Flashnote

HSBC Global Research

Mid Cap
Building Products
Equity – Saudi Arabia

Saudi Arabian Amiantit Co (SAAC AB)

Overweight (V)

Target price (SAR)	29.5
Share price (SAR)	17.35
Potential return (%)	70

Performance	1M	3M	12M
Absolute (%)	-23.9	-22.0	-29.3
Relative^ (%)	-13.6	-15.8	-28.8

Index^	TADAWUL ALL SHARE INDEX
RIC	2160.SE
Bloomberg	SAAC AB
Market cap (USDm)	535
Market cap (SARm)	2,004
Enterprise value (SARm)	2057
Free float (%)	87

Note: (V) = volatile (please see disclosure appendix)

OW(V): Euro concerns overdone

- **Since reporting its Q1 results in mid-April, Amiantit has underperformed the Tadawul by 19%**
- **We believe this is partly due to concerns over Amiantit's exposure to the declining euro**
- **We estimate the impact is only 1% of net income. Reiterate Overweight (V) rating and target price of SAR29.5**

Recent share price underperformance: Since reporting its Q1 2010 results on 13 April, Amiantit's share price has fallen by almost 30%, underperforming the Tadawul by 19%. We believe the decline is driven by concerns over the declining euro, which has fallen 14% y-o-y against the USD.

Euro exposure: In 2009, around 48% of Amiantit's sales were outside Saudi and 38.5% were in Europe. However, the two main euro-based operations are Spain and Germany, and with growth in the former slowing, we estimate no more than 20% of Amiantit's sales are euro-denominated. Further, these euro-based sales are in business units that are much less profitable than the group overall, recording low single-digit EBIT margins, in our opinion, rather than the 14% reported for the group as whole in 2009. We estimate the impact of the falling euro at less than 3% on sales and 1% on net income. As HSBC forecasts the EUR/USD rate will appreciate back to 1.35 by the end of the year (currently 1.19), we leave our estimates unchanged.

The company currently has a backlog of close to SAR3bn, of which SAR500m is in the overseas businesses: The Saudi operations are therefore running at full capacity, and given the costs removed from SG&A, we believe EBIT margins for 2010e should be similar to 2009 at 14%.

Valuation: Based on 2009 net income, the stock trades on a trailing PE of 10x, and if we strip out the impairments (SAR85m) it falls to 7x. This compares to a trailing PE of 18x and a 2010e PE of 13x for the stocks we cover in Saudi. The stock currently offers a dividend yield of 5.8%, and as net debt continues to improve from 1.2x EBIT for 2009 to 0.8x for 2010e, we believe the dividend can improve from the current SAR1 per share. We reiterate our Overweight (V) rating and SAR29.5 target price and believe the recent underperformance is unjustified.

8 June 2010

Raj Sinha*
Analyst
HSBC Saudi Arabia
+966 0 1 299 2100
raj.sinha@hsbc.com

Financials & valuation

Financial statements

Year to	12/2009a	12/2010e	12/2011e	12/2012e
Profit & loss summary (SARm)				
Revenue	3,293	3,273	3,422	3,579
EBITDA	605	593	596	625
Depreciation & amortisation	-143	-118	-120	-122
Operating profit/EBIT	462	475	476	503
Net interest	-90	-57	-33	-32
PBT	300	424	471	513
HSBC PBT	300	424	471	513
Taxation	-65	-85	-94	-103
Net profit	202	293	325	355
HSBC net profit	202	293	325	355
Cash flow summary (SARm)				
Cash flow from operations	698	439	366	426
Capex	-103	-131	-137	-143
Cash flow from investment	-144	-131	-137	-143
Dividends	-115	-176	-195	-319
Change in net debt	-657	-193	-53	-88
FCF equity	686	333	244	298
Balance sheet summary (SARm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	933	946	963	984
Current assets	2,768	2,915	3,061	3,206
Cash & others	492	657	692	768
Total assets	4,056	4,247	4,453	4,676
Operating liabilities	1,060	1,055	1,078	1,097
Gross debt	1,110	1,082	1,064	1,052
Net debt	618	425	372	284
Shareholders funds	1,652	1,769	1,899	1,934
Invested capital	2,149	2,149	2,254	2,324

