

**Target price** 71.00 27.4% upside  
**IPO price** 56.00 as at 08/08/2023

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Existing rating

Underweight

Neutral

Overweight

#### Transaction Overview

Offering type	Primary IPO
Offered shares	6,000,000 ordinary shares of the total company's capital with fully paid nominal value of SAR10/sh
Use of Proceeds	Net of IPO proceeds will be distributed to the selling shareholder
Tranche	Qualified Investors (Institutional and Retail)
Financial Advisor	Yaqeen Capital

#### Financials

(SARmn)	2022	2023E	2024E
Revenue	55.2	61.6	68.2
Revenue growth	-6.6%	11.7%	10.7%
Gross profit	36.7	41.1	45.6
Gross margin	66.6%	66.8%	66.9%
EBIT	24.5	27.0	29.9
EBIT margin	44.4%	43.8%	43.9%
Net profit	22.6	25.6	28.4
Net margin	41.0%	41.5%	41.6%
EPS	3.8	4.3	4.7
DPS	3.5	3.4	3.8
Payout ratio	92.8%	80.0%	80.0%
RoE	26.0%	27.7%	29.0%

Source: Company data, Al Rajhi Capital.

## Marble Design Factory Co.

### Niche Market Player

We initiate coverage on Marble Design Co. with an "Overweight" rating and a target price of SAR71/sh. Even though the company is a small payer in the overall construction market, it boasts of being one of the fastest growing players in the Kingdom in the natural marble industry. Although, the residential construction space is slowing down, we believe Marble Design will not be impacted much as the demand for high-end residential structures, its target market, is still resilient. Further, from a medium to long term point of view, the key catalyst could be the demand for luxurious commercial properties such as hotels, restaurants, estates, etc., driven by KSA's focus on growing tourism and entertainment industry. Additionally, attractive valuations coupled with robust growth prospects owing to stronger capacity utilisation in the coming years makes a strong case for Marble Design Co.

**Step-up in Capacity utilisation:** Marble Design Company doubled its production capacity of floor and façade marbles in 2022 to 1,60,000 sqm vis a vis 52,000 sqm in 2021. Notwithstanding the increase in actual production by ~34%, the utilisation rates for the company dropped sharply in 2022. The company was operating at sub 50% levels at the back of a steep drop in marble prices. Going forward, we expect the company to ramp up its actual production at a staggered but sound pace, augmenting utilisation levels by FY2027. This can be attributed to the growing demand from the construction industry and enhanced thrust on the infrastructure space.

**Debt-free enterprise:** Marble Designs Co. possesses zero debt on its book. Moreover, the company is well poised to fund its growth via internally generated cash. The current capital structure gives the company, the bandwidth to leverage itself in the future in regard to funding organic as well as inorganic growth opportunities if the need arises.

**Healthy Dividend Payout:** Marble Design maintained a payout ratio of ~93% in FY22. The company shall continue to reward its shareholders by way of healthy dividend payouts going forward. Taking into account, an uptick in capacity utilization, we have factored in a lower payout ratio of ~80% over FY23-FY25, post which the dividend payout ratio shall revert to 90% levels.

**Benefits from uptick in Construction to flow to ancillaries:** Going by the announcements of Vision 2030, KSA is all geared up to see accelerated growth in the construction sector in the medium term. The benefits of a pick-up in the same shall accrue to the marble industry as well. The brisk expansion of residential and commercial sectors shall spur the demand for natural stones. Infrastructure being a key theme in Vision 2030 acts as a strong investment case for the company as its key product happens to be an important building material.

**Attractive Valuations:** We value the company based on an equal mix of DCF and P/E. The DCF valuation is based on a 2.0% terminal growth rate and 8.93% WACC implying a target price of SAR 71/sh. The P/E approach implies a target price of SAR 72/share using a multiple of 16x on 2023e EPS. Using a blend of the above-mentioned approaches, we arrive at a weighted average target price of SAR71/sh implying an upside of 27% from the IPO price.

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## Table of Contents

1. Industry Overview.....	3
2. Company Overview.....	5
3. Business Model.....	6
4. Investment Case.....	7
5. Valuation and Key Risks.....	8
6. Financial Analysis.....	9
7. Key Financials .....	11

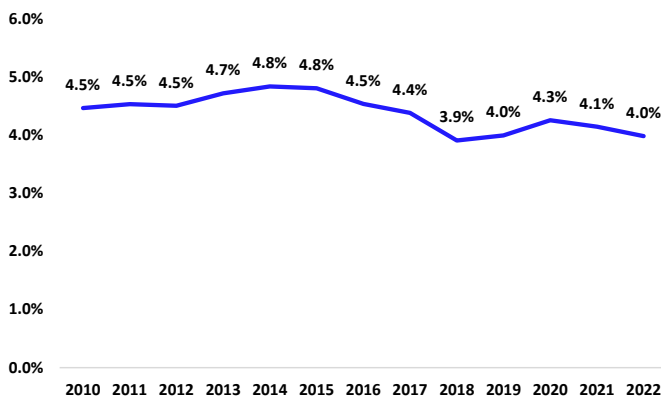
### Industry overview

As per the flash estimates of Q2 2023, the Saudi Arabian economy grew by 1.1% y-o-y comprising of a 4.2% decrease in oil activities and registering a healthy growth of 5.5% in the non-oil activities space. We expect the growth in the Saudi Economy to be strong at the back of lower volatility in oil prices and the non-oil revenues shall be a key growth driver going forward. In our view, Brent prices may settle around ~US\$85/bbl over the next 2 years with limited downside risk.

