



US\$0.967bn Market cap
77% Free float
US\$10.08mn Avg. daily volume

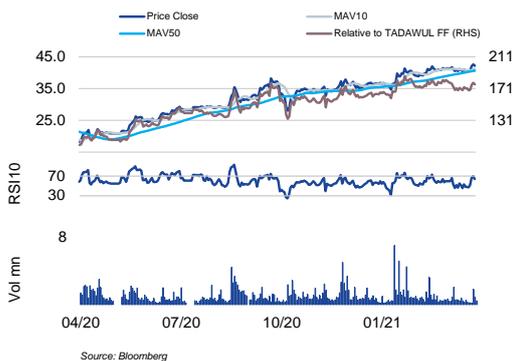
Target price **56.00** 23.5% over current
 Current price **45.35** as at 22/4/2021

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Existing rating
Underweight **Neutral** **Overweight**

Performance



Earnings

SAR(Mn)	2020A	2021E	2022E
Revenue	1,516	1,668	1,875
Revenue growth	23%	10%	12%
Gross Profit	392	550	619
Gross Margin %	26%	33%	33%
Operating Income	127	280	343
Operating margin %	8%	17%	18%
Net income	78	259	322
Net margins	5%	16%	17%
EPS	0.97	3.24	4.02
DPS	0.00	0.97	1.21
Payout	0%	30%	30%
P/E	46.7x	14.0x	11.3x
EV/EBITDA	17.0x	10.3x	8.5x

Source: Company data, Al Rajhi Capital

Saudi Ceramic

Strong revenue growth to continue; Raise TP to 56/sh

Saudi Ceramic Q1 2021 revenue came in at SAR440mn (+12% y-o-y) higher than our estimate of SAR417mn by 5.6%. Revenue growth was led by the price hike (in tiles segment) and volume growth across the segment. The improvement in capacity utilization especially in sanitary ware and tiles led to an improvement in operating leverage and thereby gross margin by 1170bps to 33.5% (21.8% in Q1 2020 and 26.3% in Q4 2020). Higher operating income and lower finance cost, at the back of debt reduction, resulted in more than 6x growth in net income to SAR71 mn and was better than our estimate of SAR47mn. We remain bullish on Saudi Ceramics as we witness strong demand stemming from mortgage projects, PIF backed projects and other giga-projects. We see further room for price increase of tiles as cheaper imported inventory gets depleted in few months which should lead to margin expansion. Added to this, the steps taken by the company to reduce its leverage are also likely to lower its finance cost, aiding further improvement in profitability and dividend. Thus, post-Q1 2021 earnings we increase our target price from SAR47/sh to SAR56/sh and maintain our “overweight rating”

Figure 1 Earnings Summary

SAR(mn)	Q1 2021	Q4 2020	Q1 2020	% chg y-o-y	% chg q-o-q	ARC est
Revenue	440	368	393	12%	20%	417
Gross Profit	147	97	86	72%	53%	117
Gross Margin	33%	26%	22%	NM	NM	28%
Net income	71	28	11	565%	152%	47
Net Margin	16%	8%	3%	NM	NM	11%

Source: Company data, Al Rajhi Capital

Key growth drivers:

- 1) Strong revenue pipeline, as indicated by the continued momentum of mortgage loans and PIF backed projects
- 2) The government’s encouragement of domestic players, through its stress on local content, provides Saudi Ceramic an edge over imports.
- 3) Saudi ceramics being a market leader is the price setter and we see further room for price increase in tiles segment as the inventory of imported tiles gets depleted in upcoming months
- 4) Deleveraging of balance sheet to reduce financing expense and improve net margins and dividends in future



Valuation: We use a 50% DCF and 50% relative valuation using P/E of 18.5x to value Saudi Ceramic. Our DCF based target price (based on 9.9% WACC and terminal growth of 2%) is SAR56/sh and the relative valuation-based target price, based on 18.5x P/E, is SAR56/sh, resulting in a weighted average target price of SAR56/sh, which implies 23.5% upside from CMP of SAR45.35/sh.

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

- 1) A fall in government spending due to lower oil prices could have a negative impact on the offtake of the company's products
- 2) Resurgence in Covid cases and any steps taken by the government to curb the same, including the announcement of a fresh lockdown, could have a negative impact on the company's valuation.
- 3) Increased competition from local GCC players



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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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