

KSA building & construction sector | Al-Babtain Power & Telecom. Co. (Al-Babtain)

Investment outlook update | March 2013

Outlook

We reiterate our '**Neutral**' recommendation for the stock with a revised 12-month price target of **SAR22.3/share** (down 15.5% from our last recommendation on December 25th, 2012). It should be noted that the downward revision is mainly related to the changes in valuation parameters. In the long term, Al-Babtain is expected to benefit from higher government expenditure on infrastructure and the anticipated decline in production expenses as well as operating costs due to the reduction in input prices and improved cost management.

New recommendation	Neutral
Old recommendation	Neutral
New 12-month price target	SAR22.3
Old 12-month price target	SAR26.4
Current market price	SAR23.5 (13 th Mar 2013)
Upside / (Downside)	-5.0%

Price performance

	3M	9M	12M
Absolute (%)	-4.47	6.33	-18.69
Relative to TASI (%)	-7.43	1.86	-11.86

Source: TASI & Zawya

Investment consideration

Our revised 12-month price target indicates a downside of **5.0%** over the market price of SAR23.5/share (as of March 13th, 2013).

Key updates

- On the valuation front, we have revised Al-Babtain's expected return from the KSA market to 13.146%, with the synthetic risk-free rate at 2.7%. We have assumed two years' weekly beta to be 1.29, based on data from Bloomberg, and updated the company's capital structure and cash flows in accordance with 2012 results.
- We expect Al-Babtain's revenue and net profitability to expand at a CAGR of 7.6% and 21.6%, respectively, during 2013-16; reflecting stability in profit margins 2013 onwards.

Key growth drivers for 2013

- The Saudi government's planned large-scale expenditure for infrastructure development is expected to be a major growth driver for Al-Babtain's top line.
- Pick-up in expansion plans by telecom players in the Kingdom would support the company's growth.
- We expect Al-Babtain to focus on reducing input costs and other operating expenses, and believe its margins would expand 2013 onwards.

Key risk factors for 2013

- Slowdown in end markets, deferred capital expenditure plans by telecom players, increased competition from Asian peers and volatility in the cost of key inputs remain the key risks for Al-Babtain.

Key financial data

Amount in SARmn, unless otherwise specified	2012	2013e	2014e	2015e	2016e
Sales revenue	1,352	1,417	1,521	1,639	1,765
Growth YoY (%)	34.5%	4.8%	7.3%	7.8%	7.7%
Cost of sales	(1,164)	(1,208)	(1,289)	(1,381)	(1,474)
Gross Profit	187	209	232	258	291
Growth YoY (%)	20.3%	11.4%	11.0%	11.3%	12.8%
General & administration expenses	(135)	(128)	(132)	(136)	(154)
Operating Profit	53	81	100	122	138
Growth YoY (%)	-32.9%	53.6%	23.2%	21.7%	12.8%
Financial/Bank charges	(28)	(30)	(25)	(19)	(16)
Other expenses	42	44	46	49	51
Profit before zakat & minority interest	67	96	122	152	173
Zakat	(7)	(11)	(13)	(17)	(19)
Minority Interest	(1)	-	-	-	-
Net profit	60	85	108	135	154
Growth YoY (%)	-21.5%	41.5%	26.8%	24.7%	13.8%
Key Fundamental Ratios					
Liquidity ratios					
Current ratio (x)	5.2	4.7	4.4	4.2	3.9
Quick Ratio (x)	2.8	2.5	2.4	2.2	2.1
Profitability ratios					
Gross Margin	13.9%	14.7%	15.2%	15.7%	16.5%
Operating margin	3.9%	5.7%	6.6%	7.4%	7.8%
Net Income Margin	4.5%	6.0%	7.1%	8.2%	8.7%
EBITDA margin	6.7%	8.6%	9.3%	10.0%	10.3%
Return on average assets	3.9%	5.3%	6.8%	8.5%	9.6%
Return on average equity	10.3%	15.0%	18.0%	20.6%	20.9%
Leverage ratio					
Debt/Equity (x)	0.16	0.16	0.21	0.19	0.13
Market/Valuation ratios					
EV/Sales (x)	1.26	1.20	1.12	1.04	0.96
EV/EBITDA (x)	18.75	13.98	12.10	10.35	9.39
EPS (SAR)	1.42	2.00	2.54	3.17	3.60
BVPS (SAR)	13.11	13.58	14.57	16.20	18.26
Market Price (SAR)*	23.75	23.50	23.50	23.50	23.50
Market-Cap (SAR mn)	1,012	1,002	1,002	1,002	1,002
Dividend Yield	5.3%	5.3%	5.3%	5.3%	5.3%
P/E ratio (x)	16.78	11.73	9.25	7.42	6.52
P/BV ratio (x)	1.81	1.73	1.61	1.45	1.29

Source: Aljazira Capital * We have taken respective December closing prices for 2012, while for years 2013 & onwards we used closing price of 13th Mar 2013. We used the company's preliminary (unaudited) quarterly financial statements for 2012.

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TERMINOLOGY

1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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