Saudi Steel Pipes

2Q10 preliminary results

Overweight

Target Price (SR)	**40.5**
Current price (SR)	**27.7**

Stock details

52-week range H/L (SR)	36.7/25.5
Market cap ($mn)	376.72
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perf. (%)	**1M**	**3M**	**12M**
Absolute	(0.4)	(14.5)	(17.3)
Rel. to market	2.4	(4.2)	(20.4)

Avg daily turn.(mn)	**SR**	**US$**
3M	6.1	1.6
12M	30.5	8.1

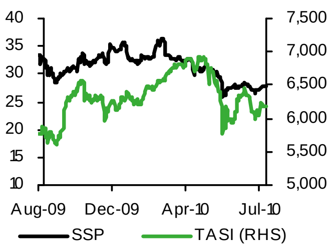
Reuters code	1320.SE
Bloomberg code	SSP AB
Website	www.sspipe.com

Valuation multiples

	09	**10E**	**11E**
P/E (x)	11.3	14.0	11.6
P/B (x)	1.5	1.8	1.7
EV/EBITDA (x)	8.1	8.4	6.8
Div yield (%)	7.2	7.2	7.2

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

Saudi Steel Pipes (SSP) announced its 2Q10 preliminary results on 18 July 2010. Net income came in at SR25.2mn, above our estimate of SR22.4mn, a 29.8% decline YoY.

- **Net income came in above our estimate:** Net income for 2Q10 came in at SR25.2mn, 12.5% above our estimate of SR22.4mn. This translates into a 29.8% decrease YoY, but an increase of 25.5% QoQ. Net income in 1Q10 increased 52% from 4Q09, and this quarter increased 25% from the first quarter (1Q10).
- **Gross profit:** Gross income for 2Q10 came in at SR33.0mn, 5.1% above our estimate of SR31.4mn, indicating a 17.8% YoY decline.
- **Operating income:** Operating income for 2Q10 came in at SR25.3mn versus our estimate of SR22.3mn (13.5% above our estimates) implying a 26.1% YoY decline.
- **EPS decline driven by net income and dilution:** EPS for 2Q10 came in at SR0.49, above our estimate of SR0.44, but down 52.0% YoY. The decline in EPS was driven by the decline in net income and the dilutive effect of the IPO last year which increased the number of shares outstanding from 35mn to 51mn
- **Improving profitability:** By looking at the earnings progression over the past few quarters, it is clear that 4Q09 was the bottom and profitability has been improving since then.
- **Management comments:** On a YoY basis, sales volumes increased by 16.2% but the company attributes its decline in profits to the 8.3% increase in cost of raw materials which was not offset by the 1.3% increase in average selling price.
- **Valuation:** We maintain our **Overweight** rating on the stock and await the financials in detail to update our forecasts.

Results summary

	2Q10A	**2Q10E**	**2Q09A**	**YoY chg(%)**	**Var(%)***
Gross profit	33.0	31.4	40.2	(17.8)	5.1
Operating income	25.3	22.3	34.2	(26.1)	13.5
Net income	25.2	22.4	35.9	(29.8)	12.5
EPS	0.49	0.44	1.02	(52.0)	12.6

Company, NCBC Research estimates
*Variance from our estimates
^Shares outstanding in 2Q2009 (Prior to the IPO) were 35mn vs. 51mn in 2Q2010 (Post IPO)

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