Equity Research report
RIYADHCA AB Equity
19 September 2024

Target Price: SAR117.0/sh
Current Price: SAR101.2/sh
Upside: 15.6% (Div yield: +3.4%)
Rating: Overweight

Riyadh Cables (RCG)

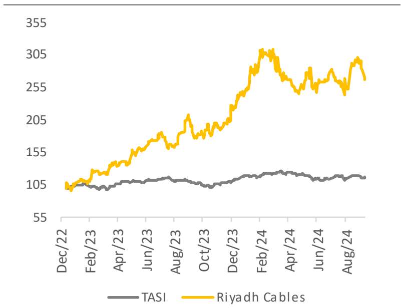
Revise TP to SAR117 on capacity addition and strong margins

- Capacity addition amid strong cable demand, and robust backlog to drive the topline growth (+7% CAGR during 2023-28e).
- GP margin is likely to expand from 12.4% in 2023 to 13.8% by 2028e on favorable mix, better operational efficiencies and efficient hedging strategy.
- Post revision in estimates, we raise our TP to SAR117/sh. (earlier SAR92/sh.) using an equal weight of DCF and P/E and revise our rating to Overweight on the stock.

Stock data	
TASI ticker	4142
Mcap (SARmn)	15,180
Avg. Trd. Val (3m) SARmn	30.4
Free float	70.8%
QFI holding	13.7%
TASI FF weight	0.59%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Capacity addition amid robust demand outlook to drive the growth: The outlook for the cable industry in RCG's operating countries remains strong, driven by giga/mega projects, upgradation of grids, energy transition, demand from the Telecom (mainly data center) and oil & gas sectors. Accordingly, KSA's cable demand is expected to grow at a CAGR of 7.6% over 2023-28e, while the demand in rest of the GCC and Iraq are anticipated to grow at a CAGR of 5.6% and 8.1%, respectively over the same period. Considering robust demand outlook, RCG is steadily increasing its capacity, adding ~36k tons (+14% rise) over 2022-24 with a focus on transmission and distribution products. We note that ~80% of the expansion is already completed and the remaining is due for completion by 4Q24-1Q25. Further, RCG also plans to increase its capacity by 6-7% annually over 2025-27e with an annual capex of ~SAR150-170mn. With robust growing market shares (38% currently vs 30% in 2019), expanding capacity, and strong utilization, we conservatively expect sales volume to rise at a ~6% CAGR over 2023-28e.

Robust backlog and promising project pipeline to ensure revenue visibility: RCG has consistently expanded its backlog, growing from 103k tons in 1H23 to 121k tons (+17% rise) by early Sep-24 (Figure 7), reflecting its strong market position. In terms of value, the backlog has surged by 69% to reach ~SAR5.4bn by early Sep 2024 (SAR5.2bn in 1H24) compared to SAR3.2bn in 1H23, driven by growth in volumes and an increasing proportion of high-value and high-margin products. Further, over SAR20bn worth of projects are in the bidding/quotation stage, indicating a potential rise in backlog and thereby, ensuring a strong revenue visibility. Accordingly, we expect the revenue to grow at a healthy CAGR of 7.4% during 2023-28e.

Figure 1: Key financial metrics

SARmn	2022a	2023a	2024e	2025e	2026e
Revenue	6,852	7,825	8,444	9,181	9,949
Revenue growth	*40%*	*14%*	*8%*	*9%*	*8%*
Gross profit	647	973	1,131	1,218	1,343
Gross profit margin	*9.4%*	*12.4%*	*13.4%*	*13.3%*	*13.5%*
Operating Profit	458	662	851	939	1,042
Operating margin	*6.7%*	*8.5%*	*10.1%*	*10.2%*	*10.5%*
Net profit attributable to equity holders	352	519	693	787	894
Net profit margin	*5.1%*	*6.6%*	*8.2%*	*8.6%*	*9.0%*
EPS (SAR)	2.3	3.5	4.6	5.3	6.0
DPS (SAR)	1.5	2.5	3.3	3.8	4.5
P/E	43.1x	29.3x	21.9x	19.3x	16.9x

Source: Company data, GIB Capital

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Robust gross profit per ton on favorable mix and efficient hedging activities: The company has experienced significant growth in gross profit per ton, rising from SAR3,406/ton in 2022 to SAR4,778/ton by 1H24, driven by its prudent hedging approach, an improved product mix (with a higher contribution from high-voltage cables) and enhanced operational efficiencies. Going forward, we expect the product mix to remain largely consistent over the medium term, supported by sustained demand for high-voltage cables. This, along with its effective hedging strategy that mitigates the impact of global commodity price volatility, may improve gross profit per ton further by 3.8% CAGR over 2023-28e, mainly led by copper products, with gross margin ranging between 13.4% to 13.8% over 2024-28e.

