

Riyadh Cables Group Co.

Maintain Neutral; TP increased to SAR104/sh

Neutral

Price Target (SAR): 104

Current: 114

Upside/Downside: 8.8% below current

Valuation Multiples	24E	25E	26E
P/E (x)	27.7	23.9	21.4
P/B (x)	7.8	7.2	6.8
EV/EBITDA (x)	22.4	19.8	18.0

Major Shareholders % Ownership

AI-AKAF DEV LTD CO	13.33
Abdul Qader Al-Muhaidib	23.99

Price Performance	1M	3M	YTD
Absolute	-1.7%	34.1%	23.1%
Relative to TASI	-4.1%	23.8%	17.4%

Earnings

(SAR mn)	2024E	2025E	2026E
Revenue	8,562	8,900	9,233
YoY %	9.4%	3.9%	3.7%
Gross Profit	1,063	1,130	1,224
GM Margin %	12.4%	12.7%	13.3%
YoY %	9.3%	6.4%	8.3%
EBITDA	821	927	1,015
EBITDA Margin	9.6%	10.4%	11.0%
Net Income	617	716	798
Net Income Margin %	7.2%	8.0%	8.6%
YoY %	18.9%	16.0%	11.5%
EPS	4.1	4.8	5.3
DPS	3.1	3.6	4.3
P/E	27.7	23.9	21.4
EV/EBITDA	22.4	19.8	18.0
ROE	28%	30%	32%

Source: Company data, Al Rajhi Capital

Riyadh Cables displayed tremendous profitability growth in FY23, increasing the bottom-line by 47% to SAR518mn. The growth was led by unwavering cable demand, which increased volume sold by 15% YoY to 219ktons. As the majority of the costs are fixed for the company, this helped improve the gross profit per ton to SAR 4,442/ton in FY23 as against SAR 3,406/ton last year (as per our calculations), up by 30% YoY. In addition, a better product mix geared more towards copper cables also helped improve the margins. The utilization levels for the company were 92% in FY23, as against 90% last year. This was mainly due to the addition of 12-13ktons of capacity in FY23. Keeping in view the strong cable demand, more capacity is expected to come online by 2Q24, taking the total addition to 36kton. Going forward, we maintain the GP margin per ton at SAR4,303/ton which is at slightly lower level when compared with FY23 but higher from our previous assumption of SAR 4,089/ton for FY24e. A higher margin as well as volume increases our FY24 EPS by 9%. The company has guided profitability growth in the range of 10-15%; however, we believe that the bottom-line will grow by 19% YoY in FY24. Our confidence stems from the fact that there is strong demand for cable in the Kingdom, which is likely to keep utilization levels high as well as maintain the margin per ton for the company. Hence, we revised up our TP to SAR104/sh but maintain our "Neutral" rating on the stock. The stock has rallied 23.1% YTD and is trading at demanding valuations (FY24/25e P/E of 27.7/23.9), providing a downside of 8.8% to our updated target price.

Figure 1 Guidance vs actual vs estimates

	2023		2024	
	Guidance*	Actual	Guidance	ARC est.
Capex (SARmn)	200	156	200	200
Net Income growth	35%	47%	10-15%	19%

Source: Company data; *The net income growth guidance was 15-25% at the start of FY23

4Q23/FY23 Results: In 4Q23, Riyadh Cables saw a 3.2% YoY increase in revenues, reaching SAR1.9bn. Despite the revenue increase, gross profit grew by 25.6% YoY, with a gross margin of 12.6%, attributed to a favourable product mix. Operating profit also rose by 21.2% YoY, with a margin of 9.3%. Net income increased by 26.5% YoY, reaching SAR134mn. Nevertheless, net margins improved to 7.1%, surpassing expectations.

For FY23, revenues surged by 14.2% YoY, driven significantly by a 15% increase in volumes. Gross profit saw a substantial uptick of 50.3% YoY, accompanied by a notable gross margin enhancement to 12.4%, compared to 9.4% in the previous fiscal year, possibly attributable to a favourable product mix. This margin improvement translated into impressive YoY increases in both operating and net profits, reaching 44.6% and 47.4%, respectively. The company has announced a dividend payout of SAR1.5/sh for the second half of 2023, complementing the SAR1/sh dividend already distributed in the first half, resulting in a total annual dividend of SAR2.5/sh.

