

# Riyadh Cables Group Co.

## Upgrade to Overweight with a TP of SAR115/sh

### Overweight

#### Price Target (SAR): 115

Current: 99.1

Upside/Downside: 16.0% above current

Valuation Multiples	23A	24E	25E
P/E (x)	28.7	22.4	19.8
P/B (x)	6.6	6.2	5.7
EV/EBITDA (x)	21.2	17.5	15.8

#### Major Shareholders % Ownership

AI-AKAF DEV LTD CO	13.33
Abdul Qader Al-Muhaidib	19.05

Price Performance	1M	3M	YTD
Absolute	-6.3%	1.5%	4.8%
Relative to TASI	-6.2%	7.8%	7.7%

### Earnings

(SAR mn)	2023A	2024E	2025E
Revenue	7,825	8,562	8,900
YoY %	14.2%	9.4%	3.9%
Gross Profit	973	1,143	1,197
GM Margin %	12.4%	13.3%	13.5%
YoY %	50.3%	17.5%	4.8%
EBITDA	728	883	976
EBITDA Margin	9.3%	10.3%	11.0%
Net Income	519	665	750
Net Income Margin %	6.6%	7.8%	8.4%
YoY %	47.2%	28.2%	12.8%
EPS	3.5	4.4	5.0
DPS	2.5	3.3	3.8
P/E	28.7	22.4	19.8
EV/EBITDA	21.2	17.5	15.8
ROE	23%	28%	29%

Source: Company data, Al Rajhi Capital

Riyadh Cables posted another stellar quarterly performance, with revenue/gross profit increasing by 7/14% YoY. The 2QFY24 results were impacted by a slowdown in construction activities owing to two Eids in the quarter, which affected the QoQ growth numbers. Despite this, the quantity sold has increased by 2% in 1HFY24 to 112ktons. Given the decent backlog of SAR5.2bn (up 64/8% YoY/QoQ; translating to 115ktons of backlog volume) and the absence of an extended holiday in 2HFY24, we believe that the company will witness a further uptick in volumes for the remainder of the year. More importantly, GP margin per ton swelled up by 18% YoY in 1HFY24, averaging around SAR4,778/ton for 1HFY24. This has compelled us to revisit our FY24 assumptions, where we had initially forecasted GP margin/ton to clock in at SAR4,303/ton for FY24. Given the impressive margin performance in 1H, we increase our annual GP margin/ton assumption by 8% to SAR4,626/ton. Consequently, we upgrade our FY24/25 EPS by 8/4% to SAR4.4/5.0 per share. The company has also revised its guidance for the increase in profitability to 20-30% YoY as against the previous guidance of 10-15%. As a result, we revised our TP upwards by 11% to SAR115/sh from the previous SAR104/sh. The target price implies an upside of 16.0% to the last closing price. Hence, we upgraded our investment case from "Neutral" to "Overweight".

Figure 1 Old vs new estimates

	2024			2025		
	Old	New	Δ	Old	New	Δ
EPS	4.1	4.4	8%	4.8	5.0	4%
GP/ton	4,303	4,626	8%	4,250	4,500	6%
Target Price	Old			New		
	104			115		11%

Source: Al Rajhi Capital estimates

**2Q24/1HFY24 Results:** RC demonstrated robust financial performance in 2Q24, reporting a 6.7% year-over-year (YoY) revenue growth. This growth was primarily driven by increased volumes compared to the same quarter last year. The company's gross profit saw a significant 13.9% YoY increase, with margins expanding to 13.2% from 12.3% in 2Q23, potentially due to a favourable product mix. Operating profit margins also improved, rising to 9.8% from 8.5% in the previous year, contributing to a 23.0% YoY increase in operating profit. Notably, RC's net income climbed 25.6% YoY to SAR159mn, exceeding the company's estimate of SAR149mn, though slightly below the consensus estimate of SAR163mn. Healthy earnings are attributed to better margins, likely influenced by a product mix skewed towards copper, showcasing RC's ability to navigate market dynamics and deliver solid financial results.

For the 1HFY24, volumes increased by 112ktons, up by 2% YoY, which coupled with increase in commodity prices led to a 6% YoY increase in revenues for the company. The gross margins maintained their upward march to clock in at 13.6%, up by 1.8 percentage points. The gross margins were aided by a better product mix as well as increased volumes. GP margin per ton would be a better metric to judge the company's margin increase. For 1HFY24, GP margin per ton increased by 18.2% YoY to SAR4,778/ ton. This performance is better than our expectations, hence, we have

revised the GP margin per ton for the remainder of the year. Resultantly, profitability for first half also increased by a whopping 30.4% YoY to SAR328mn (EPS: SAR2.2/sh)

