GIB CAPITAL جي آي بي كابيتال

Target Price: SAR60/share
Current Price: SAR51.4/share
Upside: 17% (+ Div. Yield: 4.4%)
Rating: Overweight

Riyadh Cables (RC)

Significant potential. Initiate with OW

- Riyadh Cables is the market leader in the Power cables sector, which is at the early stages of an extended growth phase in KSA. We expect the company to post record profits in 2023/24/25.
- The company typically secures its gross profit/ton by hedging and plans to increase it by 2-3% in 2023. The company has guided net profit growth of 15-25% y/y in 2023.
- We initiate on Riyadh Cables with a target price of SAR60/share (and a dividend yield of 4.4%) and an Overweight rating. We believe the current market price does not reflect the full growth potential.

Huge potential: The Group is the biggest cable manufacturer in the MENA Region, with a market share of 36% in KSA. The product mix is 57%/43% Copper/Aluminum & revenue mix was 69%/31%: KSA/exports in 2022. As the company mostly secures an absolute profit per ton with hedging, the investment thesis is mainly a play on volume growth for cable growth which is larger than what is priced today, in our view. This is because out of SAR2.7trn for mega projects, only 4% of projects have been awarded (& 2.7% executed). More so, 25-30% of the demand is from mega projects, with others being transmission/distribution, renewable energy, and low-voltage cables at the user end. Accordingly, led by strong demand, the backlog grew from SAR1.9bn in 2021 to SAR3.4bn at the end of 2022 and increased further to SAR3.6bn in March 2023. Independent industry growth estimates are at a CAGR of 8.5% for the next five years.

Business model: Despite operating in a competitive industry, RC has strengths of a large size-allowing its economies of scale and negotiating power on purchases of raw materials. It has vertically integrated factories which implies competitive advantages in terms of production speed, cost-effectiveness, and quality maintenance. RC is the industry price setter with a wide range of products. We forecast a 14% CAGR net profit growth for 2022-25. The healthy free cash flows, and optimal debt (32% of assets) allow for a dividend payout of 80%.

Risks: A sustained sharp drop in oil prices, downsizing of Govt. plans for mega projects, rise in inflation, inability to hedge because of higher competition, geopolitical reasons and unfavorable regulations, if any, are some of the key risks.

Figure 1: Key financial metrics

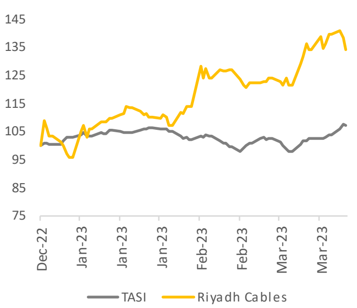
SARmn	2022a	2023e	2024e	2025e
Revenue	6,852	7,675	8,458	9,249
Revenue growth	*40%*	*12%*	*10%*	*9%*
Operating Profit	458	539	586	640
Operating margin	*6.7%*	*7.0%*	*6.9%*	*6.9%*
Net profit attributable to equity holders	352	420	475	520
Net profit margin	*5.1%*	*5.5%*	*5.6%*	*5.6%*
EPS (SAR)	2.3	2.8	3.2	3.5
DPS (SAR)	1.6	2.2	2.5	2.8
P/E	21.6x	18.1x	16.0x	14.6x

Source: Company data, GIB Capital

Stock data	
TASI ticker	4142
Mcap (SARmn)	7,605
Avg. Trd. Val (3m) SARmn	22.4
Free float	31.1%
QFI holding	8.0%
TASI FF weight	0.12%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Investment case

Assuming that the margin is fixed (on an absolute basis), the most important factor to focus on is volume growth in the next few years.

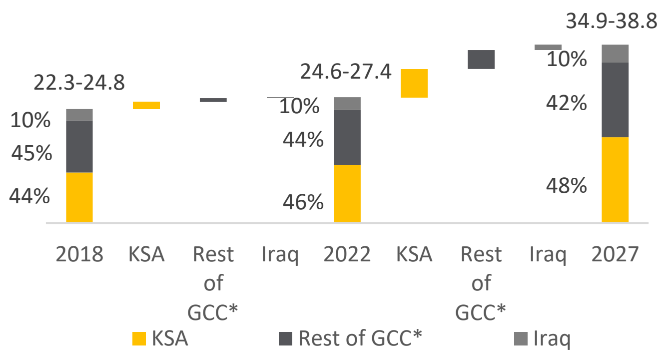
Breaking down demand

We break down future demand drivers into four parts.

A) Megaprojects
B) Growth from distribution/transmission (medium voltage) + growth from the end user (low voltage)
C) Renewable energy
D) Housing/Urbanization/Organic growth, which might be related to mortgages and recurring/demand etc.

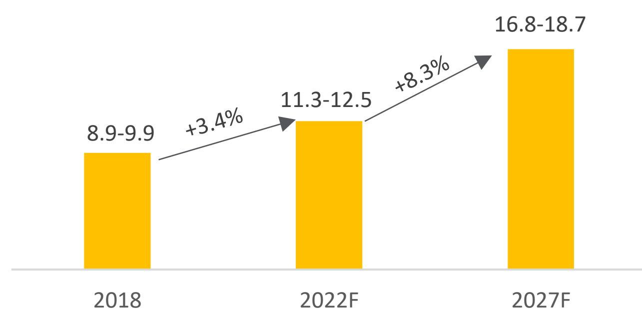
A) Megaprojects: Megaprojects drive 25-30% of the total demand, as per the management. Out of the SAR2.7trn to be spent on mega/giga projects between now and 2045, only 4% has been awarded, and 2.7% has been executed, indicating good demand in coming years. This is also reflected in the backlog, which is continuously increasing, from a backlog of SAR3bn at the time of the IPO to SAR3.4bn at the end of 2022 and SAR3.6bn on the 10th of March. This backlog is to be realized from today to 18 months. Capacity utilization has increased to 90% at the end of FY22 from 67% at the end of FY21, requiring the company to invest further in the capacity.

