CONSTRUCTION | 11 October 2010 COMPANY UPDATE

Saudi Steel Pipes Co

Overweight

Target Price (SR) 37.4

Current price (SR) 21.1

Stock details

52-week range H/L (SR)	36.3/21.1
Market cap ($mn)	287
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perf. (%)	1M	3M	12M
Absolute	(15.3)	(23.6)	(32.8)
Rel. to market	(17.1)	(27.1)	(33.6)

Avg daily turn.(mn)	SR	US$
3M	15.9	4.3
12M	3.8	1.0

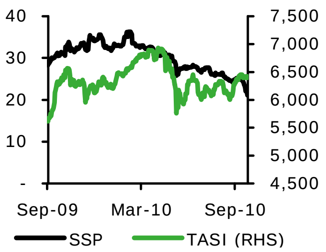
Reuters code	1320.SE
Bloomberg code	SSP AB
Website	www.sspipe.com

Valuation multiples

	09	10E	11E
P/E (x)	8.6	12.4	10.1
P/B (x)	1.1	1.4	1.4
EV/EBITDA (x)	5.6	6.5	5.2
Div yield (%)	9.5	9.5	9.5

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

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A nervous market

Saudi Steel Pipes stock has fallen 15.6% in the past two weeks versus a 0.5% fall in the TASI. We believe this may be due to concerns on the 3Q10 results, which may have been impacted by a volatile pricing environment and demand uncertainty. While we forecast earnings in 3Q10 will be down 37% versus 3Q09, we believe market expectations are for a flat YoY progression, which could lead to market disappointment once results are released. We maintain our overall positive outlook on the stock, however are cautious in the short-term.

- **Fluctuation in steel prices:** Hot rolled steel prices fluctuated over the quarter creating some uncertainty for both buyers and sellers. The price declined from a high of $760/ton in May 2010 to $656/ton in mid August before rising again to $670/ton. The average price per ton for the quarter, however, was 8% below 2Q10.
- **"Wait and see" approach:** In such volatile markets, we believe customers tend to take a "wait and see" approach on expectations that prices may decline further before finalizing purchases. This, as well as the usual Ramadan slow down may impact the 3Q results.
- **A weak 2010e expected, before growth returns in 2011e:** We had already assumed 2010e earnings would be down 17.6% versus 2009 due to lower pricing. However, we believe continued pricing volatility may also impact volumes, which could lead to further weakness in revenues and earnings in the short-term. While 2010 looks to remain difficult, we continue to believe earnings will grow once again starting in 2011e.
- **Further short term pressure on the stock possible:** SSP stock has fallen 15.6% in the past two weeks versus a 0.5% decline in the TASI and is now at an all time low. On a long-term and fundamental basis, we believe the stock demonstrates considerable value; however we acknowledge the risks in the short-term as quarterly results could be seen as being weak. 3Q09 net income was a strong quarter for the company in 2009, which makes our estimate for 3Q10 of SR19mn in net income (down 37% YoY) look that much weaker. We also believe market consensus is even higher than our estimate, which could mean further pressure on the stock once results are out.

Financials (using proportionate consolidation method)

		2009	2010E	2011E	2012E	2013E
Revenues	SR mn	539	597	720	922	1,071
EBITDA	SR mn	131	112	141	199	233
Net income	SR mn	113	92	113	153	181
EBITDA margin	%	24.4	18.8	19.6	21.6	21.8
Net margin	%	20.9	15.4	15.7	16.7	16.9
ROE	%	17.2	11.0	13.6	17.9	20.4
EPS	SR	2.6	1.8	2.2	3.0	3.5

Source: Company, NCBC Research estimates

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Corporate website	www.ncbc.com		

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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

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