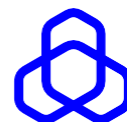
Figure 2 **Earnings Summary 1H2024**

(SAR mn)	Q2 2024	Q1 2024	Q2 2023	y-o-y	q-o-q	1H24	1H23	y-o-y
<b>Revenue</b>	<b>2,046</b>	<b>2,032</b>	<b>1,918</b>	<b>6.7%</b>	<b>0.7%</b>	<b>4,078</b>	<b>3,855</b>	<b>5.8%</b>
<b>Gross Profit</b>	<b>270</b>	<b>283</b>	<b>237</b>	<b>13.9%</b>	<b>-4.8%</b>	<b>553</b>	<b>455</b>	<b>21.4%</b>
<i>G. margin</i>	13.2%	13.9%	12.3%			13.6%	11.8%	
<b>Op. profit</b>	<b>201</b>	<b>208</b>	<b>163</b>	<b>23.0%</b>	<b>-3.7%</b>	<b>409</b>	<b>319</b>	<b>28.3%</b>
<i>Op. margin</i>	9.8%	10.3%	8.5%			10.0%	8.3%	
<b>Net profit</b>	<b>159</b>	<b>169</b>	<b>127</b>	<b>25.6%</b>	<b>-5.7%</b>	<b>328</b>	<b>252</b>	<b>30.4%</b>
<i>Net margin</i>	7.8%	8.3%	6.6%			8.1%	6.5%	

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 at SAR115/sh, the relative valuation approach also yields a similar value. Hence, our equally weighted TP stands at SAR115/sh signifying a 16% upside to the 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	2023A	2024E	2025E
<b>Revenue</b>	<b>7,825</b>	<b>8,562</b>	<b>8,900</b>
<i>y-o-y growth</i>	<i>14.2%</i>	<i>9.4%</i>	<i>3.9%</i>
Cost of Sales	6,853	7,420	7,703
<b>Gross Profit</b>	<b>973</b>	<b>1,143</b>	<b>1,197</b>
<i>y-o-y growth</i>	<i>50.3%</i>	<i>17.5%</i>	<i>4.8%</i>
<i>margins</i>	<i>12.4%</i>	<i>13.3%</i>	<i>13.5%</i>
Operating Expenses	(247)	(264)	(275)
ECL allowance	(43)	(45)	0
Others	(21)	(21)	(21)
<b>Operating Profit</b>	<b>662</b>	<b>813</b>	<b>901</b>
<i>y-o-y growth</i>	<i>44.6%</i>	<i>22.8%</i>	<i>10.9%</i>
<i>margins</i>	<i>8.5%</i>	<i>9.5%</i>	<i>10.1%</i>
Interest expenses	(103)	(96)	(93)
<b>Pre-Tax Income</b>	<b>559</b>	<b>716</b>	<b>808</b>
Zakat	(40)	(51)	(58)
<b>Net Income</b>	<b>519</b>	<b>665</b>	<b>750</b>
<i>y-o-y growth</i>	<i>47.2%</i>	<i>28.2%</i>	<i>12.8%</i>
<i>margins</i>	<i>6.6%</i>	<i>7.8%</i>	<i>8.4%</i>
EPS	3.5	4.4	5.0

Source: Al Rajhi Capital estimates

Figure 5 Cash Flow Statement

SAR mn	2023A	2024E	2025E
Cash flow from Operations	1,342	694	812
Cash flow from Investing	(156)	(201)	(182)
Cash flow from Financing	(1,144)	(460)	(522)
Change in cash	43	33	107

Source: Al Rajhi Capital estimates

Figure 4 Balance Sheet

SAR mn	2023A	2024E	2025E
Property, plant and equipment, net	1,207	1,340	1,451
Intangible assets, net	63	57	52
Investments at fair value through other comp	17	17	17
Investment in joint venture	31	31	31
Right of use assets	8	11	13
Deferred Tax assets	5	5	5
Investment properties	12	12	12
<b>TOTAL CURRENT ASSETS</b>	<b>1,342</b>	<b>1,473</b>	<b>1,580</b>
Inventory	1,909	1,965	1,998
Trade receivables	1,305	1,425	1,457
Contract assets	25	25	25
Advances and other current assets	99	109	113
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,489</b>	<b>3,707</b>	<b>3,883</b>
<b>TOTAL ASSETS</b>	<b>4,831</b>	<b>5,180</b>	<b>5,464</b>
Islamic finance facilities	722	758	796
Accrued expenses and other liabilities	267	293	304
Trade payables	1,195	942	978
Provisions	197	216	224
Contract liabilities	25	25	25
Provision for Zakat and income tax	42	42	42
Lease liabilities - current portion	1	1	2
<b>CURRENT LIABILITIES</b>	<b>2,450</b>	<b>2,277</b>	<b>2,371</b>
End-of-service benefits obligations	117	117	117
Deferred Tax liabilities	10	10	10
Lease liabilities	7	10	12
<b>NON-CURRENT LIABILITIES</b>	<b>135</b>	<b>137</b>	<b>139</b>
<b>SHAREHOLDERS EQUITY</b>	<b>2,246</b>	<b>2,412</b>	<b>2,600</b>
<b>TOTAL LIABILITIES</b>	<b>4,831</b>	<b>5,180</b>	<b>5,464</b>

Source: Al Rajhi Capital estimates

Figure 6 Key Ratios

	2023A	2024E	2025E
ROA (%)	10.7%	12.8%	13.7%
ROE (%)	23.1%	27.6%	28.9%
D/E (x)	0.3x	0.3x	0.3x
Net Debt/EBITDA (x)	0.8x	0.7x	0.5x
Receivable days	61	61	60
Inventory days	102	97	95
Payable days	64	46	46

Source: Al Rajhi Capital estimates

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### Contact us

#### Al Rajhi Capital

#### Research Department

Head Office, King Fahad Road

P.O. Box 5561, Riyadh 11432

Kingdom of Saudi Arabia

Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

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