Ratio, growth and per share analysis

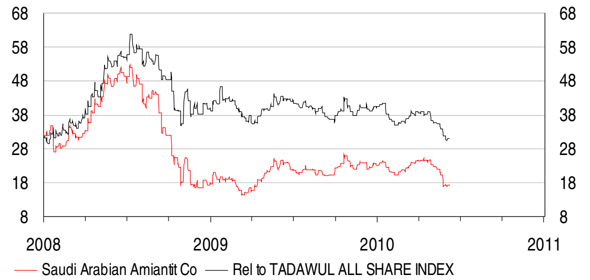
Year to	12/2009a	12/2010e	12/2011e	12/2012e
Y-o-y % change				
Revenue	-18.2	-0.6	4.5	4.6
EBITDA	6.6	-2.0	0.4	4.9
Operating profit	1.4	2.8	0.1	5.6
PBT	-22.4	41.5	10.9	9.1
HSBC EPS	-14.0	44.7	10.9	9.1
Ratios (%)				
Revenue/IC (x)	1.4	1.5	1.6	1.6
ROIC	14.9	17.7	17.3	17.6
ROE	12.9	17.1	17.7	18.5
ROA	5.5	8.2	8.7	9.0
EBITDA margin	18.4	18.1	17.4	17.5
Operating profit margin	14.0	14.5	13.9	14.0
EBITDA/net interest (x)	6.7	10.4	18.3	19.3
Net debt/equity	32.8	20.7	16.7	12.2
Net debt/EBITDA (x)	1.0	0.7	0.6	0.5
CF from operations/net debt	113.0	103.4	98.4	150.1
Per share data (SAR)				
EPS reported (fully diluted)	1.76	2.54	2.82	3.07
HSBC EPS (fully diluted)	1.76	2.54	2.82	3.07
DPS	1.00	1.52	1.69	2.77
Book value	14.32	15.33	16.46	16.77

Valuation data

Year to	12/2009a	12/2010e	12/2011e	12/2012e
EV/sales	0.7	0.6	0.6	0.5
EV/EBITDA	3.8	3.5	3.3	2.9
EV/IC	1.1	1.0	0.9	0.8
PE*	9.9	6.8	6.2	5.6
P/Book value	1.2	1.1	1.1	1.0
FCF yield (%)	41.3	20.4	15.3	19.4
Dividend yield (%)	5.8	8.8	9.7	15.9

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 07 Jun 2010

Valuation

Reasons to like Amiantit

We like Amiantit for its exposure to the water industry, especially in Saudi Arabia, where only 75% of households are connected to the water grid and 50% to the waste water grid, and where the government is investing to rectify this issue. Please refer to our note *Saudi Infrastructure: Spending for this generation,* published 26 November 2009, for more details.

Target price

We value Amiantit via a DCF calculation. Our WACC of 11% is derived from a risk-free rate based on the 12-month SAIBOR rate of 1.8% and a cost of debt of 4% obtained by adding 220bp to 12-month SAIBOR. Our cost of equity, based on a combination of relative index returns, CDS spread and inflation differential, is 12.7%. Using a long term debt-to-equity ratio of 30%:70%, we obtain a WACC of 11%. We assume a long-term growth rate of 3%. Our DCF generates an unchanged 12-month target price of SAR29.5 per share, implying a 2010e PE multiple of 11.4x and indicating a 70% potential return. We maintain our Overweight (V) rating.

Risks

The main downside risks are that spending in water transmission piping comes through later than expected and that demand for steel piping in other segments is slower than we forecast. The other key downside risk is that the margin turnaround story in the European business falters.

Disclosure appendix

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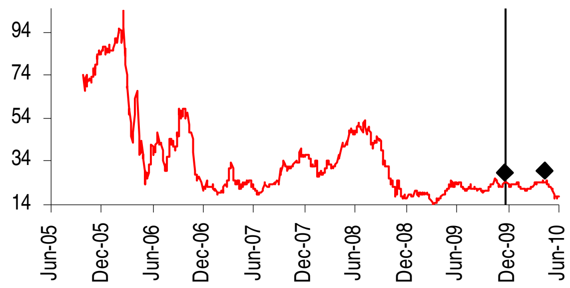
Underweight (Sell)	13%	(11% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Saudi Arabian Amiantit Co (2160.SE) Share Price performance SAR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	26 November 2009
Target Price	**Value**	**Date**
Price 1	29.00	26 November 2009
Price 2	29.52	20 April 2010

Source: HSBC

HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SAUDI ARABIAN AMIANTIT CO	2160.SE	17.35	07-Jun-2010	4

Source: HSBC

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Issuer of report
HSBC Saudi Arabia Limited
PO Box 9084
Riyadh 11413
Kingdom of Saudi Arabia.
Telephone: + (966-1) 225-7103, 225-7135 96614 5077333
Fax: +(9661) 470-6942
Website: www.research.hsbc.com

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