

Riyadh Cable’s strong backlog, growing demand, and solid earnings drive robust fundamentals; yet recent 65% price rally since our buy recommendation indicates growth is fully priced in.

Riyadh Cable’s order backlog reached SAR 4.9bn at the end of 9M-24, providing strong revenue visibility for the near term. Demand for the company’s products has been robust, both locally and in export markets, with a particularly strong uptick in higher-margin products, supporting the expansion in gross profit per ton. These trends are expected to continue, driving growth in both top-line and gross profit, which is likely to translate in bottom-line expansion. The company’s low leverage and healthy cash generation further strengthen its financial position, while its consistent dividend payouts are expected to persist. Since our initiation of coverage in August 2024, the company has posted i) its highest-ever quarterly revenue and ii) earnings outperformance, surpassing our estimates in Q3-24. We forecast total revenue to grow at a CAGR of 8.3% over FY23–FY28E, reaching SAR 11.7bn, with net income growing at a CAGR of 17.3% to reach SAR 1.2bn. Following the announcement of Q3-24 results, the stock has rallied by ~35%, and is currently trading at 25.6x times FY25E EPS. We are revising our rating to “Neutral” with a revised price target of SAR 139.4/share.

In Q3-24, Riyadh Cable reported its highest-ever quarterly revenue, driven by higher volumes, with improved gross and operating margins supported by a favorable product mix: Riyadh Cable reported a 16.9% Y/Y and 18.9% Q/Q increase in revenue to SAR 2,433mn for Q3-24, marking its highest-ever quarterly revenue and exceeding our estimate of SAR 2,197mn. This growth was primarily driven by a 1.8% Y/Y and 11.5% Q/Q increase in sales volumes. The company witnessed a notable improvement in gross margin, reaching 16.5% in Q3-24, compared to 13.4% in Q3-23 and 13.2% in Q2-24. This margin expansion reflects a combination of factors, including a favorable product mix and normalization of volumes post the Eid and Ramadan season impacts in Q2-24. Consequently, operating margin improved to 11.5% in Q3-24 from 8.1% in Q3-23 and 9.8% in Q2-24. Net income grew 77% Y/Y and 47% Q/Q to reach SAR 235mn in Q3-24, significantly outperforming AJC’s estimate of SAR 169.2mn. Net margin expanded to 9.6% in Q3-24, up from 6.4% in Q3-23 and 7.8% in Q2-24.

Robust demand, a growing order backlog, and strategic capacity expansion position the company for healthy revenue growth over FY23–FY28E, driven by infrastructure projects and renewable energy expansion: During 9M-24, the company reported a 9.7% Y/Y increase in revenue, primarily driven by a 1.8% Y/Y rise in volumes, supported by robust local and export demand. Despite weaker volumes from local utilities, LV cables and building wires saw solid growth Y/Y, while volumes for MV (typically utility-focused), HV, EHV, and OHL cables declined. The product mix has shifted to 60% copper and 40% aluminum, compared to 55% copper and 45% aluminum in 9M-23, the decline in share of aluminum products can be attributed to a slowdown in utilities demand. As of the end of 9M-24, the company’s order backlog stood at SAR 4.9bn, reflecting a substantial 63% Y/Y increase. This robust backlog underscores sustained demand for the company’s offerings and is expected to be recognized over the next 12-18 months, ensuring solid near-term revenue visibility. Looking ahead, we expect healthy growth, driven by: i) Urban construction projects: Increased demand for medium-voltage (MV) and low-voltage (LV) cables, as well as building wires, driven by growth in urbanization. ii) High and extra-high-voltage projects: The Saudi government is prioritizing large-scale infrastructure projects, including preparations for EXPO, the FIFA World Cup, and other major initiatives. iii) Renewable energy expansion: The sector witnessed 400% Y/Y growth this year, with 7.5-8 gigawatts tendered.

The government plans to scale this up significantly, targeting 20 gigawatts in annual tenders between 2024 and 2030. For this, the company has already increased its capacity in solar cables. These factors are expected to drive a further increase in the backlog. In anticipation of growing demand for the company’s products, it launched an expansion plan in 2022, targeting a 6-7% annual increase in capacity through FY27E. Additionally, management’s strategic focus on expanding into international markets, particularly in Africa, and launching high-end products will support long-term growth. Considering these factors, we have revised our revenue forecast to a CAGR of 8.3% (up from 6.7%) for FY23–FY28E.