Figure 2: Wires and power cables market size (2018-27F) - SARbn



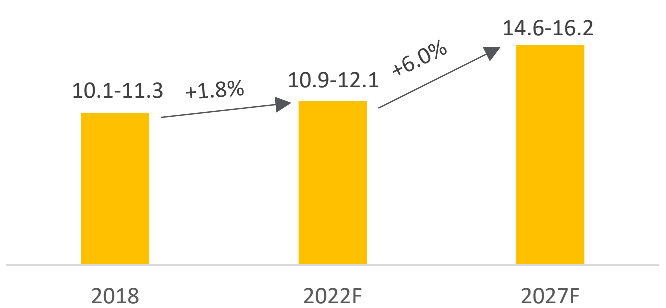
*Source: ADL mkt research, Company Presentation, GIB Capital, * GCC countries excluding KSA*

Figure 3: KSA - Demand – SARbn



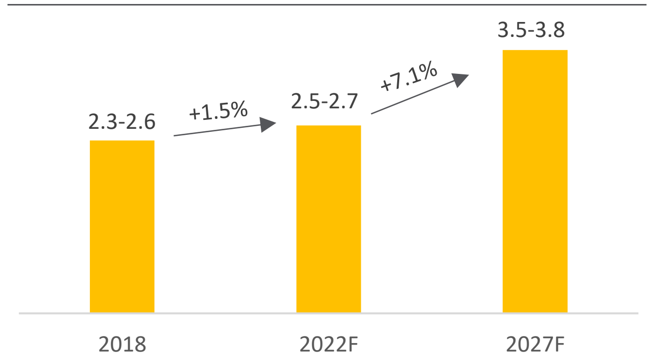
Source: ADL mkt research, Company Presentation, GIB Capital

Figure 4: Rest of GCC - Demand – SARbn



Source: ADL mkt research, Company Presentation, GIB Capital

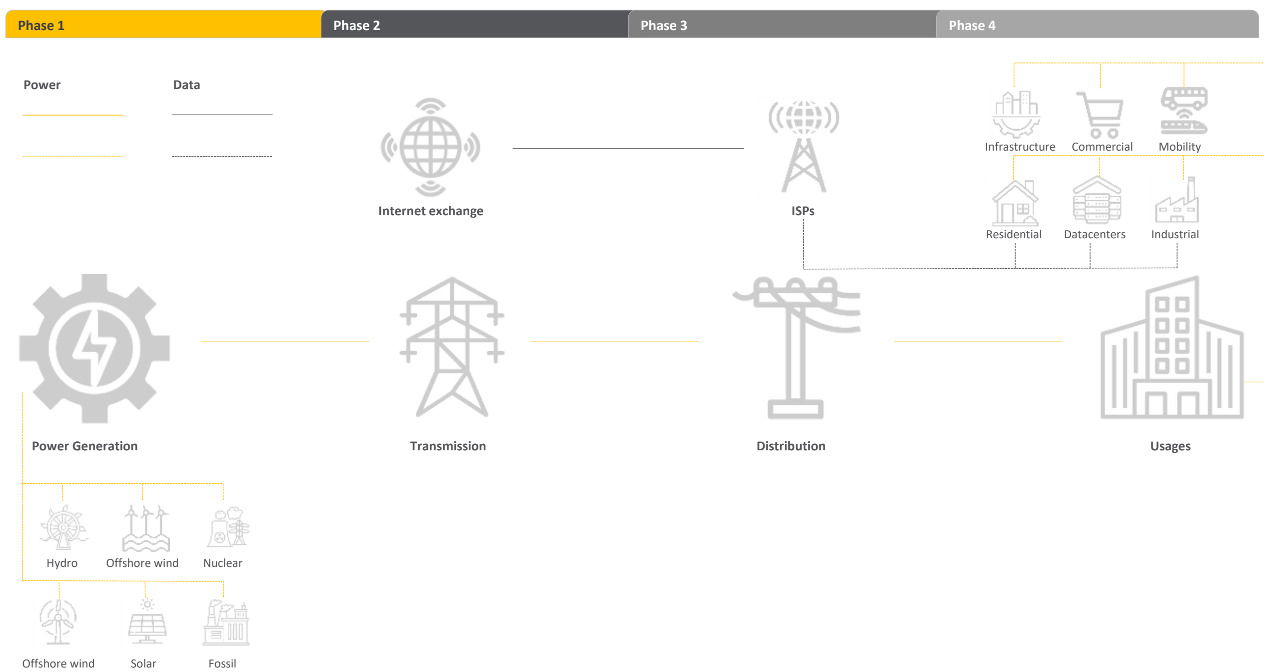
Figure 5: Iraq - Demand – SARbn



Source: ADL mkt research, Company Presentation, GIB Capital

B) **Transmission/Distribution:** This segment is expected to constitute 25-30% of the total demand per management. Cable growth could be in phases – This is because initially, demand will come from the construction-related aspects (generation, etc.), then the demand will spill over to transmission/distribution and eventually end user growth. This means the demand for high voltage cables will be followed by medium and, finally, at the end-user premises. According to the IEA, the transmission and distribution infrastructure cost accounts for about one-third of the total cost of electricity generation.

Figure 6: Power value chain



Source: Company presentation, GIB Capital

C) **Renewable energy sources** such as solar generally generate electricity in remote locations and are often far from the point of consumption. This means that a significant amount of new transmission and distribution infrastructure will be needed to bring this energy where needed. KSA aims to reach a renewable energy generation capacity of 58.6 GW by 2030, mostly from solar power [from around 9.5 GW today]. The UAE also seeks to generate 50% of its electricity from clean energy sources by 2030. Additionally, upgrades to existing transmission and distribution systems may be required to handle the increased demand and to ensure that the electricity generated by renewable sources can be reliably delivered to consumers. A recent example is the US$2.5bn New England Clean Energy Connect transmission project that requires the installation of over 1,200 miles of high-voltage direct current cable to bring hydropower from Quebec to New England. Renewable energy sources can be intermittent and variable, posing challenges for grid operators. To integrate large amounts of renewable energy into the grid, new transmission and distribution infrastructure may be needed to balance supply and demand across large geographic areas. This infrastructure may include high-voltage transmission lines, energy storage systems, and smart grid technologies, all of which rely on power cables and other components to function. The company attributes **25% of demand** to renewable energy projects.

D) **Housing/Urbanization growth:** Last but not least, in the absence of structural growth drivers, we believe there could be gradual organic growth led by various drivers such as housing demand, increase in industrialization, metro services etc. Notably, KSA aspires to achieve a Saudi homeownership rate of 70% by 2030, while Metro is likely to start in 1H23.

Other factors include reconstruction opportunities in Iraq and Yemen and growth factors in other export markets.

Profit hedging

Around 25%-30% of the sales are done via retail stores whose price list changes monthly in line with LME prices. This way, the company passes on pricing increases (depending on LME prices) and manages margins. The remaining 70%-75% being contractual is also directly hedged fully. The Group prices the product to the customer based on the price of raw material after entering into a hedging agreement to lock in the price to limit exposure to metal price fluctuations. Overall, as per the management, the whole backlog is hedged with the orders received in advance up to 18 months.

