

SAUDI STEEL PIPES CO



This is an extract of our published report, the full version of which can be found on the ncbc.com website

COMPANY UPDATE

Pick-up in demand supports Overweight rating

We remain Overweight on Saudi Steel Pipes with our PT increasing by 4.4% to SR31.9. Demand improvement in terms of the new contract being awarded from Aramco should lead to significant top and bottom line growth. We believe this has not yet been factored in by the market and not reflected in the current stock price.

- 2013E estimates revised upwards off the back of improved capacity:**
 We are currently expecting revenues of SR1,136mn and SR1,334mn for 2013E and 2014E respectively, 9.3% and 27.5% higher than our previous forecasts. This is due to higher capacity estimates for the small diameter segment over our forecast horizon and the new Aramco projects which was awarded to SSP (total of SR330mn).
- Demand improves due to new contract from Aramco:**
 To date, Saudi Aramco has awarded Saudi Steel Pipes (SSP) four contracts on August 25, 2012 worth more than SR216mn and a SR114mn contract on December 5, 2012. According to management guidance, SSP will realize profitability on the medium diameter segment for the first contract by 2Q13E and for the second contract by 3Q13E. This should lead to robust earnings growth in 2013E. We are currently expecting 2013E profitability to increase significantly given the scale of the project.
- Performance from the medium diameter segment expected to improve in 2013E:**
 Based on our recent conversations with management, we believe that revenues from this segment will start to pick up in 2013E due to the new contracts awarded. We are currently expecting a 30.3% YoY growth in net sales from the medium diameter segment from SR307mn in 2012E to SR400mn in 2013E.
- Remain overweight with a PT of SR31.9:**
 We remain Overweight on SSP with a revised PT of SR31.9. The stock is currently trading at a 2012E P/E of 17.5x.

Financial summary (Based on proportionate consolidation)

		2011	2012E	2013E	2014E	2015E
Revenues	SR mn	629	761	1,136	1,334	1,459
EBITDA	SR mn	88	113	194	226	260
Reported net income	SR mn	60	75	154	186	219
Total debt	SR mn	64	47	41	44	47
Div per share	SR	1.0	1.3	1.5	2.0	2.5
EBITDA margin	%	14.0	13.5	15.9	14.9	15.2
Net margin	%	8.7	9.4	13.4	14.6	15.9
ROE	%	7.0	8.0	15.9	17.9	19.9
Reported EPS	SR	1.2	1.5	3.0	3.6	4.3
Adjusted Cash EPS	SR	1.4	1.7	3.0	3.5	4.0

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price (SR)	31.9
Current price (SR)	25.4

STOCK DETAILS

M52-week range H/L (SR)	31.9/20.7
Market cap (\$mn)	346.7
Shares outstanding (mn)	51.0
Listed on exchanges	Tadawul

Price perform (%)	1M	3M	12M
Absolute	(0.8)	3.5	5.6
Rel. to market	1.6	8.1	(2.8)

Avg daily turnover (mn)	SR	US\$
3M	6.4	1.7
12M	10.5	2.8

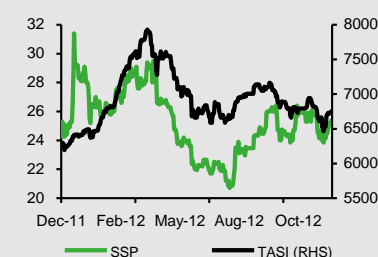
Reuters code	1320.SE
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VALUATION MULTIPLES

	11A	12E	13E
P/E (x)	21.7	17.5	9.9
P/B (x)	1.7	1.7	1.6
EV/EBITDA (x)	14.0	13.9	8.2
Div Yield (%)	3.9	4.9	5.9

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg

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NCBC Investment Ratings

OVERWEIGHT:	Target price represents expected returns in excess of 15% in the next 12 months
NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

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