The Construction Sector’s contribution to GDP predominantly remains buoyant and stable in the range of 4-5% despite global headwinds. Nevertheless, the construction sector GDP growth had been lagging the overall non-oil Sector GDP growth post-Covid. However, it is now starting to converge with the non-oil sector growth. We believe the growth in Construction space to be fuelled by the Government’s action towards Vision 2030. Additionally, the recent downtick in mortgage levels can be attributed to the new regulations. Nevertheless, mortgage originations might hover around the average of FY23 levels (SAR6.5bn). We expect several notable projects to act as tailwinds and solidify the environment for this sector in the long-term. A suite of Mega and Giga Projects shall propel significant growth in the sector. Moreover, the demand for high quality construction of both residential and commercial spaces in the KSA shall improve from sectors like entertainment and tourism. This would generate demand for high end marbles. Hence, we remain upbeat on the dynamics of the Construction industry.

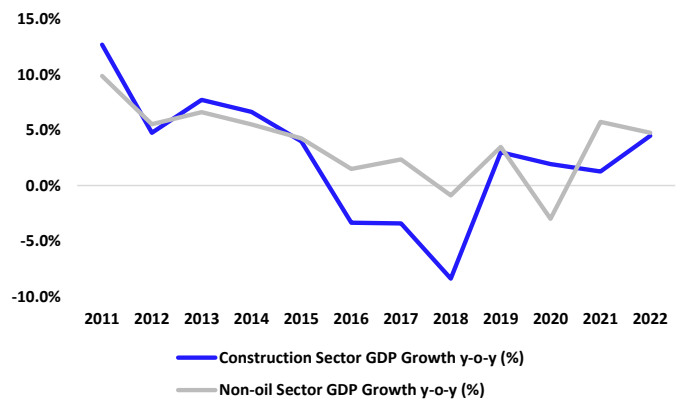
Natural rocks are widely used in construction as building materials for flooring, countertops, cladding, stairs, and facades due to their durability and aesthetics. The natural rock industry encompasses various types of rocks, such as marble, granite, limestone, slate, sandstone, and more. These rocks predominantly cater to construction, architecture, interior design, landscaping, and other applications. As the real estate landscape continues to evolve, natural rocks may see incremental demand. Tight competition, however, may trigger compression in average selling prices.

Figure 1 Construction Sector contribution to KSA GDP(%)



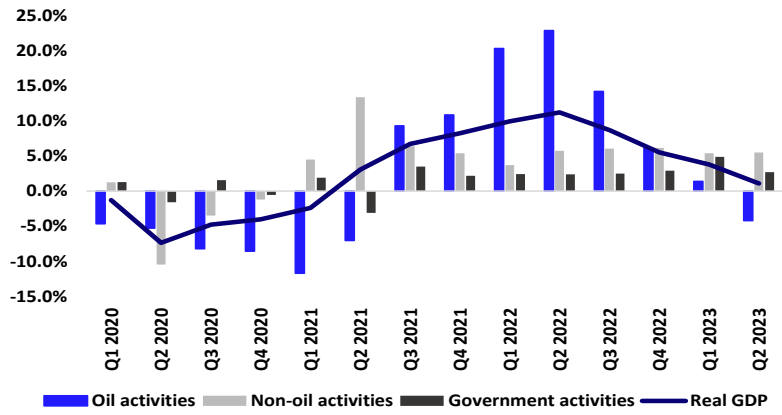
Source: GASTAT, Al Rajhi Capital

Figure 2 Y-o-Y Growth Rates at Constant Prices (%)



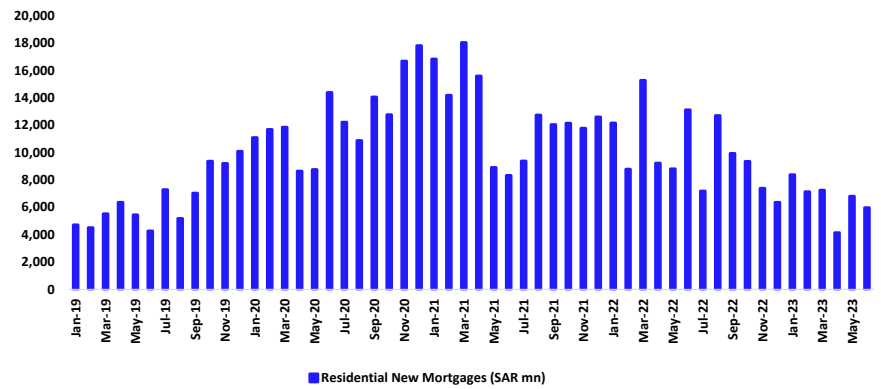
Source: GASTAT, Al Rajhi Capital

Figure 3 Real GDP Growth Rates (%)