Also, hedging is not unique to RC but is an industry practice done by reasonably sized players in the industry. This is how these companies ensures profit per tonne to moderately increase over time.

However, as the hedge is on a “gross profit per tonne” basis, the profit margins may fluctuate depending on the revenues and LME prices. Thus, the 2 focus areas for estimation would be the absolute gross profit per tonne forecast which should be around 2-3% growth as guided by management and volume growth.

The company’s targeted absolute margin per tonne considers various other cost factors beyond the material prices, including hedging, financing costs, and zakat. This highlights RC’s defensive model – built on a cost-plus basis- and providing strong profitability protection.

Only raw materials amounting to ~17% to 20% of the Group’s total inventory had no hedging agreements to protect against price fluctuations between FY19 and FY21.

Another one of the competitive advantages is that importers have import duties of 12-18% on finished goods depending on cable type while for Raw materials, there are import duties exemptions.

Not just growth, dividends too:

Given the increase in capacity utilization rate, the company plans to invest SAR200mn for Capex in 2023 from SAR45mn in 2022. As per the management, capacity will increase from July by 10% in the next two years. The company has also been trying to improve the mix of higher-margin products. Overall, the company’s FCF stands at SAR247mn for 2022 and is expected to increase to ~SAR686mn by 2026.

Despite all the growth plans, the company aims to maintain its dividend payout, which is an attractive proposition for the company.

In 2022, dividends were SAR245mn (payout of 70%).

The management expects current levels of Debt/Equity of around 0.6x to continue. More details in the below table:

Guidance table

Figure 7: Company financial guidance

Guidance	2023 (guided)
Capex	SAR200+mn
Gross profit/ton	2-3% increase
Net profit	15-25% increase
Dividend	60%-80%

Source: Company, GIB Capital

Outlook (as per IPO Prospectus)

- The power cables market relevant to the Kingdom is expected to grow at a CAGR of 8.3% between 2022-2027, reaching SAR 16.8-18.7bn over the next five years.
- During 2022, the Group received many purchase orders in relation to the supply of approximately 136k tons of its products with a total value of SAR3.7bn that have been confirmed and approved in accordance with the procedures agreed upon with the relevant clients.
- The Group has also participated in various tenders, and it is expected to confirm and approve additional purchase orders regarding the supply of approximately 50,000 tons of the Group's products.
- Demand for cables and electrical wires is expected to increase in KSA due to the hike in electricity consumption and residential ownership (KSA aspires to achieve a Saudi homeownership rate of 70% by 2030).

About the company

The company was established in 1984. The Group is the biggest cable manufacturer in the MENA Region and one of the world's biggest power cable manufacturers (among the top 15 globally in terms of production). It has a total production capacity of 264,000 tons of metal. It has full industrial operations in 3 countries (KSA, UAE and Iraq), with production in the fourth to commence by the end of 2023. Its products are available in 37 countries over five continents.

The Group carries out its manufacturing business through 15 fully owned plants, including 13 in Saudi Arabia, one in Sharjah (UAE), and one in Iraq. Out of the 15 plants, 9 are dedicated to manufacturing cables, electric wires of all kinds, and communication cables of both types made of copper and optic fibres. The Group owns 6 supporting factories to the 9 main cable factories in the KSA, the UAE and Iraq.

Export sales represented 36.2%, 32.0% and 31.9% of the Group's revenue in 2019, 2020 and 2021, respectively. Exports mainly related to sales to foreign markets, specifically to the United Arab Emirates through the National Cables Industry Company and Iraq through Alrowad Company for Production of Electrical Cables, in addition to export sales from established entities in the Kingdom. The company had a 22% market share in UAE in 2021

RC is focused primarily on KSA (69% of revenues in 2022, 36% market share in 2022), which is the largest GCC market and the fastest growing.

- The Group manufactures low, medium, high and extra-high voltage electrical cables and wires made from copper or aluminium along with household electrical cables and wires, fibre optic cables, copper communication cables, specialized cables, cables and overhead line (OHL) conductors.
- The company sells products through various sales channels. There are 18 sales and distribution centres spread around the Kingdom. Direct retail sales to customers account for ~25%-30% of the total revenues. The Group has 5 branches outside the country, 4 (1 in Kuwait and 3 in UAE) of which are subsidiaries of RCM.
- The Group also carries out electrical contracting projects for high voltage (HV) cables inside and outside KSA. Electrical contracting projects involve designing and constructing electricity distribution networks, excavation, installation and connection works relating to electrical cables and wires.
- Additionally, supported by a specialized team of engineers, SMC undertakes the construction and maintenance of industrial buildings and production lines. Further, the company offers industrial services, including maintenance, repair and operation of industrial, telephone, electrical, and computer machinery, along with the operation and installation of laboratory equipment.

Leadership in Cost Management

The Group's factories have vertically integrated operations and production. The company produces its own copper and aluminium rods (important components of cable conductors), making it one of the few in the region to do so. It can make and mix polymers used in insulation, lining and packaging processes and produce metal and wooden drums required for packing and shipping the finished product to its clients. This has given the company a competitive advantage in terms of production efficiency, affordability and quality preservation.

The Group is one of the biggest consumers of aluminium, copper, and other metal in the region and has built a strong relationship with various vendors from diverse geographical locations. As a result, the Group can secure substantial quantities of metals as per the requirement and negotiate for the best possible pricing. Also, the Group has been in the business for around 40 years with an experienced team using hedging instruments to safeguard against metal price changes.

New products/R&D

In order to be competitive amongst its rivals, the Group has made significant investments in the research and development of products. Current products are evaluated and designed by a dedicated research and development department. The Group has established its ability to manufacture various products with more than 3,000 high-quality cable and wire items (of different specifications and sizes) used in the energy, contracting, oil, gas, transportation, industry and communications sectors. This has given it a distinctive competitive advantage in offering turnkey solutions.

