

Target Price: SAR140/sh  
Current Price: SAR117/sh  
Upside: +19.7% (Div yield: +3.7%)  
Rating: **Overweight**

## Riyadh Cables (RCG)

### TP raise to SAR140 on favorable mix and margin expansion

- Strong earnings beat, on the back of better-than-expected product mix and margin expansion.
- We raise our 2024-25 top-line and bottom-line estimates by 6-7% and 15-17% respectively to reflect the current backlog mix and margin expansion.
- Accordingly, we raise our TP to SAR140/sh. (earlier SAR117/sh.), using an equal weight of DCF and P/E and maintain our rating to Overweight on the stock. The company currently trades at a P/E of 19.4x on our 2025e EPS, lower than its historical average of ~22x.

**Strong 3Q24 results across the board:** Riyadh Cables posted the highest quarterly revenue at SAR2,433mn (+16.9% y/y, +18.9% q/q), beating our estimates by 9.8%. The top-line beat was mainly due to a higher-than-expected improvement in product prices, coupled with a change in product mix (65-35% Copper/Aluminum vs 60-40% expected) with an improved demand for transmission products. Further, gross profit per ton increased significantly to SAR6,563 (+39% y/y; 34% q/q as our per calculation) during the quarter, driven by favorable sales mix, coupled with better cost efficiencies, leading to a beat at the gross profit level. Overall, despite a rise in OPEX which could be due to increased ECL, the company posted strong earnings of SAR235mn (+76.9% y/y; +47.3%), beating our estimates by a wide margin.

**Promising outlook amid robust backlog and expanding capacity:** The company's 9M24 backlog stood at SAR4.9bn (110k tons), up by 63% y/y (+14.6% rise in terms of tons), aided by growth in volumes and an increasing proportion of high-value and high-margin products. Further, the current backlog mix is very similar to the 3Q24 product mix, focusing on high-margin products, and is expected to be recognized over 12-18 months. Given the healthy product demand (Figure: 7-10), a strong project pipeline (~SAR20bn worth of projects is in the bidding/quotation stage) and its plan to expand the capacity by 6-8% annually through 2027e, we expect the backlog to remain firm, ensuring a strong revenue visibility. Accordingly, we expect the revenue to grow at a healthy CAGR of 8.6% (+7.4% CAGR earlier) over 2023-28e.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e	2026e
Revenue	6,852	7,825	9,009	9,729	10,506
Revenue growth	40%	14%	15%	8%	8%
Gross profit	647	973	1,319	1,397	1,538
Gross profit margin	9.4%	12.4%	14.6%	14.4%	14.6%
Operating Profit	458	662	977	1,068	1,190
Operating margin	6.7%	8.5%	10.8%	11.0%	11.3%
Net profit attributable to equity holders	352	519	808	905	1,030
Net profit margin	5.1%	6.6%	9.0%	9.3%	9.8%
EPS (SAR)	2.3	3.5	5.4	6.0	6.9
DPS (SAR)	1.5	2.5	3.9	4.4	5.2
P/E	49.8x	33.8x	21.7x	19.4x	17.0x

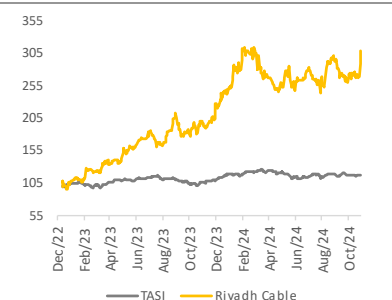
Source: Company data, GIB Capital

#### Stock data

TASI ticker	4142
Mcap (SARmn)	17,550
Avg. Trd. Val (3m) SARmn	34.9
Free float	70.8%
QFI holding	14.0%
TASI FF weight	0.67%

