

## SAUDI STEEL PIPES CO



This is an extract of our published report, the full version of which can be found on the [ncbc.com](http://ncbc.com) website.

## COMPANY UPDATE

## 2014E earnings revised down due to delays

We remain Neutral on SSP with a PT of SR34.5. We revised 2014E earnings down by 29% due to the delay in receiving approvals for new projects combined with a slowdown in the construction sector. However, 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.

- Earnings for 2014E revised down due to slower demand**

We reduced our 2014E net income estimates by 29% to SR87mn. This is mainly due to 1) weaker than expected 1Q14 results, 2) losses in some projects from delays in receiving the needed approval from key clients and 3) the on-going slowdown in construction activity. However, we have increased our 2015E estimates by 2-3% due to the expected increase in the construction activity and higher income from Medium Diameter (MD) and Small Diameter (SD) segments.

- Teething/coating expansion expected to operate in 3Q14**

The teething/coating expansion is expected to start operating in 3Q14E. This expansion is expected to improve the MD's margins and reduce costs. Currently, SSP is using a third party to perform these services for their clients. According to management feedback, we expect this expansion to improve the MD segment margins by 3-4%.

- SD segment to start picking up as of 2Q14**

SSP has signed a SR14mn contract with a major contractor to supply SD pipes. The impact of this contract is expected to be reflected in 2Q14 and 3Q14 results. We expect the company to sign similar contracts going forward, as it helps ensure stable demand for the SD segment.

- We remain Neutral on SSP with a revised PT of SR34.5**

We remain Neutral on SSP with a revised PT of SR34.5. Our PT declined by 1.7% due to the weaker than expected results in 1Q14 and the delay in receiving approvals for new projects. The stock is currently trading at 2014E P/E of 21.6x compared to the sector average of 15.8x. Therefore, we believe the stock is fairly priced at the current levels.

## NEUTRAL

<b>Target price (SR)</b>	<b>34.5</b>
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<b>Current price (SR)</b>	<b>36.8</b>
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## STOCK DETAILS

52-week range H/L (SR)	41/24
Market cap (\$mn)	500
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	2.4	(3.0)	41.8
Rel. to market	3.4	(8.8)	12.3

Avg daily turnover (mn)	SR	US\$
3M	9.4	2.5
12M	10.2	2.7

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)	24.5	21.6	11.1
P/B (x)	2.4	2.2	2.0
EV/EBITDA (x)	21.9	17.1	11.6
Div Yield (%)	2.0	2.0	2.7

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

## Financial summary

		2012A	2013A	2014E	2015E	2016E
Revenues	SR mn	726	839	956	1,278	1,346
Gross profit	SR mn	98	128	162	240	248
Gross margin	%	13.5	15.2	16.9	18.8	18.5
Operating income	SR mn	58	80	110	174	179
Operating margin	%	7.9	9.5	11.5	13.6	13.3
Net income	SR mn	54	76	87	169	183
Net margin	%	7.4	9.1	9.1	13.2	13.6
Reported EPS	SR	1.1	1.5	1.7	3.3	3.6

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

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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

NC: Not covered. NCBC does not cover this company

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