Excellent and firmly-established relationships with major customers

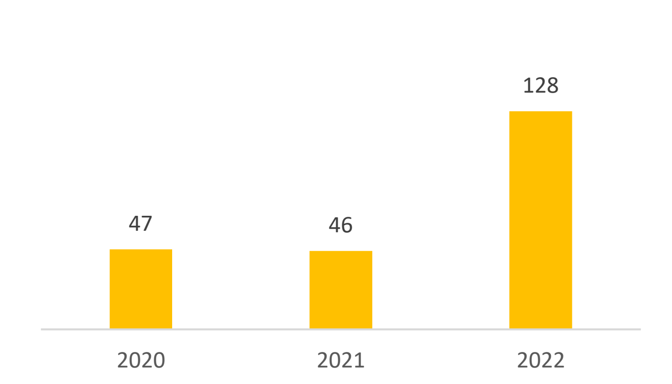
The Group provides a wide range of high-quality products and is focused on constant customer service and after-sale services, which has helped it build healthy relationships with many of its customers over the past few decades.

Strategy:

1. Deepen and expand geographic footprint: The company aims to be the leader in each target market by
    a. Strengthening leadership in KSA
    b. Increase sales across the rest of GCC
    c. Become a leader in Iraq
    d. Increase exports to other markets with the global shortage of cables
2. Products and services innovation: Be a complete cable solutions provider. Produce a wide range of existing products and services such as turnkey. Also, increase in-house technical capability, which implies several new products under launch and development
3. Cost leadership: Focus on cost and efficiency by
    a. Strong focus on manufacturing costs and overheads
    b. Efficiencies through procurement, product design, managing wastage and manufacturing process variability
    c. Overheads and working capital management
4. Organization: Focus on people and processes by
    a. Governance structures to support growth in a sustainable manner
    b. Performance management infrastructure
    c. ERP Integration
    d. Refreshing talent
    e. Succession planning
5. Environment, Social and Governance focus: Cultivate a responsible corporate culture by
    a. Reducing carbon footprint
    b. Recycling of materials used in cable manufacturing
    c. Reducing pollutants such as lead

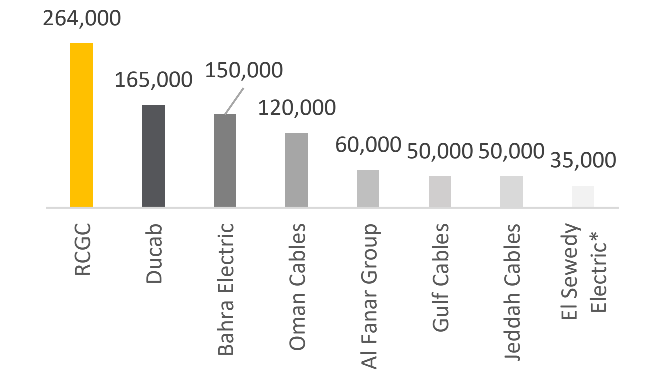
Key Charts

Figure 8: Backlog trend (Kt)



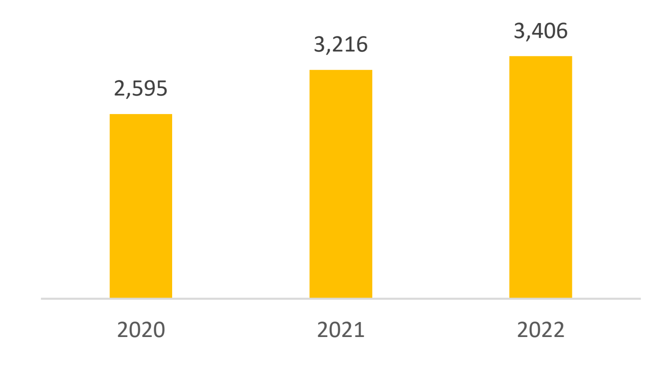
Source: Company Presentation, GIB Capital

Figure 9: ~2X capacity as a closet regional competitor (Metal MT)



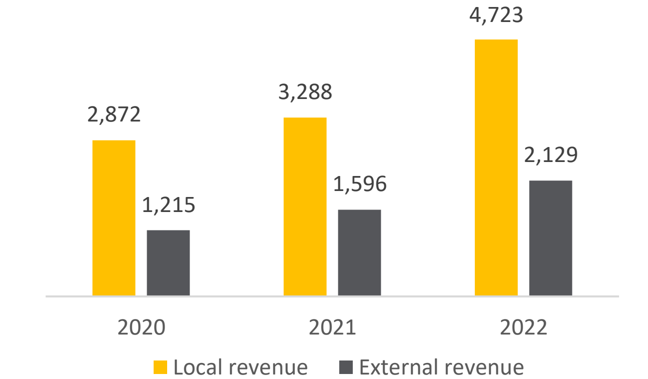
*Source: IPO Prospectus, GIB Capital, * in the GCC*

Figure 10: Gross profit per ton (SAR)



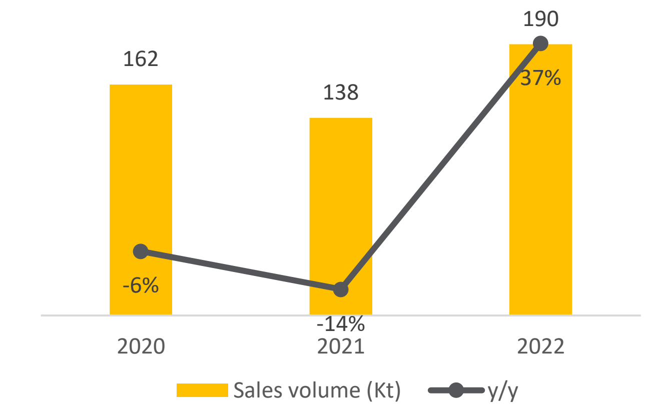
Source: Company Presentation, GIB Capital

Figure 11: Local and external revenue trend (SARmn)



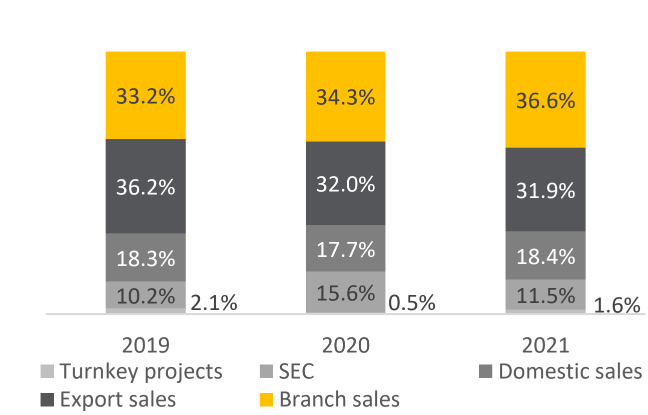
Source: Company, GIB Capital

Figure 12: Sales volume trend



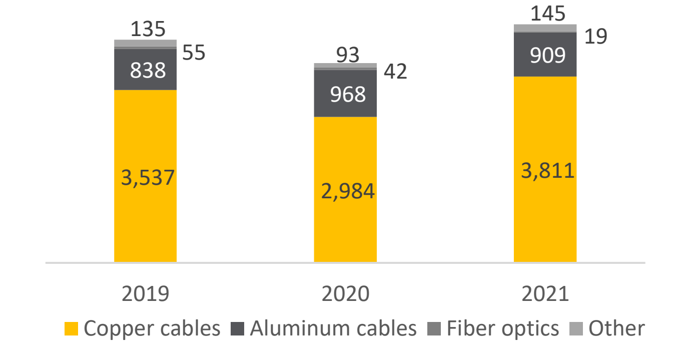
Source: Company Presentation, GIB Capital

