Saudi Electricity Company

Just a dividend play

MAY 2011

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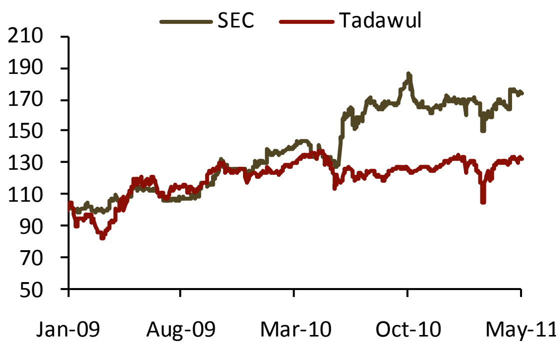
SEC: Investment Summary (1/2)

Earnings lack growth; an attractive dividend play

RATING	UNDER PERFORM
Target Price (SAR)	13.07
Upside	-4.2%
Price (15 May 2011)	13.65
Market Cap. (SAR Bn)	56.9
Market Cap. (USD Bn)	15.2
Shares Outstanding (Mn)	4167
Price 52wk H/L	15.6 / 10.5
Ticker (Bloomberg)	SECO AB
Ticker (Reuters)	5110.SE



Source: Bloomberg

INVESTMENT POSITIVES AND RISKS >

- **Robust growth in electricity demand in KSA**
  - Demand is estimated to grow at 5.3% per annum over 2011-18 (8.1% CAGR during 2004-10), driven by rising per capita electricity consumption on account of young and growing population (60% below the age of 30) and declining size of households, and increasing industrial activity
  - However, capacity has failed to match growth in peak demand. To meet the peak load demand of 65 GW in 2018, KSA needs to grow its generation capacity by 50% from 48 GW in 2010 to 72 GW by 2018
- **Increase in electricity sales is the main growth driver**
  - The tariff hike (in June 2010) is expected to boost revenues (we estimate incremental revenue of SAR3.6Bn) and profitability (130 bps improvement in gross margin) in 2011
  - In the long term, sales are likely to drive growth. We see SEC's top line growing 11.9% in 2011, 6.0% in 2012 and at 4.2% CAGR in 2013-20
- **Beyond 2011, higher operating expenses to dent profitability**
  - Operating margin is forecast to improve from 6.5% in 2010 to 7.3% in 2011, buoyed by tariff hikes, but then decline to 5.4% in 2012 and to 3.7% by 2020 due to higher purchased energy cost (as more energy will be bought instead of being generated internally) and higher depreciation expense as capacity is expanded
  - We expect net income to peak in 2011 (SAR2.8Bn) and decline at a rate of 1.5% during 2012-20
- **Dividends provide stable and high yield making SEC an attractive dividend play**
  - SEC's debt ratings are equivalent to that of the Saudi Government, which owns 81% stake in SEC. The government has also waived its rights to the company's dividends up to 2020
  - With less shares entitled to receive dividends, public shareholders receive SAR0.7 DPS (against SAR0.13 in case of no waiver), leading to the highest dividend yield (5.1%) amongst SEC's peers

SEC: Investment Summary (2/2)
Expensive valuation limits upside

VALUATION APPROACH	UNDER PERFORM
DCF approach	14.81
P/E approach	9.35
EV/EBITDA approach	13.32
Weighted average target price	13.07

MULTIPLES	FY10A	FY11F	FY12F
EPS (SAR)	0.55	0.66	0.55
P/E (x)	25.0	20.6	24.8
EBITDA (SAR Bn)	10.2	11.8	12.2
EV/EBITDA (x)	9.7	8.4	8.1

STOCK VALUATION >

- The stock appears expensive at current levels, given that tariff hikes are factored into the current price, and SEC is trading at a premium to its peer group
- At current multiples, SEC trades at a P/E of 24.9x, a premium of 44.4% versus the peer group average of 17.3x, and EV/EBITDA of 9.3x, a discount of 3.4% versus the peer group average of 9.6x
- On forward multiples, SEC trades at 20.6x FY11E P/E, a premium of 38.7% versus the peer group average of 14.8x FY11E P/E, and 8.4x FY11E EV/EBITDA, a premium of 3.5% versus the peer group average of 8.1x FY11E EV/EBITDA
- Our DCF, P/E and EV/EBITDA based valuation returns a weighted average target price of SAR13.07 (4.2% downside at the current level)
- SEC's stable dividend payout and high dividend yield make it attractive for investors looking for dividend paying stocks. However, underlying net profits are projected to decline 30% between 2011 (SAR 2,763mn) and 2013 (SAR 1,928mn) due to higher opex and depreciation charges.

KEY STATISTICS	FY09A	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Revenues (SAR Mn)	23,851	27,860	31,184	33,055	34,969	36,874	38,848
EBITDA (SAR Mn)	8,327	10,186	11,815	12,183	12,431	13,217	13,396
EBITDA margins	34.9%	36.6%	37.9%	36.9%	35.6%	35.8%	34.5%
Net income (SAR Mn)	1,170	2,279	2,763	2,294	1,928	2,174	1,857
Net Debt/Equity	31.4%	46.6%	76.6%	114.0%	126.2%	136.1%	142.9%
Dividend Yield	6.6%	4.8%	5.1%	5.1%	5.1%	5.1%	5.1%

Source: Bloomberg

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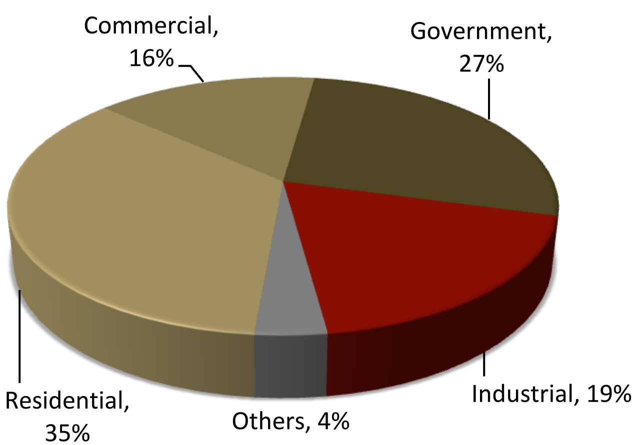
SEC: Overview

Largest utility company in the GCC

KEY STATISTICS	FY11E
Revenues (SAR Mn)	31,184
Operating Profit (SAR Mn)	2,285
Net Profit (SAR Mn)	2,763
EBITDA Margin (%)	37.9%
Net Margin (%)	8.9%
RoaE (%)	5.3%

REVENUES BY CUSTOMER TYPE (2009)