Source: GASTAT, Al Rajhi Capital

Figure 4 Residential New Mortgages (SARmn)



Source: SAMA, Al Rajhi Capital

## Company Overview

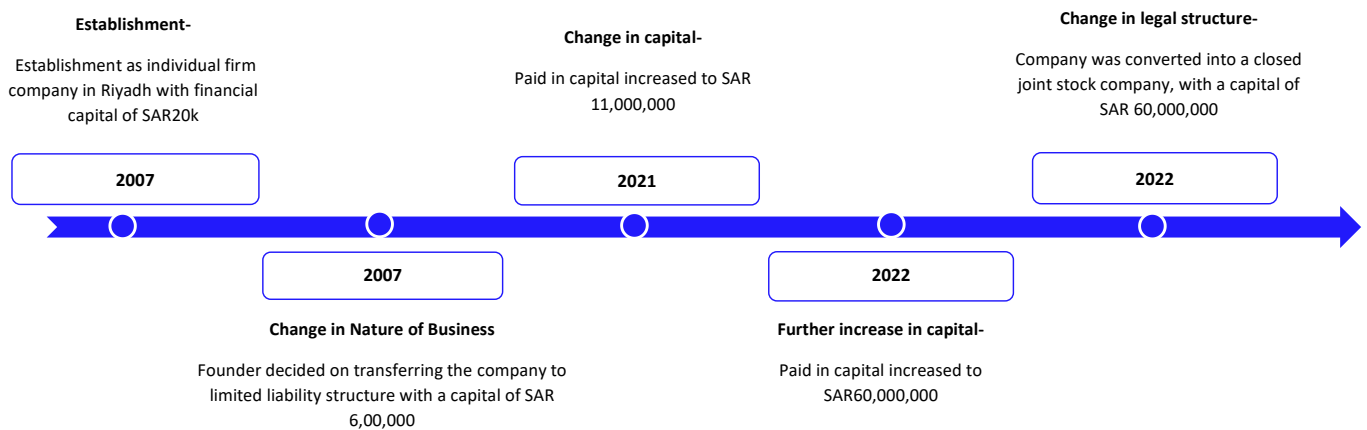
Marble Design Co. is one of the leading companies in the natural marble industry of the KSA market with a legacy of around 15 years. The company’s business encompasses an array of products and services ranging from providing residential buildings to general construction of non-residential buildings, purchase and sale of land and real estate, off plan sales activities and management and leasing of owned or leased properties. Albeit retail sale of marble, natural and artificial stone, ceramics, and porcelain can be envisaged as their primary line of business.

Marble Design’s business can broadly be categorised into the Commercial Sector and the Natural Stone Industry Sector (marble).

**Commercial Sector:** The company imports natural marble slabs from key exporters across the world (including Italy, Spain, Brazil and Greece) through its subsidiary Maskan Road Real Estate Development Company either for sale or for further re-engineering.

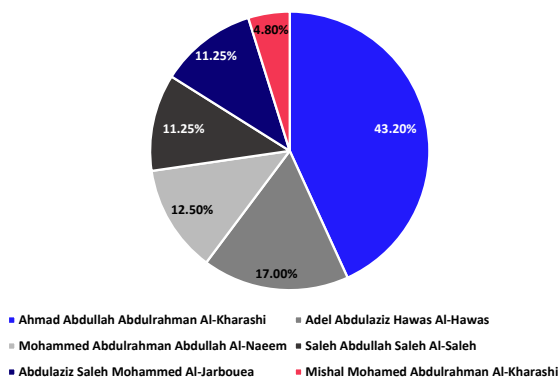
**Natural Stone Industry Sector (marble):** The company is responsible for processing ready-made marble slabs entailing designing and producing the final product tailor-made as per customer requirements.