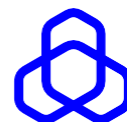
Figure 2 **Earnings Summary Q4 2023**

(SAR mn)	Q4 2023	Q3 2023	Q4 2022	y-o-y	q-o-q	FY23	FY22	y-o-y
Revenue	1,890	2,081	1,831	3.2%	-9.2%	7,825	6,852	14.2%
Gross Profit	238	279	190	25.6%	-14.7%	973	647	50.3%
G. margin	12.6%	13.4%	10.4%			12.4%	9.4%	
Op. profit	175	168	144	21.2%	4.0%	662	458	44.6%
Op. margin	9.3%	8.1%	7.9%			8.5%	6.7%	
Net profit	134	133	106	26.5%	0.9%	518	352	47.4%
Net margin	7.1%	6.4%	5.8%			6.6%	5.1%	

Source: Company data, Al Rajhi Capital

Valuations: We value Riyadh cables applying equal weights to the discounted cash flow (DCF) and relative valuation methods. According to the DCF approach, the value stands close to SAR104/sh, while the relative valuation method yields a value of SAR103/sh. When rounded off, the total value approximates SAR104/sh which signifies an 8.8% downside on last closing.

Key risks: 1) decline in GP margin per ton, 2) delay in capacity expansion, 3) slowdown in cable demand, and 4) higher interest rates.



Financials

Figure 3 Income Statement

SAR mn	2024E	2025E	2026E
Revenue	8,562	8,900	9,233
<i>y-o-y growth</i>	9.4%	3.9%	3.7%
Cost of Sales	7,499	7,769	8,008
Gross Profit	1,063	1,130	1,224
<i>y-o-y growth</i>	9.3%	6.4%	8.3%
<i>margins</i>	12.4%	12.7%	13.3%
Operating Expenses	(262)	(272)	(283)
ECL allowance	(45)	0	0
Others	(15)	(15)	(15)
Operating Profit	741	843	927
<i>y-o-y growth</i>	11.9%	13.8%	9.9%
<i>margins</i>	8.7%	9.5%	10.0%
Interest expenses	(81)	(78)	(73)
Pre-Tax Income	660	765	853
Zakat	(43)	(50)	(55)
Net Income	617	716	798
<i>y-o-y growth</i>	18.9%	16.0%	11.5%
<i>margins</i>	7.2%	8.0%	8.6%
EPS	4.1	4.8	5.3

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

SAR mn	2024E	2025E	2026E
Cash flow from Operations	676	787	882
Cash flow from Investing	(201)	(182)	(189)
Cash flow from Financing	(424)	(496)	(596)
Change in cash	51	108	97

Source: Al Rajhi Capital estimates

Figure 4 Balance sheet

SAR mn	2024E	2025E	2026E
Property, plant and equipment, net	1,405	1,506	1,610
Intangible assets, net	57	51	46
Investments at fair value through other comp	22	22	22
Investment in joint venture	31	31	31
Right of use assets	12	14	16
Deferred Tax assets	3	3	3
Investment properties	21	21	21
TOTAL CURRENT ASSETS	1,550	1,648	1,749
Inventory	1,942	1,969	1,986
Trade receivables	1,533	1,569	1,602
Contract assets	23	23	23
Advances and other current assets	156	162	168
TOTAL NON-CURRENT ASSETS	3,577	3,754	3,907
TOTAL ASSETS	5,127	5,403	5,656
Islamic finance facilities	758	796	836
Accrued expenses and other liabilities	267	278	288
Trade payables	1,090	1,130	1,164
Provisions	168	174	181
Contract liabilities	29	29	29
Provision for Zakat and income tax	29	29	29
Lease liabilities - current portion	2	2	2
CURRENT LIABILITIES	2,343	2,438	2,529
End-of-service benefits obligations	114	114	114
Deferred Tax liabilities	7	7	7
Lease liabilities	11	13	15
NON-CURRENT LIABILITIES	132	134	136
SHAREHOLDERS EQUITY	2,186	2,365	2,525
TOTAL LIABILITIES	5,127	5,403	5,656

Source: Al Rajhi Capital estimates

Figure 6 Key Ratios

	2024E	2025E	2026E
ROA (%)	13.2%	14.5%	15.3%
ROE (%)	28.2%	30.3%	31.6%
D/E (x)	0.4x	0.3x	0.3x
Net Debt/EBITDA (x)	1.6x	1.3x	1.2x
Receivable days	65	64	63
Inventory days	95	93	91
Payable days	53	53	53

Source: Al Rajhi Capital estimates

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