COMPANY OVERVIEW >

Saudi Electricity Company (SEC) was formed in 1999 as an integrated electricity company engaged in power generation, transmission and distribution of electricity in KSA. The government owns 81.2% of SEC (74.3% directly and 6.9% indirectly through Aramco)

BUSINESS OVERVIEW >

SEC accounted for 85% of the total power produced in KSA in 2010. The company is responsible for 100% of power sold to end users. Apart from electricity generation at its own power plants, SEC purchases power from Independent Power Producers (IPPs) and Independent Water and Power Producers (IWPPs) at a pre-determined rate through long-term contracts and sells electricity to consumers at tariffs set by the government. The company owns power transmission and distribution network in KSA

KEY FACTS >

- Power generation capacity: 41 GW in 2010 (85% of the total KSA capacity of 48.3 GW)
- Transmission line length: 42,703 circuit kilometres (ckm) in 2009
- Distribution line length: 364,139 ckm in 2009
- Number of customers: 5,701,516 in 2009

MARKET SEGMENTS >

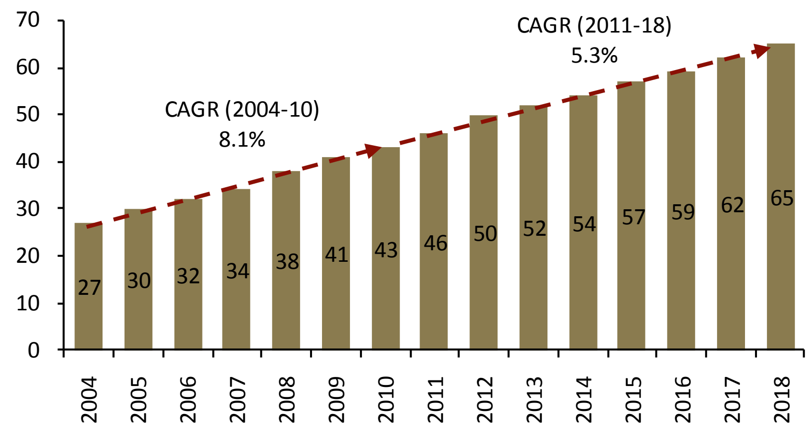
Residential customers comprised 35% of SEC's electricity sales in 2009, followed by government customers constituting 27% of electricity sales. Industrial and commercial customers constituted 19% and 16%, respectively, of electricity sales

Source: Company filings

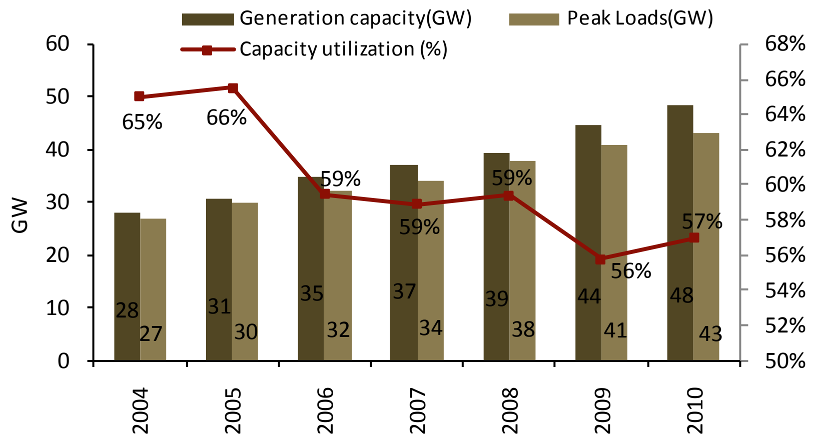
Investment Theme

Robust growth in electricity demand in KSA

KSA ELECTRICITY DEMAND (GW)



KSA POWER GENERATION CAPACITY



- KSA's electricity demand has expanded at a CAGR of 8.1% from 27 GW in 2004 to 43 GW in 2010, led by a young and growing population, rising per capita consumption and increasing industrial activity
- Peak demand is estimated to grow at 5.3% per annum over 2011-18, and is expected to reach 65 GW by 2018, according to SEC estimates, as residential and industrial consumption increases
  - Per capita consumption of electricity is forecast to grow from ~8,000 KWh in 2011 to 9,700 KWh by 2018
  - We expect residential demand to rise at a high rate, as population demographics and the declining size of households should lead to an increase in per capita electricity consumption. The Ministry of Economy and Planning estimates KSA's population to grow by 2.5% annually during 2011-20, and inhabitants per house to fall to 5.2 in 2015 from 5.7 in 2004
  - Industrial activity has also increased rapidly. Contribution of Industrial sector to KSA's GDP has increased from 63% in 2005 to 70% in 2009
- However, power generation capacity in KSA has lagged growth during peak demand
  - Electricity consumption in KSA is seasonal. Residential users, who consume more electricity in summer (as air conditioners run for longer hours), are the largest consumers of electricity. Consequently, the demand for power increases in the second and third quarter of every year, sometimes exceeding the installed capacity, in turn, resulting in power outages
  - Demand for power is low in the first and fourth quarters. As a result, capacity utilization averages around 60%-65% for the entire year

Source: Company filings, ECRA, Al Mal Capital analysis

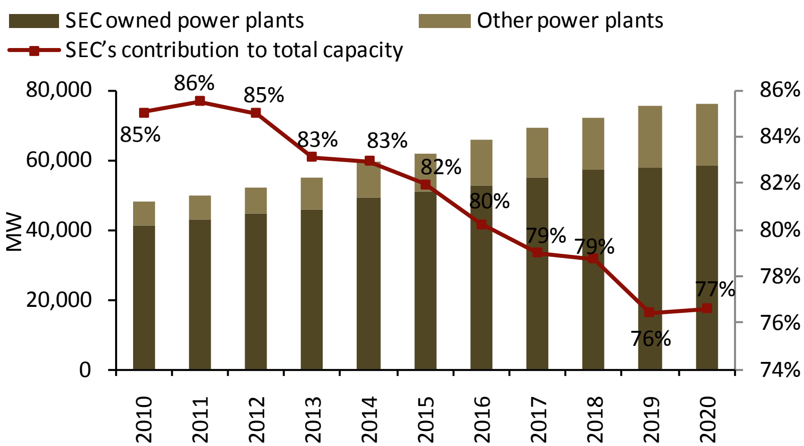
Investment Theme

SEC plans significant capacity additions to meet demand

CURRENT MAJOR EXPANSION PROJECTS

Project	Generation Capacity (MW)	Year of completion
PP 10	660	2011
Shaibah Steam Plant	794	2011
Rabigh power plant	2,930	2013
Al-Qurayyah	2,000	2015
Dheba IPP	1,600	2016
Al-Shuqaiq IPP	1,600	2017
Ras Alzor IPP	2,400	2019
Total capacity expansion	**27,500**	

