

SAUDI ELECTRICITY



EVENT FLASH

Net loss in-line with estimates

Saudi Electricity (SEC) net loss came in at SR661mn, broadly in line with our expectation of SR640mn. Net losses improved YoY as the company incurred non-recurring expenses in 4Q12 while seasonality is the main reason behind the QoQ losses.

- **Gross loss:** 4Q13 came in at a loss of SR574mn, higher than SR474mn in 4Q12 and the NCBC estimate of SR451mn. 3Q13 gross profit was SR2,912mn.
- **Operating loss:** 4Q13 came in at a loss of SR742mn, higher than SR622mn reported in 4Q12 and the NCBC estimate of SR648mn. 3Q13 operating profit was SR2,724mn.
- **NCBC view on the result:** SEC's 4Q13 net loss came broadly in line with our estimates as lower than expected non-operating expenses mitigated the deviation at the operating level. Losses at gross and operating levels came in higher than expected which we believe can be attributed to higher fixed costs.
- The YoY improvement in net losses can be attributed to the one-off expenses incurred in 4Q12 related to the productivity improvement program. However, higher costs increased gross and operating losses.
- Seasonal factors were the main reason behind the QoQ losses. SEC reports losses in the winter season as demand for electricity declines sharply.
- For the full year 2013, net income grew 18.6% YoY to SR3bn despite lower gross and operating profits. This is due to the one-off settlement income of SR729mn from Saudi Aramco in 2Q13 and the additional expenses related to the productivity improvement program in 4Q12.
- We believe SEC's strong association with the government and the focus on capacity expansion will drive earnings in the long run. SEC signed contracts worth SR6bn during October and November 2013 to increase its power supply and meet the rising demand. Electricity consumption has been growing at a rate of 9% annually over the past few years and it is expected to continue growing at a high pace to reach 70GW by 2020E.
- We remain Overweight on SEC with a PT of SR16.8. SEC's fixed dividend policy, rising demand and strong government support are the stock's key positives.

4Q13 Results Summary

SR mn	4Q13A	3Q13A	% Q o Q	4Q12A	% Y o Y	4Q13E	% Var^
Gross income	(574)	2,912	NM	(474)	NM	(451)	NM
Operating income	(742)	2,724	NM	(622)	NM	(648)	NM
Net income	(661)	2,853	NM	(1,090)	NM	(640)	NM
EPS (SR)	(0.16)	0.68	NM	(0.26)	NM	(0.15)	NM

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

OVERWEIGHT

Target price	16.8
Current price (SR)	14.9

STOCK DETAILS

52-week range H/L (SR)	15/12
Market cap (\$ mn)	16,555
Shares outstanding (mn)	4,167
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	2.8	13.3	7.6
Rel. to market	(1.7)	3.6	(16.9)

Avg daily turnover (mn)	SR	US\$
3M	35.3	9.4
12M	32.2	8.6

Reuters code	5110.SE
Bloomberg code	SECO AB
	www.se.com.sa

VALUATION MULTIPLES

	12A	13E	14E
P/E (x)	24.2	20.3	21.9
P/B (x)	1.2	1.1	1.0
EV/EBITDA (x)	7.6	7.7	7.0
Div Yield (%)	4.7	4.7	4.7

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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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

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