | (5,683) | (5,828) |
| **Gross Profit** | **463** | **656** | **720** | **781** | **861** |
| *y-o-y growth* | *6.1%* | *41.8%* | *9.7%* | *8.5%* | *10.2%* |
| *margins* | *9.5%* | *10.8%* | *11.5%* | *12.1%* | *12.9%* |
| Selling and distribution expenses | (92) | (114) | (124) | (134) | (146) |
| General and Administrative expenses | (79) | (98) | (107) | (117) | (128) |
| Others | 11 | 0 | 0 | 0 | 0 |
| **Operating Profit** | **303** | **445** | **489** | **530** | **587** |
| *y-o-y growth* | *6.1%* | *46.7%* | *9.9%* | *8.4%* | *10.8%* |
| *margins* | *6.2%* | *7.3%* | *7.8%* | *8.2%* | *8.8%* |
| Finance costs | (32) | (62) | (66) | (69) | (72) |
| **Pre-Tax Income** | **271** | **382** | **423** | **461** | **515** |
| Zakat | (31) | (44) | (49) | (53) | (59) |
| **Net Income/Net Profit (Losses)** | **240** | **338** | **374** | **407** | **455** |
| *y-o-y growth* | *9.8%* | *41.0%* | *10.7%* | *8.9%* | *11.7%* |
| *margins* | *4.9%* | *5.6%* | *6.0%* | *6.3%* | *6.8%* |
| EPS | 1.6 | 2.3 | 2.5 | 2.7 | 3.0 |
| DPS | 1.4 | 1.9 | 2.1 | 2.3 | 2.6 |

Source: Company Data, Al Rajhi Capital

Figure 32. **Cash flow statement**

| SARmn | 2021 | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Cash flow from Operations | (208) | 195 | 466 | 512 | 576 |
| Cash flow from Investing | (72) | (89) | (160) | (165) | (171) |
| Cash flow from Financing | 267 | (88) | (241) | (266) | (303) |
| Change in cash | (13) | 18 | 65 | 82 | 102 |

Source: Company Data, Al Rajhi Capital

Figure 33. **Balance Sheet**

| SARmn | 2021 | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| Property, plant and equipment, net | 1,155 | 1,181 | 1,274 | 1,369 | 1,466 |
| Intangible assets, net | 67 | 62 | 57 | 52 | 47 |
| Investments at fair value | 50 | 50 | 50 | 50 | 50 |
| Right of use assets | 11 | 12 | 12 | 13 | 13 |
| **Total non-current assets** | **1,283** | **1,305** | **1,394** | **1,484** | **1,576** |
| | | | | | |
| Inventory | 1,586 | 1,633 | 1,629 | 1,619 | 1,613 |
| Trade receivables | 963 | 1,165 | 1,152 | 1,133 | 1,118 |
| Contract assets | 12 | 12 | 12 | 12 | 12 |
| Advances and other current assets | 60 | 74 | 70 | 66 | 62 |
| Cash and cash equivalents | 50 | 68 | 133 | 215 | 317 |
| **Total current assets** | **2,670** | **2,953** | **2,996** | **3,045** | **3,121** |
| **Total Assets** | **3,953** | **4,257** | **4,390** | **4,529** | **4,697** |
| | | | | | |
| **Current Liabilities** | | | | | |
| Islamic finance facilities | 1,324 | 1,523 | 1,599 | 1,679 | 1,763 |
| Accrued expenses and other liabilities | 141 | 175 | 181 | 186 | 193 |
| Trade payables | 221 | 208 | 198 | 187 | 192 |
| Provisions | 83 | 115 | 119 | 123 | 127 |
| Provision for Zakat and income tax | 30 | 30 | 30 | 30 | 30 |
| Lease liabilities - current portion | 2 | 2 | 2 | 2 | 2 |
| **Total current liabilities** | **1,800** | **2,053** | **2,129** | **2,207** | **2,306** |
| | | | | | |
| **Non-current liabilities** | | | | | |
| End-of-service benefits obligations | 107 | 107 | 107 | 107 | 107 |
| Lease liabilities | 9 | 10 | 10 | 11 | 11 |
| **Total non-current liabilities** | **116** | **117** | **118** | **118** | **118** |
| | | | | | |
| Share capital | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Statutory reserve | 253 | 287 | 324 | 365 | 411 |
| Retained earnings | 261 | 278 | 297 | 317 | 340 |
| Acquisition reserve of a subsidiary | 23 | 23 | 23 | 23 | 23 |
| Foreign operations translation reserve | (1) | (1) | (1) | (1) | (1) |
| **Total Shareholders' Equity** | **2,036** | **2,087** | **2,143** | **2,204** | **2,272** |
| **Total Liabilities** | **3,953** | **4,257** | **4,390** | **4,529** | **4,697** |

Source: Company Data, Al Rajhi Capital

Figure 34. **Key Ratios**

| SARmn | 2021 | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|
| ROA | 6.1% | 7.9% | 8.5% | 9.0% | 9.7% |
| ROE | 11.8% | 16.2% | 17.5% | 18.5% | 20.0% |
| Current Ratio (x) | 1.5x | 1.4x | 1.4x | 1.4x | 1.4x |
| Asset turnover ratio (x) | 1.3x | 1.5x | 1.5x | 1.4x | 1.4x |
| Inventory turnover ratio (x) | 3.2x | 3.4x | 3.4x | 3.5x | 3.6x |
| Receivables turnover ratio (x) | 5.5x | 5.7x | 5.4x | 5.7x | 5.9x |
| Payable turnover ratio (x) | 25.4x | 25.3x | 27.4x | 29.5x | 30.8x |
| Cash Conversion Cycle (Days) | 185 | 166 | 161 | 156 | 150 |
| Debt-Equity Ratio (x) | 0.7x | 0.7x | 0.8x | 0.8x | 0.8x |
| EV/EBITDA (x) | 21.0x | 15.4x | 14.1x | 13.1x | 11.9x |
| BVPS | 13.6 | 13.9 | 14.3 | 14.7 | 15.1 |
| P/E | 26.8 | 19.0 | 17.2 | 15.8 | 14.1 |
| P/B | 3.2 | 3.1 | 3.0 | 2.9 | 2.8 |

Source: Company Data, Al Rajhi Capital

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