Global
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Global Investment House

Result Update

Saudi Arabia

Saudi Electricity Company

Coping with increased demand...

July, 2008

HOLD

Tickers:
SECO AB (Bloomberg)
5110.SE (Reuters)

Listing:
Saudi Stock Exchange

CMP:
SR11.5 (as on Jul 28, 2008)

Key Data

CMP#(SR)	11.5
EPS*(SR)	0.34
BVPS*(SR)	11.8
P/E*	34.0
P / BV*	1.0
12M Avg.vol.	8,759,076
52 week Lo / Hi (SR)	11.3/16.8

*Source: **Global** Research*
 # As on July 28, 2008
** 2008 Projected*

Highlights

- **Saudi Electricity Company (SEC)** registered a revenue growth of 5.9%, which accompanied by the major dampener of cost of sales increase of 13.0% resulted in net income (1H08) decline of 97.4%. The performance has not been in harmony with SEC's FY07 results recording a net income increase of 9.8% (from SR1.4bn in 2006 to SR1.5bn in 2007).

- The company's operating revenue posted a 3 year CAGR (2004-07) of 6.1% and an annual growth of 6.5% (from SR19.7bn in 2006 to SR20.9bn in 2007). The electricity sales showed an increase (YoY) of 6.4% and had highest proportion of 92.8% to the company's total revenues (2007).

- Although cost of sales mainly driven by fuel, operations & maintenance expenses rose (YoY) by 5.8%, an improved revenue performance resulted in gross profits (YoY) increase by 15.1% (from SR1.3bn in 2006 to SR1.5bn in 2007). Overall the improved results translated well into the bottom line profitability showing a rise in net profit margin from 7.2% in 2006 to 7.4% in 2007.

- SEC's asset base recorded an annual growth (FY07) of 7.3%. The company's business being capital intensive has (FY07) net fixed assets of SR87.6bn constituting 64.2% of the total asset base of SR136.5bn.

- The liability structure of the company mainly constituted of accounts payable, long-term government payables and government loan. The rise of 27.0% in account payables, constituted 36.4% of total liabilities (FY07). The shareholders' equity posted an annual rise of 2.1% closing at SR48.1bn in 2007.

- Our fair value for SEC is estimated to be SR12.1 per share. According to our fair value the stock is 5.6% higher than the current market price of SR11.5 (as on Jul 28, 2008). Therefore, we revise on our earlier recommendation of "Buy" to **"Hold"** on the stock with a medium term perspective.

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Recent Developments:

- In Jul-08, Fitch Ratings has upgraded the company's long term issuer default and senior unsecured ratings from AA- to A+ with a stable outlook.

- In Jun-08, the company was awarded the 4 projects (launch of first phase of the tenth power plant; enhancing the capacity of Rabigh Generation, Al-Shuabiah Al-Bukhariya and Al Jawiya Bawadi Al Dawaser stations by 720MW, 1,191MW and 100MW, respectively) amounting to SR26bn.

- In Apr-08, SEC signed contracts worth SR2.2bn with local companies to set up a new transformer station and two aerial electric power lines. The contracts were the part of SR5bn project aimed at linking different parts of the Kingdom.

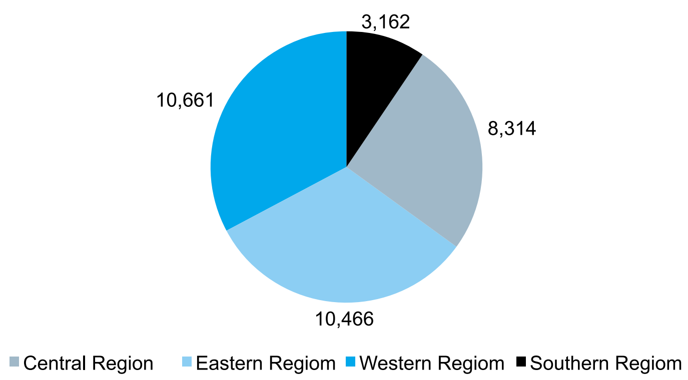
- In Mar-08, an announcement was made that after nencessary approvals there are plans to overhaul and privatize Saudi Arabia's power sector. The plan could split the power generation assets of SEC into four separate entities that will open avenues for foreign investment and create competition in the Kingdom's electricity sector.

- In Jul-07, the company issued Sukuk for SR5bn maturing in year 2027, at par value of SR500,000 each without discount or premium. The Sukuk was priced at 45 basis points over the Saudi Interbank Offer Rate (SIBOR).

Performance Review - 2007

- The total available capcity for electricity generation in Saudi Arabia, witnessing growth of 7.8% in FY06, continued to show the rising trend in FY07 recording an increase of 6.1% (from 34,823MW in 2006 to 36,949MW in 2007). By the end of 2007, the company's power plants in the Centeral, Eastern, Western and Southern Regions had a contribution of 25.5%, 32.1%, 32.7% and 9.7%, respectively. The total actual capacity from SEC constituted 89.2% of the total generating capacities (36,949MW in 2007) in the Kingdom, and showed an increase of 7.5% (from 30,666MW in 2006 to 32,957MW in 2007). The majority share of 51.5% (i.e. 16,984MW) in SEC capacity came from the gas turbines, which were seconded by the steam turbines having a share of 38.4%. The SEC was followed by the desalination units contributing 6.5% to the total available capcity.