CAPACITY EXPANSION IN KSA



- To meet demand, significant capacity additions (~27.5 GW, 57% of current generation capacity of KSA) at a total estimated cost of SAR182 Bn over the next decade have been planned
  - Of 27.5 GW, ~17 GW capacity addition is planned at SEC-owned power plants and the remaining ~10.5 GW addition is by IPPs and IWPPs
- In this regard, SEC has awarded several contracts in 2009-10
  - In November 2010, SEC awarded a SAR1.43Bn contract to expand capacity at the Qassim power plant by 472 MW
  - In August 2010, the company approved seven power projects worth SAR14.7Bn, including the 2,400 MW Rabigh 6 project
  - In 1H 2010, SEC along with the consortium of GDF Suez, Al-jumaih Group & Sojitz formed Dhuruma Electricity Co. to build the 1,729 MW Riyadh PP11-IPP
- Many of these projects are being undertaken by IPPs and IWPPs
  - For e.g. Rabigh IPP, Qurayyah IPP, Shuqaiq IWPP and Shuaibah IWPP
- SEC purchases power from IPPs and IWPPs at a pre-determined rate (decided through long-term contracts) and sells electricity to consumers at tariffs set by the government. As a result, SEC will remain the sole seller of electricity to consumers
- Going forward, SEC's contribution to KSA's total power generation capacity is expected to decline from 85% in 2010 to 77% in 2020
- Nevertheless, SEC will maintain its dominance over the power generation, transmission and distribution businesses

Source: Company filings, ECRA, Al Mal Capital analysis

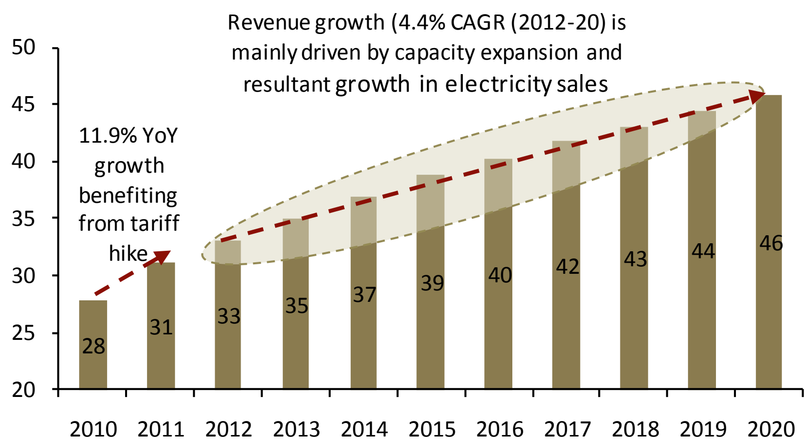
Investment Theme

Tariff increase to boost revenue growth in 2011

TARIFF INCREASE

Category	Contribution to revenues (2009)	Average price per unit (SAR '000 per GWh)	% rise in tariff (estimated)
Residential	35%	77	0%
Commercial	16%	146	~58%
Government	27%	268	~16%
Industrial	19%	118	~5%
Others	4%	64	0%

GROWTH IN SEC'S REVENUES (SAR BN)



- In June 2010, the Electricity and Co-generation Regulatory Authority (ECRA) announced the new tariff structure for commercial, government and industrial customers (61% of revenue base) to be effective from July 01, 2010
  - The average price per GWh for commercial and government customers is estimated to have increased 57.9% and 15.7%, respectively
- This hike is likely to boost SEC's revenues, with limited impact on consumption
  - We believe companies will take time to adjust their consumption patterns (mainly through shifting to off-peak times). Hence, non-residential power demand is likely to be inelastic in the short term
  - Tariff increase is forecast to result in incremental revenue of SAR3.6Bn in 2011
- Over the long term, as companies adjust their consumption pattern, the proportion of commercial and industrial sales as a % of total sales is expected to decline, though marginally
  - As a result, the incremental benefit from tariff hike will gradually decrease
- Nevertheless, tariff increase is expected to help SEC fund its planned capex
- Overall, we forecast SEC's top line to grow 11.9% in 2011, 6.0% in 2012 and then a CAGR of 4.2% during 2013-20
  - While the recent tariff increase will stimulate revenue growth in 2011, higher electricity sales will remain the main driver of revenue growth in the long term

Source: Company filings, ECRA, Al Mal Capital analysis

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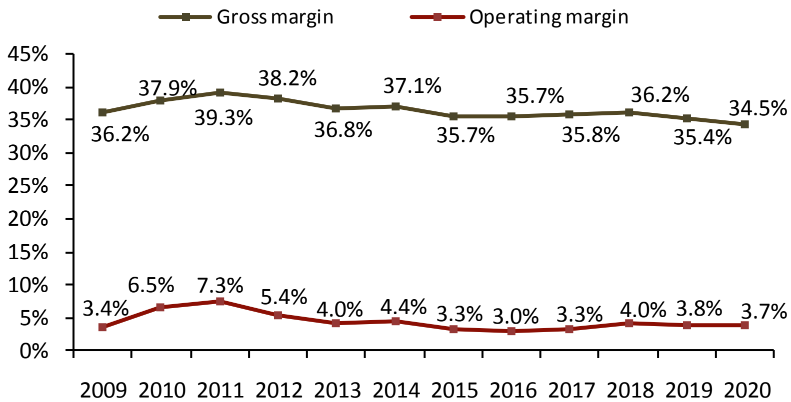
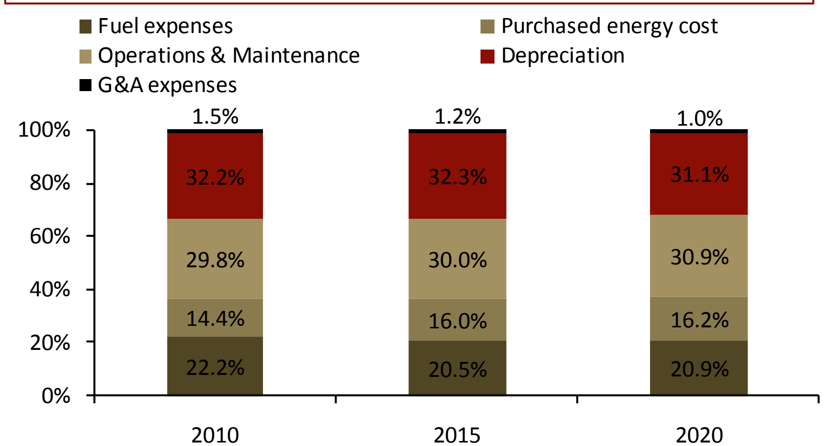
Investment Theme

