

Rating **Sell**
 12- Month Target Price **SAR 5.00**

Expected Total Return

Price as on Jul-30, 2017	SAR 5.16
Upside to Target Price	(3.1%)
Expected Dividend Yield	0.0%
Expected Total Return	(3.1%)

Market Data

52 Week H/L	SAR 8.5/5.0
Market Capitalization	SAR 596 mln
Enterprise Value	SAR 2,339 mln
Shares Outstanding	115.5 mln
Free Float	86.7%
12-Month ADTV ('000's)	678.0
Bloomberg Code	SAAC AB

1-Year Price Performance



Source: Bloomberg

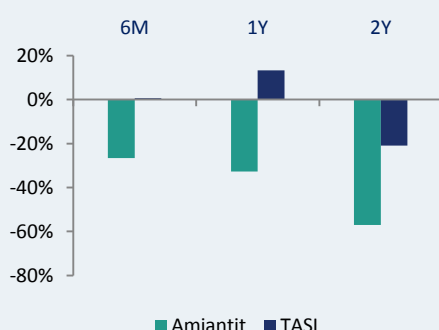


Fig in SAR mln	RC. Est	Actuals
Revenue	272	322
Gross Profit	37	55
EBIT	(12)	10
Net Income	(38)	(15)
EPS (SAR)	(0.33)	(0.13)

SAUDI ARABIAN AMIANTIT COMPANY (AMIANTIT)

2Q2017 First Look

Topline Improvement

Saudi Arabian Amiantit Company (Amiantit) announced preliminary 2Q2017 results with a loss, the fourth quarterly loss in a row. At first look, 2Q numbers are seen as an improvement across the board, driven by progress in its topline, with an earnings beat; cutting its losses by one-third from 1Q2017. However, the continued gloomy situation in the utility project market could decelerate growth in the coming quarters, as sector order book is almost at standstill. We wait for more clarity but maintain our 2017-19 estimates for now, until then retain our SAR 5.00 target price and Sell rating.

Key Highlights

Key takeaways are; i) Amiantit managed to cut its losses by one-third with its losses of SAR (15) million, came below our SAR (38) million loss expectations ii) cost savings in European subsidiaries had a positive impact on total opex and drove up +340 bps in operating margins and iii) restructuring in its foreign entities from 2015 is paying-off slowly as revenue from these markets improved.

Revenue beat estimates

Revenue of SAR 322 million beat our SAR 272 million estimate and improved by +14% Q/Q from overseas entities though declined by -37% Y/Y due to subdued growth in GCC markets. GCC segment revenue declined by -53% Y/Y to SAR 172 million as project cancellation increases from these markets, in addition to slowing KSA market. However, revenue from European subsidiaries improved to SAR 144 million in 2Q2017 from SAR 93 million in 1Q2017. The overall improvement is led by upbeat European business driven by its restructuring initiative since 2015, which has paid-off partially.

Cutting Losses, a positive

Amiantit reported gross profit of SAR 55 million in 2Q2017, beat our SAR 37 million estimate. Gross profit though declined by -26% Y/Y, but improved +41% Q/Q due to its focus on its cost savings programs since 2017, that have led to margins improving by 340 bps to 17.1% in 2Q versus 13.7% in 1Q2017. With sequential improvement in revenue and opex being under control, operating margins also gained decent strength at 3.1%, though lower than 6.1% in 2Q2016. On the earnings front, Amiantit cut its losses by one-third in 2Q2017 to SAR (15) million from a large loss of SAR (46) million in 1Q2017, due to lower impact of one-off adjustment unlike in the past quarters.

Maintain TP of SAR 5.00 and Sell rating

We maintain our estimates and target price at SAR 5.00 as continued weakness in the sector act as a dampener. Valuations continue to trade at expensive levels in 2017E and fundamentals continue to offer a bleak picture for 2017; though 2018E P/E of 11.5x is below TASI's 13.5x. We view 2Q numbers to be better than expectations but a re-rating is based on its upcoming numbers in 2H2017, until then; maintain Sell.

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	2,141	1,374	1,411
EBITDA	79	48	212
Net Profit	(251)	4	52
EPS (SAR)	(2.17)	0.03	0.45
DPS (SAR)	0.00	0.00	0.00
BVPS (SAR)	11.59	11.62	12.07

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	NM	5%	6%
ROAE	NM	0%	4%
P/E	NM	149.0x	11.5x
P/B	0.4x	0.4x	0.4x
EV/EBITDA	29.6x	48.7x	11.0x
EV/Sales	1.1x	1.7x	1.7x

Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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