1H24 inventory build likely to ease: We observed an increase in working capital requirements, mainly increased inventory levels in 1H24. Rising inventory may be due to metal price fluctuations, a slowdown in the Utility sector, delivery delays, and holidays in 2Q24. Nonetheless, the company expects a recovery in demand from the utility sector in 2H24, which will ease working capital pressure, boosting FCF and thereby higher dividends going forward.

Revised guidance and our estimates: Post strong 1H24 results, RCG revised its 2024 earnings guidance upwards to 20-30% y/y growth vs 10-15% guidance earlier, which still looks conservative in our view. Considering its robust growth momentum, expanding backlog, margin expansion on a favorable product mix, and consistent execution track record, we expect the company to report a 33% y/y earnings growth in 2024. Further, we expect the company to spend SAR200mn capex in 2024 (in line with the guidance) with most of the spending would be in 2H24.

Figure 2: Management guidance vs GIBC estimate

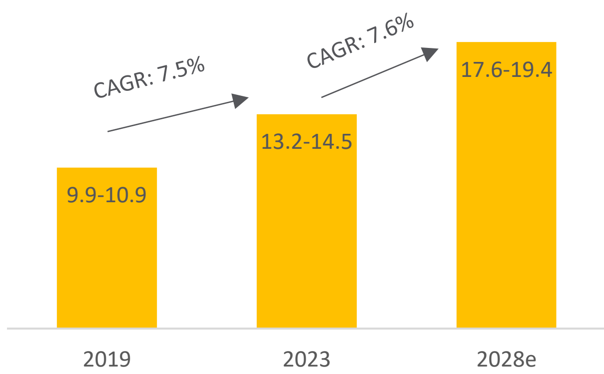
	2024e guidance		GIBC estimates	
	Previous	Revised	Previous	Revised
Net profit growth	10-15%	20-30%	26%	33%
Capex	SAR200mn	unchanged	SAR200mn	unchanged

Source: Company data, GIB Capital

Valuation and risks: After revising our estimates and rolling forward the valuation, we arrive at a blended 1Y forward target price of SAR117/sh, using an equal weighting of DCF (SAR120/sh, with WACC of 8.3% and a terminal growth rate of 2.5%) and P/E (21x on average of 2024-25 EPS: SAR114/sh). Key downside risks include a sharp drop in oil prices resulting in decline in government spending, persistent increase in inflation, inability to favorable hedging, higher competition, and unfavorable regulations.

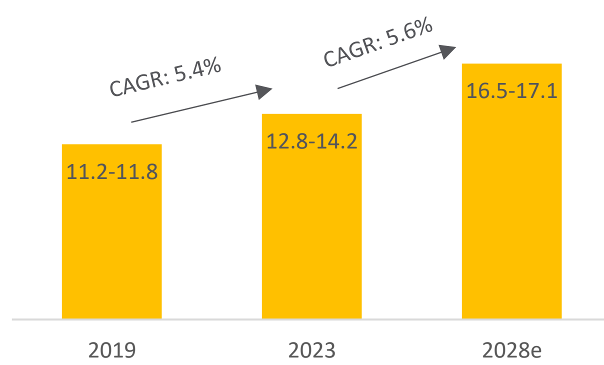
Demand growth in the target market and RCG's backlog

Figure 3: KSA wire and cable demand (SARbn)



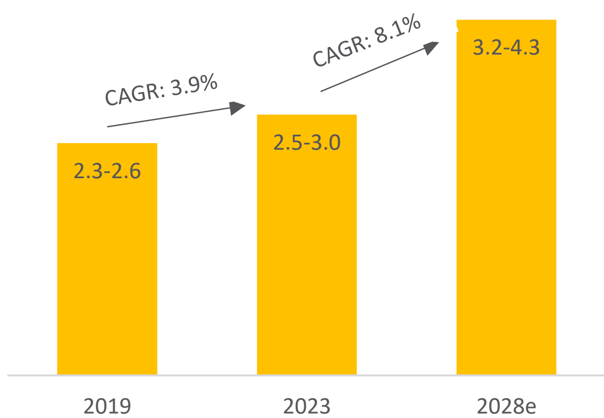
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 4: GCC excl KSA wire and cable demand (SARbn)



