



US\$0.454bn Market cap
77% Free float
US\$2.585mn Avg. daily volume

Target price **36.00** 25% over current
 Current price **28.40** as at 11/11/2019

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

Performance



Source: Bloomberg

Earnings

(SAR mn)	2018	2019E	2020E	2021E
Revenue	1,028	1,227	1,545	1,648
Revenue growth		19.3%	25.9%	6.7%
Gross profit	108	255	528	593
Gross margin	10.5%	20.8%	34.2%	36.0%
EBIT	(157)	5	278	343
EBIT margin	NA	0.4%	18.0%	20.8%
Net Income	(220)	(49)	218	283
Net margin	NA	NA	14.1%	17.2%
EPS	-4.40	-0.82	3.64	4.71

Source: Company data, Al Rajhi Capital

Saudi Ceramic

Further boost from anti-dumping duty on imported tiles; Raise TP to 36/share

The GCC Bureau of Technical Secretariat for Anti Injurious Practices in international trade (TSAIP) has announced an anti-dumping duty ranging from 5.8% to 106% on Indian, Chinese and Spanish tiles manufacturers. India alone accounted for ~60% of the total imports of tiles in Saudi Arabia in 2018. We believe this news to have a positive impact on the GCC tiles manufacturers such as Rak Ceramics, Al-Anwar Ceramics and Saudi Ceramics. The average anti-dumping duty stands at 40%, as per our understanding. In our earlier re-initiation coverage report published on November 4th 2019 we didn't include any impact of anti-dumping duty due to lack of clarity on decision. Post this announcement we revise our forward looking estimates and increase the target price of Saudi Ceramics to SAR36/sh (earlier SAR30/sh) implying further 25% upside from current market price.

Valuation and key assumption: We have assumed a 40% anti-dumping duty on CIF price of imported tiles and thereby conservatively assume the company to increase tile prices by 30% for 2020e and 2021e. We revert back to old prices i.e., the current level (2019) as we believe the duties to be imposed for a limited duration. For valuing the company we have used an equal mix of DCF based valuation and relative valuation to value SCERCO. Our DCF based target price stands at SAR38.6 based on a WACC of 9% and terminal growth of 2%. For relative valuation we have used average EV/EBIDTA multiple of global peers and consumer companies in Saudi Arabia as an exit multiple and valued SCERCO at 11.5x (15% premium reflecting the future earnings growth we are expecting for the company). Our relative valuation target price stands at SAR33.4 accordingly our equal weighted target price stands at SAR36/sh.

Figure 1: Impact of anti-dumping duty on 2020e EPS

	Duty @ 15%	Duty @ 20%	Duty @ 25%	Duty @ 40%
Export Price of tiles from India post fuel price adjustment	14.29	14.29	14.29	14.00
Price post anti dumping duty	16.43	17.15	17.86	18.20
Incremental Profit per sq.m	2.14	2.86	3.57	4.20
SERCO operational Capacity (mn sq.m)	50	50	50	52
Total profit assuming 100% capacity utilization	107	143	179	218
Profits before duty impact	14	14	14	14
Incremental Profit due to price increase	93	129	165	204
No of shares	60	60	60	60
New EPS	1.79	2.38	2.98	3.63

Source: Company data, Al Rajhi Capital (@40% duty we have assumed a price increase of 30%)



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