

Rating **Neutral**  
 12- Month Target Price **SAR 20.00**

## UNITED WIRE FACTORIES COMPANY (ASLAK)

1Q2017 First Look

### Expected Total Return

Price as on May-03, 2017	SAR 19.63
Upside to Target Price	(8.3%)
Expected Dividend Yield	4.1%
Expected Total Return	(4.2%)

### Market Data

52 Week H/L	SAR 29.9/17.5
Market Capitalization	SAR 861 mln
Enterprise Value	SAR 627 mln
Shares Outstanding	43.9 mln
Free Float	87.8%
12-Month ADTV ('000's)	252
Bloomberg Code	ASLAK AB

### 1-Year Price Performance

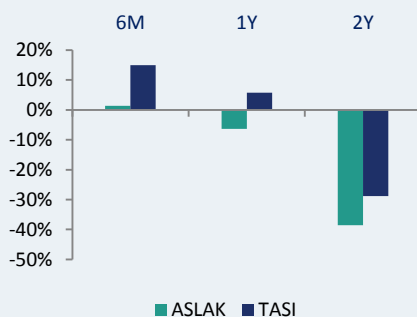


Fig in SAR mln	RC. Est	Actuals
Revenue	165	145
Gross Profit	26	19
EBIT	13	10
Net Income	12	8
EPS (SAR)	0.26	0.18

## Weak Earnings alike Industry

United Wire Factories Company (Aslak) reported its 1Q2017 results with wider earnings miss but revenues stood in acceptable deviation range, owing to tough business environment in the sector. EPS of SAR 0.18 missed our estimate of SAR 0.26, reporting its lowest earnings numbers over the last three years, as construction outlook further weakens. However, recent announcements on 1 million housing units by 2022 brings positive news for housing markets and should provide a gradual boost to building materials sector. A dual impact of lower demand and prices had a cascading effect on Aslak's topline in 1Q2017, while weak utilization points to higher cost pressure, a reason for sharp drop in margins. Gross and operating margins dropped between 150-250 bps sequentially and Y/Y, which is significant for a thin margin driven business like Aslak. We adjust our estimates due to looming earnings weakness and reduce our target price to SAR 20.00 (earlier SAR 22.50). 2017E P/E of 15.9x is expensive to TASI's 14.5x as earnings gloom surrounds. Maintain Neutral.

### Volumes decline this quarter

Revenue of SAR 145 million missed our SAR 165 million estimate, declining by -31% Y/Y and -8% Q/Q. Despite a +8% Q/Q and +9% Y/Y jump in local steel rebar prices to SAR 2,287/ton, Aslak did not capitalize well and suggest revenue decline is due to lower volume sales. We expect this to be partially on tough competition from Chinese and Turkish steel imports, taking local producers under pressure. Media reports also points towards a diminished view on the sector, as KSA's largest steel producer, Saudi Iron and Steel Co. (Hadeed) sees steel demand declining by -5% through 2018. Globally steel and iron ore markets face the brunt of Chinese slowdown, the relative influence is seen on iron ore prices being flat in 1Q2017 to USD 80/ton.

### Margins drop to 3-year lows

Gross profit of SAR 19 million declined by -42% Y/Y and -21% Q/Q points to large cost pressure, as relative decline of -8% Q/Q in sales suggest uneven trends. Gross margins declined to 13.0% marking the lowest margins since 4Q2015. It declined by 250 bps from 1Q2016 and in similar range sequentially. A higher opex to sales ratio of 93% in 1Q2017 is a concern as lower volumes and prices played a dampener. As a result, operating profit declined by -23% Q/Q and -52% Y/Y, taking margins to lows of 7.0% in 1Q2017 from 10.2% in 1Q2016. Net margins followed suit and dropped to 3-year lows of 5.3% in this quarter falling 290 bps from 1Q2016 amid being lower to 7.5% in 4Q2016. Net income of SAR 7.7 million was below our expectations of SAR 11.8 million, declined by -34% Q/Q and -56% Y/Y.

### Maintain Neutral

With a gloomy earnings scenario, we revise our estimates and target price as we expect project spending to improve towards the second half of 2017. The stock rallied by +35% between 3Q2016 to 1Q2017 and believe its overrun, prone to corrections. Despite, dividend yield of 4.1% (2017E DPS of SAR 0.80) valuations are not supportive, maintain Neutral.

### Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	690	625	672
EBITDA	108	88	98
Net Profit	81	54	62
EPS (SAR)	1.84	1.23	1.41
DPS (SAR)	1.65	0.80	1.00
BVPS (SAR)	9.85	10.28	10.69

### Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	8%	8%
ROAE	19%	12%	13%
P/E	10.6x	15.9x	13.9x
P/B	2.0x	1.9x	1.8x
EV/EBITDA	5.8x	7.1x	6.4x
EV/Sales	0.9x	1.0x	0.9x

## 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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