

Riyadh Cables Group Co

Electric Utilities: Utilities
RIYADHCA AB: Saudi Arabia
3 September 2023



US\$3.172bn Market Cap
31.03% Free Float
US\$5.48mn Avg. Daily Value Traded

Target price 85.00 **7% above current**
Current price 79.30 **as at 03/09/2023**

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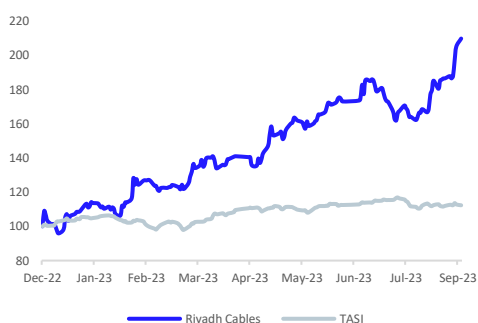
Existing rating

Underweight **Neutral** Overweight

Riyadh Cables Group Co.

TP raised to SAR85/sh; revised to Neutral

Performance (Rebased to 100)



Earnings Snapshot

Period End (SARmn)	2022	2023E	2024E
Revenue	6,852	7,850	8,104
Y/Y %	40.3%	14.6%	3.2%
Gross Profit	647	917	963
GP Margin %	9.4%	11.7%	11.9%
Y/Y %	39.7%	41.7%	5.1%
EBITDA	521	714	784
EBITDA Margin	7.6%	9.1%	9.7%
Net Income	352	497	565
Net Income Margin %	5.1%	6.3%	7.0%
Y/Y %	47%	41.0%	13.8%
EPS	2.35	3.31	3.77
DPS	1.63	2.12	2.41
Dividend payout ratio (%)	70%	64%	64%
ROE	17%	24%	25%

Source: Company data, Al Rajhi Capital.

Riyadh Cables displayed an impressive growth of 28% y-o-y in total cable volumes sold, while the average utilization levels clocked in at 98% in 1H23. Currently, the confirmed order backlog stands at a whopping SAR3.2bn as against SAR3.0bn last year, implying that utilization levels are likely to remain elevated in the near future as well. Apart from volumes sold, the company has managed to improve its gross profit per ton to record levels in 2Q23, at SAR4,552 per ton (as per our calculations) vs. SAR3,457 per ton in 2Q22. Lastly, the company expects its expansion of ~17k tons to come online in 2H23, which will further improve volumes. Consequently, the company has revised up its net profit guidance from a range of 15–25% to 25–35%. For 2H23, we have revised total cable volumes sold by 18% and kept GP/ton at a slight discount to 2Q23 levels. We believe that the company will beat its net profit guidance and expect FY23 earnings to grow by 41% y-o-y. Going forward, we have revised up our assumptions of cable volume sold by 11% for FY24/25, while taken in improved GP/ton resulting in an increase in FY24/25E EPS by 25% each year. As a result, we have revised up our TP to SAR85/sh. However, the stock has rallied by 119% YTD and 84% from its debut price on Tadawul and now provides an upside of only 7% to the last close. Hence, we revise down our rating from "Overweight" to "Neutral" on the stock.

Figure 1 Earnings and Guidance revision

	FY23E EPS	FY24E EPS	FY23 Capex	FY23 Net Income
Previous	2.7	3.0	SAR 200mn	15%-25% higher
Current	3.3	3.8	No Change	25%-35% higher
Change	23%	26%		

Source: Company data, Al Rajhi Capital

1H23 Earnings Performance: Riyadh Cable's revenue in 1H23 grew 19% y-o-y reaching SAR 3,855mn, primarily driven by increase in overall volumes (28% y-o-y) owing to strong domestic demand and strong demand coming from GCC markets coupled with healthy product mix. Gross profits came in at SAR 455mn, growing 55% y-o-y, with gross margins clocking in at 12%, an improvement of 2.8pp y-o-y. The improvement in margins can be attributed to realised efficiencies and improved mix. Gross profit per ton (as per our calculations) increased by 21% y-o-y in 1H23 owing to better mix, pricing, and cost efficiencies. Higher gross profits and operating profits resulted in a 64% y-o-y increase in net profit to SAR 252mn, with implied margin of 7% as compared to 5% in 1H22.

Figure 2 1H23 Earnings Summary

(SAR mn)	1H23	1H22	Y-o-Y	Q2 2023	Q2 2022	Y-o-Y	Q1 2023	Q-o-Q
Revenue	3,855	3,252	19%	1,918	1,691	13%	1,937	-1%
Gross profit	455	294	55%	237	142	67%	219	8%
Gross margin	12%	9%		12%	8%		11%	
Operating profit	319	194	64%	163	93	76%	155	5%
Operating margin	8%	6%		9%	5%		8%	
Net profit	252	153	64%	127	69	84%	125	2%
Net margin	7%	5%		7%	4%		6%	

Source: Company data, Al Rajhi Capital

Riyadh Cables Group Co.

Electric Utilities: Utilities

3 September 2023

Valuations: We value Riyadh Cables using the Discounted Cash Flow (DCF) methodology to arrive at our revised target price of SAR85/sh. The stock provides an upside of only 7% from its last closing. The stock has rallied by 119% YTD and 84% from its debut price. Hence, we revise down our rating from “Overweight” to “Neutral”.

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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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g., DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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