

July 19, 2016

Rating **Sell**
12- Month Target Price **SAR 17.00**

UNITED WIRE FACTORIES COMPANY (ASLAK)
2Q2016 First Look

Exceptional Quarter

United Wire Factories Company (Aslak) announced a strong set of 2Q2016 results with preliminary numbers beating estimates by a large margin. EPS of SAR 0.88 increased by +55% Y/Y and +125% Q/Q versus our estimate of SAR 0.31. At first look, 2Q2016 is one of the best quarters in its entire operational history and believe this to be a comeback story after a 3-year period. We might revisit estimates and adjust our rating accordingly once we have clarity from its detailed filings. Hence, wait for more details, until then maintain Sell.

Factors that could have led to a surprise

With limited information from preliminary numbers, we assess factors which could have led to such a robust performance. We expect a much higher revenue growth than estimated, denoting nullified impact of Ramadan slowdown. We believe, an exponential growth in margins (assuming revenue range of SAR 240 million) have taken place, with gross and net margins to be above 20% and 16% respectively. Aslak reported average gross and net margins of 14% and 10% over last 3-years. Additionally, the chances of one-off adjustment in inventories could also result in lower COGS elevating margins. However, these are unreserved comments but await management guidance.

Revenue trends unclear

Our revenue estimate of SAR 170 million is conservative, though a 20-25% sequential fall in revenue growth is expected every Ramadan period. With few chances of estimates meeting actuals this time, we believe numbers have to be analyzed (revenue not reported) in detail once available. A massive growth in revenue is unexpected, as Aslak has not announced any expansion or any special contract orders in 2Q2016, while output prices have not rose significantly to support a superior revenue growth.

Record-breaking performance

Gross profit of SAR 57 million beat our estimate of SAR 26 million increasing by +38% Y/Y and +74% Q/Q. Such growth was the best ever reported, within a span of five years, the previous best was SAR 46 million in 1Q13. Operating profit of SAR 43 million surged by +59% Y/Y and +114% Q/Q continuing its record-breaking trends. Despite conservative industry growth, contracting peer margins and partial impact of Ramadan, earnings were uninfluenced by any of the scenarios. Net income of SAR 39 million beat our estimate of SAR 14 million, significantly up by +55% Y/Y and +124% Q/Q.

Revisiting numbers is a necessity

Aslak's stock price surged by +20% over last 3-4 sessions due to strong results. We may revisit 2016-18 numbers and believe the case for a re-rating is compelling; however, the same depends on the extent of clarity in its filings. At current levels, Aslak is trading at 2016E P/E of 18.1x higher to TASI's 13.9x and sector's 15.6x. Aslak announced 10% cash dividend for 1H16 suggesting, DPS of SAR 2.00 is likely for 2016E, however we wait for revision. We continue to recommend a Sell with a target price of SAR 17.00.

Expected Total Return

Price as on Jul-18, 2016	SAR 28.50
Upside to Target Price	(40.3%)
Expected Dividend Yield	4.6%
Expected Total Return	(35.7%)

Market Data

52 Week H/L	SAR 34.8/14.5
Market Capitalization	SAR 1,251 million
Enterprise Value	SAR 1,080 million
Shares Outstanding	43.9 million
Free Float	87.8%
12-Month ADTV(000's)	305.6
Bloomberg Code	ASLAK AB

1-Year Price Performance

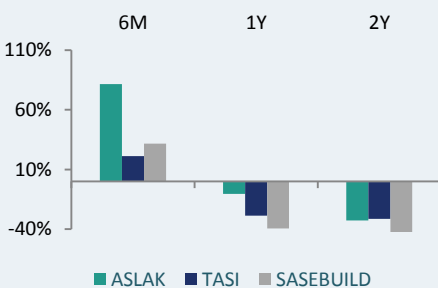


Fig in SAR Mln	RC.Est	Actuals
Gross Profit	26	57
EBIT	18	43
Net Income	14	39
EPS (SAR)	0.31	0.88

Key Financial Figures

FY Dec31 (SAR Mln)	2015A	2016E	2017E
Revenue	882	829	796
EBITDA	95	90	84
Net Profit	72	69	64
EPS (SAR)	1.64	1.56	1.47
DPS (SAR)	1.45	1.30	1.30
BVPS (SAR)	9.81	8.92	7.73

Key Financial Ratios

FY Dec31	2015A	2016E	2017E
ROAA	15%	15%	15%
ROAE	29%	26%	26%
P/E	17.3x	18.1x	19.5x
P/B	2.8x	3.1x	3.5x
EV/EBITDA	11.4x	12.0x	12.9x
EV/Sales	1.2x	1.3x	1.4x

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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

For any feedback on our reports, please contact research@riyadcapital.com

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