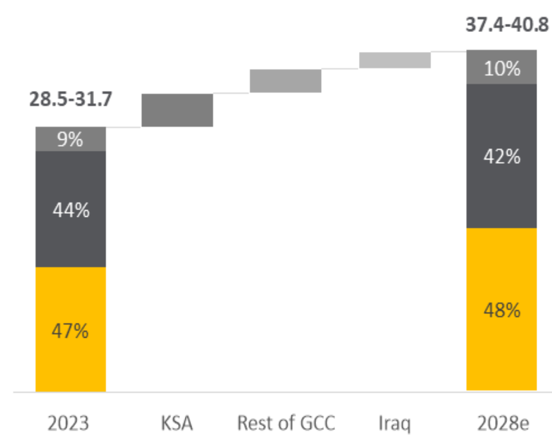
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 5: Iraq wire and cable demand (SARbn)



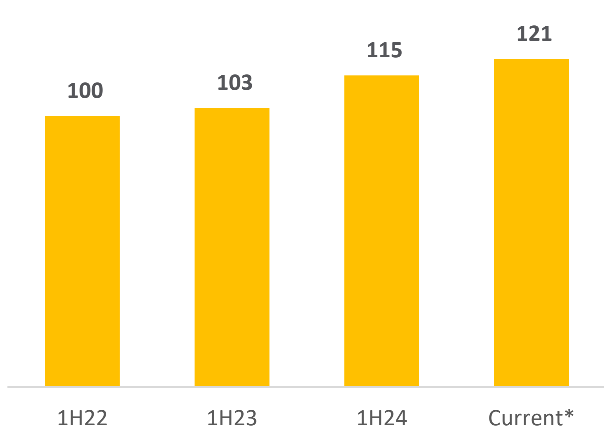
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 6: GCC and Iraq – wire and cable demand (SARbn)



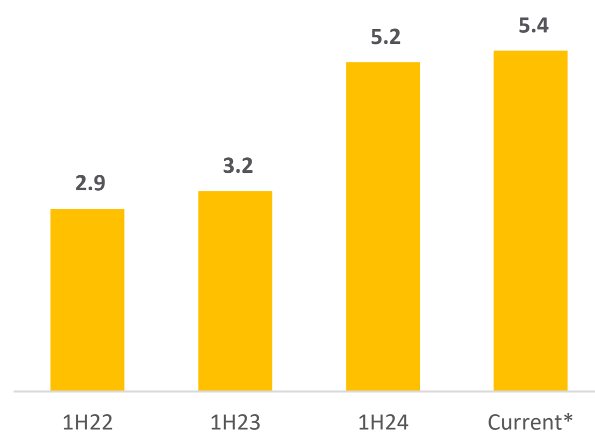
Source: Arthur D. Little analysis, Frost & Sullivan Analysis, AdaptaCorp, Company data, GIB Capital

Figure 7: RCG backlog by volume ('000' tons)



*Source: Company presentation, GIB Capital, *as of 1 September 2024*

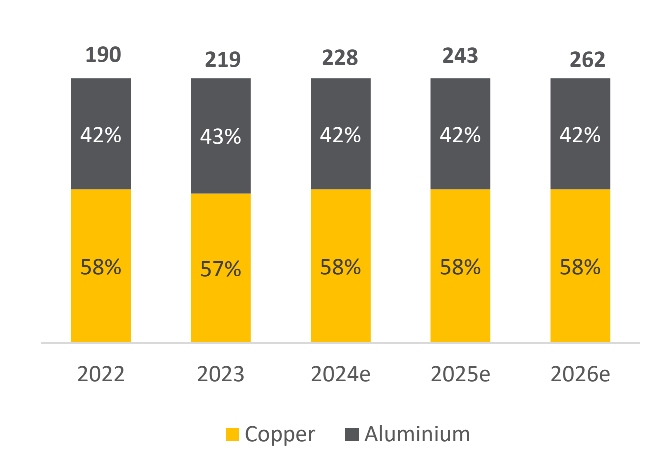
Figure 8: RCG backlog by value (SARbn)