Source: Bloomberg

#### Prices indexed to 100



Source: Bloomberg

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**Record GP profit per ton; likely to sustain on a favorable backlog mix amid efficient hedging and pricing mechanism:** RCG has consistently been delivering strong operating performance with the gross profit per ton rising from SAR4,278 in 9M23 to SAR5,387 by 9M24 with a notable improvement across the product lines, driven by robust utilization (~92%), a favorable product mix, and improved efficiency. Apart from its core markets (KSA, UAE, and Iraq), the company focuses on exporting to high-margin markets, such as Africa (+10% y/y) and FEA, further supporting its profitability as these shipments focus on niche and higher-margin products. Looking ahead, we expect the current level of gross margin per ton likely to be sustained (with a possible improvement although marginally), given i) its favorable backlog/product mix that includes a high proportion of high and extra-high voltage products, ii) increased product prices, iii) prudent hedging strategy and iv) management strategy in vigilant order selection. Accordingly, we expect gross margin to remain in the range of 14.4-15% over 2024-28e compared to 12.4% in 2023, implying strong earnings (~19% CAGR) over 2023-28e.

**Revised guidance and our estimates:** Post strong 3Q24 results, RCG revised its 2024 earnings growth guidance upwards to 40-50% vs 20-30% earlier. Given its strong growth momentum, robust backlog, margin expansion on a favorable product mix, and consistent execution track record, we expect the company to beat its 2024 earnings guidance, achieving a ~55% y/y earnings growth in 2024. Overall, we raise our top-line and earnings estimate for 2024-25e by 6-7% and 15-17%, respectively. Further, we continue to expect the company to spend SAR150-200mn in capex annually through 2027e (in line with the guidance) to expand its production capacity by 6-8% each year.

Figure 2: Management guidance vs GIBC estimate

	2024e guidance			GIBC estimates	
	Mar-24	Aug-24	Nov-24	Previous	Revised
Net profit growth	10-15%	20-30%	<b>40-50%</b>	33%	<b>56%</b>
Capex	SAR200mn	Unchanged	<b>Unchanged</b>	SAR200mn	<b>Unchanged</b>

Source: Company data, GIB Capital

Figure 3: Revision in estimates

SARmn	2024e			2025e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	<b>9,009</b>	8,444	6.7%	<b>9,729</b>	9,181	6.0%
Gross profit	<b>1,319</b>	1,131	16.6%	<b>1,397</b>	1,218	14.7%
GPM %	<b>14.6%</b>	13.4%		<b>14.4%</b>	13.3%	
Operating Profit	<b>977</b>	851	14.8%	<b>1,068</b>	939	13.7%
OPM %	<b>10.8%</b>	10.1%		<b>11.0%</b>	10.2%	
Net profit	<b>808</b>	693	16.6%	<b>905</b>	787	15.1%
NPM %	<b>9.0%</b>	8.2%		<b>9.3%</b>	8.6%	

Source: GIB Capital

**Valuation and risks:** After revising our estimates amid a positive market outlook, we arrive at a blended 1Y forward target price of SAR140/sh., using an equal weighting of DCF (SAR142/sh, with WACC of 8.3% (unchanged) and a terminal growth rate of 2.5%) and P/E (21x on 2025 EPS: SAR138/sh). Key downside risks include a sharp drop in oil prices resulting in a decline in government spending, persistent increase in inflation, inability to favorably hedge, higher competition, and unfavorable regulations.

Figure 4: 3Q24 results summary

SARmn	3Q24	3Q23	y/y %	2Q24	q/q %	GIBC est.	Variance %
<b>Revenues</b>	<b>2,433</b>	<b>2,081</b>	<b>16.9%</b>	<b>2,046</b>	<b>18.9%</b>	<b>2,216</b>	<b>9.8%</b>
Cost of sales	2,032	1,802	12.8%	1,777	14.4%	1,925	5.5%
<b>Gross profit</b>	<b>401</b>	<b>279</b>	<b>43.8%</b>	<b>270</b>	<b>48.9%</b>	<b>291</b>	<b>38.0%</b>
Opex	121	115	5.4%	69	75.9%	71	70.7%
<b>Operating profit</b>	<b>280</b>	<b>164</b>	<b>70.7%</b>	<b>201</b>	<b>39.7%</b>	<b>220</b>	<b>27.4%</b>
<b>Net income</b>	<b>235</b>	<b>133</b>	<b>76.9%</b>	<b>159</b>	<b>47.3%</b>	<b>178</b>	<b>31.9%</b>
Gross margin	16.5%	13.4%		13.2%		13.1%	
Operating margin	11.5%	7.9%		9.8%		9.9%	
Net margin	9.6%	6.4%		7.8%		8.0%	