Chart 1: Region-wise Contribution (MW) from SEC's Own Generation Units - 2007



*Source: SEC Financial Reports & **Global** Research*

- The total peak load during the year 2007 also witnessed a rising trend. The peak load recorded an increase of 11.9%, rising from 31,240MW in 2006 to 34,953MW in 2007. Similar to the last year, the majority of the peak load was contributed from interconnected networks. The interconnected networks peak load constituting 95.0% of the total, posted an increase of 13.0% (from 29,376MW in 2006 to 33,189MW in 2007). The isolated networks contributing the rest of 5.0% to the total peak load, showed a decrease of 5.4% during the year.

- The enhanced capcity base enabled the company to better meet the rising electricity demand in the Kingdom. The electricity sales in Gigawatt hour (Gwh) showed an increase of 4.1% during the year, recording a rise from 163,151Gwh in 2006 to 169,780Gwh in 2007. The highest share of contribution of 53.0% to the total electricity sales was made by the residential segment, which in itself showed an increase of 4.5% during 2007. This segment was followed by the industrial segment constituting 18.0% of the total electricity sales in 2007.

- The company undertook ongoing initiatives to increase the reach of electricity throughout the Kingdom and upgraded its systems to enhance the reliability of its power network. These efforts were reflected by an increase in the total transmission network length by 3.6% (from 36,652ckm in 2006 to 37,981ckm in 2007) and a rise of 4.8% in the distribution network (from 154,505ckm in 2006 to 161,923ckm in 2007).

Analysis of Financial Performance -FY07

Income Statement

- SEC's ongoing efforts to achieve higher efficiency showed in its result as the company in FY07 recorded a net income increase of 9.8% (from SR1.4bn in 2006 to SR1.5bn in 2007). The improved performance also led to increase in EPS (based on 4,166mn shares) from SR0.34 in 2006 to SR0.37 in 2007.

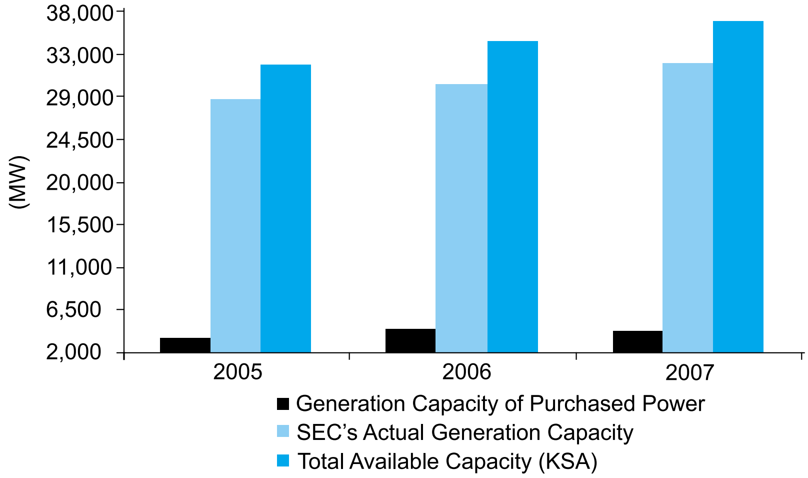
Table 01: Income Statement Highlights

(SR mn)	2005	2006	2007	(Growth 2006-07)
Total Operating Revenues	18,761.3	19,706.7	20,979.5	6.5%
Cost of Sales	(17,116.0)	(18,369.2)	(19,440.5)	5.8%
Gross Profit	1,645.3	1,337.4	1,538.9	15.1%
Operating Income	1,259.2	1,154.6	1,254.8	8.7%
Net Income	**1,483.0**	**1,413.8**	**1,552.9**	**9.8%**

*Source: SEC Financial Reports & **Global** Research*

- SEC fulfilling its important role in Saudi Arabia's electric infrastructure system not only successfully managed the growing electricity demand but through its operational and strategic initiatives recorded an encouraging (FY07) financial results. The total available capacity reaching 36,949MW in 2007 reflected a growth of 6.1% over the prior year, while the peak load (2007) in the Kingdom reached as high as 34,953MW. Keeping up with the growing demand of electricity, the company's actual generation capacity increased by 7.6% reaching 32,603MW in 2007, while the generation capacity of purchased power (2007) stood at 4,346MW showing an annual decline of 3.7% over the last year.

