

# Saudi Ceramic Co.

Construction and Materials - Industrial  
SCERCO AB: Saudi Arabia  
10 May 2023



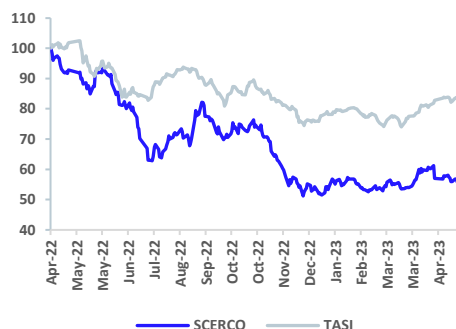
**US\$0.660bn** Market Cap  
**98.07%** Free Float  
**US\$4.89mn** Avg. Daily Volume

**Target price** 27.00 **12.8% below current**  
**Current price** 30.95 **as at 09/05/2023**

Existing rating

**Underweight** Neutral Overweight

## Performance (Rebased to 100)



## Earnings

SAR(Mn)	2022A	2023E	2024E
Revenue	1,485	1,507	1,607
Revenue growth	-3%	1%	7%
Gross Profit	452	398	490
Gross Margin	30%	26%	31%
EBITDA	316	254	328
EBITDA margin	21%	17%	20%
Net income	174	107	194
Net margins	12%	7%	12%
EPS	2.2	1.3	2.4
DPS	1.0	1.3	1.5
Payout	46%	93%	62%
P/E	14.2x	23.0x	12.7x
EV/EBITDA	10.0x	12.1x	8.9x
ROE	9.9%	6.1%	10.6%

Source: Company data, Al Rajhi Capital.

# Saudi Ceramic Co.

## Target price reduced to SAR27/sh, margin pressure to continue

Q1 2023 revenues for Saudi Ceramic came in lower at SAR369mn (-7.0% y-o-y) versus our estimates of SAR398mn. In our view lower demand by virtue of increased competition and steady rise in raw material costs weighed down on revenues. Revenues in the ceramic tiles and sanitaryware segment decreased sharply by 14% y-o-y owing to lower selling prices. The Gross profit fell by 26.0% y-o-y, while operating income more than halved on a y-o-y basis, at the back of higher cost of sales. Although, some chunk of the volume decline might have been offset by discounted prices, margins took a hit. As a result, the gross margins eroded by 700 bps on a y-o-y basis (24.0% in Q1 2023 and 31.0% in Q1 2022). Consequently, we expect overall revenues to see marginal growth going forward, as increased competition in the Tiles segment may be persistent in the near term. The weak demand in the Sanitaryware space can be attributed to slowdown in mortgages. Overall, net income fell by 71.0% y-o-y as a resultant fall in margins. The net income was modestly lower than our estimate of SAR45mn. We think the level of demand and revenues in 2023 will be in line with that of 2022. Revenues in the heater segment saw a pick-up in 1Q2023 on a y-o-y basis due to some cool off in steel prices. However, the Building and Construction segment in KSA may continue to remain under pressure, coupled with a slower mortgage offtake. Overall, with the current scenario of weak demand, higher inventory build-up and stiff competition, post-Q1 2023 earnings we reduce our target price from SAR32/sh to SAR27/sh, and similarly reduce our rating to "Underweight".

## Figure 1 Earnings Summary

SAR(mn)	Q1 2023	Q4 2022	Q1 2022	% chg y-o-y	% chg q-o-q	ARC est
Revenue	369	383	396	-7%	-4%	398
Gross Profit	90	108	122	-26%	-17%	127
Gross Margin	24%	28%	31%	NM	NM	32%
Operating Income	21	47	53	-60%	-55%	50
Net income	15	42	51	-71%	-65%	45
Net Margin	4%	11%	13%	NM	NM	11%

Source: Company data, Al Rajhi Capital

**Valuations:** We apply a blended approach to value Saudi Ceramics with equal weight to relative valuation (50%) and 50% to DCF. Our DCF based target price (based on 11.4% WACC and terminal growth of 2%) is SAR30/sh and the relative valuation-based target price, based on 13.0x P/E, is SAR25/sh, resulting in a weighted average target price of SAR27/sh, which implies a downside of 12.8%.

**Upside Risks:** There are few risks to our valuation and assumptions, as below:

1. Improvement in performance due to lower competition by other players.
2. Lower than expected slowdown in mortgage demand in KSA.
3. Fall in inventory levels due to an increase in volumes across certain segments.

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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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