

April 21, 2016

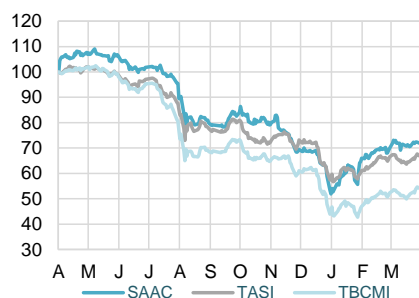
Expected Total Return

Price as of Apr-20, 2016	SAR 8.40
Upside to Target Price	(10.7%)
Expected Dividend Yield	0.0%
Expected Total Return	(10.7%)

Market Data

52-Week H/L	SAR 13.21/6.28
Market Capitalization	SAR 970 mln
Enterprise Value	SAR 2,933 mln
Shares Outstanding	115.5 mln
Free Float	77.4%
12-Month ADTV (000's)	1,148.5
TASI Weight	0.1%
Reuters Code	2160.SE
Bloomberg Symbol	SAAC AB

1-Year Price Performance



Source: Bloomberg

	Amiantit	TASI	TBMCI
Apr-20-2016	8.40	6,512	2,081
Total Change			
6-months	(15.5%)	(15.1%)	(22.7%)
1-Year	(33.6%)	(32.1%)	(44.4%)
2-Year	(47.7%)	(32.4%)	(51.5%)

1Q2016 (SAR mln)	Actual	RC Forecast
Revenue	611	717
Gross Profit	102	114
Net Income	(27)	23
EPS (SAR)	(0.24)	0.20

Provisions dent 1Q

Saudi Arabian Amiantit Company (Amiantit) announced 1Q2016 results reporting its first ever loss in 12 years due to provisions. LPS of SAR (0.24) during this quarter posted negative surprise to our EPS estimate of SAR 0.20. Despite this loss, operating numbers missed marginally. Operating margins remained stable except the slight revenue decline, which is acceptable in a tough business environment. Large provision of SAR 106 million (equal to 2015 earnings) is expected, out of which SAR 55 million is already provided in 2014-15, relating to its legal case in Iraq. This could lead to a gloomy outlook, leaving mixed directions for rest of 2016. We revise estimates for 2016-18E and cut target price to SAR 7.50 from SAR 8.50 due to ongoing concerns on provisions and await developments on the legal case. Trading at 2016E P/E of 13.5x, Amiantit is at par with TASI's 13.4x is unconvincing. Revise to Sell

Revenues decline on spending slowdown

Revenues of SAR 611 million in 1Q2016 was lower than our estimate of SAR 717 million, declining by -11% Y/Y and -12% Q/Q. Lower growth in revenues was a result of declining contract orders as clients put on hold, many of the ongoing projects. Additionally, request for delivery delays from clients has also contributed to the decline.

Operating numbers decline insignificant

Gross profit of SAR 102 million declined by -8% Y/Y and -12% Q/Q missing our estimate of SAR 114 million, as lower off-take in deliveries affected growth. Gross margins of 16.5% was flat sequentially but improved +50 bps from 1Q2015, in-line with our margin assumptions. A combination of favorable product mix, high value deliveries has led to margins being stable this quarter. EBIT margins declined to 6.4% in 1Q2016 from 8.3% in 1Q2015. The higher expenses from legal fees, agency fees on export projects, forex losses and bad debt reserves continues to haunt margins on a pre-tax level excluding one-off provision.

One-off provisions dampened 1Q earnings

Amiantit reported a loss of SAR (27) million during 1Q2016 after it recorded a provision relating to a legal case in Iraq, else numbers are in-line. We did not expect this to be early in 1Q2016 as further appeal is underway, final verdict expected in 2Q2016. It recorded a partial provision of SAR 28 million relating to a future claim, a legal case with a sub-contractor in Iraq, involving its German subsidiary PWT GmbH. Amiantit has earlier announced on Tadawul, the possible impact of this provision on earnings and expected in the coming quarters.

More unknowns, cutting TP and revise to Sell

Amiantit is unlikely to pay any dividends for 2016, provided the remaining provisions are taken, leading to a major dent on earnings. We apply a 12.0x target P/E to 2016 EPS of SAR 0.62 to arrive at SAR 7.50 target price. Hence, re-rate to Sell from Buy as more unknowns are in-place. Amiantit has rallied significantly by +34% from its YTD lows versus TASI's +19%.

Key Financials

FY December 31 (SAR mln)	2015A	2016E	2017E	2018E
Revenue	2,750	2,725	2,730	2,745
EBITDA	285	270	282	284
Net Profit	101	72	100	101
EPS (SAR)	0.88	0.62	0.87	0.87
DPS (SAR)	0.65	NA	0.65	0.65
BVPS (SAR)	13.94	14.11	14.59	14.81
ROAA	4%	4%	4%	4%
ROAE	11%	9%	9%	9%
P / E	9.6x	13.5x	9.7x	9.6x
P / B	0.6x	0.6x	0.6x	0.6x
P / S	0.4x	0.4x	0.4x	0.4x
EV/ EBITDA	10.3x	10.9x	10.4x	10.3x
EV/ Sales	1.1x	1.1x	1.1x	1.1x

Stock Rating

Strong Buy	Buy	Hold	Sell	Not Rated
Expected Total Return $\geq 25\%$	Expected Total Return $\geq 15\%$	Expected Total Return $< 15\%$	Overvalued	Under Review/ Restricted

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