



<b>US\$0.993bn</b> Market cap	<b>63.6%</b> Free float	<b>US\$1.832mn</b> Avg. daily volume
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Target price	<b>166.3</b>	13% over current
Consensus price	<b>120.0</b>	-19.5% over current
Current price	<b>149.0</b>	as at 16/1/2011

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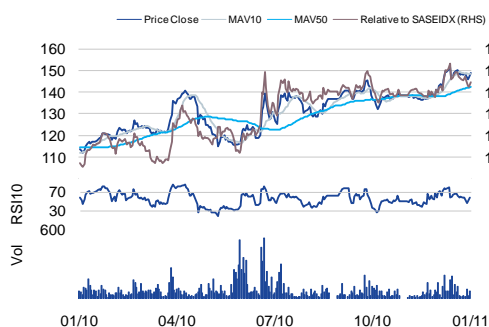
**Existing rating**

**Underweight**   **Neutral**   **Overweight**

## Flash view

Flash View is an analyst's preliminary interpretation of a results announcement or the impact of a major event. Our investment rating and earnings estimates are not being changed in this report. Any formal changes to our investment rating or earnings estimates will be made in a subsequent report, which may differ from the preliminary views expressed here.

## Performance



## Earnings

Period End (SAR)	12/09A	12/10E	12/11E	12/12E
Revenue (mn)	958	1,129	1,356	1,551
Revenue Growth	11.7%	17.9%	20.1%	14.3%
EBITDA (mn)	282	344	415	488
EBITDA Growth	8.9%	21.7%	20.7%	17.6%
EPS	7.89	9.45	11.17	13.41
EPS Growth	10.8%	19.9%	18.1%	20.1%

Source: Company data, Al Rajhi Capital

## Valuation



Source: Company data, Al Rajhi Capital

# Saudi Ceramic

## Steady growth

*Saudi Ceramics' preliminary results for Q4 2010 show weaker sales and profits growth than we had expected. However, assuming new ceramic tile production capacity starts to contribute from Q1 2011, sales growth should accelerate. Inventory management also seems to be improving. We are reviewing our Overweight rating on Saudi Ceramic, but only because the share price has moved towards our target after solid performance.*

Earnings vs our forecast	Above	In Line	Below
<b>Likely impact:</b>			
Earnings estimates	Up	<b>No Change</b>	Down
Dividend estimates	Up	<b>No Change</b>	Down
Recommendation	Upgrade	No Change	<b>Downgrade</b>
Long term view	Stronger	<b>Confirmed</b>	Weaker

- Revenue performance:** Saudi Ceramics' preliminary Q4 results showed gross revenue of SAR279mn with an increase of 13% year-on-year. A quarter-on-quarter comparison does not really make sense, since Q3 is seasonally weak due to Ramadan. Compared to Q2, revenues rose by only 0.3%. However, we suspect that – contrary to our expectation – the new ceramic tile production capacity was not utilised in Q4. While we cannot confirm this conclusion until full results are available, if we are correct then revenue growth ought to accelerate from Q1 2011 onwards.
- Profit performance:** We calculate that EBITDA rose by 8% from SAR74mn in Q4 2009 to SAR80mn in Q4 2010. This was well below our estimate of SAR98mn. Weaker EBITDA fed through to lower growth in operating profit and net profit than we had expected. Nevertheless, the 11% year-on-year growth in net profit in Q4 was respectable. If we are right to believe that the new ceramic tile production capacity was not utilised in Q4, then again this helps to explain the shortfall in profits.
- Inventory levels back to normal:** Inventories in Q3 showed a worrying increase of 29% from the level of Q2 with an inventory/sales ratio of 45.8% compared to 35.5% in Q2. From the results we calculate that Saudi Ceramics' inventory/sales ratio fell back to 38% versus our estimate of 35%. This is still a recovery and suggests the company does not face a major problem of build-up of stocks.
- Conclusion:** Although the Q4 results were below our forecasts, we see Saudi Ceramics as a good company that will maintain steady growth in the future. We currently forecast that revenues will increase by 20% in 2011 due to the expansion in tiles production. Following the recent increase in its share price, Saudi Ceramics now offers less than 13% upside to our existing target price. We are therefore reviewing our investment rating. However, we are unlikely to make a decision until we have seen the company's final 2010 results.



### Corporate summary

Saudi Ceramic Company is one of the oldest and leading ceramics producers in the Middle East with a market value of US\$1bn. The company manufactures and markets ceramic products such as ceramic tiles, sanitary ware, road markers, in addition, the company manufactures water heaters. The company is in the process of manufacturing red bricks within the near future.

### Share information

Market cap (SAR/US\$) 3.725bn / 0.993bn  
52-week range 112.0 - 151.8  
Daily avg volume (US\$) 1.832mn  
Shares outstanding 25.00mn  
Free float (est) 63.6%

Performance:	1M	3M	12M
Absolute	6.2%	7.2%	31.3%
Relative to index	1.7%	-1.8%	24%

#### Major Shareholder:

General Social Insurance	15.9%
Saleh Abdulaziz Al Rajhi	14.3%
Falcom Financial Services	6.8%
PIF	5.4%

Source: Bloomberg, Al Rajhi Capital

### Valuation

Period End	12/09A	12/10E	12/11E	12/12E
Revenue (SARmn)	958	1,129	1,356	1,551
EBITDA (SARmn)	282	344	415	488
Net Profit (SARmn)	197	236	279	335
EPS (SAR)	7.89	9.45	11.17	13.41
DPS (SAR)	3.00	3.00	3.00	3.00
EPS Growth	10.8%	19.9%	18.1%	20.1%
EV/EBITDA (x)	14.7	12.5	10.8	9.2
P/E (x)	18.9	15.8	13.3	11.1
P/B (x)	4.3	3.7	3.0	2.5
Dividend Yield	2.0%	2.0%	2.0%	2.0%

Source: Company data, Al Rajhi Capital

**Figure 1. Saudi Ceramic: 2009Q4 vs. 2010Q4 & FY2009 vs. FY2010**

SAR (mn)	2009Q4A	2010Q4A	YOY% chg.	FY2009A	FY2010A	YOY% chg.
Total revenues	247	279	13.0%	957	1080	12.9%
Gross profit	92	102	10.9%	352	392	11.4%
Gross margin	37.2%	36.6%		36.8%	36.3%	
Operating profit	50	56	12.0%	196	220	12.2%
Net income	51	56	9.8%	197	219	11.2%

Source: Company data, Al Rajhi Capital

## Disclaimer and additional disclosures for Equity Research

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### Additional disclosures

#### 1. Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

**"Overweight"**: Our target price is more than 15% above the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

**"Neutral"**: We expect the share price to settle at a level between 5% below the current share price and 15% above the current share price on a 6-9 month time horizon.

**"Underweight"**: Our target price is more than 5% below the current share price, and we expect the share price to reach the target on a 6-9 month time horizon.

#### 2. Definitions

**"Time horizon"**: Our analysts make recommendations on a 6-9 month time horizon. In other words, they expect a given stock to reach their target price within that time.

**"Fair value"**: We estimate fair value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

**"Target price"**: This may be identical to estimated fair value per share, but is not necessarily the same. There may be very good reasons why a share price is unlikely to reach fair value within our time horizon. In such a case we set a target price which differs from estimated fair value per share, and explain our reasons for doing so.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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