Figure 5 **Marble Design Co. Timeline**



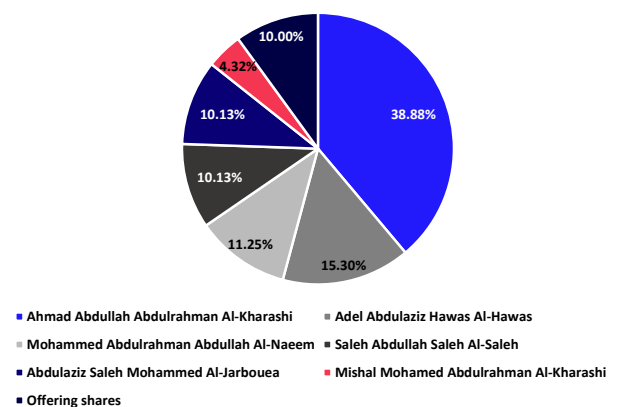
Source: Company Data, Al Rajhi Capital

Figure 6 **Pre-IPO Shareholding**



Source: Company Data, Al Rajhi Capital

Figure 7 **Post-IPO Shareholding**



Source: Company Data, Al Rajhi Capital

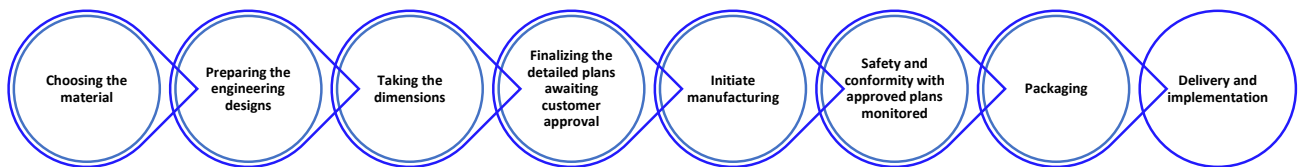
## Business Model

Headquartered in Riyadh, Marble Design Co. has a significant focus on selling materials used in construction and interior design, primarily floor and façade marbles. They offer a diverse range of products catering to both residential and commercial sectors. The company imports natural marble stones via its subsidiary and processes ready-made marble slabs as per client needs driving revenues. A country-wise breakdown of imports suggests that Italy is the largest supplier of marbles for the company followed by Spain and UAE. We believe the company to have a sound grasp of the KSA market at the back of its niche in the geography.

The company holds a wide array of inventory, diverse and largest in the region in terms of quantity. A large share of the company’s customer base is comprised of institutional customers (~40-45%). We note that the top 5 customers contribute almost a third of the revenues. As the company scales up its operations, it may further diversify its customer base and shift the skewness in its revenue mix from corporate clients by capturing more market share in the retail segment. Although this shall affect the average selling prices of marble for the company, pricing pressure will be offset by an increase in sale volumes.

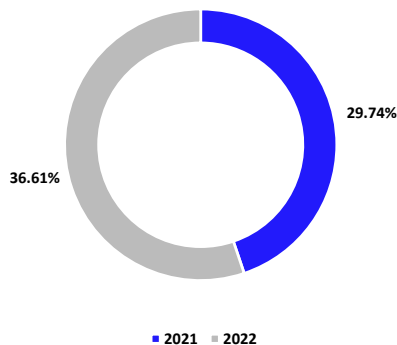
All in all, market share expansion tends to be a key focus area for the company besides keeping pace with modern design and architecture. The ramp-up in capacity utilization levels will aid growth for the company going forward. Overall, we believe the company shall manage to realize maximum benefits from its factory setup which is capable of providing deeper services and processes to clients.

Figure 8 **Stages of Production Process**



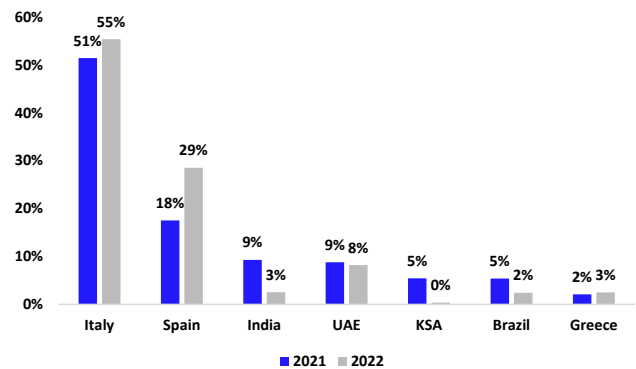
Source: Marble Design Co. Prospectus, Al Rajhi Capital

Figure 9 **Top 5 Customer Contribution to Revenue**



Source: Company Data, Al Rajhi Capital; \*ARC estimates

Figure 10 **Country-wise Import Breakdown for Marble Design Co.**

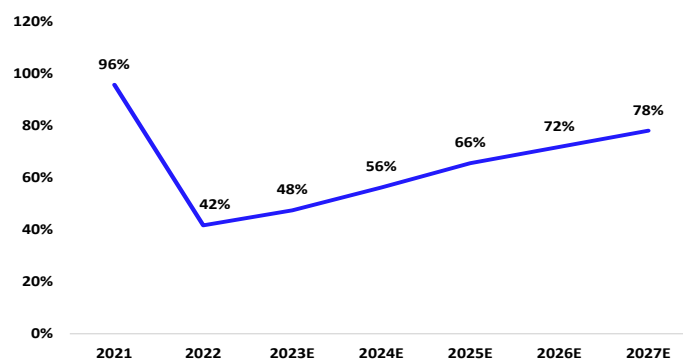


Source: Company Data, Al Rajhi Capital; \*ARC estimates

## Investment Case

**Step up in capacity utilization:** Marble Design Company doubled its production capacity of floor and façade marbles in 2022 to 1,60,000 sqm vis a vis 52,000 sqm in 2021. Notwithstanding the increase in actual production by ~34%, the utilization rates for the company dropped sharply in 2022 from ~96% in FY21 to ~42% in FY22. The company was operating at sub 50% levels at the back of a steep drop in marble prices. Going forward, taking a conservative approach, we expect the company to scale up its actual production volumes at a staggered pace to meet rising demand and avoid an inventory glut. By gradually increasing production volumes to sub 80% levels in response to the rising demand, Marble Design Co. can ensure that it can effectively meet customer needs without incurring unnecessary carrying costs or facing inventory write-offs. Besides, at the current production capacity, the company has enough room to grow without the requirement of any potential capital expenditure for the organic business.