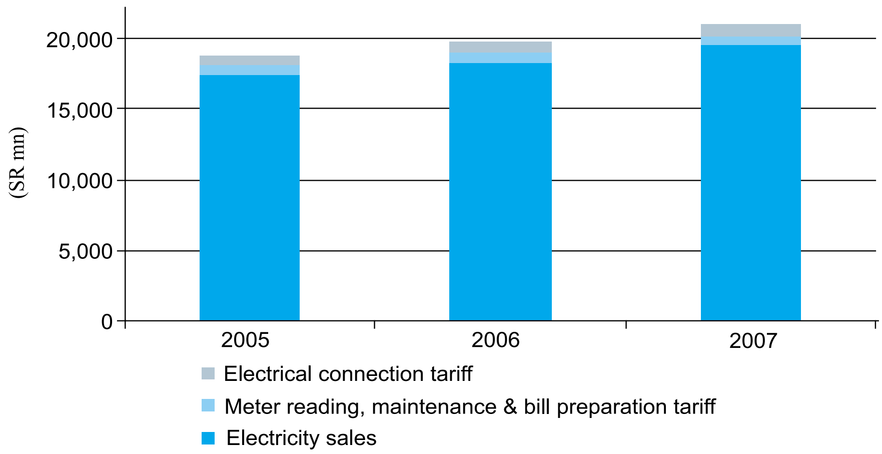
Chart 2: Kingdom's Power Generation Details



*Source: SEC Financial Reports & **Global** Research*

- The company's operating revenue posted a 3 year CAGR (2004-07) of 6.1% and an annual growth of 6.5% (from SR19.7bn in 2006 to SR20.9bn in 2007). The operating revenue is generated from three main segments namely electricity sales, meter reading & maintenance & bill preparation tariff, and electrical service connection tariff. The electricity sales showing an increase (YoY) of 6.4% had highest proportion of 92.8% to the company's total operating revenues (2007). This was followed by the revenue contributions of 3.8% & 3.4%, respectively from electrical service connection tariff, and meter reading & maintenance & bill preparation tariff, which also recorded a (YoY) rise of 11.1% and 2.1%, respectively.

Chart 3: Segmental Revenue



*Source: SEC Financial Reports & **Global** Research*

- Although cost of sales mainly driven by fuel, operations & maintenance expenses rose (YoY) by 5.8% (from SR18.3bn in 2006 to SR19.4bn in 2007), accompanied by the improved revenue performance resulted in rising gross profits. The progress in cost of sales control is also indicated by the reduction in cost of sales to total revenue ratio from 93.2% in 2006 to 92.7% in 2007. Overall SEC's better control over its cost of sales led to an encouraging (YoY) increase in gross profit by 15.1% (from SR1.3bn in 2006 to SR1.5bn in 2007).

Table 02: Cost of Sales & Gross Profit

(SR mn)	2005	2006	2007	(Growth 2006-07)
Total Operating Revenues	18,761.3	19,706.7	20,979.5	6.5%
Cost of Sales	(17,116.0)	(18,369.2)	(19,440.5)	5.8%
% of revenue	*91.2%*	*93.2%*	*92.7%*	*-0.6%*
Gross Profit	**1,645.3**	**1,337.4**	**1,538.9**	**15.1%**

*Source: SEC Financial Reports & **Global** Research*

- The other income and expenses include gain on disposal of fixed assets, share in net income of investee companies, sales of tender documents, penalties, fees for reconnection and other miscellaneous items. Gain on disposal of fixed assets had the highest contribution of 38% to the total other income & expenses, while it was followed by penalties having a share of 31.9%.

- An increase in the share of net income of investee companies was due to the company's participation (31.6% shareholding) in the capital of the Gulf Cooperation Council Interconnection Authority (GCCIA). This project will link the power networks of the six GCC states, thus enhancing the electricity transmission and distribution between the member countries.

- An increase in total operating revenues (FY06) by 5.0% as compared to rise in cost of sales by 7.3%, subdued the gross profit margins. The company was successful in performing better in FY07, posting an increase in total operating revenue by 6.5% whereas as cost of sales rose by 5.8%; leading to (FY07) gross profit margin ratio of 7.3%. The improved results translated well into the bottom line profitability showing a rise in net profit margin from 7.2% in 2006 to 7.4% in 2007. The net income (FY07) increase of 9.8% also led to higher ROAE of 3.3% while ROAA remained at 1.2%.

Table 03: Profitability Ratios

	2005	2006	2007
Gross Profit Margin	8.8%	6.8%	7.3%
Net Profit Margin	7.9%	7.2%	7.4%
Return on Average Assets	1.3%	1.2%	1.2%
Return on Average Equity	3.2%	3.0%	3.3%

*Source: SEC Financial Reports & **Global** Research*

Balance sheet

- SEC's asset base recorded a 3 year CAGR (2004-07) of 7.7% with an annual growth (FY07) of 7.3%. The company's business being capital intensive has (FY07) net fixed assets of SR87.6bn comprising a major part of the total assets of SR136.5bn. The net fixed assets over the last four years have always constituted more than 63% of the company's total assets. The net fixed assets contribution to the total assets increased from 63.4% in 2006 to 64.2% in 2007, as the company continued with a number of projects in power generation, transmission and distribution.

