SAUDI STEEL PIPES CO

EVENT FLASH

Disappointing 2Q11 results

SSP announced its 2Q12 preliminary results on 18 July 2012 before market hours. Net income came in at SR12.4mn, below our estimate of SR20.7mn. Net income declined 42% YoY due to increased competition and higher material costs. We await the detailed results before updating our model.

- **Gross profit** for 2Q12 came in at SR22.9mn vs. the NCBC estimate of SR25.9mn (11.8% below our estimate) recording a YoY decline of 23.1%.
- **Operating profit** for 2Q12 came in at SR13.3mn vs. the NCBC estimate of SR16.9mn (21.1% below our estimate) recording a YoY decline of 37.1%.
- **Net income** for 2Q12 came in at SR12.4mn vs. the NCBC estimate of SR20.7mn (40.2% below our estimate) recording a YoY decline of 41.9% and a 32.4% QoQ decline.
- **EPS** for 2Q12 came in at SR0.24 vs. NCBC estimate of SR0.41 (40.2% below our estimate) recording a YoY decline of 41.9%.
- In summary, this is a very weak set of results from SSP when compared to the company's performance during 2Q11. Although the company's net sales increased by 21.9% YoY, the management attributed the YoY decline in earnings to the overall increased competition in the region as well as the 27.8% increase in the company's material costs YoY. This ultimately led to a decline in the company's margins.
- This is another quarter where the average cost increased beyond our expectation which we believe is the primary reason behind the deviation in earnings. Although the company's feedback suggests that the average selling price increased, we believe that the average cost increased at a faster pace which led to the overall annual decline in earnings and the deviation in numbers from our estimates. The company has not provided specific details on the higher costs.
- We are currently Overweight with a PT SR29.3 per share and await full details before updating our model.

2Q12 Results Summary

SR mn	2Q 12A	2Q 11A	% Y o Y	2Q 12E	% Var^
Gross profit	22.9	29.7	(23.1)	25.9	(11.8)
Operating income	13.32	21.2	(37.1)	16.9	(21.1)
Net income	12.4	21.3	(41.9)	20.7	(40.2)
EPS (SR)	0.24	0.42	(41.9)	0.41	(40.2)

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

OVERWEIGHT

Target price (SR)	**29.3**
Current price (SR)	**21.9**

STOCK DETAILS

M52-week range H/L (SR)	31.9/20.3
Market cap ($mn)	302.6
Shares outstanding (mn)	51.0
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(7.3)	(21.7)	(11.7)
Rel. to market	(1.0)	(10.6)	(13.9)

Avg daily turnover (mn)	SR	US$
3M	11.2	3.0
12M	9.5	2.5

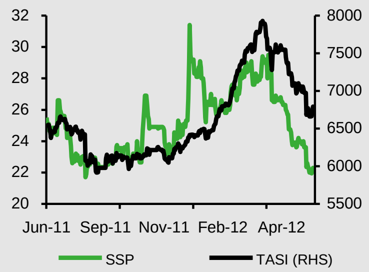
Reuters code	1320.SE
Bloomberg code	SSP AB
	www.sspipe.com

VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	18.9	12.4	8.0
P/B (x)	1.5	1.4	1.4
EV/EBITDA (x)	12.1	9.9	8.2
Div Yield (%)	4.5	5.6	6.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg

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NCBC Investment Ratings

OVERWEIGHT: Target price represents expected returns in excess of 15% in the next 12 months

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

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

NC: Not covered. NCBC does not cover this company