*Source: Company presentation, GIB Capital, *as of 1 September 2024*

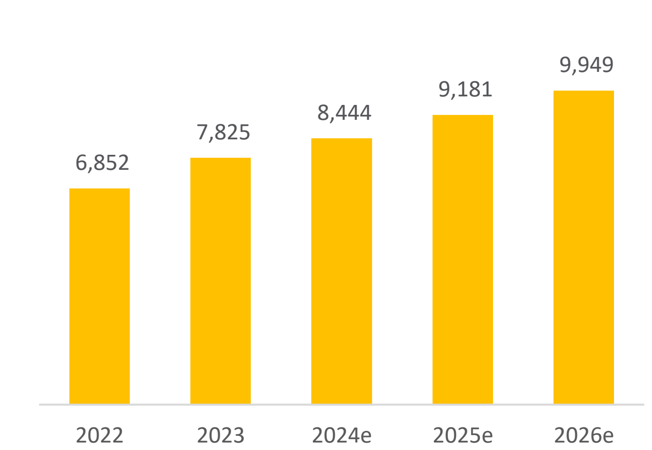
Financial analysis in charts

Figure 9: Sales volume ('000' tons) and mix



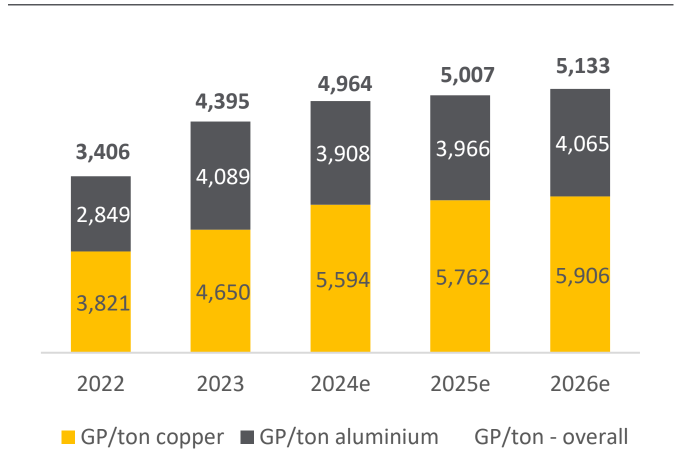
Source: Company data, GIB Capital

Figure 10: Revenue trend (SARmn)



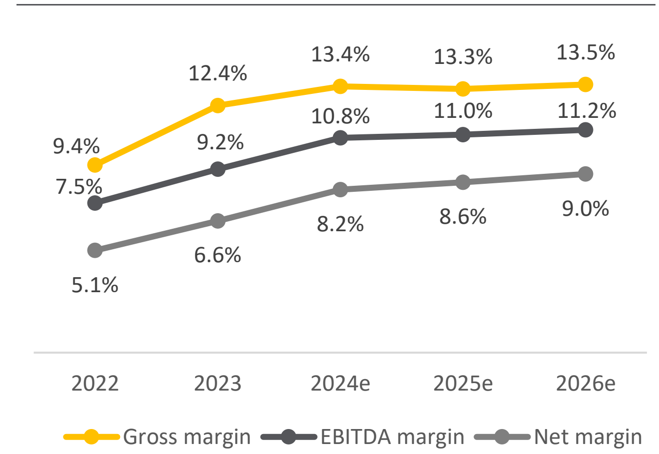
Source: Company data, GIB Capital

Figure 11: Gross profit per ton (SAR)



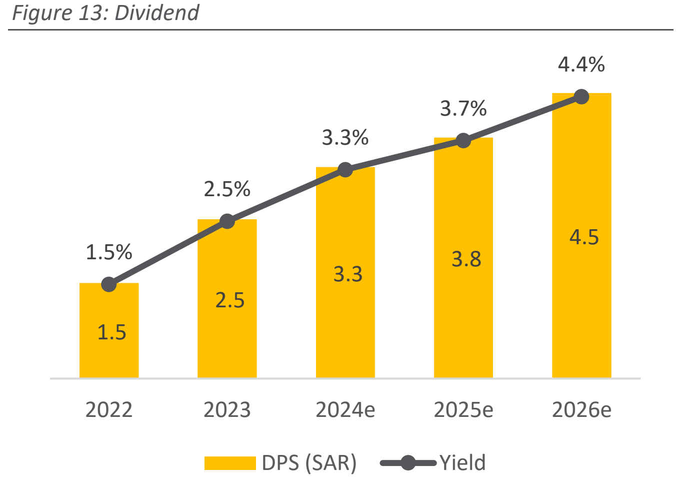
Source: Company data, GIB Capital

Figure 12: Margin trend



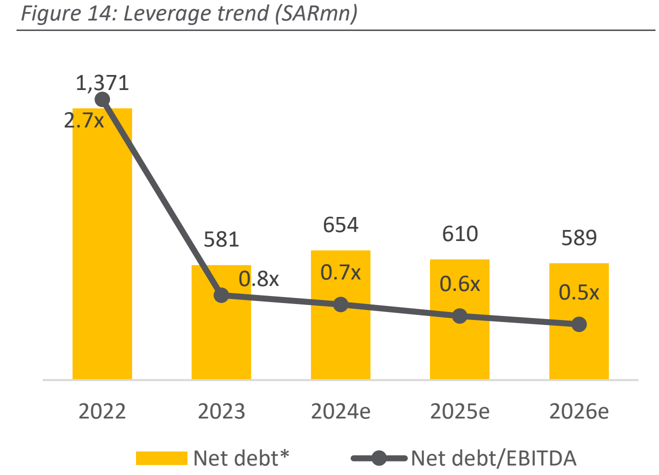
Source: Company data, GIB Capital

Figure 13: Dividend



Source: Company data, GIB Capital

Figure 14: Leverage trend (SARmn)