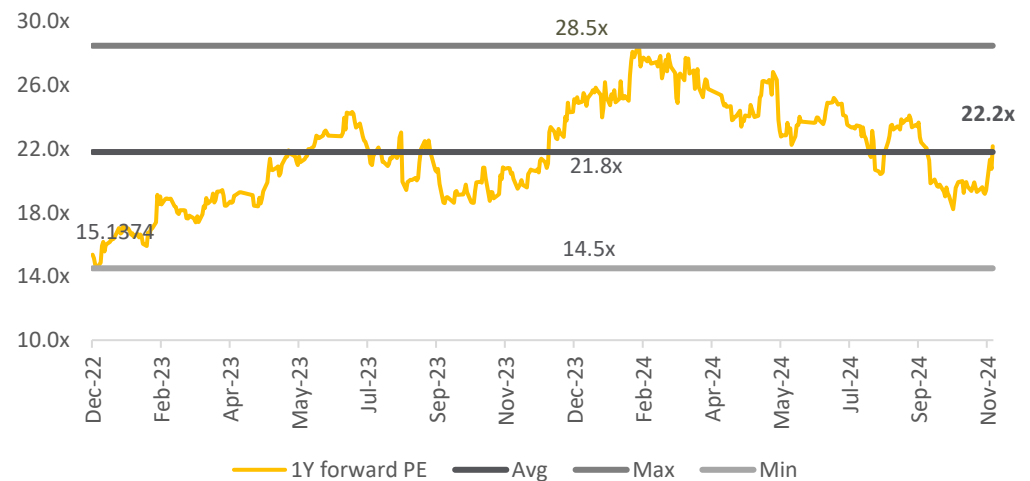
Source: Company data, GIB Capital

Figure 5: Riyadh Cables vs peer valuation

Company name	Country	Mkt Cap (USDmn)	P/E Ratio (TTM)	2024e P/E	2025e P/E	EV/EBITDA (TTM)	2024e EV/EBITDA	2025e EV/EBITDA	2024e Dividend Yield	P/B
<b>Riyadh Cable</b>	<b>Saudi Arabia</b>	<b>4,680</b>	<b>25.3x</b>	<b>25.6x</b>	<b>21.8x</b>	<b>22.2x</b>	<b>20.5x</b>	<b>18.0x</b>	<b>2.4%</b>	<b>7.3x</b>
Elswedy Electri	Egypt	3,814	16.0x	14.9x	17.4x	8.3x	6.4x	6.2x	0.7%	3.9x
Gulf Cables & El	Kuwait	1,114	17.8x	N.A.	N.A.	48.0x	N.A.	N.A.	N.A.	1.4x
Electrical Indus	Saudi Arabia	2,501	25.9x	N.A.	N.A.	21.1x	N.A.	N.A.	N.A.	11.1x
Middle East Spec	Saudi Arabia	421	22.0x	N.A.	N.A.	13.6x	N.A.	N.A.	N.A.	3.7x
Saudi Cable Co	Saudi Arabia	147	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Oman Cables	Oman	603	10.7x	10.8x	11.3x	6.6x	6.8x	7.4x	4.6%	1.6x
Kei Indus Ltd	India	4,268	61.7x	50.9x	41.0x	38.5x	35.5x	28.4x	0.1%	11.4x
Nkt A/S	Denmark	5,018	28.3x	20.3x	21.7x	11.1x	10.3x	9.2x	0.0%	2.8x
Nexans Sa	France	6,235	21.7x	17.9x	16.0x	9.7x	8.4x	7.7x	2.0%	3.2x
<b>Average</b>			<b>25.5x</b>	<b>23.4x</b>	<b>21.5x</b>	<b>19.9x</b>	<b>14.6x</b>	<b>12.8x</b>	<b>1.6%</b>	<b>5.1x</b>
<b>Median</b>			<b>22.0x</b>	<b>19.1x</b>	<b>19.5x</b>	<b>13.6x</b>	<b>9.3x</b>	<b>8.5x</b>	<b>1.3%</b>	<b>3.7x</b>