Figure 13: Revenue by client type



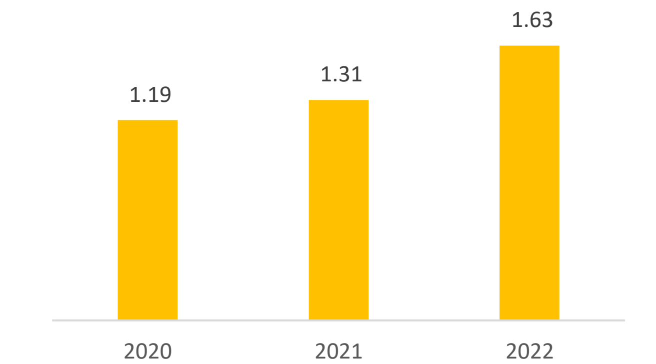
Source: Company, GIB Capital

Figure 14: Revenue by metal type (SARmn)



Source: Company Presentation, GIB Capital

Figure 15: DPS trend (SAR)



Source: Company, GIB Capital

Financial analysis

Revenue

In 2019, 2020 and 2021, ~76% of the total revenue was derived from copper cables revenue.

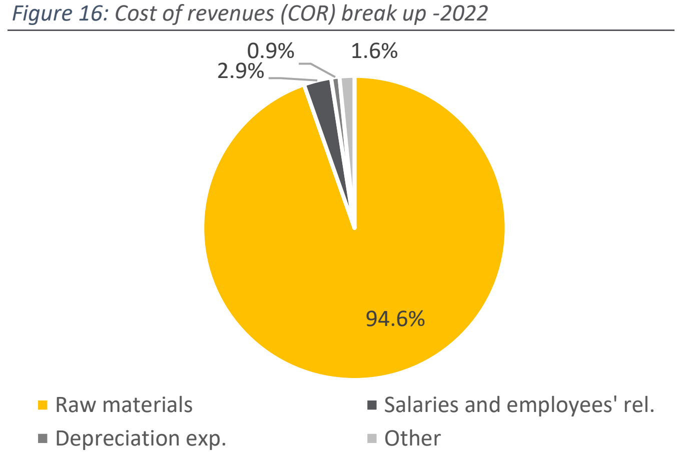
Revenue from copper cables rose by 27.7% from SAR3.0bn in 2020 to SAR3.8bn in 2021. The increase in copper revenue was driven by an average selling price per ton increase of 37.6% from SAR30.6k in 2020 to SAR42.1k in 2021. The average selling price per ton climbed, supported by an increase in the average LME price per copper ton during the same period, partially offset by a 7.2% drop in quantities sold from 97.5 thousand tons in 2020 to 90.5 thousand tons in 2021. However as we mentioned previously, it is more important to analyse volume growth and gross profit/tonne than revenues or costs.

Raw Material

The complete cost of raw materials is passed on to the customers. The raw materials costs constituted 82-86% of the Group's revenue between 2019 and 2022. Raw materials include materials used to make cables and electrical wires, primarily aluminium and copper, along with materials used for insulation and protection of electrical wires and cables. These include polyvinyl chloride (PVC), crosslinked polyethylene (XLPE), lead and other materials that are mainly used for Mechanical and Electrical insulation and conductivity.

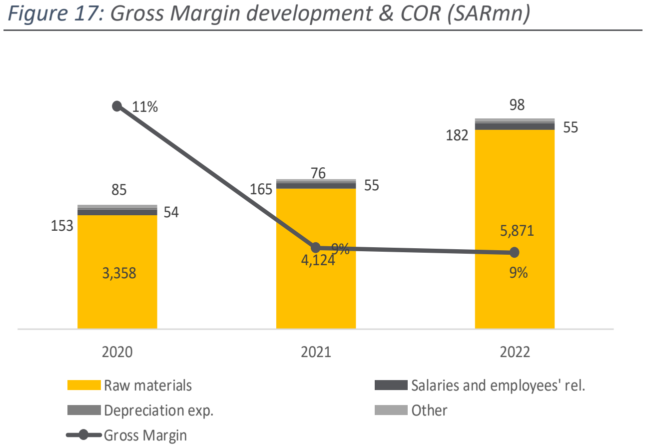
The Group generally buys raw materials from a variety of non-exclusive vendors. Although the Group buys most of its aluminium needs from Ma'aden and plastic derivative needs from SABIC and other sources. The Group implemented a policy of in-house production and continuous integration of basic operations within the manufacturing chain to lessen reliance on external manufacturers, ensuring the highest quality and best efficiency. This was done to lower costs and ensure the continuity of raw material supply chains.

Figure 16: Cost of revenues (COR) break up -2022



Source: Company, GIB Capital

Figure 17: Gross Margin development & COR (SARmn)



Source: Company, GIB Capital

Energy needs

Electricity, water, gas, diesel, and gasoline are all necessities for the Group's plants to run their production processes.

Electricity: In addition to backup diesel generators owned by RCC, the Group procures electricity required for the functioning of its factories from the main public grid of the Saudi Electricity Company. The Group's factories use about 194mn KWh of electricity yearly to run their equipment and machinery.

Industrial Water: The Group's operations are deeply reliant on industrial water in their manufacturing operations, which is utilized for cooling during various phases of operation. The company gets industrial water from the main grid of the National Water Company as well as tankers from external sources when needed. It consumes 772,000 m3 of water annually.

Gas: Gas is an important input for the company's manufacturing operations. Copper and aluminium are melted using gas. The Natural Gas Distribution Company provides the required gas to the company. The company's gas consumption amounts to 191,000 Btu per annum.

Diesel: Diesel is also required in the company's manufacturing operations. Factories' electrical generators and some machines are operated using diesel. The company buys diesel from various regional vendors. The company uses ~2mn litres of diesel annually.

