

SAUDI ELECTRICITY



COMPANY UPDATE

Outlook remains positive

We remain Overweight on Saudi Electricity with a broadly unchanged price target of SR17.1. Given the company's strong and stable growth outlook, we believe the current price offers an attractive entry point for investors. The stable dividend yield of around 5% is another key advantage of the stock.

- Earnings estimates remain relatively unchanged:** We expect SEC to record a 7.8% YoY growth in revenues to SR36.3bn in 2013E, with net income growing by 28.5% to SR3.3bn. This will be driven by Saudi Arabia's large investments in social as well as physical infrastructure, combined with population growth, which are the main drivers for the Saudi power sector. We are currently expecting CAGR revenue growth of 6.3% between 2012 and 2017E. Our current 2013E gross and net margins are estimated at 43.5% and 10.9% respectively, up 154bps and 139bps YoY.
- Rising demand for power across the Kingdom:** The population of Saudi Arabia is expected to grow at 2.23% annually over the coming decade, in addition to an increasing number of households above the population growth rate. These factors are the main drivers behind the increased demand for power, with management highlighting that demand for power over the past few years has increased by approximately 10% per annum versus the historical average of 7.7% per annum over 2003-08. Thus, the demand outlook for SEC remains strong.
- Awaiting further details before incorporating impact from agreement with Egypt:** While the agreement is a positive for SEC's revenues, we are concerned about the lack of clarity on the pricing front and the cash payments from the Egyptian government. We are awaiting further details from the management before incorporating this in our model. (see next section).
- Valuation compelling at current levels:** We remain Overweight with a revised price target of SR17.1, 1.2% higher than our previous figure. The stock is currently trading at an EV/EBITDA of 5.1x for 2013E, 42.6% behind its historical average of 8.9x.

Financial summary

SR mn	2011A	2012A	2013E	2014E	2015E
Revenues	30,570	33,646	36,283	37,604	38,960
EBITDA	11,869	13,735	15,312	15,231	14,769
Net income	2,213	2,561	3,291	3,284	2,789
Total debt	30,715	28,813	32,835	33,747	34,540
Div per share (%)	0.70	0.70	0.70	0.70	0.70
EBITDA margin (%)	38.8	40.8	42.2	40.5	37.9
Net margin (%)	7.6	9.5	10.8	10.4	8.8
ROE (%)	4.5	6.0	7.0	6.7	5.6
Debt-to-capital	37.0	34.7	36.5	36.1	35.8
EPS (SR)	0.48	0.61	0.79	0.79	0.67

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price (SR)	17.1
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Current price (SR)	12.9
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STOCK DETAILS

M52-week range H/L (SR)	16.6/12.8
Market cap (\$mn)	15,166
Shares outstanding (mn)	4,167
Listed on exchanges	Tadawul

Price perform (%)	1M	3M	12M
Absolute	(0.36)	3.80	(6.83)
Rel. to market	0.77	0.28	(1.38)

Avg daily turnover (mn)	SR	US\$
3M	6.52	1.74
12M	7.93	2.11

Reuters code	5110.SE
Bloomberg code	SECO AB
	www.se.com.sa

VALUATION MULTIPLES

	12A	13E	14E
Reported P/E (x)	22.2	17.3	17.3
Adjusted P/E (x)	34.3	26.7	26.7
P/B (x)	1.0	1.0	0.9
EV/EBITDA (x)	5.7	5.1	5.1
Div Yield (%)	5.1	5.1	5.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg

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- OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months
- NEUTRAL:** Target price represents expected returns between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- PRICE TARGET:** Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

- NR:** Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
- CS:** Coverage Suspended. NCBC has suspended coverage of this company
- NC:** Not covered. NCBC does not cover this company

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