Beyond 2011, higher operating expenses to dent profitability

GROSS MARGIN AND OPERATING MARGIN



COMPONENTS OF OPERATING COST (% OF TOTAL)



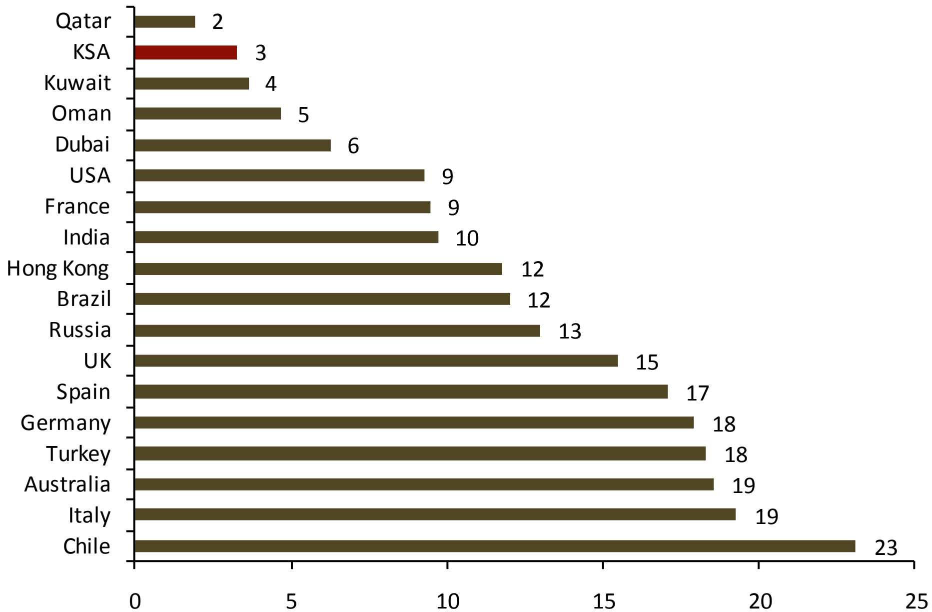
- We do not expect the increase in tariff to have any cost implications. Hence, most of the increase will be income accretive, thereby significantly adding to profitability
- We expect gross margin to improve from 37.9% in 2010 to 39.3% in 2011
- Beyond 2011, however, gross margin is expected to decline to 34.5% by 2020
  - As more energy will be bought instead of being generated internally, the overall cost of electricity sold will rise, as purchased energy is 71% costlier (SAR55 per MWh of purchased energy compared to SAR32 per MWh of produced energy)
  - We forecast purchased energy cost to increase from SAR4.4 Bn (15.0% of electricity sales) in 2011 to SAR7.1 Bn (16.9% of electricity sales) in 2020
- Moreover, we expect depreciation expense to grow, on account of SEC's substantial capex plans (amounting to SAR182Bn over 2011-20)
  - Depreciation as % of sales is forecast to rise from 30.1% in 2010 to 31.6% in 2016. Post 2016, it is expected to decline to 29.9% in 2020 as capex slows
- G&A cost, as % of sales, is likely to improve from 1.4% of revenues in 2010 to 0.9% in 2020, driven by SEC's restructuring program
  - SEC plans to unbundle its business into separate business units for generation, transmission and distribution to improve efficiency
- Overall, operating margin is forecast to decline from 7.3% in 2011 to 3.7% in 2020

Source: Company filings, Al Mal Capital analysis

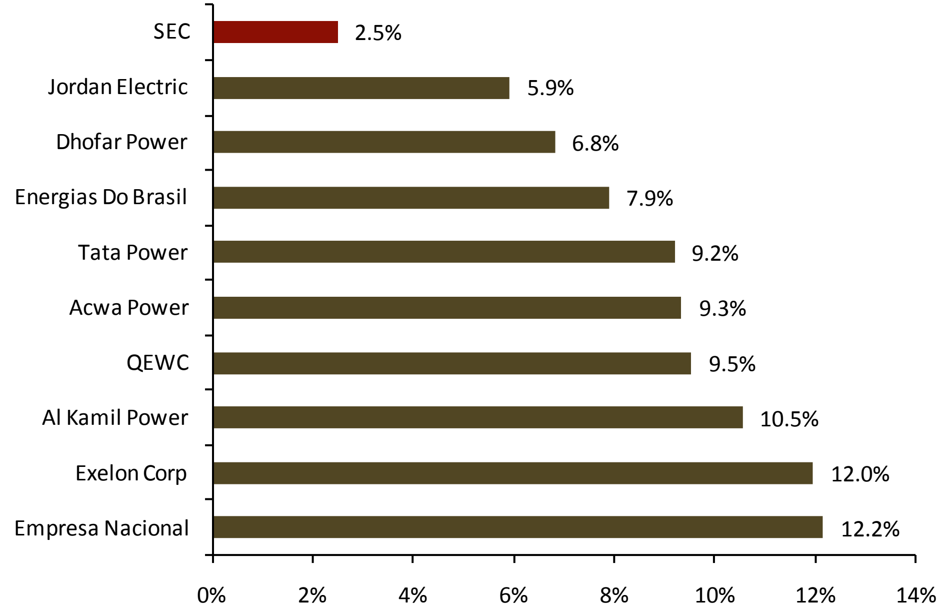
Investment Theme

ROIC lowest among peers

ELECTRICITY TARIFFS* (US CENTS PER KWH)



RETURN ON INVESTED CAPITAL (2010)



- We expect SEC's net income to grow 21.2% in 2011, benefiting from the newly implemented tariff structure, and then decline at a rate of 1.5% during 2012-20
- SEC's net margin is low compared to its peers. In 2010, SEC's net margin stood at 8.2% vis-à-vis peer group average of 12.4%
  - This is primarily due to low electricity tariffs in KSA, both regionally and globally, despite the recent tariff hike. We do not expect any further rise in electricity tariffs in KSA during our forecast period 2011-20
  - Return on Invested Capital (ROIC) for SEC was also low at 2.5% compared to the peer group average of 9% in 2010

* Electricity tariff for industrial customers. Exact per KWh tariff may change based on usage slab