Figure 11 **Marble Design's Capacity Utilisation (%)**



Source: Company Data, Al Rajhi Capital

**Debt-free enterprise:** Marble Designs Co. possesses zero debt on its book. Moreover, the company is well poised to fund its growth via internally generated cash. The current capital structure gives the company, the bandwidth to leverage itself in the future in regard to funding organic as well as inorganic growth opportunities if the need arises. We note that the company's cash flow position is stable enough to cover its working capital requirements efficiently.

**Healthy dividends:** Marble Design maintained a payout ratio of ~93% in FY22. The company shall continue to reward its shareholders by way of healthy dividend payouts going forward. Taking into account, an uptick in capacity utilization, we have factored in a lower payout ratio of ~80% over FY23-FY25, post which the dividend payout ratio shall revert to 90% levels.

**Benefits from uptick in Construction to flow to ancillaries:** Going by the announcements of Vision 2030, KSA is all geared up to see accelerated growth in the construction sector in the medium term. The benefits of a pick-up in construction activities shall aid the marble industry as well. The brisk expansion of residential and commercial sectors shall spur the demand for natural stones. Infrastructure being a key theme in Vision 2030 acts as a strong investment case for the company as its key product happens to be an important building material. The infrastructure development plan emphasizes the construction of new transportation networks, utilities, and other critical infrastructure. Marble, as a product might find applications in public spaces, government buildings, and infrastructure projects, further bolstering demand for the material. Additionally, urbanisation, rising personal disposable incomes and the progress of Vision 2030 shall serve as potential demand generating factors for the marble industry. In view of Marble Design Company's leading presence in the natural marble space, we believe it to be well positioned to capitalise on the rise in demand.

## Valuation

Marble Design Co. will get listed on NOMU Parallel Market. The price band of the IPO offering is between SAR52-56/sh. Assuming the current price band, the stock is trading at a discounted forward multiple range of 12.4x-13.3x. We believe the stock should command a P/E of 16x based on 2023e EPS. In addition, we expect the company's top line to grow at a 5-year CAGR of 9%% and the bottom line to grow with a CAGR of 10% during the same period. In essence, we argue that a company growing at a sustainable growth rate commands better valuations. Our preferred valuation approach to value the company is a blend of DCF and P/E methods wherein we assign equal weights to each. Furthermore, based on dividend yield, SAR68/sh shall act as a floor for the stock. The DCF valuation is based on a 2.0% terminal growth rate and 8.93% WACC implying a target price of SAR 71/sh. The P/E approach implies a target price of SAR 72/share using a multiple of 16x on 2023e EPS. Using a blend of the above-mentioned approaches, we arrive at a weighted average target price of SAR71/sh implying an upside of 27% from the IPO level.

Figure 12 **Valuation**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF	71	50%	35
Relative Valuation (PE)	72	50%	36
<b>Fair Value (SAR)</b>			<b>71</b>
Offer Price (SAR)			56
<b>Upside/(Downside)</b>			<b>27%</b>

Source: Al Rajhi Capital

Figure 13 **Sensitivity Analysis**

		Terminal Growth				
		1.5%	1.8%	2.0%	2.3%	2.5%
<b>WACC</b>	8.4%	72	74	76	79	81
	8.7%	69	71	73	76	78
	8.9%	67	69	71	73	75
	9.2%	65	66	68	70	72
	9.4%	63	64	66	68	70

Source: Al Rajhi Capital

## Key risks

- 1) Delayed pick up in construction sector activity may hinder volume of sales.
- 2) Higher-than-expected increase in production costs may affect the gross margins of the company.
- 3) High customer concentration or supplier concentration may pose risk to the company.
- 4) Price competition may weigh negatively on revenues.
- 5) Company's failure to upgrade its engineering process in line with changing customer demands.
- 6) Due to low liquidity, stock prices in NOMU might remain divergent from fundamental values for an extended period of time.



## Financial Analysis

**Revenue analysis:** The top-line for Marble Design Co. dropped marginally in 2022 at the back of plummeting marble prices. However, the decline in average selling prices was offset by the company ramping up its production capacity. Going forward, we project the company’s revenue to grow at a steady pace with a moderate CAGR of 9% between 2022-2027. High quality standards and sophisticated capabilities shall be the drivers for the stable revenue growth. We believe the pick-up in the construction sector to be a key catalyst for expansion in the company’s production.

**Cost analysis:** Historically, the cost of sales for the company were primarily stable. Since the company imports marble from regions all across the world, the company may have been able to protect its costs by well monitoring its supplier concentration. We expect the cost of sales for the company to witness higher increase in initial years owing to scale up in utilizations. However, as the benefits from economies of scales start to accrue, the cost of sales shall grow at a modest pace in line with the top-line of the company.

