

SAUDI STEEL PIPES CO



EVENT FLASH

Weak 4Q11 preliminary results

SSP announced its 4Q11 preliminary results on 15 January 2012 after market hours. Net income came in at SR13.3mn, below our estimate of SR18.8mn. Earnings declined significantly YoY by 37% due to lower profit margins and increased international competition in the market. We await the detailed results before updating our model.

- **Net income declines 37% YoY:** 4Q11 came in at SR13.3mn compared to a reported profit of SR21.2mn in 4Q10, a decrease of 37% YoY. According to the company's commentary, net sales during 4Q11 increased to SR172mn, a 3.2% increase from SR167mn in 4Q10. However this was offset by the increase in cost of raw materials as well as increased competition from international companies in the market. We highlighted the latter as a key concern in our downgrade report which was published on 27 December 2011.
- **Operating income below our estimate:** 4Q11 came in at SR13.9mn, below our estimate of SR19.1mn. 4Q11 was a decrease of 45.7% YoY (SR25.6mn in 4Q10).
- **2011 EPS decreases YoY:** 2011 EPS came in at SR1.28, implying a decrease of 10.5%
- **Continued margin pressure:** According to the announcement on Tadawul, the average cost per ton increased YoY while the average selling price fell by 7.6%. This explains the decrease in net income compared to sales volume. Furthermore, we believe the increase in price from the small diameter pipes by 2.4% was offset by the decrease from the medium diameter segment by 20.1%, which led to an overall decline in the average prices by 7.6% during the quarter. The continued pressure on selling prices of the medium diameter pipes highlights the fact that there is still an over supply in the market which hinders the company's ability to pass the rising cost to customers, ultimately leading to margin pressure.
- We recently downgraded SSP to Neutral with a PT SR28.4/share due to a fall in the number of projects being awarded, which ultimately leads to a slow down in the demand for steel pipes. This, coupled with increased competition from international players within the market, mutes the short-to-medium-term outlook for projects which SSP could potentially benefit from. We await the full details before updating our model.

4Q11 Results Summary

SR mn	4Q11A	4Q10A	YoY (%)	4Q11E	Var (%)^
Operating income	13.9	25.6	(45.7)	19.1	(27.0)
Net income	13.3	21.2*	(37.3)	18.8	(29.1)
EPS (SR)	0.26	0.42	(37.3)	0.37	(29.1)

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

*Restated from SR19.7mn

NEUTRAL

Target price	SR28.4
Current price (SR)	26.8

STOCK DETAILS

M52-week range H/L (SR)	31.9/18.7
Market cap (\$mn)	364
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	9.8	11.7	8.7
Rel. to market	5.8	6.3	12.9

Avg daily turnover (mn)	SR	US\$
3M	10.6	2.8
12M	6.8	1.8

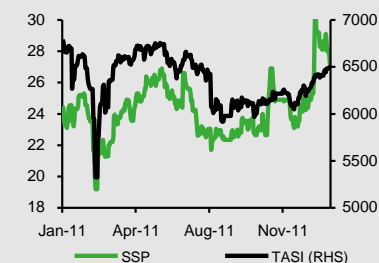
Reuters code	1320.SE
Bloomberg code	SSP AB
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VALUATION MULTIPLES

	10A	11E	12E
Reported P/E (x)	18.7	19.4	16.4
Adjusted P/E (x)	22.8	23.6	19.6
P/B (x)	1.8	1.7	1.7
EV/EBITDA (x)	13.1	12.1	11.6
Div Yield (%)	5.6	3.7	4.7

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

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