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

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Summarized Financial statements

Figure 15: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e	2026e
Revenue	**6,852**	**7,825**	**8,444**	**9,181**	**9,949**
revenue y/y	*40%*	*14%*	*8%*	*9%*	*8%*
COGS	6,205	6,853	7,313	7,963	8,606
Gross Profit	**647**	**973**	**1,131**	**1,218**	**1,343**
Gross Profit margin	*9.4%*	*12.4%*	*13.4%*	*13.3%*	*13.5%*
Selling and distribution expenses	103	112	121	129	139
General and administrative expenses	100	135	138	145	155
EC loss/(reversal)	(3)	43	19	10	11
Other income/(loss)	10	(21)	(2)	5	5
Operating profit	**458**	**662**	**851**	**939**	**1,042**
Operating margin	*7%*	*8%*	*10%*	*10%*	*10%*
Finance costs	73	103	97	87	73
PBT	**385**	**559**	**754**	**852**	**969**
Zakat/tax	29	39	64	68	78
Non-controlling interests	(0)	(0)	(2)	(3)	(3)
Net income attributable to equity holders	**352**	**519**	**693**	**787**	**894**
Net margin	*5.1%*	*6.6%*	*8.2%*	*8.6%*	*9.0%*
y/y	*47%*	*47%*	*33%*	*14%*	*14%*
EPS	**2.3**	**3.5**	**4.6**	**5.3**	**6.0**
DPS	1.5	2.5	3.3	3.8	4.5
Payout	64%	72%	72%	72%	75%
EBITDA	**516**	**723**	**913**	**1,007**	**1,116**
Net debt (w/o lease liabilities)	1,361	572	645	600	579
Net debt (w/ lease liabilities)	1,371	581	654	610	589

Balance Sheet	2022a	2023a	2024e	2025e	2026e
Inventories	1,796	1,909	2,184	2,312	2,405
Trade receivables	1,301	1,305	1,735	1,761	1,853
Cash and cash equivalents	107	150	171	146	117
Other current assets	129	125	131	139	147
Total Current Assets	**3,333**	**3,489**	**4,220**	**4,358**	**4,523**
Property, plant and equipment	1,120	1,207	1,344	1,447	1,543
Intangible assets	68	63	63	63	63
Other non-current assets	103	73	73	74	74
Total Non-Current Assets	**1,291**	**1,342**	**1,480**	**1,583**	**1,680**
Total Assets	**4,624**	**4,831**	**5,701**	**5,941**	**6,203**
Current Liabilities	2,381	2,450	3,126	3,148	3,189
Non-current Liabilities	123	135	135	135	136
Equity	2,121	2,246	2,440	2,657	2,878
Total Equity and Liabilities	**4,624**	**4,831**	**5,701**	**5,941**	**6,203**
BVPS	14.1	15.0	16.3	17.7	19.2

Cashflow	2022a	2023a	2024e	2025e	2026e
Cashflow from Operations	185	1,342	624	781	862
Cashflow from Investing	-37	-156	-200	-170	-170
Cashflow from Financing	-91	-1,144	-403	-636	-721
Total Cashflows	**56**	**43**	**21**	**-25**	**-29**

Source: Company, GIB Capital

Figure 16: Key ratios

Key ratios	2022a	2023a	2024e	2025e	2026e
Profitability ratios					
RoA	8%	11%	12%	13%	14%
RoE	17%	23%	28%	30%	31%
Sales/Assets	148%	162%	148%	155%	160%
Net margin	5.1%	6.6%	8.2%	8.6%	9.0%
Liquidity ratios					
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
Debt ratios					
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
Valuation ratios					
P/E	43.1	29.3	21.9	19.3	16.9
P/B	7.2	6.8	6.2	5.7	5.3
EV/EBITDA	30.9	22.1	17.5	15.9	14.3
FCF Yield	1.7%	6.9%	3.4%	4.6%	5.1%
Dividend Yield	1.5%	2.5%	3.3%	3.7%	4.4%

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

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