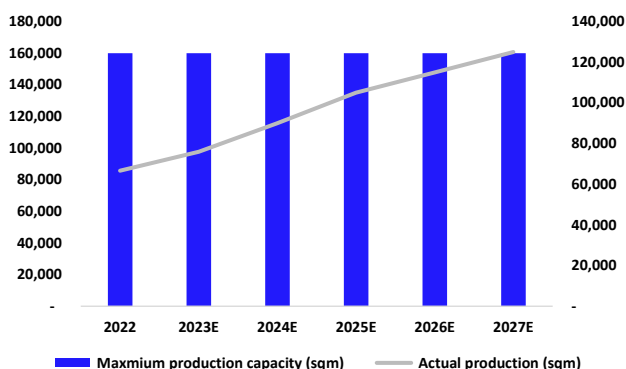
**Margins:** Operating efficiencies and boost in production levels shall contribute positively to the revenue. We expect the gross margins to be stable in the range of 66-67% as a result of cost of sales holding up. However, operating margins may be subdued in 2023 owing to an increase in admin expenses on account of higher production. Nevertheless, in the medium term we believe operating margins to recover steeply as an aftermath of volume growth despite a downtick in average selling prices.

**Balance Sheet:** Strong balance sheet supported by a healthy current ratio and zero debt levels shall strengthen the company’s financial position. We believe the company shall successfully continue to reward its shareholders by way of dividends besides maintaining stable cash reserves for the sound functioning of the business. In the near term, the payout ratio may come off a little bit owing to the expansion in actual production.

**Working capital:** The inventory days based on revenues for the company deteriorated in FY22 owing to an accelerated build-up in inventories. The receivable days (DSO) for the company on average remained stable over the past 2 years while payables (DPO) days witnessed an improvement. We believe the cash conversion cycle for the company to improve going forward as inventories materialise into sales more efficiently.

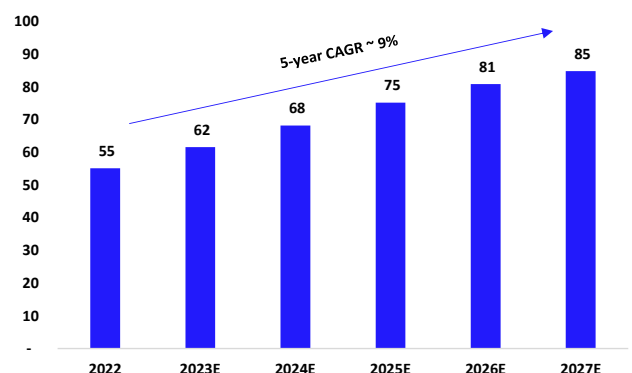
**Cash Flow Position:** Marble Design company registered healthy ROE levels ~26% as of FY22. Negligible debt obligations and no significant capital expenditure requirements in the near to medium term shall aid strong cash flows. Hence, the ROA and ROE levels may continue to trend upwards. Besides, we expect the company to maintain a healthy dividend payout ratio going forward supported by a stable cash flow position and resilient working capital levels.

Figure 14 Capacity Utilisation (2022-2027E\*)



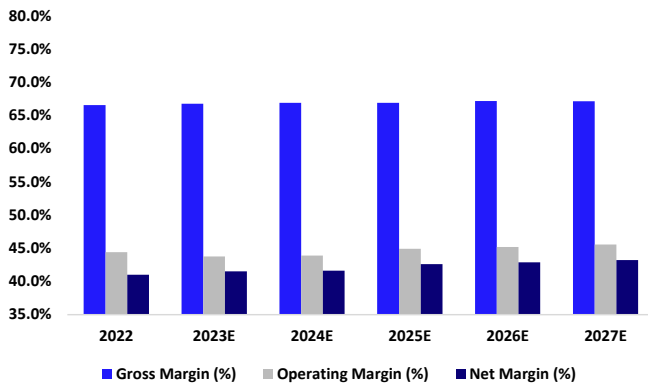
Source: Company Data, Al Rajhi Capital; \*ARC estimates

Figure 15 Revenue Projection (SAR mn) (2022-2027E\*)



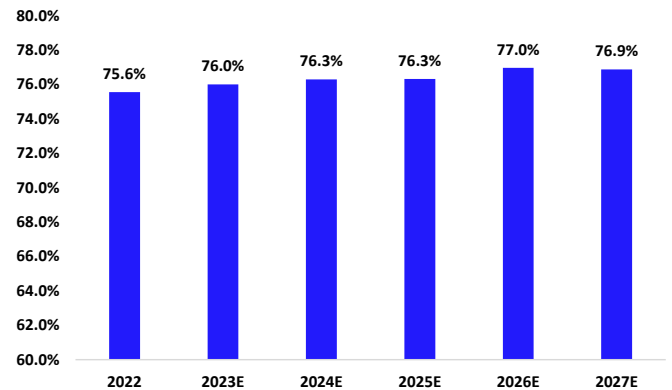
Source: Company Data, Al Rajhi Capital; \*ARC estimates