The Group has a cautious hedging policy against the daily global volatility in the prices of copper and aluminium, and lead, to reducing exposure to these changes and maintaining steady profit margins on an absolute basis. This brings attention to the company's defensive model, which is based on a cost-plus basis and offers robust profitability protection.

- Operating costs. Utilities and other variable expenses will move in line with volumes. As for SG&A, we forecast the costs to be 3-4% of revenues, in line with prior trends as per the management guidance.
- Provision for doubtful debts – Historically, provisions decreased by 26.5% annually between 2019 and 2022. As a % of receivables, the ratio has decreased from 10% in 2019 to 3% in 2022.
- Provision for onerous contracts: The Group typically fixes the pricing of the metals used in the relevant manufacturing process vis-à-vis the client, in line with the terms fixed upon by the parties, when entering into a contract or receiving a purchase order/confirmation from a customer for manufacturing any of its products. Given the volatility of metal prices, the company makes provisions for what it considers to be excess revenues from such subsequent contracts to offset what it considers to be losses as a result of the said delayed contracts, which the Group classifies as onerous contracts if the delivery date is delayed for any reason. The metals are used to manufacture products under other subsequent contracts.

  In such a scenario, profits booked from subsequent contracts in the short term are offset by losses from onerous contracts in the long run. The Group's results, financial position and prospects could all be impacted by the company's inability to make adequate provisions for onerous contracts, which may affect the volatility of the profit and loss results in the near term and estimated to be balanced in the long run. The provisions for the Group's onerous contracts averaged SAR75.2mn between FY19 and FY22.

- Working Capital: Cash conversion cycle (CCC) was 143 days at the end of 2022 as compared to 185 days in 2021. The CCC improved as inventory days and receivables days decreased along with an increase in payable days.
- Debt levels: The management expects current levels of Debt/Equity of around 0.6x to continue.
- The company made an FCF of SAR247mn in 2022, corresponding to an FCF Yield of 3.2%. For 2023 and 2024, we expect FCF of SAR140mn and SAR253mn, respectively because of Capex.
- The company guided for the payout ratio to remain at around 60-80% in the future.

Valuation and risks

We use an equal mix of P/E multiple and DCF methods for valuing the company.

We expect RC's revenue to grow by 12% in 2023 and 10% in 2024. Net income is expected to grow 19% y/y in 2023 and 2024 (company guidance - 15-25% growth in 2023). We have a net margin of 5.5% in 2023 and 5.6% in 2024.

Relative valuations: For PE valuation, we use a 19x multiple on 2024 EPS and arrive at a relative valuation based target price (1 year forward) of SAR62/share.

DCF: As for DCF, based on a WACC of 8.9% with a target capital structure (D/A) of 35%, we get SAR59/ share as the DCF target price.

We arrive at a target price of SAR60/share (rounded off) based on an equal mix of multiple and DCF-based valuations. We initiate on the company with an Overweight rating.

Figure 18: DCF valuation model

DCF model (SARmn)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
EBIT	539	586	640	684	731	773	811	850
tax	(42)	(53)	(58)	(62)	(66)	(69)	(72)	(76)
Change in WC	(219)	(148)	(123)	59	(69)	(93)	(59)	(21)
Dep	62	68	74	80	86	91	97	102
Capex	(200)	(200)	(92)	(75)	(55)	(55)	(55)	(55)
FCF	**140**	**253**	**441**	**686**	**627**	**648**	**721**	**801**
Terminal Value								**12,828**
Enterprise value of explicit period	3,213							
PV of Terminal Value	7,062							
Total Enterprise Value	**10,276**							
(-)Debt, incl. lease liabilities	(1,579)							
(-) Pension/liabilties	(107)							
(+) Cash	(67)							
(+) Investment in JV	31							
(-) Minority	0							
Equity value	**8,554**							
Number of shares	150							
Equity value per share	57							
Adjusted DCF-based equity value per share*	**59**							
Cost of Equity	11.0%							
Cost of debt	5.0%							
Target D/A	35%							
WACC	**8.9%**							

Source: GIB Capital

Figure 19: Peer comparison

	Country	Mkt Cap (US$mn)	P/E Ratio (TTM) (x)	Est P/E Current Yr (x)	EV/T12M EBITDA (x)	Dividend Yield - FY1 (%)	P/B (x)
Sector							
ElSewedy Electric Co	Egypt	899	6.0	5.0	5.0	5.6	1.1
Gulf Cables & Electrical Indus	Kuwait	773	15.0	NA	NA	NA	1.1
Electrical Industries Co	Saudi Arabia	384	18.0	NA	NA	NA	2.4
Middle East Specialized Cables	Saudi Arabia	107	NA	NA	74.0	NA	1.2
Oman Cables Industry	Oman	388	13.0	NA	6.0	NA	1.3
KEI Industries Ltd	India	1,747	38.0	30.0	22.0	0.3	6.7
NKT A/S	Denmark	2,168	NA	NA	NA	NA	NA
Nexans SA	France	4,304	16.0	16.0	7.0	2.0	2.4
Median		**836**	**15.0**	**18.0**	**14.0**	**2.9**	**1.3**
Top Saudi companies							
Saudi Arabian Oil Co	Saudi Arabia	1,904,128	12.0	13.0	6.0	4.8	4.5
Saudi Basic Industries Corp	Saudi Arabia	71,105	16.0	20.0	8.0	5.0	1.4
Saudi Telecom Co	Saudi Arabia	50,333	15.0	14.0	7.0	4.6	2.6
Saudi Arabian Mining Co	Saudi Arabia	41,096	17.0	21.0	10.0	0.0	3.4
ACWA Power Co	Saudi Arabia	26,168	74.0	45.0	46.0	2.4	5.3
Saudi Electricity Co	Saudi Arabia	24,434	18.0	NA	5.0	3.2	0.4
Dr Sulaiman Al Habib Medical S	Saudi Arabia	22,836	52.0	46.0	43.0	1.7	14.6
SABIC Agri-Nutrients Co	Saudi Arabia	16,557	6.0	10.0	5.0	5.9	3.1
Almarai Co JSC	Saudi Arabia	14,434	30.0	27.0	13.0	2.1	3.3
Elm Co	Saudi Arabia	8,714	34.0	30.0	27.0	1.7	10.4
Median		25,301	**17.0**	**21.0**	**9.0**	**2.8**	**3.3**
Riyadh Cables	**Saudi Arabia**	**2,028**	**21.6**	**18.4**	**18.3**	**4.3**	**3.6**

Source: Bloomberg, GIB Capital

Figure 20: Relative valuations and Average valuations

P/E based valuation	
P/E	19
EPS 2024	3.2
1yr fwd PE-based price	**62**

Valuation	
PE price	62
DCF price	59
Average target price (SAR)	**60**

Source: GIB Capital

Risks: Key downside risks include the following:

Sustained sharp drop in oil price: Any adverse movement in oil prices will curtail the PIF's ability to invest in mega projects and other infrastructure projects, which may negatively impact the real estate activities in the Kingdom.