- The current assets (SR27.3bn) composing 20.0% of the total assets remained dominated by receivables from electricity consumers & accrued revenue (SR13.4bn) having a share of 9.8% of the total assets. The inventories with proportion of 4.8% of the total assets, consisted of materials, supplies, fuel and oil stocks.

- Linked to the company's fixed assets, the construction work in progress figure (FY07) of SR15.0bn also had a significant share of 11.0% of the total assets. An increase of 122% in the equity investments in companies & others was mainly due to the company's enhanced participation in the capital of the Gulf Cooperation Council Interconnection Authority (GCCIA) reaching to an amount of SR1.4bn. Besides, GCCIA, the company also has investments in Water Electricity Company and Rass All Zoor Water & Electricity Company of SR10.9mn and 1.0mn, respectively.

Table 04: Balance Sheet Highlights

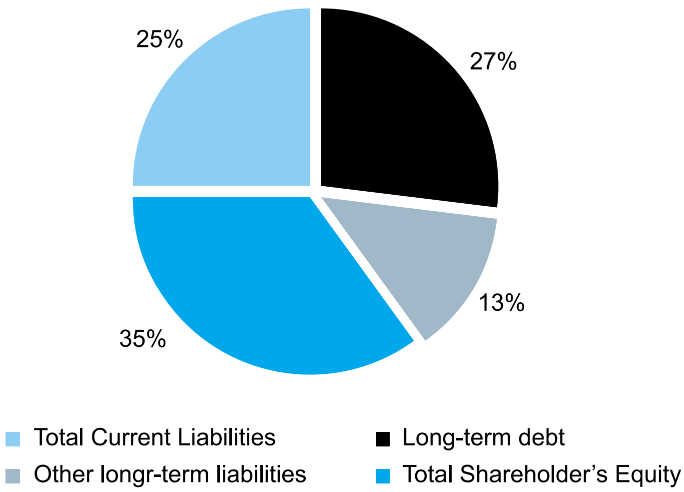
(SR mn)	2004	2005	2006	2007
Cash & cash equivalents	1,185.9	1,007.9	4,200.7	5,589.3
% total	1.1%	0.9%	3.3%	4.1%
% increase		-15.0%	316.8%	33.1%
Receivables from electricity consumers & accrued revenue, net	19,349.2	22,750.1	10,541.4	13,424.7
% total	17.7%	19.4%	8.3%	9.8%
% increase		9.2%	-57.2%	18.7%
Net fixed assets	74,489.0	75,521.2	80,642.2	87,654.7
% total	68.2%	64.2%	63.4%	64.2%
% increase		1.4%	6.8%	8.7%
Total Assets	**109,206.3**	**117,562.9**	**127,208.3**	**136,510.2**
Accounts payable	27,804.6	32,114.6	25,348.9	32,201.9
% total	25.5%	27.3%	19.9%	23.6%
% increase		15.5%	-21.1%	27.0%
Long-term loans	4,831.2	7,349 .4	9,015 .4	3,846.1
% total	4.4%	6.3%	7.1%	2.8%
% increase		52.1%	22.7%	-57.3%
Total Shareholders' Equity	45,322.4	46,262.3	47,128.9	48,134.4
% total	41.5%	39.4%	37.0%	35.3%
% increase		2.1%	1.9%	2.1%
Total Liabilities & Shareholders' Equity	**109,206.3**	**117,562.9**	**127,208.3**	**136,510.2**

*Source: SEC Financial Reports & **Global** Research*

- The liability structure of the company mainly constituted of accounts payable, long-term government payables and government loan. The increase of 27.0% in account payables (SR32.2bn) that constitute 36.4% of total liabilities (FY07) was largely because of the dues related to the fuel cost. The account payables of amount SR13.2bn to Saudi Aramco for the fuel cost were reclassified from current liabilities to non-current liabilities (long-term government payable) after the company's liability to Saudi Aramco was transferred to the Ministry of Finance, in accordance with the agreement between the Ministry of Finance and the Ministry of Petroleum and Mineral Resources.

- The government loan of SR14.9bn is based on the net difference payable to the government by the company and is an interest free subordinated long-term loan with a grace period of twenty five years starting from the date of the incorporation of the company. During Jul -07, the company also issued a Sukuk for SR5bn having maturity in year 2027. The deferred revenue, a significant liability component, showing (FY07) rise of 9.9% represents the recording of electrical service connection tariff received from customers.

Chart 4: Composition of Total Liabilities & Shareholders Equity - 2007



*Source: SEC Financial Reports & **Global** Research*

- The shareholders' equity contribution to the total assets stood at 35.3%. The shareholders' equity strengthened over the years posting a 3 year CAGR (2004-07) of 2.0% closing at SR48.1bn in 2007. Although the company has considerable cash balances that have to cater for its working capital requirements, in the absence of fresh equity injection, the company may have to raise significant funding to support its active future capital expenditure plans.

Analysis of Financial Performance –1H08

- Based on 1H08 results, SEC's revenue growth of 5.9% coupled with the major dampener of cost of sales increase of 13.0% resulted in subdued net income figure. The net income showed a significant decline of 97.4% (from SR380.2mn in 1H07 to SR10.0mn in 1H08).

