Equity Research report
RIYADHCA AB Equity
7 December 2023

GIB CAPITAL جي آي بي كابيتال

Target Price: SAR92.0/share
Current Price: SAR84.9/share
Upside: +8% (+Div. Yield: 3.6%)
Rating: Neutral

Riyadh Cables (RCG)

Raise TP to SAR92/sh. on better-than-expected margins

- Strong demand-based growth looks intact, backed by robust backlog, utilization rates, and capacity expansion amid rising demand.
- Gross profit/ton jumped significantly to a record level on the favorable mix; the trend is likely to continue in the near-term due to favorable backlog mix.
- We raise our TP to SAR92/share using both DCF and P/E valuations but revise our rating to Neutral on the stock post a 38% rally since our last published report.

Capacity expansion and robust margins to fuel growth: RCG continued to demonstrate the strong performance, on the back of the rising demand for wires and cables in KSA (+8.3% CAGR over 2022-27e), GCC countries ex-KSA (+6%) and Iraq (+7%). According to MEED (Aug 2023), the total value of GIGA project awards may rise by 25% y/y to US$31.7bn in 2023e. Moreover, almost US$520bn worth of contracts are likely to be awarded over July 2023-25e, implying a robust demand for cables, mainly for high-margin high voltage cables (accounting for ~25% of total revenues). Accordingly, we expect utilization rates to remain firm (98% in 9M23 vs. 90% in 2022) going forward. In addition, to capitalize the growth potential, RCG aims to add 6-10% additional capacity with a capex of SAR200mn by 2023e. Another 10% incremental capacity is likely to come online by 1Q24e. Overall, we expect sales volume to increase by 20% y/y (+21% y/y in 9M23; Figure 2) in 2023e and ~12% y/y in 2024e, thereby ensuring sustainable top-line growth (+9% CAGR over 2022-27e) going forward.

Further, the company posted an impressive growth in gross profit/ton (+34% y/y in 9M23; Figure 3) with gross margin expanding by 3.3ppts to reach 12-13% (above our expectations) in 2Q-3Q23, aided by favorable product/sales mix, better pricings, improved cost efficiencies and better hedging activities. Going forward, we expect the gross margins to sustain at around the current level in the near term, before start normalizing gradually from 2025e, as around 50-55% of the total backlog is of high voltage, extra high voltage, and OHL.

Revised guidance and our estimates: Post solid 9M23 results, RCG expects the 2023e earnings growth to be at the upper end of its guidance of 25-35% (15-25% earlier guidance given in 1Q), which looks very conservative in our view. Considering its strong growth momentum, robust backlog (Figure 4-5), several GIGA projects, and consistent execution track record, we expect the company to beat its 2023e earnings growth guidance and may witness a ~46% y/y jump in earnings in 2023e. Overall, we revise our top-line estimates upwards by 1-3% and earnings forecasts by 17-30% for 2023-27e, mainly driven by rising demand and margin expansions.

Figure 1: Key financial metrics

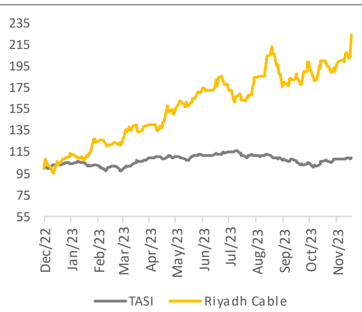
SARmn	2022a	2023e	2024e	2025e
Revenue	6,852	7,985	8,963	9,643
Revenue growth	*40%*	*17%*	*12%*	*8%*
Operating Profit	458	656	804	875
Operating margin	*7%*	*8%*	*9%*	*9%*
Net profit attributable to equity holders	352	515	654	722
Net profit margin	*5%*	*6%*	*7%*	*7%*
EPS (SAR)	2.3	3.4	4.4	4.8
DPS (SAR)	1.5	2.2	3.1	3.6
P/E	36.1x	24.7x	19.5x	17.6x

Source: Company data, GIB Capital

Stock data	
TASI ticker	4142
Mcap (SARmn)	12,735
Avg. Trd. Val (3m) SARmn	31.3
Free float	31.0%
QFI holding	13.7%
TASI FF weight	0.53%