Persistent increase in inflation: This may increase the cost of construction, which could lead to a possibility of a cut in market potential.

Inability to hedge: The company's inability to price the products in line with the increase in LME could lead to erosion of margins.

Higher competition: The cable industry is typically very competitive, and hence additional new entrants due to changes in import fees etc., may lead to the company losing some competitive advantage.

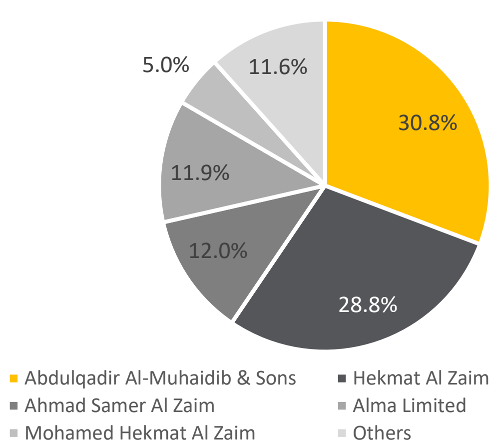
Others: Geopolitical reasons and unfavorable regulations are some other key risks for the stock.

Ownership – Pre and Post

IPO details:

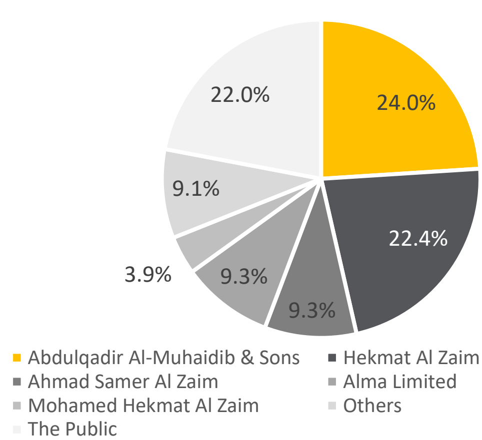
- The book-building price range was set at SAR 39-43/share, and the company began trading on 19th December 2022.
- The company offered 33mn shares, or 22% of its capital, on the main market, at SAR 43 per share, of which 90% was allocated to the participating parties and 10% to individual investors
- The retail subscription was 671.5% covered while participating parties IPO was 71.8x subscribed.
- Each retail investor received a minimum of eight shares, while the remaining shares were allocated pro rata based on the demand size of every subscriber to total shares.

Figure 21: Pre IPO ownership



Source: GIB Capital, Company

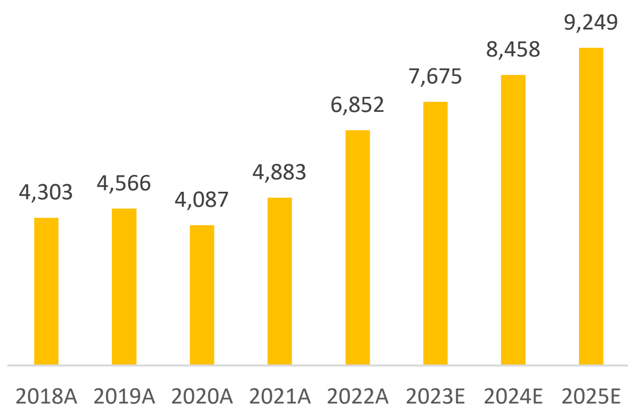
Figure 22: Post IPO Ownership



Source: GIB Capital, Company

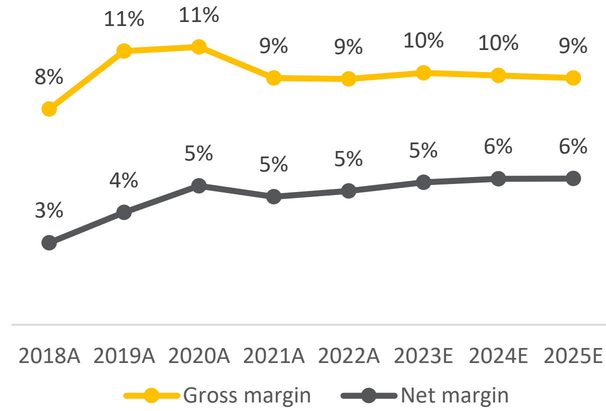
Financial analysis in charts

Figure 23: Annual revenues (SARmn)



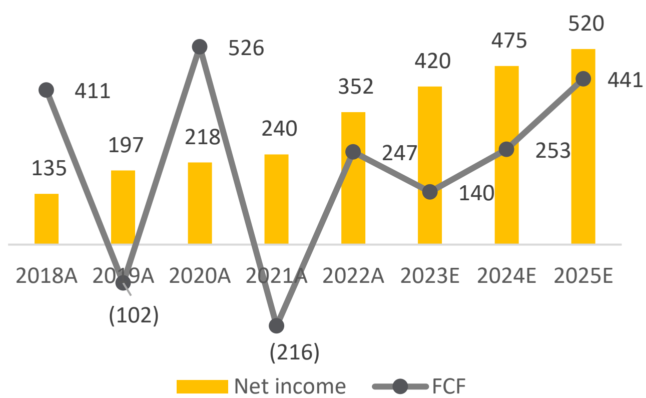
Source: Company data, GIB Capital

Figure 24: Annual gross and net margin



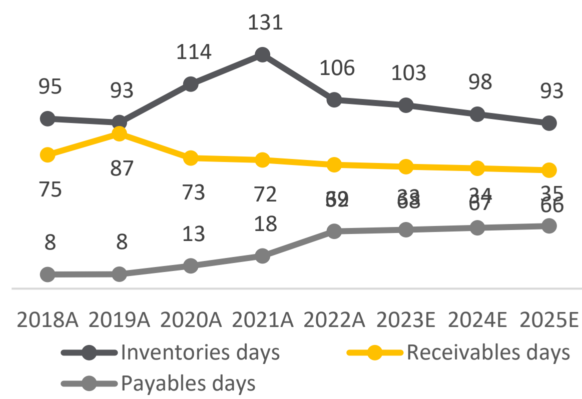
Source: Company data, GIB Capital

Figure 25: FCF and net income (SARmn)



