

August 02, 2015

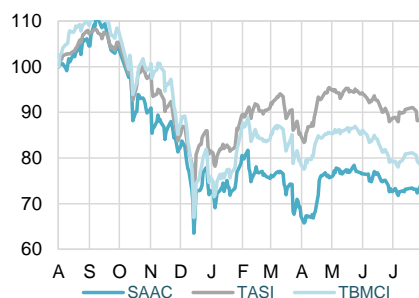
Expected Total Return

Price as of Jul 30, 2015	SAR 13.37
Upside to Target Price	(6.5%)
Expected Dividend Yield	0.0%
Expected Total Return	(6.5%)

Market Data

52-Week H/L	SAR 20.25/11.50
Market Capitalization	SAR 1,544 mln
Enterprise Value	SAR 3,389 mln
Shares Outstanding	115.5 mln
Free Float	77.4%
12-Month ADTV (000's)	1,933.4
TASI Weight	0.2%
Reuters Code	2160.SE
Bloomberg Symbol	SAAC AB

1-Year Price Performance



Source: Bloomberg

	Amiantit	TASI	TBMCI
Jul-30-2015	13.37	9,098	3,474
Total Change			
6-months	(6.3%)	(0.5%)	(8.2%)
1-Year	(26.7%)	(12.6%)	(23.4%)
2-Year	0.8%	15.7%	2.4%

	2Q2015 (SAR mln)	Actual	RC Forecast
Revenue		673	640
Gross Profit		105	103
Operating Income		46	57
Net Income		26	23
EPS (SAR)		0.17	0.20

Reprised Margins

Saudi Arabian Amiantit Company (Amiantit) announced 2Q2015 results on Jul-30 with revenue inline with expectations but earnings beat estimates by +12%. EPS of SAR 0.17 in 2Q2015 grew by +6% Y/Y but remained flat on a Q/Q basis. Amiantit has started witnessing positive implications of restructuring leading to gradual deconsolidation in a phased manner. Such strategy has resulted in margin improvement though at thin spreads, but were the highest over the last six quarters. We believe 2Q2015 initiated some consistency to be considered for a re-rating but await till 2016 to witness a sustainable trend, especially with regards to growth from its domestic business. We maintain Sell with a 12-month target price of SAR 12.50 on DCF basis, while valuations offer no large conviction with 2015E P/E of 16.7x narrower to TASI P/E of 16.3x.

Local deliveries boosts sales

Revenue of SAR 673 million in 2Q2015 declined by -6% Y/Y and -3% Q/Q though lower but is a sign of exiting low margin business overseas. At first look, the delay in project deliveries in KSA and few in overseas markets has led to weaker sales followed by a volatile euro. Growth in local deliveries is expected to strengthen as government allocates heavy investment plans on utilities projects especially water projects.

Higher operating leverage

Gross profit of SAR 105 million was inline with estimate of SAR 103 million, though declined by -5% sequentially and at the same rate on a Y/Y basis. The improvement in product prices and strategic mix of offerings in the ductile pipe segment aided margin growth. Gross margins improved to 15.6% in 2Q2015 from 15.4% in 2Q2014. Overall operational costs remained under control on phased deconsolidation of overseas entities. Operating profit declined by -2% Y/Y and -20% Q/Q to SAR 46 million, but went south of expectations with margins declining to 6.8% in 2Q2015 from 8.2% in 2Q2014 a negative surprise to our estimates.

Earnings trend positive

Net income of SAR 26 million beats our estimate of SAR 23 million and increased by +6% Y/Y but remained flat on a Q/Q basis. Amiantit has given initial indications of weaker euro impacting negatively on earnings, with foreign exchange loss of SAR 1 million. Additionally loss from affiliates amounting to SAR 4.2 million has taken a toll, though tax exemptions added to its benefit. The combined effect of most one-off adjustments has led to improvement in margins, which currently is at 3.9%, though thin but increased by +20 bps indicating some level of rebound. Overall a decent quarter, but re-rating hard to determine, hence Sell.

Key Financials

FY December 31 (SAR mln)	2014A	2015E	2016E	2017E
Revenue	2,726	2,697	2,724	2,751
EBITDA	250	259	261	282
Net Profit	83	92	93	102
EPS (SAR)	0.72	0.79	0.80	0.89
DPS (SAR)	NA	0.70	0.60	0.60
BVPS (SAR)	13.15	14.65	15.19	15.48
ROAA	2%	2%	2%	2%
ROAE	5%	5%	5%	6%
P / E	18.1x	16.7x	16.5x	14.9x
P / B	0.9x	0.9x	0.9x	0.9x
P / S	0.6x	0.6x	0.6x	0.6x
EV/ EBITDA	10.7x	11.6x	11.3x	10.9x
EV/ Sales	1.2x	1.1x	1.1x	1.0x

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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