

## SAUDI STEEL PIPES CO



## EVENT FLASH

## Disappointing results for 1Q12

SSP announced its 1Q12 preliminary results on 16 April 2012 after market hours. Net income came in at SR18.3mn, below our estimate of SR26.6mn. Earnings declined 12.8% YoY due to lower margins from the company's international sales. We await the detailed results before updating our model.

- **Net income declines 12.8% YoY:** 1Q12 came in at SR18.3mn compared to a reported profit of SR21.0mn in 1Q11. 1Q12 was a decrease of 12.8% YoY. According to the company's announcement, sales during 1Q12 increased to SR207mn, a 26.8% increase from SR163mn sold during 1Q11. However, the company stated that this was offset by the increase in cost of raw materials as well as increased competition from international companies in the market. This has been an ongoing concern for the company which we have been highlighting in our company updates.
- **Operating income below our estimate:** 1Q12 came in at SR19.4mn below our estimate of SR27.0mn. 1Q12 was a decrease of 8.0% YoY (SR21.0mn in 1Q11).
- **1Q12 EPS decreases YoY:** 1Q12 EPS came in at SR0.36, compared to SR0.41 in 1Q11.
- **Average cost increases beyond expectation:** According to the company's feedback, the company's average selling price increased 1.4% YoY. However, from our analysis 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 given specifics on the increasing costs.
- We are currently Neutral on SSP with a PT of SR30.1/share. Given the company's margin pressure due to increased costs of raw materials and increased international competition, we believe the short to medium term outlook for projects which SSP could potentially benefit from are limited. We await the full details before updating our model.

## 1Q12 Results Summary

SR mn	1Q12A	1Q11A	YoY (%)	1Q12E	Var (%)^
Operating income	19.4	21.0	(7.6)	27.0	(28.1)
Net income	18.3	21.0	(12.8)	26.6	(31.2)
EPS (SR)	0.36	0.41	(12.8)	1.2	(31.2)

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

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## NEUTRAL

<b>Target price (SR)</b>	<b>30.1</b>
<b>Current price (SR)</b>	<b>26.6</b>

## STOCK DETAILS

M52-week range H/L (SR)	31.9/20.3
Market cap (\$mn)	364
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(6.7)	4.3	7.0
Rel. to market	(2.8)	(9.0)	(3.2)

Avg daily turnover (mn)	SR	US\$
3M	19.1	5.1
12M	9.6	2.6

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

## VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	24.4	15.8	11.1
P/B (x)	1.9	1.9	1.8
EV/EBITDA (x)	15.9	13.2	11.7
Div Yield (%)	3.5	4.3	5.2

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Bloomberg

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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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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

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