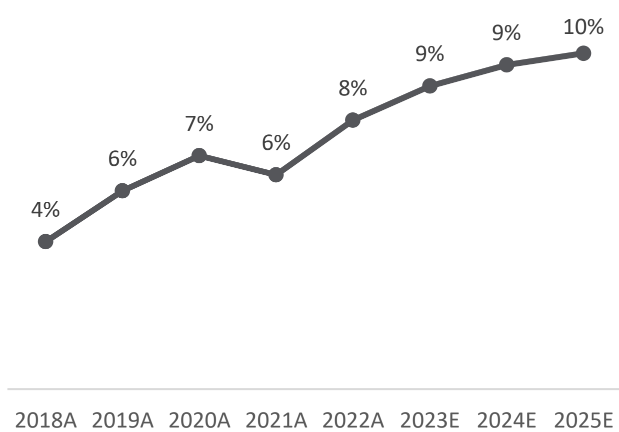
Source: Company data, GIB Capital

Figure 26: Inventory, receivables, and payable days



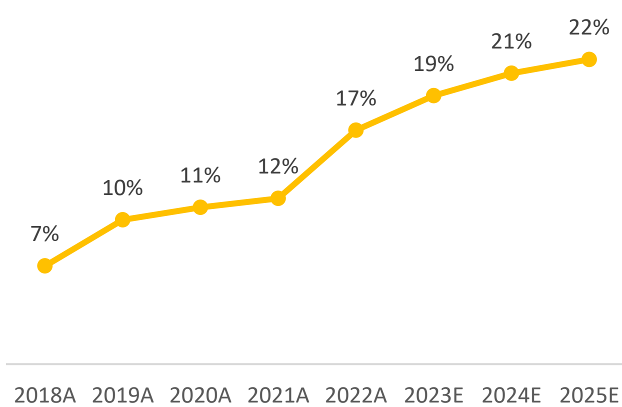
Source: Company data, GIB Capital

Figure 27: Return on assets



Source: Company data, GIB Capital

Figure 28: Return on equity



Source: Company data, GIB Capital

Financials

Figure 29: Summarized basic financial statements (SARmn)

Income statement	2021a	2022a	2023e	2024e	2025e
Revenue	**4,883**	**6,852**	**7,675**	**8,458**	**9,249**
revenue y/y	*19%*	*40%*	*12%*	*10%*	*9%*
COGS	4,420	6,205	6,932	7,647	8,372
Gross Profit	**463**	**647**	**743**	**811**	**877**
Gross Profit margin	*9%*	*9%*	*10%*	*10%*	*9%*
Selling and distribution expenses	92	103	111	123	125
General and administrative expenses	79	100	107	118	129
Operating profit	**303**	**458**	**539**	**586**	**640**
Operating margin	*6%*	*7%*	*7%*	*7%*	*7%*
Finance costs	32	73	78	59	62
PBT	**271**	**385**	**461**	**527**	**577**
Zakat/tax	31	29	42	53	58
Net income attributable to equity holders	**240**	**352**	**420**	**475**	**520**
Net margin	*5%*	*5%*	*5.5%*	*5.6%*	*6%*
y/y	*10%*	*47%*	*19%*	*13%*	*10%*
EPS	**1.6**	**2.3**	**2.8**	**3.2**	**3.5**
DPS	1.3	1.6	2.2	2.5	2.8
Payout	82%	70%	80%	80%	80%
EBITDA	**363**	**516**	**601**	**654**	**714**
Net debt (w/o lease liabilities)	1,274	1,361	1,635	1,821	1,859
Net debt (w/ lease liabilities)	1,285	1,371	1,646	1,832	1,871

Balance Sheet	2021a	2022a	2023e	2024e	2025e
Inventories	1,586	1,796	1,949	2,045	2,125
Trade receivables	963	1,301	1,436	1,559	1,679
Cash and cash equivalents	50	107	(67)	(153)	(91)
Total Current Assets	**2,670**	**3,333**	**3,460**	**3,608**	**3,884**
Property, plant and equipment	1,155	1,120	1,258	1,390	1,409
Intangible assets	67	68	68	68	68
Total Non-Current Assets	**1,283**	**1,291**	**1,431**	**1,564**	**1,583**
Total Assets	**3,953**	**4,624**	**4,891**	**5,172**	**5,466**
Current Liabilities	1,800	2,381	2,563	2,749	2,939
Non-current Liabilities	116	123	124	124	125
Equity	2,036	2,121	2,204	2,298	2,402
Total Equity and Liabilities	**3,953**	**4,624**	**4,891**	**5,172**	**5,466**
BVPS	13.6	14.1	14.7	15.3	16.0

Cashflow	2021a	2022a	2023e	2024e	2025e
Cashflow from Operations	-208	185	262	394	471
Cashflow from Investing	-72	-37	-200	-200	-92
Cashflow from Financing	267	-91	-236	-280	-316
Total Cashflows	**-13**	**56**	**-174**	**-86**	**62**

Source: Company, GIB Capital

Figure 30: Key ratios

Key ratios	2021a	2022a	2023e	2024e	2025e
Profitability ratios					
RoA	6%	8%	9%	9%	10%
RoE	12%	17%	19%	21%	22%
Sales/Assets	124%	148%	157%	164%	169%
Net margin	4.9%	5.1%	5.5%	5.6%	5.6%
Liquidity ratios					
Current Assets/ Current Liabilities	1.5	1.4	1.4	1.3	1.3
Debt to Total equity (w/ IFRS liab.)	0.7	0.7	0.7	0.7	0.7
Receivable Days	72	69	68	67	66
Inventory Days	131	106	103	98	93
Payable days	18	32	33	34	35
Cash conversion cycle	185	143	138	131	124
Debt ratios					
Net Debt/EBITDA	3.5	2.6	2.7	2.8	2.6
Debt/Assets	0.3	0.3	0.3	0.3	0.3
Net Debt/Equity	0.6	0.6	0.7	0.8	0.8
Valuation ratios					
P/E	31.7	21.6	18.1	16.0	14.6
P/B	3.7	3.6	3.5	3.3	3.2
EV/EBITDA	26.0	18.3	15.7	14.5	13.2
FCF Yield	-2.8%	3.2%	1.8%	3.3%	5.8%
Dividend Yield	2.6%	3.2%	4.4%	5.0%	5.5%

Source: Company, GIB Capital

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