

SAUDI ELECTRICITY CO



EVENT FLASH

Highest quarterly net income on one-off gain

SEC reported the highest quarterly net income of SR3.7bn in 2Q14, mainly benefiting from a one-off gain of SR2.6bn from the reversal of account receivables provisions. Excluding this one-off, net income declined 31.6% YoY, significantly higher than our estimate of SR765mn. The deviation in earnings can be attributed to higher than expected revenues and operating margins. Seasonal increase in demand supported the QoQ earnings.

- **Gross Profit:** 2Q14 came in at SR1,342mn, higher than the NCBC estimate of SR800mn and that in 2Q13. Gross loss was SR864mn in 1Q14.
- **Operating Profit:** 2Q14 came in at SR1,148mn, higher than the NCBC estimate of SR641mn and 2Q13 of SR656mn. 1Q14 was a loss of SR1,018mn.
- **NCBC view on the result:** SEC reported a strong set of results with a net income of SR3.7bn, up 143.5% YoY and significantly higher than our expectation of SR765mn. The company reported a loss of SR913mn in 1Q14. The reversal of SR2,631mn provisions related to account receivables was the main reason behind the strong growth. Excluding the one-off gain, net income declined 31.6% YoY but was still significantly higher than our estimates of 765mn. SEC had a one-off income of SR729mn from Aramco in 2Q13.
- All profit lines came-in higher than our estimates, which can be attributed to better revenues and operating margins. Revenues came in 8% above our estimate of SR9.7bn. Operating margins were 10.9% vs. our estimates of 6.6%.
- Gross and operating profits grew 67.8% and 75% YoY, which can be attributed to higher revenues supported by increasing demand.
- Seasonal factors were the main reasons behind the QoQ improvement in earnings. SEC reports losses in the winter seasons as demand for electricity declines sharply.
- We remain Overweight on SEC with PT of SR17.4. The stock is currently trading at P/E of 25x of 2014E and 23x of 2015E. Fixed dividends policy and the good dividends yield of 4.4% are the stock's key positives.

2Q14 Results Summary

SR mn	2Q14A	1Q14A	% Q o Q	2Q13A	% Y o Y	2Q14E	% Var [^]
Revenues	10,490	7,069	48.4	9,307	12.7	9,715	8.0
Gross income	1,342	(864)	NM	800	67.8	800	67.8
Operating income	1,148	(1,018)	NM	656	75.0	641	79.2
Net income	3,658	(913)	NM	1,502	143.5	765	378.2
EPS (SR)	0.88	(0.22)	NM	0.36	143.5	0.18	378.2
Adjusted net income	1,027	(913)	NM	1,502	(31.6)	765	34.3
Adjusted EPS (SR)	0.25	(0.22)	NM	0.36	(31.6)	0.18	34.3

Source: Company, NCBC Research [^] % Var indicates variance from NCBC forecasts

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price	17.4
Current price (SR)	16.0

STOCK DETAILS

52-week range H/L (SR)	17/13
Market cap (\$ mn)	17,777
Shares outstanding (mn)	4,167
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	1.1	9.1	23.6
Rel. to market	0.2	8.0	(3.4)

Avg daily turnover (mn)	SR	US\$
3M	66.0	17.6
12M	52.3	14.0

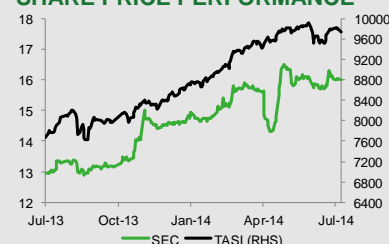
Reuters code	5110.SE
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VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	22.0	25.3	23.0
P/B (x)	1.2	1.1	1.1
EV/EBITDA (x)	7.9	7.7	7.4
Div Yield (%)	4.4	4.4	4.4

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam

+966 12 690 7811
i.ghulam@ncbc.com

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Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price 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

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CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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