Source: Reuters, Al Mal Capital research

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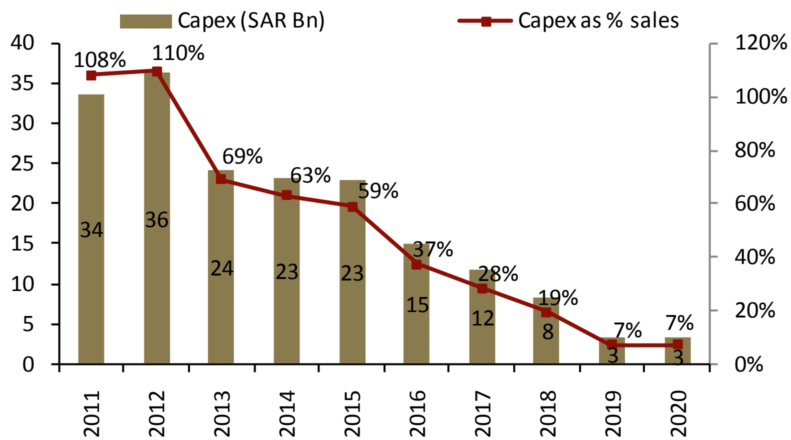
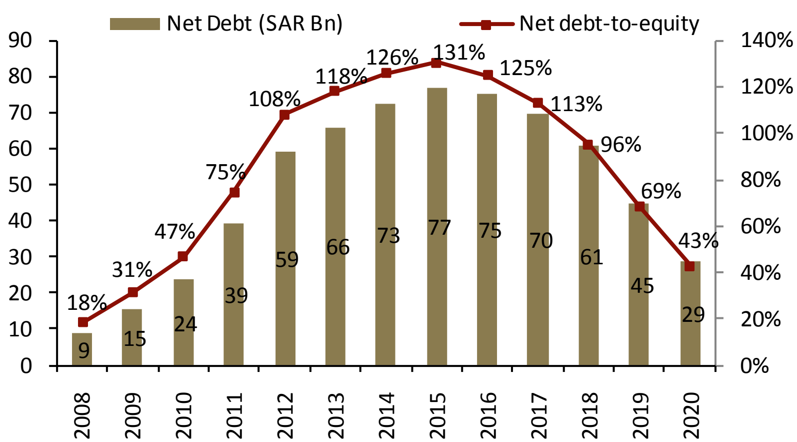
Investment Theme

High capex requirement to add to debt burden

CAPEX (SAR BN)



NET DEBT-TO-EQUITY RATIO



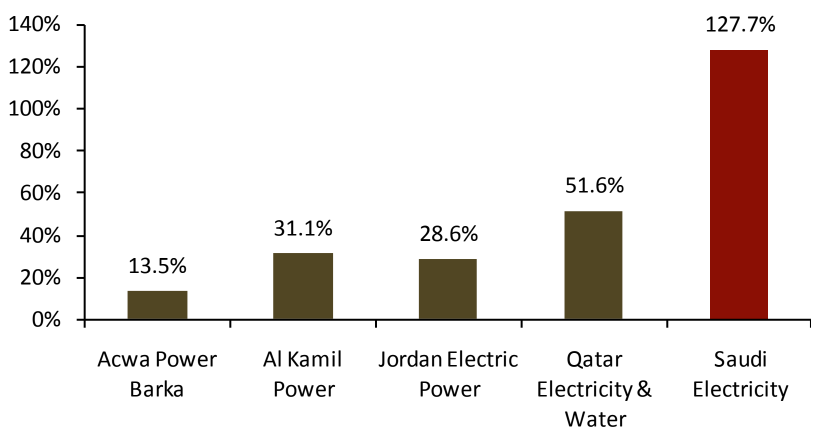
- Over 2011-20, we forecast SEC to invest SAR182Bn (47% of sales) to increase its power generation capacity from 41 GW in 2010 to 58 GW by 2020 and expand its transmission and distribution network
- To meet capex funding requirements, SEC has raised SAR14Bn through Sukuk offerings, apart from direct loans, during 2009-10
  - As a result, net debt-to-equity ratio rose from 76.6% in 2008 to 111.2% in 2010
- Going forward, we expect the company to raise more debt (~SAR63Bn during 2011-15) to fund its expansion projects
  - This is projected to increase the net debt-to-equity ratio to 142.9% in 2015
  - With a decline in expansion activities, the net debt-to-equity ratio is expected to come down to 55% by 2020
- Raising funds at a relatively lower cost should not be an issue for SEC
  - The company is expected to capitalize on the Saudi Government's full support and commitment
  - Government commitment has resulted in a high credit rating for SEC of AA- from Fitch and S&P and A1 from Moody's

Source: Company filings, Al Mal Capital analysis

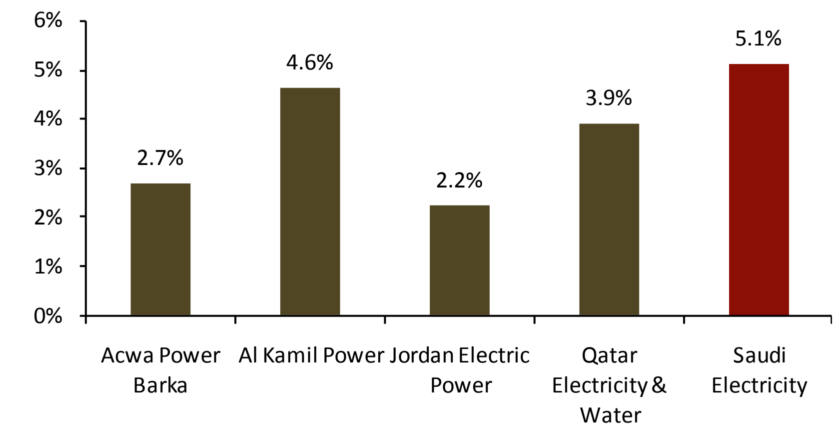
Investment Theme

Fixed dividends provide stable and high yield

DIVIDEND PAYOUT FOR PUBLIC (2010)



DIVIDEND YIELD



- The Government had waived its rights to the company's dividends over 2001-09 as long as the dividend does not exceed 10% of par value
  - In 2009, it extended the waiver period by 10 years (until 2020)
  - This means fewer number of shares are entitled to receive dividends (only around 18% of outstanding shares)
- Consequently, the public shareholders receive a higher dividend per share
  - In 2010, SEC gave absolute dividend of SAR0.13 per share (payout ratio of 24%)
  - However, due to government waiver, the entire dividend amount was distributed to the public (representing 18% of outstanding shares)
  - This resulted is SAR0.7 per share dividend (7% of stock par value) to the public
  - At SAR0.7, the payout ratio on a per share basis for public stands at 127.7% in 2010, the highest in its peer group
  - We project DPS to be distributed in the public to stay at SAR0.7 during 2011-20
- At the current price, the per share dividend of SAR0.7 leads to a 5.1% dividend yield
  - Highest yield amongst the peers makes SEC an attractive dividend play
- Due to SEC's high dividend yield and strong debt ratings (equivalent to the Saudi Government's rating), some investors view SEC as an alternative to Saudi sovereign debt, but with a much higher yield