- The company posted top-line growth of 5.9% (from SR9.3bn in 1H07 to SR9.9bn in 1H08). However, the improved revenue was significantly muted by (YoY) increase in 1Q08 & 2Q08 cost of sales by 15.1% & 11.3%, respectively; leading to 1H08 rise of 13.0% in cost of sales.

- The gross profit indicated the pressure recording a decline of 6.5% (from SR3.4bn in 1H07 to SR3.1bn in 1H08). Although 2Q08 operating expenses showed a marginal (YoY) rise of 0.3%, the 1Q08 rise in expense by 10.5% resulted in an increase of 5.1% in total operating expenses (from SR3.2bn in 1H07 to SR3.3bn in 1H08).

- Overall the bottom line results were further aggravated by the rise in operating expenses. The 1Q08 decline (YoY) by 77.6% coupled with 2Q08 annual decrease of 4.1%, led to a significant (YoY) decline of 97.4% in 1H08. The lacklustre net income results also led to a significant drop in EPS (based on 4,166mn shares) from SR0.091 in 1H07 to SR0.002 in 1H08. We expect a drop in FY08 earnings, unless some earning surprise provides support.

Table 05: Key Income Statement Data

(SR mn)	1H07	1H08	YoY growth
Sales	9,399.3	9,958.5	5.9%
Cost of Sales	5,983.0	6,763.0	13.0%
% of revenue	*63.7%*	*67.9%*	
Gross Profit	3,416.3	3,195.5	-6.5%
Total Operating Expenses	3,224.6	3,388.8	5.1%
Net Income	**380.2**	**10.0**	**-97.4%**

*Source: SEC Financial Reports, Tadawul, & **Global** Research*

- Although SEC showed YTD total assets growth of 0.8% (from SR136.7bn in FY07 to SR137.8bn in 1H08), on YoY it posted a rise of 5.3%. Fixed assets constituting 79.0% of the total assets recorded YTD and YoY increase of 6.0% & 31.3%, respectively, while the non-current laibilities composing 28.4% of total assets showed YTD and YoY rise of 1.4% & 1.5%, respectively. The shareholders' equity posted YTD drop of 1.0% but on YoY basis incresed by 1.4%.

Table 06: Key Balance Sheet Data

(SR mn)	1H07	FY07	1H08	YoY growth	YTD growth
Current Assets	17,154.7	20,910.5	19,167.8	11.7%	-8.3%
Fixed Assets	82,957.8	102,745.1	108,922.9	31.3%	6.0%
Total Assets	**130,924.4**	**136,724.7**	**137,845.7**	**5.3%**	**0.8%**
Current Liabilities	30,441.6	35,031.9	36,113.1	18.6%	3.1%
Non -Current Liabilities	38,613.1	38,661.8	39,198.1	1.5%	1.4%
Shareholders' Equity	46,931.7	48,092.9	47,596.4	1.4%	-1.0%
Total Liabilities & Shareholders' Equity	**130,924.4**	**136,724.7**	**137,845.7**	**5.3%**	**0.8%**

*Source: SEC Financial Reports, Tadawul, & **Global** Research*

Outlook & Valuation

- SEC revenues are cyclical, affected by seasonal weather changes during the year. The company's revenues are lower during the winter months so the first and last quarter financial results do not reflect the accurate picture for the full year results. The summer months witnessing soaring heat, lead to increased energy consumption and resultantly higher revenues for the company. On the contrary, lower energy consumption in winter results in subdued revenues.

- The company with 4.6% growth in customers (totaling to more than 5.1mn customers), has electrified 10,953 settlements with total distribution networks length of 329,734 ckm across the Kingdom. A heightened infrastructure investments activity in Saudi Arabia (spurred by petrodollars), improving quality of life standards on the back of record high oil prices, favorable demographics are some of the important factors that are expected to generate higher energy consumption demand.

- The increasing power demand in the Kingdom led to a maximum load of 34,000MW in 2007, while based on the present and anticipated growth the maximum load is expected to reach 62,000MW by 2017. On this basis, there is clear gap to add on further around 30,000MW in the next decade. The company is fast gearing itself to successfully manage the growing energy need in the Kingdom and fully optimize on the rapidly surfacing opportunities in the sector. The company has already approved the 2009-2013 Operating Plan. The costs over this planned period are estimated to be SR42.3bn for generation projects, SR38bn for transmission projects and SR10bn for distribution projects.

- SEC's quasi-monopolistic position in electricity generation, transmission and distribution in the Kingdom, provides it with an attractive growth opportunities. Considering the privatization scenario that will augment efficiency levels, in reciprocation SEC could play a key role in providing invaluable expertise and experience of the Kingdom's electricity sector.

- Based on the current market price of SR11.5 (as on Jul 28, 2008), SEC is trading at (2008E) P/E and P/BV multiples of 34.0x and 1.0x, respectively.

