

ZAMIL INDUSTRIAL INVESTMENT COMPANY (SSE: 2240)

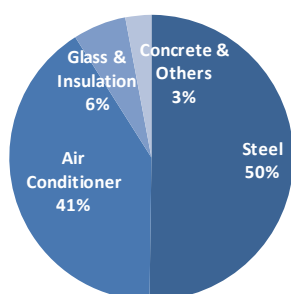
COMPANY PROFILE

Zamil Industrial Investment Company (Zamil) provides products and solutions to the building and construction industry. The company operates in four key segments, namely, Steel, Heating/Ventilating/Air-Conditioning (HVAC), Insulation, and Concrete.

With a focus on providing total building solutions, Zamil's product range encompasses pre-engineered steel buildings, steel structures, air conditioning and climate control systems designed for a wide range of commercial, industrial and residential applications, telecom and transmission towers, process equipment, precast concrete building products, fiberglass, rockwool and engineered plastic foam insulations, and solar power projects.

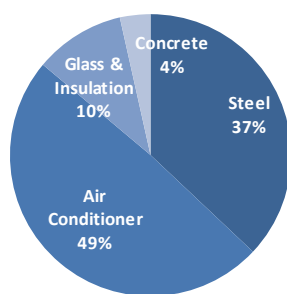
The company generates a majority 81% of its revenues in Saudi Arabia, with remaining 19% of revenues coming from markets in Asia, Europe and Africa.

Revenue by Segment (FY'2012)



Source: Company Disclosure

Profit by Segment (FY'2012)



OUTLOOK 2013

Zamil delivered robust earnings growth of 30.7% YoY in FY 2012, boosted by a 13.3% YoY growth in revenues to SAR 5.4 billion and improving margins. Improvement in revenues and margins was driven by better operational efficiencies across all segments, enhanced asset utilization in the steel segment, and improved performance from overseas operations.

During FY 2012, the HVAC segment delivered a strong revenue growth of 19.0% YoY with operating margin improving slightly from 8.7% to 8.8%. However, the Steel segment saw revenues grow 11.3% YoY with a notable improvement in operating margin from 3.7% to 5.4%.

Going forward, we are optimistic of the company's earnings growth prospects in FY 2013 with the Steel segment expected to benefit from improved margins on top of revenue growth, which will drive earnings growth for this segment. Demand for the segment is likely to remain healthy on the back of continued infrastructure spending in the kingdom and emerging markets.

STOCK INFO

Recommendation	BUY
CMP (6-May-13)	SAR 38.10
Target Price	SAR 47.00
Investment Horizon	12 months
Sector	Industrial
Country	Saudi Arabia

SHAREHOLDING PATTERN

Name	%
Zamil Group Holding Company	19.90%
Government of Saudi Arabia	5.00%
Others	75.10%

FINANCIAL SUMMARY

FY ended Dec	2010	2011	2012	2013E
<i>Values in SAR'million except per share data</i>				
PER SHARE DATA				
EPS	3.52	2.57	3.36	3.91
DPS	1.50	1.50	1.50	1.50
BVPS	21.48	22.49	24.18	26.58

VALUATION

Price/Sales (x)	0.5	0.4	0.4	0.4
P/E (x)	9.9	11.4	9.4	9.8
P/BV (x)	1.6	1.3	1.3	1.4
EV/EBITDA (x)	10.0	12.0	9.8	9.6
FCF Yield (%)	(0.4)	(33.0)	5.0	11.2
Dividend Yield (%)	4.3	5.1	4.8	3.9

INCOME

Sales	4,018	4,728	5,355	5,645
Gross Profit	995	1,051	1,165	1,270
EBITDA	406	400	514	564
EBIT	287	258	365	406
Net Profit	211	154	201	234

CASH FLOW

Operating Cash	139	(338)	307	392
CAPEX	(147)	(241)	(229)	(137)
Free Cash Flows	(8)	(578)	78	256
Investing Cash Flow	(217)	(485)	(225)	n/a
Financing Cash Flow	20	797	(37)	n/a

BALANCE SHEET

Cash & Equivalents	296	286	339	n/a
PP&E	1,119	1,445	1,593	n/a
Total Assets	4,907	6,213	6,653	n/a
Debt	2,163	3,141	3,221	n/a
Total Liabilities	3,509	4,630	4,945	n/a
Total Equity	1,399	1,583	1,708	n/a
Minority Int / Pref	110	233	259	n/a
Net Debt	1,867	2,855	2,883	n/a

Source: Company disclosure, FINCORP estimates

The HVAC segment is also expected to see continued revenue growth coupled with stable margins as demand for HVAC products and solutions remains robust in the kingdom, driven by large scale building and construction projects. The company has also taken a 100% stake in India's Advantec Coils to manufacture and market a range of residential, commercial and industrial ACs in the Indian market. Management is targeting a 10% market share of the Rs 15,000 crore (USD 2.8 million) Indian air conditioner market in the next 3-5 years by offering extremely competitive prices enabled by the backward integration of its manufacturing process.

The Insulation and Concrete segments are relatively recent additions to the company's portfolio and are smaller compared to the Steel and HVAC segments, but remain profitable.

The company's balance sheet however remains highly leveraged with net debt / equity ratio of 169% at the end of FY 2012. A major portion of the total debt is in the form of short-term borrowings, which the company appears to be depending on to meet its working capital requirements considering its cash conversion cycle is relatively long between 200 to 250 days on average. However, with improving profitability, the company's Free Cash Flows are also expected to improve this year, with FCF yield improving to 11.2% from 5.0% last year.

VALUATION

Zamil currently trades at a P/E multiple of 9.8x FY 2013e EPS of SAR 3.91 compared to its historical average valuation band between 8.0x – 13.0x. We value the stock at a 12.0x P/E multiple on its FY 2013e earnings, which implies a fair value of SAR 47 per share over the next twelve months. At current levels, the stock offers a dividend yield of 3.9% based on its estimated FY 2013 dividend per share of SAR 1.50.

RISKS

Primary risks for Zamil include a slower pace of building and construction projects in key markets; increased competitive pressures in its primary segments of steel and HVAC; lower than expected margin improvement; and challenges in financing its working capital requirements.

RATIO ANALYSIS

GROWTH & MARGINS				
Sales Growth (%)	(4.4)	17.7	13.3	5.4
EPS Growth (%)	(8.5)	(27.0)	30.7	16.3
Gross Margin (%)	24.8	22.2	21.8	22.5
EBITDA Margin (%)	10.1	8.5	9.6	10.0
Net Margin (%)	5.3	3.3	3.8	4.2

SHAREHOLDER RETURNS				
Return on Equity (%)	17.0	11.7	14.4	15.4
Return on Assets (%)	4.4	2.8	3.1	3.5
Return on Inv. Cap. (%)	7.3	5.5	6.3	7.1
Payout Ratio (%)	42.6	58.4	44.7	38.4

LEVERAGE & SOLVENCY				
Net Debt / Equity (%)	133.5	180.4	168.8	n/a
EBIT / Int. Exp. (x)	5.1	4.2	4.0	n/a

Source: Company disclosure, FINCORP estimates

RESEARCH

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