Figure 16 Profitability Analysis (2022-2027E\*)



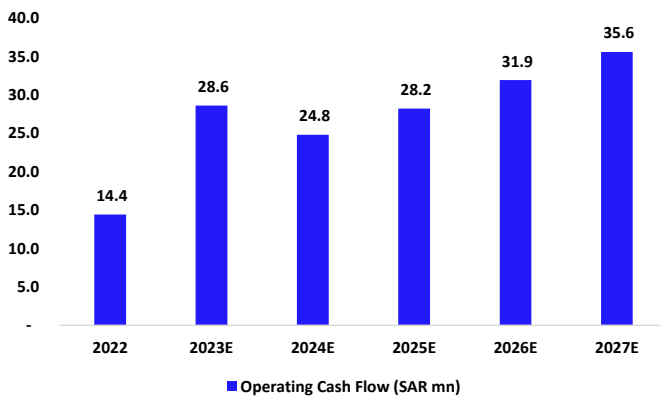
Source: Company Data, Al Rajhi Capital; \*ARC estimates

Figure 17 Material Cost as a % of Cost of Sales



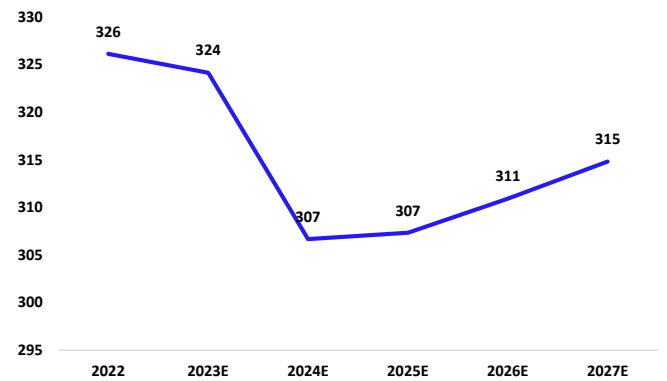
Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 18 Operating Cash Flow Position (2022-2027E\*)



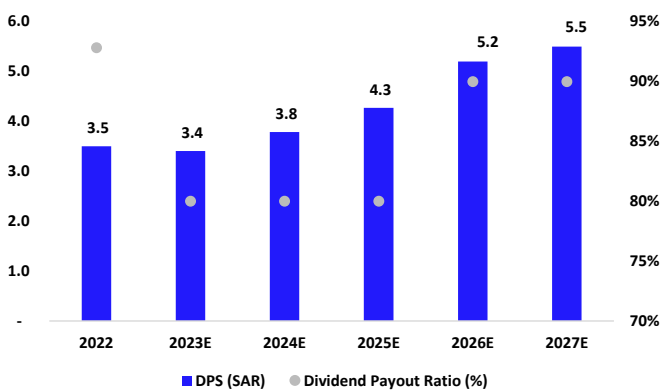
Source: Company Data, Al Rajhi Capital; \*ARC estimates

Figure 19 Cash Conversion Cycle (number of days)



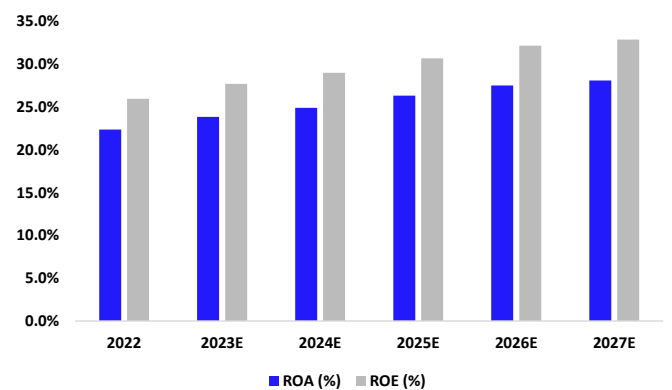
Source: Company Data, Al Rajhi Capital; ARC estimates

Figure 20 DPS and Payout Ratio (2022-2027E\*)



Source: Company Data, Al Rajhi Capital; \*ARC estimates

Figure 21 ROA and ROE (2022-2027E\*)