Source: Company filings, Zawya, Al Mal Capital analysis

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Valuation

Expensive valuation limits upside

Company	Country	Market Cap. (USD Mn)	P/E Current	P/E Fwd 2011	P/E Fwd 2012	EV/EBITDA Current	EV/EBITDA Fwd 2011	EV/EBITDA Fwd 2012
Saudi Electricity Co.	**KSA**	**15,187**	**24.9**	**20.6**	**24.8**	**9.3**	**8.4**	**8.1**
Companhia Energetica De Sao Paulo	Brazil	1,715	NM	NM	3.3	6.1	NM	2.5
Exelon Corp.	USA	27,796	11.2	11.1	14.3	5.3	6.4	7.8
Tata Power Company Limited	India	6,525	20.7	14.3	11.4	12.9	8.2	6.7
Energias Do Brasil SA	Brazil	3,929	14.2	11.6	9.0	7.2	6.2	5.6
EMPRESA NACIONAL DE ELECTRICIDAD S.A.	Chile	14,061	13.0	12.2	11.1	8.1	8.3	8.3
Acwa Power Barka Co.	Oman	107	14.2	N/A	N/A	13.4	N/A	N/A
Al Kamil Power Co.	Oman	43	27.4	N/A	N/A	12.0	N/A	N/A
Dhofar Power Co.	Oman	54	21.2	N/A	N/A	NM	N/A	N/A
Jordan Electric Power Co.	Jordan	352	21.8	29.0	18.2	10.2	8.3	N/A
Qatar Electricity & Water Co.	Qatar	3,993	11.8	10.8	9.5	11.5	11.2	10.7
Peer group average			**17.3**	**14.8**	**11.0**	**9.6**	**8.1**	**6.9**
SEC premium (discount)%			**44.4%**	**38.7%**	**125.5%**	**-3.4%**	**3.5%**	**17.4%**

- We hold a positive outlook on SEC's revenue growth due to increasing electricity demand and the company's aggressive expansion plans, but bottom-line growth is likely to remain muted owing to declining margins
- Moreover, the tariff hike seems to be factored into the current price. At the current level, the stock appears expensive
  - Currently, SEC trades at a P/E of 24.9x (44.4% above the peer group average of 17.3x), and EV/EBITDA of 9.3x (at 3.4% discount to the peer group average of 9.6x)
- SEC's stable dividend payout and high dividend yield make it attractive for investors looking for dividend paying stocks

Source: Bloomberg, Reuters, Company filings, Al Mal Capital analysis

Valuation

DCF Method

FCF ANALYSIS (SAR Mn)		2Q11-4Q11	FY12	FY13	FY14	FY15	FY16-20	Terminal Value
NOPLAT		3,097	1,744	1,358	1,569	1,231	7,466	
Depreciation and amortization		7,271	10,556	11,205	11,767	12,306	67,227	
Change in working capital		2,026	3,079	3,485	2,091	3,801	10,097	
Capex		(25,273)	(36,281)	(24,161)	(23,243)	(22,956)	(41,574)	
FCFF		(12,879)	(20,902)	(8,113)	(7,817)	(5,618)	43,216	236,118
Discount factor		0.98	0.92	0.86	0.80	0.74		0.52
PV of FCFF		(12,594)	(19,280)	(6,965)	(6,246)	(4,178)	24,358	122,633
Sum of PV of FCFF	97,727							
Add: Investments	2,320							
Less: Net debt and minority interest	(42,063)							
Total Equity Value	**57,985**							
No. of shares outstanding (Mn)	4167							
Fair value per share	**13.9**							
Target Price	**14.8**							

VALUATION INPUTS			
Risk Free Rate	3.2%	Cost of debt	3.7%
Beta	0.6	Effective tax rate	2.5%
Risk Premium	12.1%	Post tax cost of debt	3.6%
Cost of Equity	10.5%		
WACC			7.4%
FCF growth rate			1.0%

Valuation

Comparative Valuation

VALUATION METRICS

P/E Multiple		EV/EBITDA	
Peer group average (FY11E P/E)	14.8	Peer group average (FY11E EV/EBITDA)	8.1
Premium / (Discount) to peer group	-5.0%	Premium / (Discount) to peer group	-5.0%
Target P/E Multiple	14.1x	Target EV/EBITDA multiple	7.7x
FY11 Earning per share	0.66	FY11 EBITDA	11,814.8
		Target EV	90,849.7
		Add: Investments	2,296.9
		Less: Net debt and minority interest	(37,630.2)
		Target Market Cap.	55516.3
Target price	**9.35**	**Target price**	**13.32**
Current price	13.65	Current price	13.65
Upside/Downside	**-31.5%**	**Upside/Downside**	**-2.4%**

WEIGHTED AVERAGE PRICE (SAR)

Methodologies	Weight assigned	Target Price	Weighted average price
Target price using DCF approach	50%	14.81	7.40
Target price using P/E multiple	25%	9.35	2.34
Target price using EV/EBITDA multiple	25%	13.32	3.33
Weighted average target price			**13.07**
Current price			13.65
Change from current levels			**-4.2%**

Valuation
Assumptions

Revenues

- Peak demand of electricity in KSA is projected to grow at 5.3% per annum over 2011-18 and reach 65 GW by 2018
- KSA's power generation capacity is expected to increase to 75.8 GW by 2020 from 48.3 GW in 2010
  - 17 GW capacity addition at SEC owned power plants (to reach 58 GW by 2020) and 10.5 GW through IPPs and IWPPs (to reach 17.8 GW by 2020)
- Energy sold (in GWh) by customer category
  - Residential: 52.1% of energy sold in 2010, gradually increasing to 53.2% by 2020
  - Commercial: 12.2% of energy sold in 2010, gradually decreasing to 11.6% by 2020
  - Government: 11.5% of energy sold in 2010, marginally increasing to 11.6% by 2020
  - Industrial: 17.9% of energy sold in 2010 gradually decreasing to 17.3% by 2020
  - Others: 6.3% of energy sold in 2010 and assumed to remain constant during 2011-20
- Tariff by customer category
  - Commercial: 21.4% rise in 2011 and constant thereafter
  - Government: 7.2% rise in 2011 and constant thereafter
  - Industrial: 2% rise in 2011 and constant thereafter
  - Residential and Others: No change during 2011-20
- SEC's revenues are projected to grow 11.9% in 2011, 6.0% in 2012 and then at a CAGR of 4.2% during 2013-20

