

Riyadh Cables Group Co

Electric Utilities: Utilities
RIYADHCA AB: Saudi Arabia
21 March 2023



US\$1.948bn	31.05%	US\$3.12mn
Market Cap	Free Float	Avg. Daily Volume

Target price 54.00 **11% above current**
Current price 48.80 **as at 20/03/2023**

Research Department
Danish Kazmi, CFA

Tel +966 11 828 4653, kazmiD@alrajhi-capital.com

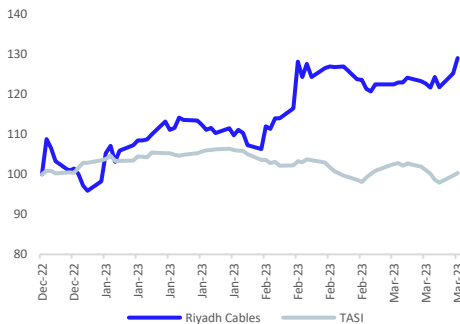
Existing rating

Underweight **Neutral** **Overweight**

Riyadh Cables Group Co.

Remain OW, TP raised to SAR54/sh

Performance (Rebased to 100)



Earnings

Period End (SARmn)	2022	2023E	2024E
Revenue	6,852	6,565	6,733
YoY %	40.3%	-4.2%	2.6%
Gross Profit	647	725	799
GM Margin %	9.4%	11.0%	11.9%
YoY %	39.7%	12.0%	10.2%
EBITDA	521	586	648
EBITDA Margin	7.6%	8.9%	9.6%
Net Income	352	403	453
Net Income Margin %	5.1%	6.1%	6.7%
YoY %	46.9%	14.4%	12.4%
EPS	2.35	2.69	3.02
DPS	1.63	1.88	2.11
Dividend payout ratio (%)	70%	70%	70%
ROE	17%	18%	19%

Source: Company data, Al Rajhi Capital.

Riyadh Cables displayed an impressive growth of 38% YoY in total cable volumes sold while the average utilization levels clocked in at 90% in FY22. The company has managed to increase its market share in KSA from 32% to 36%, as of FY2022. Currently, the confirmed orders backlog stands at a whopping SAR3.6bn vs SAR3.2/SAR1.9bn at FY22/FY21 end. To meet the rising cable demand, the company is planning to increase its production capacity by 10% YoY to cater to the larger order backlog that the company has. For the said purpose, the company is likely to incur a CAPEX of ~SAR200mn, going forward. This would likely limit the dividend payout capacity in the near future. Going forward, we have revised our assumptions of volumes sold for FY23/24e by 4% each year while reducing the payout ratio to 70% from the previous 90% assumed. The increase in volumes sold has pushed up our FY23/24e EPS by 8/11% respectively. We revise our TP upwards from the previous SAR47/sh to SAR54/sh, providing an upside of 11% and a dividend yield of 4%. Hence, we remain "Overweight" on the stock.

Figure 1 Earnings and Target price revision

EPS	FY23E	FY24E	TP
Previous	2.5	2.7	47
Current	2.7	3.0	54
Change	8%	12%	15%

Source: Company data, Al Rajhi Capital

FY2022 earnings: Riyadh Cables posted stellar earning growth in FY2022 with the bottom line increasing by 47% YoY to SAR352mn (SAR2.35/sh). The growth in profitability was led by a sharp recovery in cable volumes sold and improved GP margin per ton. The total cables sold rose 37% YoY to 190k tons in FY2022 representing a utilization level of 90% as against 67% last year assuming a product mix of 57:43% Copper: Aluminium. In addition to a surge in volumes, the company also witnessed decent growth in gross profit per ton to SAR3,406/ton as against SAR3,216/ton last year, up 6.0% YoY. The company gave a dividend of SAR245mn, up by 13% YoY. However, we highlight that the payout ratio of 70% in FY22 was significantly lower than our expectation of 85% payout (SAR287mn).

Figure 2 FY22 Earnings Summary

(SAR mn)	4Q 2022	4Q 2021	Y-o-Y	3Q 2022	Q-o-Q	FY22	FY21	Y-o-Y
Revenue	1,831	1,396	31%	1,769	3%	6,852	4,883	40%
Gross profit	184	130	42%	169	9%	647	463	40%
Gross margin	10%	9%		10%		9%	9%	
Operating profit	144	101	43%	119	21%	458	303	51%
Operating margin	8%	7%		7%		7%	6%	
Net profit	106	85	25%	93	15%	352	240	47%
Net margin	6%	6%		5%		5%	5%	

Source: Company data, Al Rajhi Capital

Valuations: We value Riyadh Cables using the Discounted Cash Flow (DCF) methodology to arrive at our revised target price of SAR54/sh. Our value is based on the cost of equity assumption of 10.5% resulting in a WACC of 9.3% while we have taken a terminal growth rate of 3%. The stock provides an upside of 11% from its last closing. Riyadh Cables fit into our theme of shifting towards stocks that provide exposure to infrastructure projects in the GCC region. Hence, we foresee Riyadh Cables as a lucrative investment opportunity as the stock provides a unique blend of growth amid a stable pay-out. We remain "Overweight" on the stock, providing a total return (including dividend yield) of 15% to the last closing.

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Contact us

Mazen AlSudairi, CFA
Head of Research
Tel : +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
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