

SAUDI STEEL PIPES CO



EVENT FLASH

Better than expected results

SSP reported better than expected results due to higher sales volume. Net income came in at SR23.1mn, significantly ahead of our expectation of SR15mn led by a sales growth of 20% YoY. While we are Neutral on the stock, we believe the stock price is likely to do well in the short term given the positive result.

- **Gross profit:** 1Q13 came in at SR37.9mn increasing 30.1% YoY and ahead of our estimate of SR25.1mn.
- **Operating income:** 1Q13 came in at SR24.1mn higher than our estimate of SR16.1mn. 1Q13 was an increase of 26.6% YoY (SR19.0mn in 1Q12).
- **Net income:** 1Q13 came in at SR23.1mn compared to a reported profit of SR18.3mn in 1Q12. 1Q13 was an increase of 26.1% YoY. According to the company's announcement, higher sales volumes led to the strong set of results from SSP.
- In summary this is a strong set of results from SSP with all profit lines increasing significantly YoY. Overall, net sales for the company were strong, increasing 20.1% YoY. In our recent company updates, we have been highlighting that the medium diameter segment will drive growth going forward and this was reflected during 1Q13. Sales in the medium diameter segment increased by 29.6% YoY, at a faster rate than the small diameter segment which increased 9.9% YoY.
- We continue to believe that revenues from the medium diameter segment will be the key driver over the next few years due to the projects awarded from Saudi Aramco to SSP (worth around SR330mn) which will start to impact financials in 2014E. Due to the better than expected numbers during 1Q13, we expect our full year estimates for 2013E to increase from our previous expectations.
- When compared to our estimates, we believe that the main deviation occurred on the top-line performance of SSP. The company recorded overall sales of SR248mn, versus our estimate of SR181mn.
- We are currently Neutral on SSP with a PT of SR28.0/share. However, given the strong result, we expect the stock to do well in the short-term.

1Q13 Results Summary

SR mn	1Q13A	1Q12A*	YoY (%)	1Q13E	Var (%)^
Gross profit	37.9	29.1	30.1	25.1	51.0
Operating income	24.1	19.0	26.6	16.1	49.6
Net income	23.1	18.3	26.1	15.0	54.0
EPS (SR)	0.45	0.36	26.1	0.18	54.0

Source: Company, NCBC Research ^ % Var indicates variance from NCBC forecasts; *2012 numbers have been restated

Please refer to the last page for important disclaimer

NEUTRAL

Target price (SR) 28.0

Current price (SR) 25.5

STOCK DETAILS

M52-week range H/L (SR)	27.6/20.7
Market cap (\$mn)	347
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.40)	5.66	(8.03)
Rel. to market	0.11	(2.47)	(5.16)

Avg daily turnover (mn)	SR	US\$
3M		
12M		

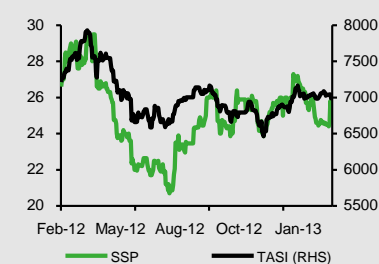
Reuters code	1320.SE
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VALUATION MULTIPLES

	12A	13E	14E
Reported P/E (x)	24.1	15.7	9.2
P/B (x)	1.7	1.7	1.5
EV/EBITDA (x)	15.2	10.5	10.3
Div Yield (%)	4.1	4.1	5.9

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg

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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

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