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Valuation
Assumptions

Margins

- We assume that the increase in tariff will not have any cost implications and, hence, significantly increase SEC's profitability
  - We project gross margin to expand from 37.9% in 2010 to 39.3% in 2011, and operating margin to improve from 6.5% in 2010 to 7.3% in 2011
- Beyond 2011, though, gross and operating margins are expected to decline to 34.5% and 3.7%, respectively, by 2020. In 2012, we project gross and operating margins of 38.2% and 5.4%, respectively
  - Purchased energy cost is assumed to increase from 15.0% of electricity sales in 2011 to 16.9% in 2020, as more energy will be bought instead of being generated internally
  - Depreciation as % of sales is forecast to rise from 30.1% in 2010 to 31.6% in 2016, given SEC's significant capex plans. Post 2016, it is expected to decline to 29.9% in 2020 as capex slows (average life of power plant is assumed to be 25 years)
  - General & administrative (G&A) expenses as % of revenues are also forecast to decline 50 bps to 0.9% by 2020, driven by SEC's restructuring program

Other income

- Other income (consists of penalties, sales of tender documents, share in net income of investee companies* and others) is forecast to grow at 4% CAGR during 2010-20

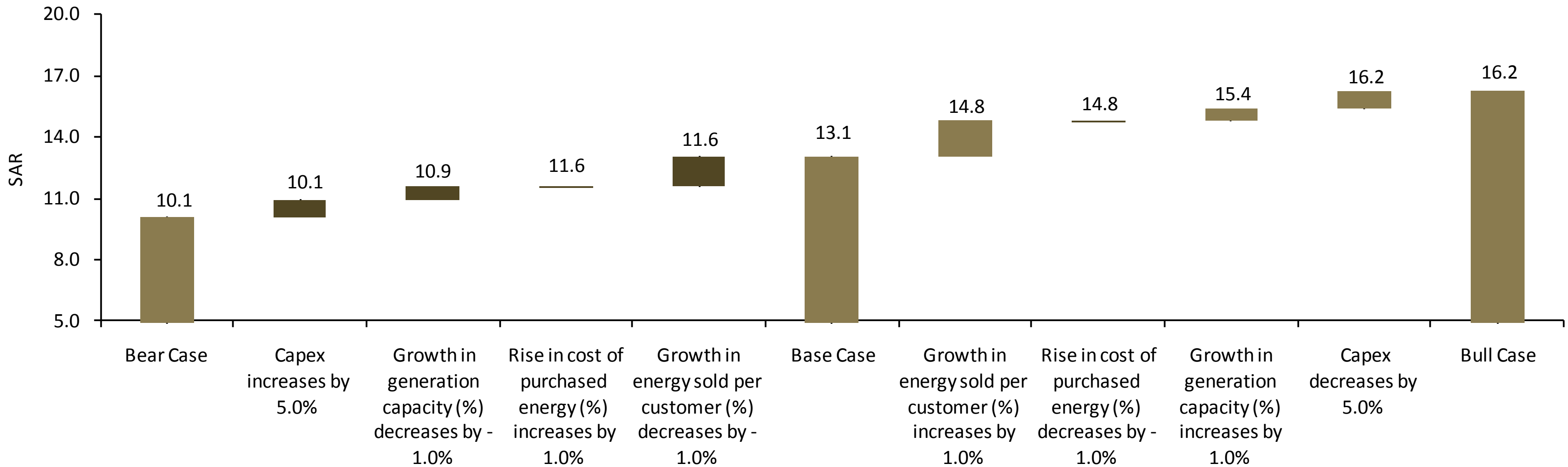
Capex

- Total SAR182Bn capex (47% of sales) during 2011-20; capex of SAR34Bn in 2011E and SAR36Bn in 2012E
  - Of the total capex, 94% is expected to for expansion, and the remaining 6% for maintenance
- 50% of the capex during 2011-13 to be funded through debt

* SEC holds equity investments in GCC Interconnection Authority and Water & Electricity Company

Valuation

Sensitivity Analysis



Bear case:

- Growth in energy sold per customer is 1% lower
- Rise in cost of purchased energy per GWh is 1% higher
- Growth in SEC owned generation capacity is 1% lower
- Capex is 5% higher than assumed

Base case:

- Energy sold per customer increases by 2% in 2011 and 2012
- Cost of purchased energy per GWh increases by 3% per annum
- SEC-owned power generation capacity increases by 4% in 2011 and 2012
- Capex of SAR34Bn in 2011 and SAR36Bn in 2012

Bull case:

- Growth in energy sold per customer is 1% higher
- Rise in cost of purchased energy per GWh is 1% lower
- Growth in SEC owned generation capacity is 1% higher
- Capex is 5% lower than assumed

Source: Al Mal Capital analysis

SEC – Financial Statements

Income Statement

Income statement (SAR Mn)	FY09A	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Total Revenue	**23,851**	**27,860**	**31,184**	**33,055**	**34,969**	**36,874**	**38,848**
Growth (%)	7.0%	16.8%	11.9%	6.0%	5.8%	5.4%	5.4%
Cost of Sales	(15,208)	(17,292)	(18,942)	(20,436)	(22,094)	(23,207)	(24,998)
Gross Profit	**8,643**	**10,568**	**12,242**	**12,620**	**12,875**	**13,667**	**13,850**
Gross Profit Margin (%)	36.2%	37.9%	39.3%	38.2%	36.8%	37.1%	35.7%
General and Administration Expenses	(316)	(382)	(427)	(436)	(444)	(450)	(454)
EBITDA	**8,327**	**10,186**	**11,815**	**12,183**	**12,431**	**13,217**	**13,396**
EBITDA Margin (%)	34.9%	36.6%	37.9%	36.9%	35.6%	35.8%	34.5%
Depreciation of Property and Equipment	(7,515)	(8,380)	(9,529)	(10,395)	(11,039)	(11,607)	(12,133)
EBIT	**812**	**1,806**	**2,285**	**1,788**	**1,392**	**1,610**	**1,263**
EBIT Margin (%)	3.4%	6.5%	7.3%	5.4%	4.0%	4.4%	3.3%
Other Income	357	473	477	506	535	565	595
Profit before tax	**1,170**	**2,279**	**2,763**	**2,294**	**1,928**	**2,174**	**1,857**
Provision for Zakat *	0	0	0	0	0	0	0
Net income	**1,170**	**2,279**	**2,763**	**2,294**	**1,928**	**2,174**	**1,857**
Net Margin (%)	4.9%	8.2%	8.9%	6.9%	5.5%	5.9%	4.8%
Absolute dividend	547	547	547	547	547	547	547
Payout Ratio (%)	47%	24%	20%	24%	28%	25%	29%
Earnings per share (SAR)	0.28	0.55	0.66	0.55	0.46	0.52	0.45
Dividend per share (SAR) – Absolute	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Dividend per share (SAR) – Paid to public	0.70	0.70	0.70	0.70	0.70	0.70	0.70

