Saudi Steel Pipes Co

Overweight

Target Price (SR) 37.4

Current price (SR) 21.3

Stock details

52-week range H/L (SR)	36.3/21.1
Market cap ($mn)	287
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perf. (%)	1M	3M	12M
Absolute	(15.3)	(23.6)	(32.8)
Rel. to market	(17.1)	(27.1)	(33.6)

Avg daily turn.(mn)	SR	US$
3M	15.9	4.3
12M	3.8	1.0

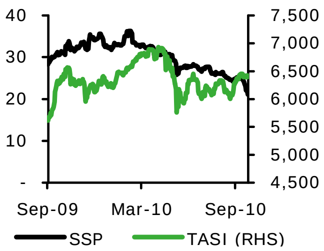
Reuters code	1320.SE
Bloomberg code	SSP AB
Website	www.sspipe.com

Valuation multiples

	09	10E	11E
P/E (x)	8.6	12.4	10.1
P/B (x)	1.1	1.4	1.4
EV/EBITDA (x)	5.6	6.5	5.2
Div yield (%)	9.5	9.5	9.5

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

Ahmed Al Qahtani
ah.alqahtani@ncbc.com
Tel. +966 2 6907784

Please refer to the last page for important disclaimer

3Q10 preliminary results

Saudi Steel Pipes (SSP) announced its 3Q10 preliminary results on 12 October 2010 after market close. Net income came in at SR6.55mn, significantly below NCBC estimate of SR19mn. The decline was drive by both lower than expected sales volume and selling prices.

- **Net income:** Net income for 3Q10 came in at SR6.55mn versus NCBC estimate of SR19mn (65% variance). This translates to a 78% decrease YoY and a 73.9% decrease QoQ.
- **Gross profit:** Gross profit for 3Q10 came in at SR13.3mn versus NCBC estimate of SR27.1mn (51% variance). On a YoY basis, gross profits are down 64%.
- **Price decline drives the pressure on the medium diameter pipes revenue:** Medium diameter revenue declined despite a marginal improvement in sales volume. This was driven by an 18% decline in selling prices which reduced revenues from this segment by 16%.
- **Volume decline leads to a decrease in revenue from small diameter pipes:** Revenue from this segment declined by 26.7% YoY despite the 10% improvement in average selling price. This was driven by a 33.4% decline in sales volume.
- **Fluctuating steal prices led to uncertainty:** Hot rolled steel prices fluctuated over the past quarter from a high of $760/ton in May 2010 to $656/ton in mid August. This created significant uncertainty in the market, for both buyers and sellers. The average price for the quarter was 8% below 2Q10. According to the company's management, this has led some customers to delay their order or put their orders on hold.
- **Valuation:** The stock has declined significantly over the past few weeks indicating that the market has priced in some of the negative surprise. However, given the extremely weak numbers, we believe further short term declines are possible. On a fundamental basis, we believe the stock looks very compelling, creating very good opportunities for long-term value investors. We await the full results to understand the company's performance and update our numbers.

Results summary

		3Q10A	3Q10E	Variance(%)	3Q09	YoY (%)
Net Income	(SR mn)	6.5	19.00	(65.0)	30.16	(78.4)
Gross Profit	(SR m)	13.3	27.1	(51.0)	36.9	(64.0)
Operating Income	(SR m)	6.8	19.0	(64.0)	30.8	(78.0)

Source: Company, NCBC Research estimates

Kindly send all mailing list requests to research@ncbc.com

Head of Research	Eiji Aono	e.aono@ncbc.com	+966 2 690 7786

Brokerage website	www.alahlitadawul.com / www.alahlibrokerage.com
Corporate website	www.ncbc.com

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

IMPORTANT INFORMATION

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware, of and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under license number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.