Recommendation	Neutral
Target Price (SAR)	139.4
Upside / (Downside)*	-7.7%

Source: Tadawul *prices as of 16th of December 2024

Key Financials				
in SAR mn, (unless specified)	FY23	FY24E	FY25E	FY26E
Revenues	7,825	8,855	9,673	10,389
Growth %	14.2%	13.2%	9.2%	7.4%
Net Income	519	756	885	971
Growth %	47.6%	45.6%	17.0%	9.7%
EPS	3.46	5.10	5.90	6.47
DPS	2.50	3.50	4.00	4.50

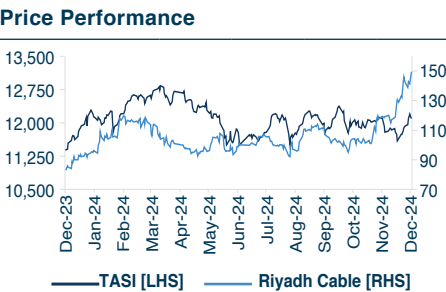
Source: Company reports, Aljazira Capital Research

Key Ratios				
	FY23	FY24E	FY25E	FY26E
Gross Margin	12.4%	14.4%	14.1%	14.4%
Net Margin	6.6%	8.5%	9.1%	9.3%
P/E (x)	26.8	29.6	25.6	23.3
P/B (x)	6.2	9.1	8.2	7.4
EV/EBITDA (x)	19.8	23.2	21.1	19.3
Dividend Yield	2.7%	2.3%	2.6%	3.0%

Source: Company reports, Aljazira Capital Research

Key Market Data	
Market Cap (bn)	22.7
YTD%	63.3%
52 weeks (High)/(Low)	152.2/82.3
Share Outstanding (mn)*	150.0

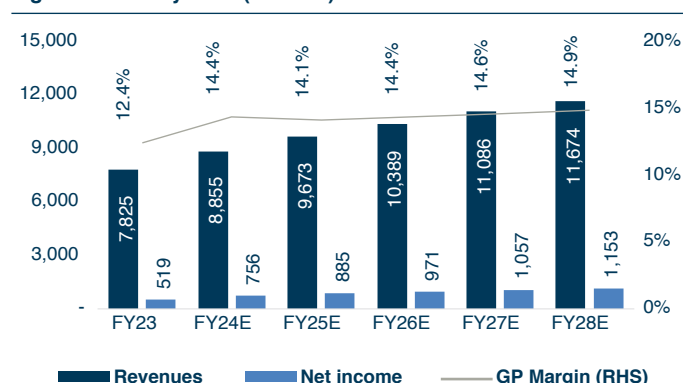
Source: Company reports, Aljazira Capital Research



Source: Bloomberg, Aljazira Capital

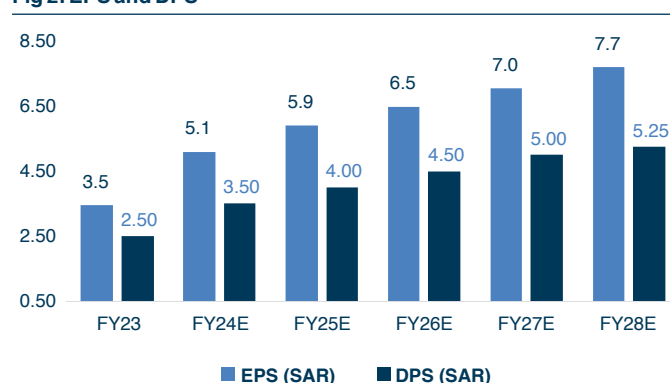
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Fig 1: Profitability trend (SAR mn)