* SEC paid no Zakat due to the negative adjusted net income and Zakat base

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SEC – Financial Statements

Balance Sheet

Balance sheet (SAR Mn)	FY09A	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Shareholders' Equity	**49,175**	**50,658**	**52,873**	**54,621**	**56,001**	**57,628**	**58,938**
Long Term Liability	**67,297**	**85,083**	**102,663**	**121,444**	**133,276**	**142,320**	**149,695**
Long Term Debt	6,512	10,632	26,152	44,247	54,867	63,404	70,230
Government Loan	14,938	18,688	18,688	18,688	18,688	18,688	18,688
Corporate Bonds(Sukuk)	12,000	19,000	19,000	18,500	18,500	17,800	17,100
Other long term liabilities	33,848	36,762	38,822	40,009	41,221	42,428	43,677
Current Liabilities	**49,619**	**55,131**	**60,421**	**64,290**	**70,370**	**73,838**	**78,716**
Current Portion of Long Term Debt	828	1,189	1,329	545	1,461	1,461	761
Accounts Payable	47,351	49,540	54,267	58,545	63,295	66,485	71,616
Accruals & Other Payables	1,440	4,402	4,825	5,199	5,614	5,892	6,340
Total Liabilities and Equity	**166,091**	**190,872**	**215,957**	**240,354**	**259,647**	**273,786**	**287,349**
Working Capital	(30,625)	(34,637)	(38,685)	(41,925)	(45,576)	(47,825)	(51,799)
Current Assets	**22,048**	**26,536**	**27,430**	**25,918**	**32,066**	**34,545**	**37,262**
Cash and cash equivalents	3,883	7,231	7,023	4,099	8,733	9,993	11,105
Accounts receivables, net	10,586	9,965	10,174	10,784	11,409	12,030	12,674
Inventories, net	5,623	5,705	6,249	6,742	7,289	7,656	8,247
Prepaid expenses and other current assets	1,956	3,635	3,984	4,293	4,636	4,866	5,235
Non Current Assets	**144,043**	**164,336**	**188,527**	**214,436**	**227,581**	**239,241**	**250,087**
Equity Investments	2,353	2,297	2,320	2,343	2,366	2,390	2,414
Property, Plant and Equipment	109,109	135,635	159,803	185,689	198,811	210,447	221,270
Loans to subsidiaries	366	366	366	366	366	366	366
Construction work in progress	32,215	26,038	26,038	26,038	26,038	26,038	26,038
Total Assets	**166,091**	**190,872**	**215,957**	**240,354**	**259,647**	**273,786**	**287,349**

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SEC - Financial Statements
Cash Flow Statement

Cash flow statement (SAR Mn)	FY09A	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Operating Activities							
Net Profit after tax	1,170	2,279	2,763	2,294	1,928	2,174	1,857
Depreciation	7,515	8,380	9,529	10,395	11,039	11,607	12,133
Change in Provisions	106	537	35	161	166	159	172
Company's share in net income of associates	(34)	0	0	0	0	0	0
Other adjustments	1,612	0	2,060	1,187	1,212	1,207	1,249
Changes in operating assets & liabilities	14,793	5,807	4,013	3,079	3,485	2,091	3,801
Cash Flows from Operating Activities	**25,162**	**17,003**	**18,400**	**17,116**	**17,830**	**17,238**	**19,213**
Investing Activities							
Change in investments	(1,159)	1,036	(23)	(23)	(23)	(24)	(24)
Addition to property, plant and equipment	(30,596)	(28,381)	(33,698)	(36,281)	(24,161)	(23,243)	(22,956)
Loan to subsidiary	(366)	0	0	0	0	0	0
Cash Flows used in Investing Activities	**(32,120)**	**(27,345)**	**(33,721)**	**(36,304)**	**(24,184)**	**(23,267)**	**(22,980)**
Financing Activities							
Net movement in interest bearing loans	9,136	15,231	15,660	16,812	11,535	7,836	5,426
Dividend paid to equity share holders	(527)	(540)	(547)	(547)	(547)	(547)	(547)
Cash Flows from Financing Activities	**8,609**	**14,691**	**15,112**	**16,264**	**10,988**	**7,289**	**4,879**
Net change in Cash and Cash Equivalents	**1,650**	**4,349**	**(209)**	**(2,924)**	**4,634**	**1,261**	**1,112**
Cash and Cash Equivalent at end of the year	**2,883**	**7,231**	**7,023**	**4,099**	**8,733**	**9,993**	**11,105**

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SEC – Financial Statements
Ratio Analysis

Key ratios	FY09A	FY10A	FY11F	FY12F	FY13F	FY14F	FY15F
Profitability ratios							
Gross Margin	36.2%	37.9%	39.3%	38.2%	36.8%	37.1%	35.7%
EBITDA Margin	34.9%	36.6%	37.9%	36.9%	35.6%	35.8%	34.5%
EBIT Margin	3.4%	6.5%	7.3%	5.4%	4.0%	4.4%	3.3%
Net Profit Margin	4.9%	8.2%	8.9%	6.9%	5.5%	5.9%	4.8%
Return on Average Assets	0.8%	1.3%	1.4%	1.0%	0.8%	0.8%	0.7%
Return on Average Equity	2.4%	4.6%	5.3%	4.3%	3.5%	3.8%	3.2%
Liquidity ratios							
Cash conversion cycle	(835)	(790)	(790)	(790)	(790)	(790)	(790)
Leverage ratios							
Net Debt/Equity (%)	31.4%	46.6%	74.6%	108.4%	118.0%	126.1%	130.6%
Valuation ratios							
P/E x	48.6	25.0	20.6	24.8	29.5	26.2	30.6
P/Sales x	2.4	2.0	1.8	1.7	1.6	1.5	1.5
EV/EBITDA x	8.7	9.7	8.4	8.1	8.0	7.5	7.4
Dividend Yield	6.6%	4.8%	5.1%	5.1%	5.1%	5.1%	5.1%
Du Pont Analysis							
Net margin	4.9%	8.2%	8.9%	6.9%	5.5%	5.9%	4.8%
Asset Turnover	14.4%	14.6%	14.4%	13.8%	13.5%	13.5%	13.5%
Financial leverage	3.38	3.77	4.08	4.40	4.64	4.75	4.88
RoE	2.4%	4.5%	5.2%	4.2%	3.4%	3.8%	3.2%

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