

## Neutral

### Price Target (SAR): 25.00

Current: 26.90  
Upside/Downside: 7.1% below current

Valuation Multiples	22	23E	24E
P/E (x)	12.4	NM	36.7
P/B (x)	1.2	1.3	1.3
EV/EBITDA (x)	6.2	11.6	10.2

### Major Shareholders % Ownership

Public Investment Fund	5.40
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Price Performance	YTD	1M	3M
Absolute	-7.2%	14.1%	-9.4%
Relative to TASI	-15.2%	9.2%	-10.7%

## Earnings

SAR(Mn)	2022	2023E	2024E
Revenue	1,485	1,274	1,419
Revenue growth	-3%	-14%	11%
Gross Profit	452	299	340
Gross Margin	30%	23%	24%
EBITDA	316	168	192
EBITDA margin	21%	13%	14%
Net income	174	-98	59
Net margins	12%	-8%	4%
EPS	2.2	(1.2)	0.7
DPS	1.0	0.6	1.0
Payout	46%	-45%	136%
P/E	12.4x	NA	36.7x
EV/EBITDA	6.2x	11.6x	10.2x
ROE	9.9%	-6.1%	3.7%

Source: Company data, Al Rajhi Capital

# Saudi Ceramic Co.

## Tight market dynamics, TP revised to SAR25/sh

Saudi Ceramics reported Q3 2023 revenues at SAR312mn, down by 15% y-o-y albeit higher than our estimates of SAR292mn. Lower prices on the back of oversupply arising from increased competition by the Chinese players in the Kingdom weighed down the revenues. On a segmental basis, revenues in the tile and sanitaryware segment witnessed a drop of 22% y-o-y driven by the occurrence of fire at the company's second sanitaryware plant in mid-July'23. In contrast, revenues in the heater segment remained stable y-o-y. Additionally, revenues improved by 23% q-o-q on the back of reduced seasonality effect as in Q2 2023. However, the gross profit fell by 48% y-o-y. Hence, Q3 2023 gross margins declined to 19% versus 32% in Q3 2022.

The company has a new Porcelain tile plant under construction which will add an additional capacity of 8.25 mn square meters per annum and is expected to commence production in H12024. This will trigger gradual margin expansion for Saudi Ceramics over the coming years as Porcelain tiles trade at premium pricing as compared to Ceramic tiles by nature of their uniqueness and quality. Accordingly, the company is well positioned in terms of revenue growth and margin outlook over the coming years. However, we are still conservative on our future outlook for the company on the back of the i) subdued demand for ceramic tiles, ii) pricing pressure due to the competitive landscape and iii) leverage position as the debt levels are quite elevated in view of funding requirements for the new porcelain factory. At the current juncture, the company's cash position is not strong enough to fund additional capex requirements. Nevertheless, we expect future cash flows to be stable as insurance compensation for the fire is expected to come through soon which will enable the building of the new site for Sanitaryware in collaboration with the JV. Overall, the company reported a net loss of SAR169mn in Q32023 due to the impairment loss (SAR165mn) marked on account of the fire. We expect the weakness in the Ceramic tiles segment to be partially offset by the margins in the Porcelain products. Hence, post Q32023 earnings we revise our TP to SAR25/sh and accordingly revise our rating from 'Underweight' to 'Neutral'.

Figure 1 Earnings Summary Q3 2023

SARmn	Q3 2023	Q2 2023	Q3 2022	% chg y-o-y	% chg q-o-q	ARC est
Revenue	312	253	367	-15%	23%	292
Gross Profit	61	63	116	-48%	-4%	76
Gross Margin	19%	25%	32%	NM	NM	26%
Operating Profit	(7)	2	48	NM	NM	15
Net Profit	(169)	33	43	NM	NM	3
Net Margin	-54%	13%	12%	NM	NM	1%

Source: Company Data, Al Rajhi Capital

**Valuations:** We value the company base on the DCF approach. The DCF methodology at a 2% terminal growth and WACC of 10.2% implies a target price of SAR25/sh. Thus, we revise our target price for the company to SAR25/sh from SAR27/sh earlier, implying a downside of 7.1%, and thereby revise rating to 'Neutral'.

**Risks:** The key upside risks to our valuation assumptions are i) sudden uptick in mortgage demand in KSA and ii) favorable price movement due to lower competition.

## Financials

Figure 2 Income Statement

(SARmn)	2023E	2024E	2025E
<b>Revenue</b>	<b>1,274</b>	<b>1,419</b>	<b>1,535</b>
Cost of revenues	(975)	(1,079)	(1,118)
<b>Gross Profit</b>	<b>299</b>	<b>340</b>	<b>416</b>
Employee costs	(132)	(135)	(137)
Selling & distribution expenses	(107)	(121)	(130)
Administrative expenses	(24)	(24)	(25)
<b>Operating Profit</b>	<b>36</b>	<b>60</b>	<b>124</b>
Other income	101	40	30
Finance cost	(46)	(36)	(23)
Extraordinary income/expense	(165)	-	-
Profit before zakat and income tax	(73)	64	132
Zakat and income tax	(27)	(8)	(16)
<b>Profit for the period after minority interest</b>	<b>(98)</b>	<b>59</b>	<b>118</b>

Source: Company Data, Al Rajhi Capital

Figure 3 Cash Flow Statement

(SARmn)	2023E	2024E	2025E
Operating activities	(17)	209	225
Investing activities	(127)	(28)	(31)
Financing activities	206	(281)	(105)
Change in cash	61	(100)	89
<b>Cash and cash equivalents, end of the period</b>	<b>132</b>	<b>32</b>	<b>121</b>

Source: Company Data, Al Rajhi Capital

Figure 4 Balance Sheet

(SARmn)	2023E	2024E	2025E
<b>Assets</b>			
Cash & Cash equivalents	132	32	121
Receivables	268	298	322
Inventories	1,004	971	984
Short term investments	7	7	7
<b>Total current assets</b>	<b>1,411</b>	<b>1,308</b>	<b>1,434</b>
Property plant and equipment	1,606	1,502	1,401
Investments	16	16	16
Right of use assets	88	88	88
<b>Total non-current assets</b>	<b>1,710</b>	<b>1,606</b>	<b>1,505</b>
<b>Total assets</b>	<b>3,121</b>	<b>2,914</b>	<b>2,939</b>
<b>Liabilities</b>			
Accounts payables	371	389	403
Short term debt	522	398	474
Short term lease liabilities	13	13	13
Other current liabilities	30	30	30
<b>Total current liabilities</b>	<b>937</b>	<b>830</b>	<b>920</b>
Long term debt	383	306	245
Lease Liabilities	69	69	69
Other non-current liabilities	91	91	91
<b>Total non-current liabilities</b>	<b>542</b>	<b>466</b>	<b>405</b>
<b>Shareholders' equity</b>	<b>1,642</b>	<b>1,618</b>	<b>1,614</b>
<b>Total liabilities and equity</b>	<b>3,121</b>	<b>2,914</b>	<b>2,939</b>

Source: Company Data, Al Rajhi Capital

Figure 5 Key Ratios

KPIs	2023E	2024E	2025E
<b>Gross margin (%)</b>	23.5%	23.9%	27.1%
<b>EBITDA margin (%)</b>	13.2%	13.6%	16.7%
<b>Operating margin (%)</b>	2.8%	4.2%	8.1%
<b>Net margin (%)</b>	-7.7%	4.1%	7.7%
<b>ROA (%)</b>	-3.2%	2.0%	4.0%
<b>ROE (%)</b>	-6.1%	3.7%	7.5%

Source: Company Data, Al Rajhi Capital

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