Source: Company reports, Aljazira Capital Research

Fig 2: EPS and DPS



Source: Company reports, Aljazira Capital Research

Gross profit per ton is set for sustainable growth, driven by high utilization, strong demand for high-margin products, while the management revised up its net profit guidance: Gross profit per ton reached SAR 5,387 in 9M-24, reflecting a robust 25.9% Y/Y increase. This growth was driven by operational efficiencies from high utilization levels (92%), increased demand for transmission products particularly underground transmission products (copper cables), which offer higher profitability compared to overhead lines (aluminum cables), increased contribution from renewable energy projects, particularly LV specialized cables, which command higher margins than conventional LV and MV cables, cost optimization measures, and expedited deliveries. Additionally, the company's order backlog aligns with the 9M-24 product mix and its "Cost+" pricing model - adding absolute profit per KM to all costs, ensures profitability sustainability. We believe the gross profit per ton is sustainable at current levels, with potential for further growth driven by robust local demand, increasing contribution from high-margin products and prudent order selection. As a result, we forecast gross profit per ton to grow at a 6.4% CAGR over FY23–FY28E (~3.5% CAGR from 9M-24 to FY28E) and anticipate gross margins reaching 14.9% by FY28, up from our prior estimate of 13.8%. Additionally, management has revised its guidance for FY24 net profit growth to 40-50%, an increase from the previous guidance of 20-30%. Considering these factors, we expect earnings to grow at a CAGR of 17.3% over FY23-FY28E, underscoring the company's strategic execution and favorable market dynamics.

Strong balance sheet and solid cash flow generation set to support consistent dividend payout and financial stability over FY23–FY28E: As of the end of 9M-24, the company's working capital stood at SAR 2.3bn, up from SAR 1.8bn at FY23, driven by business growth as reflected in the increase in its order backlog. Debt was reported at SAR 841mn, with cash holdings at SAR 333mn and debt-to-equity ratio of 0.32x, which is expected to gradually decrease to 0.20x by FY28E, indicating a strong balance sheet position. Additionally, the company generated approximately SAR 288mn in free cash flow during 9M-24, highlighting its resilience despite elevated working capital pressures, and is expected to generate SAR 3.8bn in cumulative free cash flow over FY24–FY28E. Looking ahead, we expect working capital to range between 24.8% and 26.3% of revenue over the forecast period. Capex is guided at SAR 200mn for FY24, with expectations for it to remain between SAR 175mn and SAR 200mn through FY27E. Given the anticipated improvement in leverage, stable working capital requirements, limited capex needs, and strong cash flow generation, we expect the company to maintain a dividend payout ratio of 69% on average over the forecast period.

Investment thesis and valuation: In our opinion Riyadh Cable's strong order backlog provides robust near-term revenue visibility, positioning the company for consistent growth. The demand for its products, driven by urban construction, large-scale infrastructure projects, and the expanding renewable energy sector, is expected to continue supporting topline expansion. We forecast total revenue to grow at a CAGR of 8.3% over FY23–FY28E, driven by volumetric growth at a CAGR of 5.8%. Gross profit per ton has reached its highest levels, and we expect this to be sustainable as the company continues to capitalize on favorable market conditions. This growth in topline and gross profit is anticipated to drive earnings higher, growing at a CAGR of 17.3% over the same period. Despite the increase in working capital due to business expansion, the company has maintained a stable debt-to-equity ratio of 0.32x. Additionally, Riyadh Cable's strong cash flow generation is expected to persist, supporting consistent dividend distributions. We apply a blended valuation approach for Riyadh cable. Our 50% weightage to DCF (WACC = 7.5% and terminal growth = 3%) and 50% weightage to P/E multiple of 23x for FY25E EPS helps us arrive at a blended TP of **SAR 139.4 per share**, implying a downside of 7.7%. The stock currently trades at 25.6x on FY25E EPS. Also, following the Q3-24 earnings release, the stock has rallied ~35%, indicating that the strong fundamentals are already priced in. Therefore, we revise our recommendation to **"Neutral"** on the stock.

Blended Valuation

Valuation Summary	Fair value	Weight	Weighted Fair Value
DCF Valuation	143.1	50%	71.6
P/E	135.6	50%	67.8
Weighted Avg. 12-month TP			139.4
Current Market Price (SAR /share)			151.0
Expected Capital Gain			-7.7%