Table 07: Valuation Summary

Valuation Methods	Price (SR)	Weight	Weighted Value (SR)
DCF Method	10.0	80%	8.0
Peer Group Valuation Method	20.5	20%	4.1
Estimated Fair Value SEC per share			**12.1**

*Source: **Global** Research*

- Our fair value for SEC is estimated to be SR12.1 per share, based on DCF (80%) and peer group valuation (20%). According to our fair value the stock is 5.6% higher than the current market price of SR11.5 (as on Jul 28, 2008). Therefore, we revise on our earlier recommendation of "Buy" to **"Hold"** on the stock with a medium term perspective.

BALANCE SHEET

	Saudi Electricity Company						
(SR '000)	**2005 (A)**	**2006 (A)**	**2007 (A)**	**2008 (E)**	**2009 (E)**	**2010 (E)**	**2011 (E)**
Cash & cash equivalents	1,007,916	4,200,669	5,589,304	5,719,161	5,617,337	5,741,151	5,857,251
Receivables from electricity consumers & accrued revenue, net	22,750,051	10,541,391	13,424,736	15,130,558	16,659,973	17,697,498	18,715,783
Inventories	3,654,403	4,695,973	6,587,084	8,644,066	10,525,445	11,433,546	12,290,629
Prepayments and other receivables	1,078,408	1,580,227	1,719,272	1,791,516	1,838,292	1,817,811	1,874,532
Total Current Assets	**28,490,778**	**21,018,260**	**27,320,396**	**31,285,301**	**34,641,046**	**36,690,006**	**38,738,195**
Receivables from electricity consumers	-	11,125,000	4,825,000	-	-	-	-
Equity investments in companies & others	339,639	748,063	1,659,595	2,489,393	2,539,180	2,932,753	3,665,942
Construction in progress	13,211,241	13,674,707	15,050,529	17,542,711	18,553,440	18,747,994	19,408,706
Net fixed assets	75,521,192	80,642,235	87,654,690	96,442,243	103,371,847	109,439,017	115,171,258
Total Assets	**117,562,850**	**127,208,265**	**136,510,210**	**147,759,648**	**159,105,514**	**167,809,771**	**176,984,101**
Accounts payable	32,114,648	25,348,879	32,201,873	38,430,914	43,506,234	47,912,311	56,638,635
Accruals and other payables	1,176,700	1,250,130	1,494,488	1,618,144	1,715,739	1,720,429	1,735,678
Current portion of long-term loans	991,222	741,114	979,300	984,385	997,323	998,273	639,076
Total Current Liabilities	**34,282,570**	**27,340,123**	**34,675,661**	**41,033,443**	**46,219,296**	**50,631,012**	**59,013,388**
Long-term government payables	-	13,295,613	13,295,613	13,295,613	13,295,613	13,295,613	13,295,613
Long term borrowings (incl. Sukuk)	7,349,395	9,015,415	8,846,118	11,103,004	15,470,725	17,579,879	16,015,971
Long term Liabilities	14,730,489	15,490,185	16,620,295	18,393,107	19,164,339	20,208,768	21,292,031
Government loan	14,938,060	14,938,060	14,938,060	14,938,060	14,938,060	14,938,060	14,938,060
Total Non-Current Liabilities	**37,017,944**	**52,739,273**	**53,700,086**	**57,729,784**	**62,868,737**	**66,022,320**	**65,541,676**
Share capital	41,665,938	41,665,938	41,665,938	41,665,938	41,665,938	41,665,938	41,665,938
Statutory reserve	597,926	739,309	894,598	1,035,718	1,192,749	1,361,569	1,543,754
General reserve	530,510	531,563	532,418	532,418	532,418	532,418	532,418
Retained earnings	3,467,962	4,192,059	5,041,509	5,762,347	6,626,376	7,596,513	8,686,927
Total Shareholders' Equity	**46,262,336**	**47,128,869**	**48,134,463**	**48,996,421**	**50,017,481**	**51,156,438**	**52,429,037**
Total Liabilities & Shareholder's Equity	**117,562,850**	**127,208,265**	**136,510,210**	**147,759,648**	**159,105,514**	**167,809,771**	**176,984,101**