Source: Company Data, Al Rajhi Capital; \*ARC estimates

## Key Financials

**Figure 22: Income Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E
<b>Sales</b>	<b>55.2</b>	<b>61.6</b>	<b>68.2</b>	<b>75.2</b>	<b>80.9</b>
Y-o-Y	-6.6%	11.7%	10.7%	10.3%	7.6%
Cost of Sales	(18.4)	(20.5)	(22.6)	(24.9)	(26.5)
% of revenues	33.4%	33.2%	33.1%	33.1%	32.8%
<b>Gross Income</b>	<b>36.7</b>	<b>41.1</b>	<b>45.6</b>	<b>50.3</b>	<b>54.3</b>
Y-o-Y	-5.0%	12.0%	10.9%	10.3%	8.0%
GPM	66.6%	66.8%	66.9%	66.9%	67.2%
G&A	(12.2)	(14.2)	(15.7)	(16.5)	(17.8)
% of revenues	22.2%	23.0%	23.0%	22.0%	22.0%
<b>Operating Expenses</b>	<b>(12.2)</b>	<b>(14.2)</b>	<b>(15.7)</b>	<b>(16.5)</b>	<b>(17.8)</b>
% of revenues	22.2%	23.0%	23.0%	22.0%	22.0%
<b>Operating Income</b>	<b>24.5</b>	<b>27.0</b>	<b>29.9</b>	<b>33.8</b>	<b>36.5</b>
Y-o-Y	-6.1%	10.0%	11.1%	12.8%	8.2%
OPM	44.4%	43.8%	43.9%	44.9%	45.2%
Financial costs	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other income	0.4	0.0	0.0	0.0	0.0
<b>Profit before tax</b>	<b>24.9</b>	<b>26.9</b>	<b>29.9</b>	<b>33.7</b>	<b>36.5</b>
Zakat & Tax	(2)	(1)	(1)	(2)	(2)
% of PBT	9.1%	5.0%	5.0%	5.0%	5.0%
<b>Net Profit Before Unusual Items</b>	<b>22.6</b>	<b>25.6</b>	<b>28.4</b>	<b>32.0</b>	<b>34.7</b>
Non-controlling interest	0.0	1.0	2.0	3.0	4.0
<b>Net Income</b>	<b>22.6</b>	<b>25.6</b>	<b>28.4</b>	<b>32.0</b>	<b>34.7</b>
Y-o-Y	-8.7%	13.0%	11.1%	12.8%	8.2%
NPM	41.0%	41.5%	41.6%	42.6%	42.9%
<b>EPS (SAR/sh)</b>	<b>3.77</b>	<b>4.26</b>	<b>4.73</b>	<b>5.34</b>	<b>5.78</b>

Source: Company Data, Al Rajhi Capital

**Figure 23: Cash Flow Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E
Cash from operations	14.4	28.6	24.8	28.2	31.9
Cash from investing	7.2	-3.1	-3.2	-3.3	-3.4
Cash from financing	-22.1	-20.5	-22.7	-25.6	-31.2
<b>Net change in cash and cash equivalents</b>	<b>-0.5</b>	<b>5.1</b>	<b>-1.1</b>	<b>-0.7</b>	<b>-2.7</b>

Source: Company Data, Al Rajhi Capital

**Figure 24: Key Ratios**

Key metrics	2022	2023E	2024E	2025E	2026E
Current ratio	5.7x	5.7x	5.7x	5.6x	5.5x
Receivables turnover ratio	16.2x	17.2x	17.2x	17.1x	16.9x
Inventory turnover ratio*	1.1x	1.1x	1.2x	1.2x	1.2x
Payables turnover ratio	14.9x	20.3x	16.8x	16.8x	16.5x
Operating cycle (days)	351	342	328	329	333
ROA	22.4%	23.9%	24.9%	26.3%	27.5%
ROE	26.0%	27.7%	29.0%	30.7%	32.2%

Source: Company Data, Al Rajhi Capital. \* Inventory Turnover Ratio is based on sales

**Figure 25: Balance Sheet**

(SAR mn)	2022	2023E	2024E	2025E	2026E
<b>Assets</b>					
Receivables	3	4	4	5	5
Other receivables	6	5	6	6	7
Inventory	54	54	60	67	72
Cash and cash equivalents	5	10	9	8	6
<b>Total current Assets</b>	<b>69</b>	<b>74</b>	<b>79</b>	<b>86</b>	<b>89</b>
Non current assets	0	0	0	0	0
PP&E	31	32	33	34	35
Right of use assets	1	1	1	1	1
Projects under implementation	0	0	0	0	0
<b>Total non-current assets</b>	<b>33</b>	<b>34</b>	<b>35</b>	<b>36</b>	<b>37</b>
<b>Total assets</b>	<b>101</b>	<b>107</b>	<b>114</b>	<b>122</b>	<b>126</b>
<b>Liabilities</b>					
Rent lease obligations	0	0	0	0	0
Payables	1	1	1	2	2
Payabled and other debt balances	9	10	11	12	13
Provision for Zakat and income tax	2	2	2	2	2
<b>Total current liabilities</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>
End of service benefit obligations	2	2	2	2	2
Rent lease obligations	0	0	0	0	0
<b>Total non-current liabilities</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Shareholders' equity</b>					
Capital	60	60	60	60	60
Statutory and other reserve	9	9	9	9	9
Retained earnings	19	24	29	36	39
<b>Equity attributable to shareholders of the Parent Company</b>	<b>87</b>	<b>92</b>	<b>98</b>	<b>104</b>	<b>108</b>
Non-controlling interest					
<b>Total equity</b>	<b>87</b>	<b>92</b>	<b>98</b>	<b>104</b>	<b>108</b>
<b>Total liabilities</b>	<b>101</b>	<b>107</b>	<b>114</b>	<b>122</b>	<b>126</b>

Source: Company Data, Al Rajhi Capital

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