

January 29, 2017

Rating
12- Month Target Price

Neutral
SAR 22.50

Expected Total Return

Price as on Jan-26, 2017	SAR 25.33
Upside to Target Price	(11.1%)
Expected Dividend Yield	4.9%
Expected Total Return	(6.2%)

Market Data

52 Week H/L	SAR 29.4/13.8
Market Capitalization	SAR 1,114 mln
Enterprise Value	SAR 882 mln
Shares Outstanding	43.9 mln
Free Float	87.8%
12-Month ADTV ('000's)	305
Bloomberg Code	ASLAK AB

1-Year Price Performance

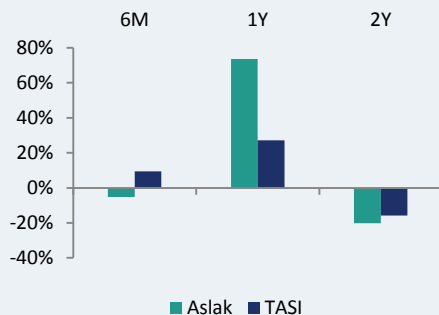


Fig in SAR mln	RC. Est	Actuals
Revenue	180	157
Gross Profit	31	24
EBIT	19	16
Net Income	18	11
EPS (SAR)	0.41	0.26

UNITED WIRE FACTORIES COMPANY (ASLAK)

4Q2016 First Look

Gloominess Persists

United Wire Factories Company (Aslak) reported its 4Q2016 results missing our expectations as construction industry slowdown has affected most producers in KSA. EPS of SAR 0.26 missed our estimate of SAR 0.41, declined by -7% Y/Y and -21% Q/Q. We believe a combined effect of subdued demand for metals and the inability to retain higher prices in a tough scenario has been the major drawback for Aslak and the industry. We adjust out estimates due to slightly weaker outlook and reduce our target price to SAR 22.50 (earlier SAR 23.50), but maintain Neutral. 2017E P/E of 16.9x is expensive to TASI's 14.5x.

Volume and prices growth looks constrained

Revenue of SAR 157 million has improved from its record lows of SAR 126 million in 3Q2016. It declined by -28% Y/Y but increased by +25% Q/Q missing our estimate of SAR 180 million. We believe volume sales have improved but prices have dropped towards the lag end of the quarter. Steel prices (average) have dropped from SAR 2,331/ton in 3Q to SAR 2,087/ton in 4Q. This suggests the falling demand situation and its influence on local prices, despite global iron ore priced rally of +43% Q/Q to USD 80/ton in 4Q.

Margins contract

Gross margins declined to 15.0% marking the lowest margins in 2016, declined by 470 bps from last quarter, but higher than 11.6% in 4Q2015. A hike in operating expenses is an effect of lower utilization and decline in selling volumes, led to squeeze in margins due to Aslak's higher fixed costs. Gross profit of SAR 24 million declined by -6% Y/Y and -2% Q/Q, though marginal, but comparative decline in revenue between the quarters is a real concern. Operating profit declined by -20% Q/Q and -16% Y/Y, suggesting a large increase of +30% Q/Q in SG&A costs. Operating margins declined to 8% in 4Q from 12% in 3Q2016, the lowest in 2016 but better than 7% in 4Q2015. Net margins dropped to 7% this quarter falling 420 bps from last quarter's 11%, but higher than 6% in 4Q2015. Net income of SAR 11 million was below our expectations of SAR 18 million, declined by -21% Q/Q and -7% Y/Y.

Revise target price to SAR 22.50 but maintain Neutral

We believe subdued earnings trends could follow in 2017 for the sector as KSA capital spending has tightened and will gradually improve towards 2H2016. We have minimal clarity on possible upside on earnings unlike a scenario of clear-cut spending patterns from KSA government, which drove the sector in the past; hence expect the entire industry to be affected, leaving any exception for Aslak. The stock had a good rally of +38% after TASI went up by +28% in 4Q2016 and with that sudden rally, most positives are priced-in. The stock trades at higher valuations versus peers and TASI, while it offers negative returns of -11% at current levels, with yields of 4.9% (2017E DPS of SAR 1.25). We believe the stock rally is overdone, maintain Neutral.

Key Financial Figures

FY Dec31 (SAR mln)	2015A	2016A	2017E
Revenue	882	690	652
EBITDA	99	108	96
Net Profit	72	81	66
EPS (SAR)	1.64	1.84	1.50
DPS (SAR)	1.3	1.65	1.25
BVPS (SAR)	9.81	9.85	9.95

Key Financial Ratios

FY Dec31	2015A	2016A	2017E
ROAA	15%	17%	13%
ROAE	17%	19%	15%
P/E	15.5x	13.8x	16.9x
P/B	2.6x	2.6x	2.5x
EV/EBITDA	8.9x	8.2x	9.2x
EV/Sales	1.0x	1.3x	1.4x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

For any feedback on our reports, please contact research@riyadcapital.com

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