INCOME STATEMENT

(SR '000)	2005 (A)	2006 (A)	2007 (A)	2008 (E)	2009 (E)	2010 (E)	2011 (E)
	Saudi Electricity Company						
Electricity sales	17,429,591	18,284,878	19,463,327	20,735,368	22,049,091	23,391,090	25,078,970
Meter reading & maintenance & bill preparation tariff	660,372	707,997	722,994	766,374	804,692	844,927	882,949
Electrical service connection tariff	671,326	713,782	793,131	874,166	932,679	1,013,807	1,084,774
Total Operating Revenues	**18,761,289**	**19,706,657**	**20,979,452**	**22,375,907**	**23,786,462**	**25,249,824**	**27,046,692**
Cost of Sales	(11,492,013)	(12,304,030)	(13,068,973)	(14,218,077)	(15,023,608)	(15,876,235)	(17,008,856)
Depreciation	(5,623,944)	(6,065,179)	(6,371,536)	(6,875,583)	(7,342,273)	(7,820,233)	(8,332,039)
Gross Profit	**1,645,332**	**1,337,448**	**1,538,943**	**1,282,248**	**1,420,581**	**1,553,356**	**1,705,798**
General & administration expenses	(386,173)	(182,874)	(284,173)	(296,481)	(310,413)	(325,723)	(348,902)
Operating Income	**1,259,159**	**1,154,574**	**1,254,770**	**985,767**	**1,110,168**	**1,227,633**	**1,356,895**
Other income & expenses, net	266,901	259,258	338,798	463,107	502,055	505,636	513,583
Income before Zakat	1,526,060	1,413,832	1,593,568	1,448,874	1,612,223	1,733,269	1,870,478
Zakat	(43,018)	-	(40,677)	(37,671)	(41,918)	(45,065)	(48,632)
Net Income	**1,483,042**	**1,413,832**	**1,552,891**	**1,411,203**	**1,570,305**	**1,688,204**	**1,821,846**
P&L Appropriation Account:							
Opening Balance of Retained Earnings	**2,681,476**	**3,467,962**	**4,192,059**	**5,041,509**	**5,762,347**	**6,626,376**	**7,596,513**
Adjustments							
Net Profit for the year	1,483,042	1,413,832	1,552,891	1,411,203	1,570,305	1,688,204	1,821,846
Trfr to Legal Reserve	(148,304)	(141,383)	(155,289)	(141,120)	(157,031)	(168,820)	(182,185)
Directors Remuneration	(1,000)	(1,100)	(900)	(988)	(989)	(989)	(990)
Dividends	(547,252)	(547,252)	(547,252)	(548,257)	(548,257)	(548,257)	(548,257)
Closing Balance of Retained Earnings	**3,467,962**	**4,192,059**	**5,041,509**	**5,762,347**	**6,626,376**	**7,596,513**	**8,686,927**

CASH FLOW STATEMENT

	Saudi Electricity Company						
(SR '000)	**2005 (A)**	**2006 (A)**	**2007 (A)**	**2008 (E)**	**2009 (E)**	**2010 (E)**	**2011 (E)**
Operating Activities	7,847,738	8,408,405	8,963,891	8,114,355	9,018,743	9,547,040	10,151,413
Net Profit	1,483,042	1,413,832	1,552,891	1,411,203	1,570,305	1,688,204	1,821,846
Allowance for doubtful receivables	144,022	225,614	74,589	(150,810)	185,016	174,278	131,802
Allowance for slow moving inventory	-	(21,982)	(65,790)	124,287	68,237	32,936	31,086
Income from long term investments	712	1,199	(11,344)	(16,803)	(17,266)	(17,597)	(21,996)
Depreciation	5,623,944	6,065,179	6,371,536	6,875,583	7,342,273	7,820,233	8,332,039
(Gain) loss on disposal of fixed assets - net	(53,113)	(35,133)	(128,778)	(189,236)	(190,854)	(171,664)	(164,116)
Provision for employees' end of services benefits	182,086	131,344	34,776	60,131	61,033	20,650	20,753
End of services, connection tariff	377,015	576,867	1,040,813	-	-	-	-
Net proceeds from deposits	90,030	51,485	95,198	-	-	-	-
Working Capital	1,852,017	5,913,845	8,481,913	7,369,171	1,462,094	2,278,407	6,646,596
Dec/ (inc.) in receivables	(3,506,242)	859,669	3,342,951	3,269,958	(1,714,431)	(1,211,803)	(1,150,087)
Dec/ (inc) in prepayments and other receivables	860,871	(503,442)	(139,045)	(72,244)	(46,775)	20,480	(56,721)
Dec / (inc) in inventories	(89,698)	(1,019,588)	(1,825,351)	(2,181,239)	(1,949,615)	(941,038)	(888,169)
Inc/ (dec) in accounts payable	4,705,392	6,529,844	6,852,994	6,229,041	5,075,320	4,406,077	8,726,324
Inc/ (dec) accruals and other payables	(118,306)	47,362	250,364	123,656	97,595	4,690	15,249
Total Operating	**9,699,755**	**14,322,250**	**17,445,804**	**15,483,526**	**10,480,837**	**11,825,447**	**16,798,010**
Payment of Directors fees	-	-	-	(988)	(989)	(989)	(990)
Net CF from Operating	**9,699,755**	**14,322,250**	**17,445,804**	**15,482,538**	**10,479,848**	**11,824,458**	**16,797,020**
Fixed assets & construction-in-progress	(11,334,410)	(11,668,285)	(14,778,115)	(18,155,318)	(15,282,606)	(14,081,957)	(14,724,992)
Income from long-term investments	-	-	-	16,803	17,266	17,597	21,996
Net (payments for) proceeds from investments	(252,587)	(409,623)	(900,188)	(829,798)	(49,788)	(393,573)	(733,188)
Proceeds from disposal of fixed assets	62,545	53,730	147,080	189,236	190,854	171,664	164,116
CF from Investing	**(11,524,452)**	**(12,024,178)**	**(15,531,223)**	**(18,779,076)**	**(15,124,274)**	**(14,286,270)**	**(15,272,069)**
Bank overdrafts	(200,456)	-	-	-	-	-	-
Dividends paid	(513,377)	(521,231)	(594,835)	(548,257)	(548,257)	(548,257)	(548,257)
Inc./(Dec.) in long terms & govt. loans	2,360,571	1,415,912	68,889	2,261,971	4,380,659	2,110,104	(1,923,105)
Movement in deferred income	-	-	-	1,650,477	646,460	955,182	1,037,885
Consumer deposits	-	-	-	62,204	63,739	68,598	24,626
CF from Financing	**1,646,738**	**894,681**	**(525,946)**	**3,426,395**	**4,542,601**	**2,585,626**	**(1,408,851)**
Net change in cash	(177,959)	3,192,753	1,388,635	129,857	(101,824)	123,814	116,100
Net cash at beginning	1,185,875	1,007,916	4,200,669	5,589,304	5,719,161	5,617,337	5,741,151
Net cash at end	**1,007,916**	**4,200,669**	**5,589,304**	**5,719,161**	**5,617,337**	**5,741,151**	**5,857,251**
Free Cash Flow	**(1,572,110)**	**2,707,695**	**2,814,769**	**(2,483,544)**	**(4,611,904)**	**(2,085,835)**	**2,236,144**

