



Construction Sector Performance to improve

- The construction sector performance has shown signs of recovery in Q3 2022. Local cement sales volumes increased by 5.4% y-o-y between Jul-Nov 2022 period, compared to a fall of 7.6% y-o-y for M6 2022. Consistent offtake of new residential loans, along with the softening of construction material prices has aided the recovery of the construction sector in the Kingdom. Growth in residential mortgages continues to be strong with the new residential mortgages averaging SAR10.7bn per month for the period Jan-Oct 2022. Going forward, we expect the strong offtake in mortgages to continue, as we expect new mortgage to average SAR7bn per month in 2023, with the overall residential mortgage growing at a CAGR of 12% between 2022 and 2024.
- Based on the government budget figures, as per our assessment, the Government's 2023 budgeted revenues are likely based on Brent of ~US\$78/bbl, (Bloomberg consensus estimate of Brent prices is USD79/bbl for 2023) which is likely to aid in strong government spending. In line with this, 2023e spending budget has been projected to increase by 9% y-o-y. Given this we expect to see an acceleration in the execution of Mega and Giga projects, which in turn is likely to aid in the recovery of the construction segment.
- The recovery in the construction segment will aid the performance of Bawan positively, given that c.70% of the company's revenue is from this segment. We expect steel prices to soften in 2023, though we do not expect the same to have a major impact on the financials of the company, since the company maintains less than a month of steel inventory, and any changes in the prices are transferred to the end-user. However, the scenario of increasing global interest rates is likely to impact the company's cost of borrowing and the resultant cost of capital. The company is currently trading at 10.7x its 2023 EPS, which we feel is attractive and provides upside. Added to this, we expect the company to maintain a DPS of SAR1.7 per share for 2022 and 2023, a dividend yield of 5.5%, which is close to the current SAIBOR rate. Overall, we value the company based on an equal mix of DCF and relative valuation. The DCF-based target price has a 2% terminal growth and 11.9% WACC and comes to SAR35/sh. P/E based relative valuation has a 13x multiple and gives a target price of SAR37/sh. Thus, **we have revised our target price for the company to SAR36/sh, an upside of 17.3%, which implies an "Overweight" rating.**
- The recovery in the construction segment is also likely to aid Saudi Ceramics positively. Added to this, adverse commodity prices, which was having a negative impact on the company's heater segment is also likely to ease, with the softening of commodity prices. The company's strong market position will also aid its performance, though the recent trend of increasing competition is likely to limit the upside. Also, the scenario of increasing interest rate is likely to keep the interest cost of the company high. Currently, the company is quoting at 12.4x its 2023 EPS, which we feel discounts most of the positives restricting any upside. Overall, we value the company based on an equal mix of DCF and relative valuation. Our DCF based target price based on 11.4% WACC and terminal growth of 2% is SAR33/sh and the relative valuation-based target price, based on 13x P/E, is SAR31/sh, resulting in a **weighted average target price of SAR32/sh, which implies a upside of 5.4%, and an "Neutral" rating.**



Figure 1. Changes in Target price

Companies	Old Tp SAR/sh	New Tp SAR/sh	Revision in TP %	CMP	Up/down to CMP %	Rating
Bawan	42	36	-14.3%	31	17.3%	Overweight
Saudi Ceramics	41	32	-22.0%	30	5.4%	Neutral

Source: Al Rajhi Capital

Figure 2. Residential Mortgage ad Cement sales volume



Source: SAMA, Yamama Cement and Al Rajhi Capital

Figure 3 Financial Summary – Bawan

(SARmn)	2022E	2023E	2024E
Revenue	3,573	3,460	3,568
Revenue growth	11%	-3%	3%
Gross profit	436	451	474
Gross margin	12%	13%	13%
EBITDA	300	319	341
EBITDA margin	8%	9%	10%
Net profit	167	173	185
Net margin	5%	5%	5%
EPS	2.8	2.9	3.1
DPS	1.7	1.7	1.8
Payout ratio	60%	60%	60%
EV/EBITDA	8.8x	8.1x	7.6x
P/E	11.0x	10.7x	10.0x
RoE	20.7%	19.7%	19.5%

Source: Company data, Al Rajhi Capital

Figure 4 Financial Summary – Saudi Ceramics

SAR(Mn)	2022E	2023E	2024E
Revenue	1,487	1,550	1,647
Revenue growth	-3%	4%	6%
Gross Profit	467	501	555
Gross Margin	31%	32%	34%
EBITDA	325	347	386
EBITDA margin	22%	22%	23%
Net income	183	195	243
Net margins	12%	13%	15%
EPS	2.3	2.4	3.0
DPS	1.0	1.3	1.5
Payout	44%	51%	49%
P/E	13.3x	12.4x	10.0x
EV/EBITDA	9.4x	8.4x	7.2x
ROE	10.3%	10.4%	12.2%

Source: Company data, Al Rajhi Capital



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