

## SAUDI STEEL PIPES



## EVENT FLASH

## Weak results on losses from associates

SSP announced a weak set of results with a net income of SR15.6mn, significantly lower than the NCBC estimates of SR20.8mn. Net income declined 38.1% YoY due to 1) losses from subsidiaries and associates and 2) higher labor cost. However, earnings were 3.9x up QoQ on increased sales from the SD and induction bending segments.

- **NCBC view on results:** SSP reported a weak set of earnings with all profit lines declining 17-38% YoY. The 2Q14 net income came in significantly below our expectation of SR20.8mn due to lower prices and margins from the Medium Diameter (MD) segment, higher than expected losses reported by associates and higher operating expenses.
- SSP's 70% owned subsidiary, Titanium & Steel Manufacturing Co., Ltd. and 35% owned associate, Global Pipe Co, reported a combined loss of SR7.9mn in 2Q14. This is higher than our estimate of a loss of SR5mn.
- On YoY basis, all profit lines declined 17-38% due to losses at its associates and higher labor cost. Furthermore, the increasing number of employees due to the ongoing expansions exerted pressure on SSP's operating margins.
- The company's net income increased 3.9x QoQ on increased sales of induction bending and SD segments.
- Based on management feedback, we believe SD segments revenues came in at SR75mn, up 11.8% QoQ and 2% higher than our expectations but declined 3% YoY. The MD segment revenues were broadly flat on YoY basis.
- Gross margins stood at 13.2% in 2Q14, lower than our estimate of 16.1% and 15.8% in 2Q13. However, gross margins improved 350bps on QoQ basis.
- We expect revenues to double to SR169mn in 2015E driven by commencing commercial operations of new projects and receiving the required approvals from key clients.
- We are currently Neutral on the stock with a price target of SR34.5/share.

## 2Q14 Results Summary

SR mn	2Q14A	1Q14A	% Q o Q	2Q13A	% Y o Y	2Q14E	% Var^
Revenues	248.3	224.7	10.5	249.1	(0.4)	254.8	(2.6)
Gross income	32.7	21.7	51.0	39.5	(17.2)	41.1	(20.4)
Gross margins	13.2	9.6	3.5	15.8	(2.7)	16.1	(3.0)
Operating income	19.9	9.1	119.9	26.5	(24.9)	27.3	(27.0)
Operating margins	8.0	4.0	4.0	10.6	(2.6)	10.7	(2.7)
Net income	15.6	4.0	286.8	25.1	(38.1)	20.8	(25.2)
Net margins	6.3	1.8	4.5	10.1	(3.8)	8.2	(1.9)
EPS (SR)	0.30	0.08	286.8	0.49	(38.1)	0.41	(25.2)

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

Please refer to the last page for important disclaimer

## NEUTRAL

Target price	34.5
Current price (SR)	34.7

## STOCK DETAILS

52-week range H/L (SR)	41/26
Market cap (\$ mn)	472
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(4.4)	(12.3)	24.4
Rel. to market	(7.1)	(15.3)	(2.6)

Avg daily turnover (mn)	SR	US\$
3M	9.6	2.6
12M	9.2	2.5

Reuters code	1320.SE
Bloomberg code	SSP AB
	<a href="http://www.sspipe.com">www.sspipe.com</a>

## VALUATION MULTIPLES

	13A	14E	15E
P/E (x)	23.2	20.4	10.5
P/B (x)	2.2	2.1	1.9
EV/EBITDA (x)	19.7	15.3	10.4
Div Yield (%)	2.2	2.2	2.9

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

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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

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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

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