RATIOS

	Saudi Electricity Company						
	2005 (A)	**2006 (A)**	**2007 (A)**	**2008 (E)**	**2009 (E)**	**2010 (E)**	**2011 (E)**
LIQUIDITY RATIOS							
- Current Ratio	0.8	0.8	0.8	0.8	0.7	0.7	0.7
- Quick Ratio	0.7	0.6	0.6	0.6	0.5	0.5	0.4
- Inventory Stock (days)	77	83	106	132	156	169	171
- Receivables Outstanding (days)	410	308	209	233	244	248	246
- Payables outstanding (days)	639	571	540	611	669	704	753
PROFITABILITY							
- Gross Profit Margin	8.8%	6.8%	7.3%	5.7%	6.0%	6.2%	6.3%
- Operating Profit Margin	6.7%	5.9%	6.0%	4.4%	4.7%	4.9%	5.0%
- Net Profit Margin	7.9%	7.2%	7.4%	6.3%	6.6%	6.7%	6.7%
- Return on Average Assets	1.3%	1.2%	1.2%	1.0%	1.0%	1.0%	1.1%
- Return on Average Equity	3.2%	3.0%	3.3%	2.9%	3.2%	3.3%	3.5%
TURNOVER RATIOS							
- Inventory Turnover	4.74	4.40	3.45	2.77	2.33	2.16	2.14
- Debtors Turnover	0.89	1.18	1.75	1.57	1.50	1.47	1.49
- Creditors Turnover	0.57	0.64	0.68	0.60	0.55	0.52	0.48
LEVERAGE RATIOS							
- Current Liability/Equity	0.7	0.6	0.7	0.8	0.9	1.0	1.1
- Capital Expenditure Ratio	0.7	0.7	0.6	0.4	0.6	0.7	0.7
- Long term Debt/Equity	0.5	0.8	0.8	0.8	0.9	0.9	0.8
GROWTH RATIOS							
- Asset Growth	7.7%	8.2%	7.3%	8.2%	7.7%	5.5%	5.5%
- Equity Growth	2.1%	1.9%	2.1%	1.8%	2.1%	2.3%	2.5%
- Operating Revenue Growth	6.7%	5.0%	6.5%	6.7%	6.3%	6.2%	7.1%
- Gross Profit Growth	12.6%	-18.7%	15.1%	-16.7%	10.8%	9.3%	9.8%
- Operating Income Growth	25.5%	-8.3%	8.7%	-21.4%	12.6%	10.6%	10.5%
- Net Income Growth	14.1%	-4.7%	9.8%	-9.1%	11.3%	7.5%	7.9%
RATIOS USED FOR VALUATION							
- Number of Shares Outstanding ('000s)	4,166,594	4,166,594	4,166,594	4,166,594	4,166,594	4,166,594	4,166,594
- EPS (SR)	0.36	0.34	0.37	0.34	0.38	0.41	0.44
- Book Value Per Share (SR)	11.1	11.3	11.6	11.8	12.0	12.3	12.6
- Market Price Year End (SR)	29.1	13.0	14.8	11.5	11.5	11.5	11.5
- Market Cap (SR mn)	121,247.9	54,165.7	61,457.3	47,915.8	47,915.8	47,915.8	47,915.8
- P/E (x)	81.8	38.3	39.6	34.0	30.5	28.4	26.3
- P/BV (x)	2.6	1.1	1.3	1.0	1.0	0.9	0.9

**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on market price in the Saudi Stock Exchange as on Jul 28, 2008.*

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Company	Recommendation	Ticker	Price	Disclosure
Saudi Electricity Company	HOLD	SECO AB (Bloomberg) 5110.SE (Reuters)	SR11.5	1, 10

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Global Rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price