Source: Bloomberg

Prices indexed to 100



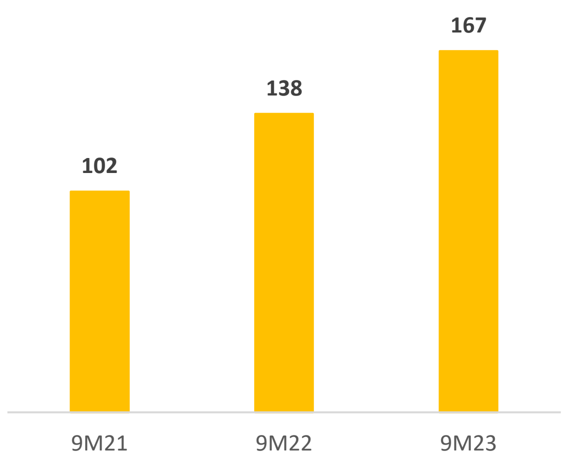
Source: Bloomberg

Kunal Doshi
+966-11-834 8372
Kunal.doshi@gibcapital.com

Abdulaziz Alawwad
+966-11-834 8486
Abdulaziz.alawwad@gibcapital.com

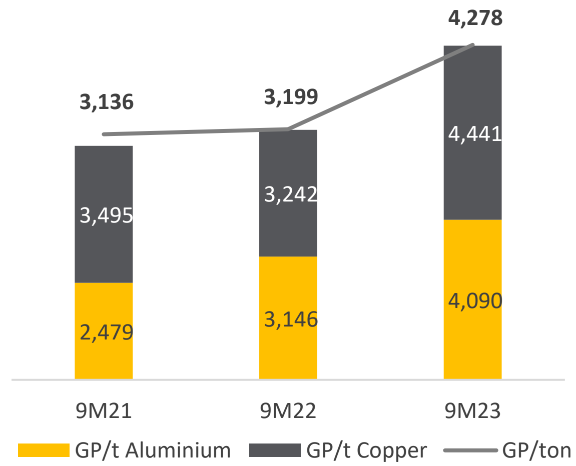
Recap of 3Q23 performance: Riyadh Cable posted largely in-line 3Q23 results with revenue growing 17.6% y/y (+8.5% q/q; around 4% higher than our as well as consensus estimates), aided by strong demand. Gross profit jumped 70.3% y/y (+18% q/q), outpacing the top-line growth and beating our estimates, driven by a better-than-expected product mix. However, the company charged SAR41mn expenses related to the reversal of allowance for expected credit losses and incurred SAR7mn losses on the sale of assets (both were not factored in our estimates), limiting the growth at the operating level. Overall, net profit came in at SAR133mn (+43.3% y/y; 4.5% q/q), largely in line with our estimate of SAR136mn (consensus: SAR126mn).

Figure 2: Sales volume trend (Kt)



Source: Company Presentation, GIB Capital

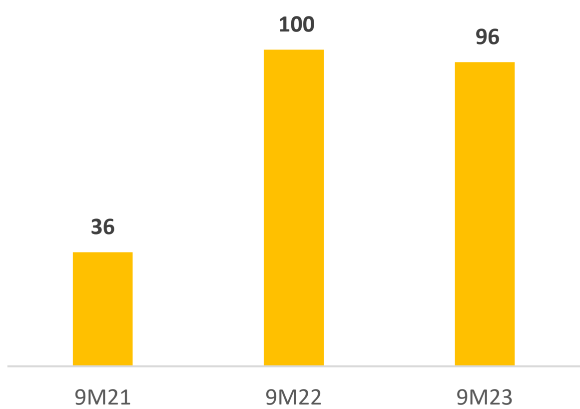
Figure 3: Gross profit/t trend (SAR)



Source: Company Presentation, GIB Capital

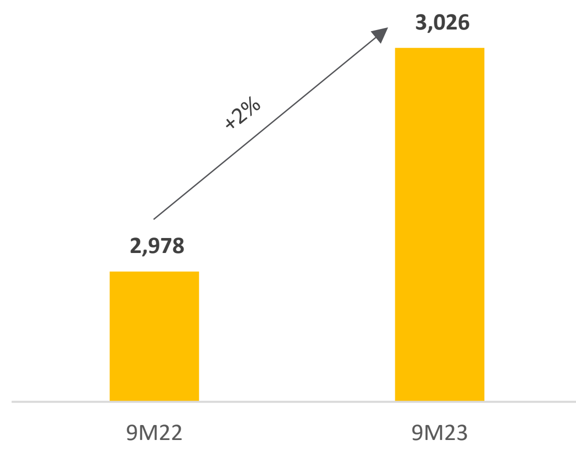
Strong backlog: The company has a healthy and confirmed backlog of over SAR3bn (~96k tons) as of 9M23, which provides revenue visibility for the near term.

Figure 4: Backlog trend (Kt)



Source: Company Presentation, GIB Capital

Figure 5: Backlog trend (SARmn)



Source: Company Presentation, GIB Capital

Valuation and risks: We continue to value Riyadh Cables using an average of DCF and P/E (19x 2024 EPS) methods, which yield us a weightage average TP of SAR92/sh, implying a Neutral rating on the stock. Further, we expect the company to distribute 65-70% of its profits as dividends for 2023-24e, implying a DPS of SAR2.2/sh. and SAR3.1/sh. (3.6% yield), respectively. Key downside risks include a significant fall in crude oil prices, a slowdown in the execution of mega projects, an inability to hedge because of unfavorable regulations, and one-time cost increase because of capacity addition.

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Contact us for queries:

Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
www.gibcapital.com