Source: AlJazira Capital Research, *prices as of 16th of December 2024


Key financial data

Amount in SAR mn, unless otherwise specified	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement							
Revenues	6,852	7,825	8,855	9,673	10,389	11,086	11,674
Y/Y	40.3%	14.2%	13.2%	9.2%	7.4%	6.7%	5.3%
COGS	(6,205)	(6,853)	(7,580)	(8,307)	(8,897)	(9,469)	(9,937)
Gross profit	647	973	1,275	1,366	1,493	1,617	1,737
Selling and distribution expenses	(102.8)	(111.9)	(128.3)	(135.4)	(145.5)	(155.2)	(163.4)
General and administrative expenses	(100.2)	(135.3)	(139.3)	(152.2)	(163.5)	(174.4)	(183.7)
Credit provision	3.1	(42.9)	(69.2)	(48.4)	(51.9)	(55.4)	(58.4)
Other revenue	10.5	(20.7)	(1.3)	7.3	5.2	5.5	5.8
Operating profit	458	662	937	1,038	1,137	1,237	1,337
Y/Y	51.0%	44.6%	41.5%	10.7%	9.6%	8.8%	8.1%
Financing Expense (net)	(72.8)	(103.3)	(96.6)	(81.2)	(81.6)	(88.1)	(83.5)
Income before zakat	385	559	840	956	1,055	1,149	1,253
Zakat	(33.1)	(39.1)	(84.1)	(71.7)	(84.4)	(91.9)	(100.3)
Net income	352	519	756	885	971	1,057	1,153
Y/Y	46.6%	47.6%	45.6%	17.0%	9.7%	8.9%	9.1%
EPS (SAR)	2.35	3.46	5.10	5.90	6.47	7.05	7.69
DPS (SAR)	1.50	2.50	3.50	4.00	4.50	5.00	5.25
Balance sheet							
Assets							
Cash & equivalent	107	150	97	152	177	275	359
Other current assets	3,226	3,339	3,667	3,933	4,171	4,419	4,652
Total current assets	3,333	3,489	3,764	4,085	4,349	4,694	5,011
Property plant & equipment	1,120	1,207	1,340	1,464	1,584	1,572	1,549
Other non-current assets	171	135	129	123	117	111	105
Total assets	4,624	4,831	5,233	5,671	6,049	6,377	6,665
Liabilities & owners' equity							
Other current liabilities	913	1,728	1,713	1,748	1,742	1,819	1,878
Short term loans	1,468	722	894	1,012	1,093	1,037	901
Total current liabilities	2,381	2,450	2,607	2,760	2,835	2,856	2,779
Total non current liabilities	123	135	141	141	148	147	147
Paid -up capital	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Statutory reserves	288	288	288	288	288	288	288
Retained earnings	306	448	687	972	1,268	1,576	1,941
Total owners' equity	2,121	2,246	2,485	2,770	3,066	3,374	3,739
Total equity & liabilities	4,624	4,831	5,233	5,671	6,049	6,377	6,665
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.40	1.42	1.44	1.48	1.53	1.64	1.80
Quick ratio (x)	0.59	0.59	0.61	0.64	0.68	0.75	0.83
Profitability ratios							
Gross profit margin	9.4%	12.4%	14.4%	14.1%	14.4%	14.6%	14.9%
Operating margin	6.7%	8.5%	10.6%	10.7%	10.9%	11.2%	11.5%
EBITDA margin	7.6%	9.3%	11.4%	11.5%	11.7%	11.9%	12.1%
Net profit margin	5.1%	6.6%	8.5%	9.1%	9.3%	9.5%	9.9%
Return on assets	8.2%	11.0%	15.0%	16.2%	16.6%	17.0%	17.7%
Return on equity	16.9%	23.8%	32.0%	33.7%	33.3%	32.8%	32.4%
Assets turnover	148.2%	162.0%	169.2%	170.6%	171.7%	173.9%	175.1%
Leverage ratio							
Debt / equity (x)	0.69	0.32	0.36	0.37	0.36	0.31	0.24
Debt / assets (x)	0.32	0.15	0.17	0.18	0.18	0.16	0.14
Interest coverage ratio (x)	6.29	6.41	9.70	12.78	13.93	14.05	16.01
Market/valuation ratios							
EV/sales (x)	0.99	1.85	2.65	2.43	2.27	2.11	1.99
EV/EBITDA (x)	13.0	19.8	23.2	21.1	19.3	17.8	16.4
EPS (SAR)	2.35	3.46	5.10	5.90	6.47	7.05	7.69
BVPS (SAR)	14.1	15.0	16.6	18.5	20.4	22.5	24.9
Market price (SAR)*	36.3	92.6	151.0	151.0	151.0	151.0	151.0
Market-Cap (SAR mn)	5,438	13,890	22,650	22,650	22,650	22,650	22,650
DPS (SAR)	1.50	2.5	3.50	4.00	4.50	5.00	5.25
Dividend yield	4.1%	2.7%	2.3%	2.6%	3.0%	3.3%	3.5%
P/E ratio (x)	15.5	26.8	29.6	25.6	23.3	21.4	19.6
P/BV ratio (x)	2.6	6.2	9.1	8.2	7.4	6.7	6.1

Source: Company Reports, AJC Research, *prices as of 16th of December 2024



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RATING
TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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