



EVENT FLASH

Highest net income on record

SEC reported a strong set of 3Q16 results, with a net income of SR4.4bn, significantly higher than the NCBC estimate. Net income increased 50.8% YoY and 208.8% QoQ. We believe the record high revenues and better than expected gross margin were the key reasons behind the deviation. Revenues stood at SR17.2bn in 3Q16, an increase of 29.8% QoQ and 30.1% YoY. Gross margin were at 26.9% in 3Q16, higher than our estimate of 15.2%.

- **NCBC view on the results:** SEC reported a strong set of 3Q16 results, with a net income of SR4.4bn, higher than the NCBC estimate of SR1.9bn. Net income increased 208.8% QoQ and 50.8% YoY, the highest on record. We believe higher than expected sales and gross margin were the key reasons behind the deviation in earnings.
- Revenues stood at SR17.2bn in 3Q16, 18.4% higher than our estimate of SR14.5bn. This is also higher than SR13.2bn in 2Q16 and 3Q15. This is the highest reported revenues on our record and is attributed to 1) high seasonal demand in 3Q and 2) higher electricity prices (+20–30%) following government subsidy revisions. According to the management, the growth in revenues was primarily supported by improved sales mix (volume share of high margin commercial customers increased from 15.9% in 9M15 to 16.9% in 9M16) and 6.6% YoY growth in customer base at 8.5mn.
- Gross margin came in at 26.9% in 3Q16, higher than our estimate of 15.2%. This is also higher than 11.8% in 2Q16 and 22.9% in 3Q15. This is the highest gross margin since 3Q12. Higher than expected sales, improved operational efficiency and lower fuel consumption supported strong gross margin in 3Q16. SEC reduced its diesel consumption by 7.3mn barrels.
- The company attributed the YoY and QoQ increase in earnings to higher sales and improved operational efficiency, which offset the negative impact of high fuel prices.
- We believe seasonal factors were the main reason behind strong earnings in 3Q16. SEC generally reports losses in the winter season as demand for electricity declines sharply.
- We are currently Neutral on the stock with a PT of SR18.1. Strong government support and a fixed dividend of SR0.7, are the stock's key positives.

3Q16 Results Summary

SR mn	3Q16A	2Q16A	% QoQ	3Q15A	% YoY	3Q16E	% Var [^]
Sales	17,146	13,213	29.8	13,176	30.1	14,477	18.4
Gross income	4,617	1,563	195.4	3,023	52.7	2,208	109.1
Gross margin (%)	26.9%	11.8%	15.1	22.9%	4.0	15.2%	11.7
Operating income	4,418	1,274	246.8	2,855	54.8	1,902	132.3
Net income	4,404	1,426	208.8	2,921	50.8	1,902	131.6
EPS	1.06	0.34	208.8	0.70	50.8	0.46	131.6

Source: Company, NCBC Research [^] % Var indicates variance from NCBC estimates

NEUTRAL

Target price (SR) 18.1

Current price (SR) 16.8

STOCK DETAILS

M52-week range H/L (SR)	22/12
Market cap (\$mn)	18,677
Shares outstanding (mn)	4,167
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(5.3)	(15.4)	(5.6)
Rel. to market	1.7	1.5	23.3

Avg. daily turnover (mn)	SR	US\$
3M	28.0	7.5
12M	34.6	9.2

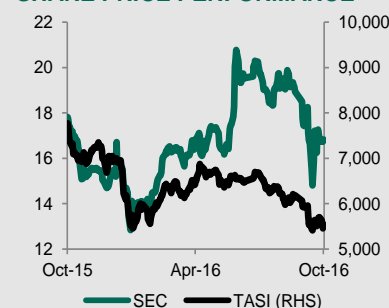
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VALUATION MULTIPLES

	15A	16E	17E
P/E (x)	42.4	21.3	18.9
P/B (x)	1.0	1.1	1.0
EV/EBITDA (x)	16.0	7.3	7.2
Div Yield (%)	4.2	4.2	4.2

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

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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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