Source: Bloomberg, GIB Capital

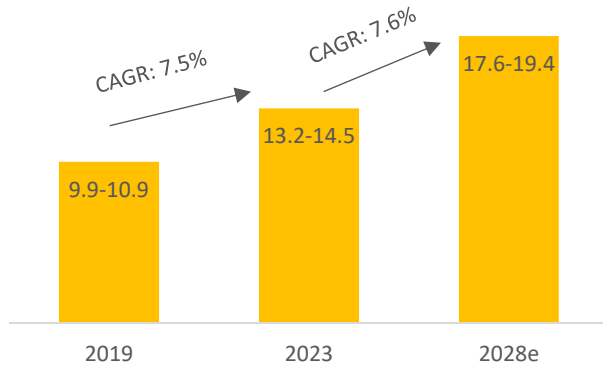
Figure 6: RCG's 1Y forward P/E band chart



Source: Bloomberg, GIB Capital

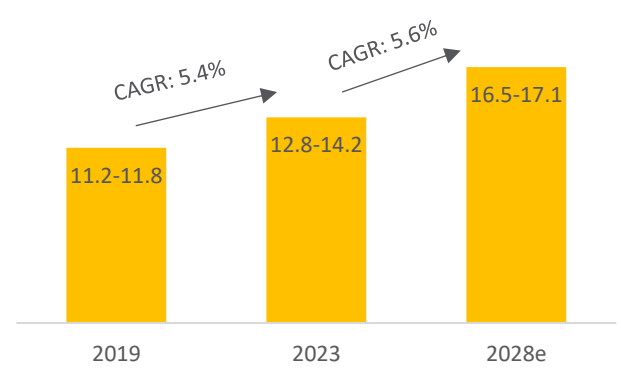
## Demand growth in the target market and RCG's backlog

Figure 7: KSA wire and cable demand (SARbn)



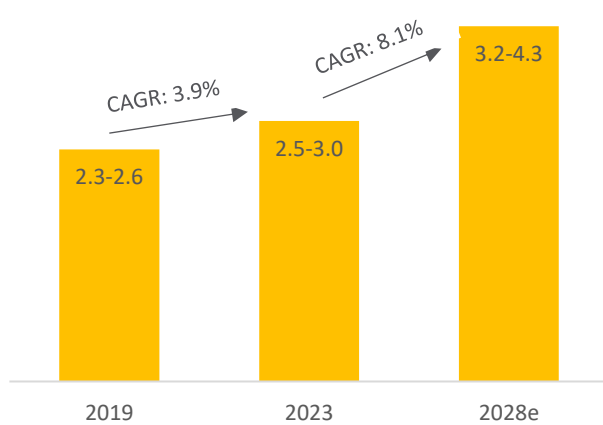
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 8: GCC excl KSA wire and cable demand (SARbn)



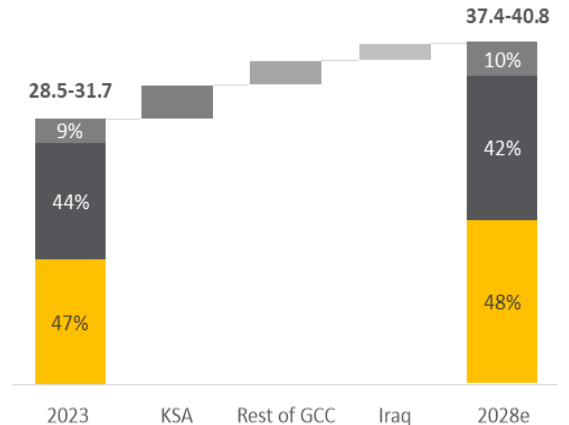
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 9: Iraq wire and cable demand (SARbn)



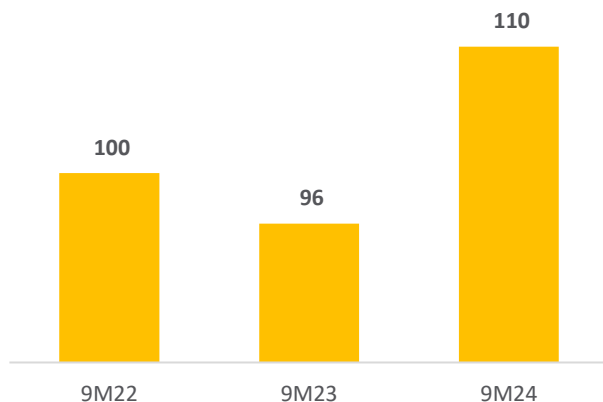
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 10: GCC and Iraq – wire and cable demand (SARbn)



