



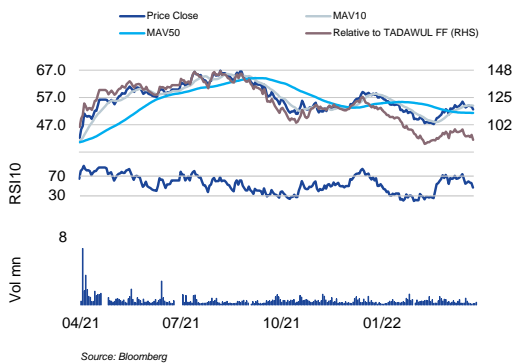
US\$1.122bn Market cap
77% Free float
US\$5.32mn Avg. daily volume

Target price **50.00** -4.9% over current
 Current price **52.60** as at 20/4/2022

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

Performance



Earnings

SAR(Mn)	2021A	2022E	2023E
Revenue	1,535	1,543	1,609
Revenue growth	1%	1%	4%
Gross Profit	528	475	525
Gross Margin	34%	31%	33%
Operating Income	254	197	239
Operating margin	17%	13%	15%
Net income	234	185	226
Net margins	15%	12%	14%
EPS	2.92	2.31	2.82
DPS	1.50	1.50	1.50
Payout	51%	65%	53%
P/E	18.0x	22.8x	18.7x
EV/EBITDA	12.6x	14.6x	12.7x

Source: Company data, Al Rajhi Capital

Saudi Ceramic Performance to remain under pressure

Saudi Ceramic Q1 2022 revenue came in at SAR396mn (-10% y-o-y) and is likely to have been impacted by lower revenue from the heater segment. We expect, lower demand and an increase in raw material prices to have impacted the performance of the water heater segment. However, the revenue was higher than our estimate of SAR376mn. Gross profit fell by 17% y-o-y to SAR122mn, at the back of a 268bps gross margin erosion (30.8% in Q1 2022 and 33.3% in Q4 2021). We expect lower revenue, increased competition and higher cost of production to have impacted profitability. Overall, net income fell by 27.5% y-o-y, impacted by lower revenue and a resultant fall in gross margins. Despite revenue being better than expectations, the net income was lower than our estimate of SAR55mn. Lower than expected gross margin, due to higher-than-expected cost of production, was the main reason for this. Going forward, we expect both revenue and gross margins will continue to come under pressure. In 2022, we expect construction activity to be impacted by increasing commodity prices, especially the prices of aluminium and steel. According to data from World Steel Association, Russia and Ukraine together are the second largest steel exporters globally. Given this, we expect the Mega and Giga project execution is likely to be cautious. These in turn are likely to put pressure on the offtake of the company's tiles and sanitaryware segments. We also expect pressure on water heater segment to continue, due to higher raw-material prices and lower demand. Overall, post-Q1 2022 earnings we reduce our target price from SAR75/sh to SAR50/sh, and reduce our rating to "Neutral".

Figure 1 Earnings Summary

SAR(mn)	Q1 2022	Q4 2021	Q1 2021	% chg y-o-y	% chg q-o-q	ARC est
Revenue	396	378	440	-10%	5%	376
Gross Profit	122	126	147	-17%	-3%	126
Gross Margin	31%	33%	33%	NM	NM	33%
Net income	51	47	71	-27%	9%	55
Net Margin	13%	12%	16%	NM	NM	15%

Source: Company data, Al Rajhi Capital

Valuation: We use a 50% DCF and 50% relative valuation, using a P/E of 18.5x, to value Saudi Ceramic. Our DCF based target price (based on 9.8% WACC and terminal growth of 2%) is SAR53/sh and the relative valuation-based target price, based on 18.5x P/E, is SAR47/sh, resulting in a weighted average target price of SAR50/sh, which implies a downside of 4.9%.

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

- 1) Increase in competition from GCC and other local players could negatively impact the performance of the company
- 2) Reduction in oil prices could impact government spending, resulting in lower demand for company's product
- 3) Increase in Covid cases, resulting in fresh restrictions, could have a negative impact on the company's revenue and profitability



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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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