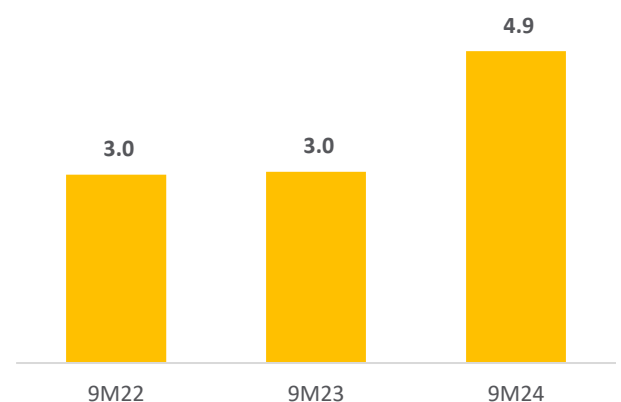
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 11: RCG backlog by volume ('000' tons)



Source: Company data, GIB Capital

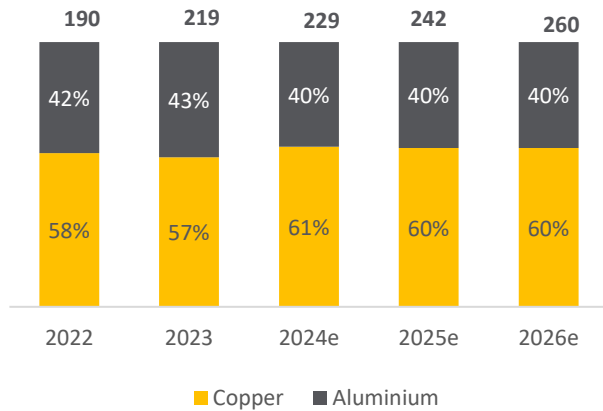
Figure 12: RCG backlog by value (SARbn)



Source: Company data, GIB Capital

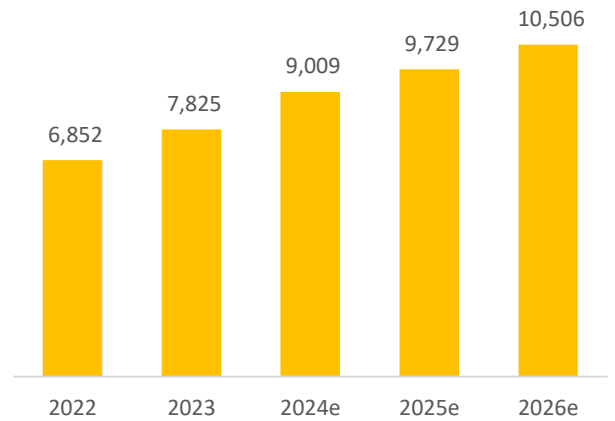
## Financial analysis in charts

Figure 13: Sales volume ('000' tons) and mix



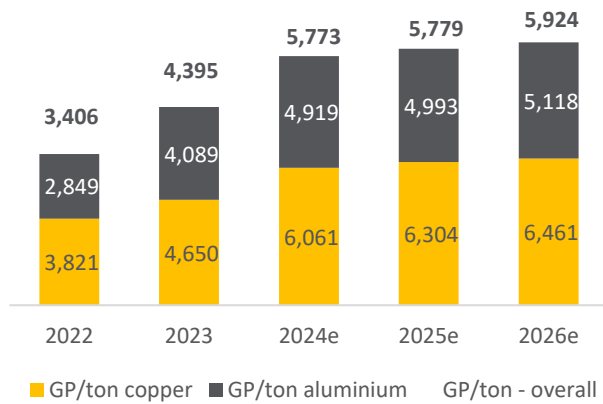
Source: Company data, GIB Capital

Figure 14: Revenue trend (SARmn)



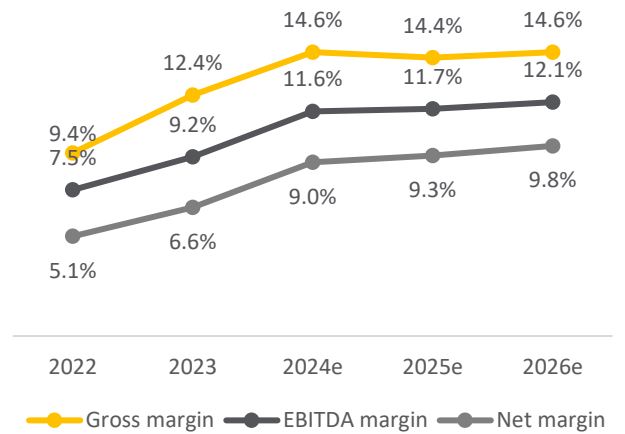
Source: Company data, GIB Capital

Figure 15: Gross profit per ton (SAR)



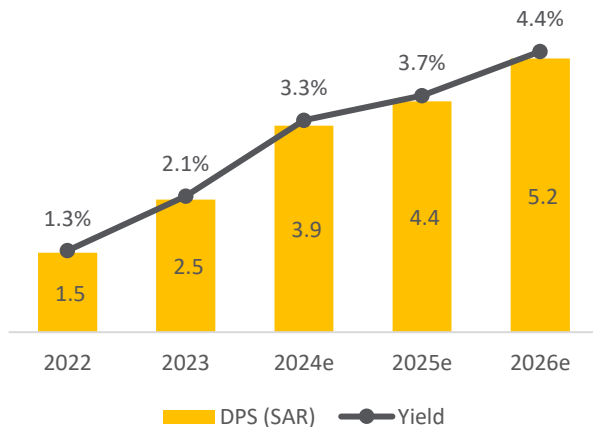
Source: Company data, GIB Capital

Figure 16: Margin trend



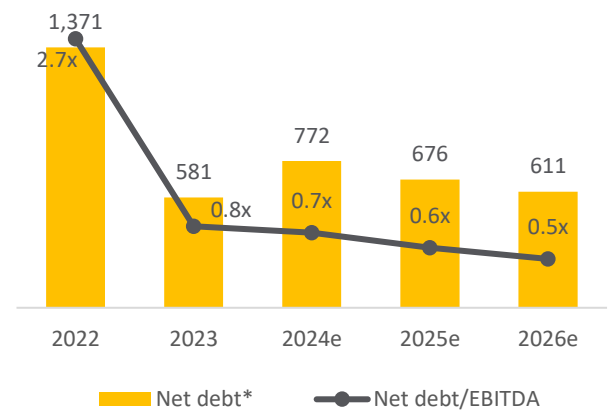
Source: Company data, GIB Capital

Figure 17: Dividend



Source: Company data, GIB Capital

Figure 18: Leverage trend (SARmn)



Source: Company data, GIB Capital, \*net debt includes lease liabilities

## Summarized Financial statements

Figure 19: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e
<b>Revenue</b>	<b>6,852</b>	<b>7,825</b>	<b>9,009</b>	<b>9,729</b>	<b>10,506</b>
revenue y/y	40%	14%	15%	8%	8%
COGS	6,205	6,853	7,690	8,332	8,969
<b>Gross Profit</b>	<b>647</b>	<b>973</b>	<b>1,319</b>	<b>1,397</b>	<b>1,538</b>
Gross Profit margin	9.4%	12.4%	14.6%	14.4%	14.6%
Selling and distribution expenses	103	112	129	136	147
General and administrative expenses	100	135	147	154	164
EC loss/(reversal)	(3)	43	54	44	42
Other income/(loss)	10	(21)	(12)	5	5
<b>Operating profit</b>	<b>458</b>	<b>662</b>	<b>977</b>	<b>1,068</b>	<b>1,190</b>
Operating margin	7%	8%	11%	11%	11%
Finance costs	73	103	97	87	73
<b>PBT</b>	<b>385</b>	<b>559</b>	<b>879</b>	<b>981</b>	<b>1,117</b>
Zakat/tax	33	40	74	78	89
Non-controlling interests	(0)	(0)	(2)	(3)	(3)
<b>Net income attributable to equity holders</b>	<b>352</b>	<b>519</b>	<b>808</b>	<b>905</b>	<b>1,030</b>
Net margin	5.1%	6.6%	9.0%	9.3%	9.8%
y/y	47%	47%	55%	12%	14%
<b>EPS</b>	<b>2.3</b>	<b>3.5</b>	<b>5.4</b>	<b>6.0</b>	<b>6.9</b>
DPS	1.5	2.5	3.9	4.4	5.2
Payout	64%	72%	72%	72%	75%
<b>EBITDA</b>	<b>516</b>	<b>723</b>	<b>1,043</b>	<b>1,140</b>	<b>1,267</b>
Net debt (w/o lease liabilities)	1,361	572	763	666	601
Net debt (w/ lease liabilities)	1,371	581	772	676	611

Balance Sheet	2022a	2023a	2024e	2025e	2026e
Inventories	1,796	1,909	2,296	2,420	2,506
Trade receivables	1,301	1,305	1,851	1,866	1,957
Cash and cash equivalents	107	150	53	80	95
Other current assets	129	125	135	144	152
<b>Total Current Assets</b>	<b>3,333</b>	<b>3,489</b>	<b>4,336</b>	<b>4,509</b>	<b>4,711</b>
Property, plant and equipment	1,120	1,207	1,340	1,439	1,531
Intangible assets	68	63	63	63	63
Other non-current assets	103	73	73	73	74
<b>Total Non-Current Assets</b>	<b>1,291</b>	<b>1,342</b>	<b>1,476</b>	<b>1,575</b>	<b>1,668</b>
<b>Total Assets</b>	<b>4,624</b>	<b>4,831</b>	<b>5,812</b>	<b>6,084</b>	<b>6,379</b>
Current Liabilities	2,381	2,450	3,208	3,229	3,269
Non-current Liabilities	123	135	135	135	136
Equity	2,121	2,246	2,469	2,719	2,974
<b>Total Equity and Liabilities</b>	<b>4,624</b>	<b>4,831</b>	<b>5,812</b>	<b>6,084</b>	<b>6,379</b>
BVPS	14.1	15.0	16.5	18.2	19.9

Cashflow	2022a	2023a	2024e	2025e	2026e
Cashflow from Operations	185	1,342	592	919	1,008
Cashflow from Investing	(37)	(156)	(200)	(170)	(170)
Cashflow from Financing	(91)	(1,144)	(489)	(722)	(823)
<b>Total Cashflows</b>	<b>56</b>	<b>43</b>	<b>(97)</b>	<b>27</b>	<b>15</b>

Source: Company, GIB Capital

Figure 20: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e
<b>Profitability ratios</b>					
RoA	8%	11%	14%	15%	16%
RoE	17%	23%	33%	33%	35%
Sales/Assets	148%	162%	155%	160%	165%
Net margin	5.1%	6.6%	9.0%	9.3%	9.8%
<b>Liquidity ratios</b>					
Current Assets/ Current Liabilities	1.4	1.4	1.4	1.4	1.4
Debt to Total Equity (w/ IFRS liab.)	0.7	0.3	0.3	0.3	0.2
Receivable Days	69	61	75	70	68
Inventory Days	106	102	109	106	102
Payable days	32	64	80	80	80
Cash conversion cycle	143	99	104	96	90
<b>Debt ratios</b>					
Net Debt/EBITDA*	2.7	0.8	0.7	0.6	0.5
Debt/Assets	0.3	0.1	0.1	0.1	0.1
Net Debt/Equity	0.6	0.3	0.3	0.2	0.2
<b>Valuation ratios</b>					
P/E	49.8	33.8	21.7	19.4	17.0
P/B	8.3	7.8	7.1	6.4	5.9
EV/EBITDA	35.5	25.4	17.6	16.1	14.5
FCF Yield	1.4%	6.0%	2.8%	4.8%	5.2%
Dividend Yield	1.3%	2.1%	3.3%	3.7%	4.4%

Source: Company, GIB Capital, \*Including lease liabilities

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