Saudi Electricity Co

2Q10 preliminary results

Overweight

Target Price (SR)	**18.5**
Current price (SR)	**13.35**

Stock details

52-week range H/L (SR)	13.9/9.3
Market cap ($mn)	4,1667
Shares outstanding (mn)	14,500
Listed on exchanges	TADAWUL

Price perf. (%)	1M	3M	12M
Absolute	(1.1)	18.1	31.82
Rel. to market	1.57	28.4	28.7

Avg daily turn.(mn)	SR	US$
3M	87.6	23.4
12M	41.2	11.0

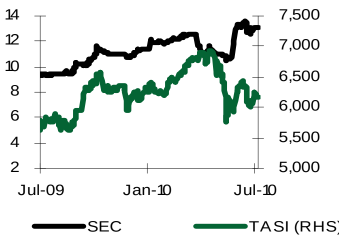
Reuters code	5110.SE
Bloomberg code	SECO AB
Website	www.se.com.sa

Valuation multiples

	09	10E	11E
P/E (x)	46.5	44.6	36.2
P/B (x)	1.1	1.1	1.1
EV/EBITDA (x)	8.1	7.5	6.7
Div yield (%)	5.4	5.4	5.4

Source: NCBC Research estimates

Share price performance



Source: Bloomberg

SEC announced its 2Q10 preliminary results after market close on 19 July 2010. Net income increased 49.4% YoY to SR1,068mn and above our estimate of SR948mn.

- **Net income was above our estimate:** Net income for 2Q10 came in at SR1,068mn versus our estimate of SR948mn (12.7% variance). This translates to a 49.4% increases YoY.
- **Operating income increased 54% YoY:** Operating income for 2Q10 came in at SR962mn versus our estimate of SR810mn (18.8% above our estimates).
- **Higher revenues and lower costs drives earnings growth:** According to the company, the strong net profit growth for the quarter was driven by a decrease in certain operating expenses and higher revenues. We note that the company has not yet disclosed its revenue figures so the growth rate is still unclear. It is also very important to note that the announced change in tariffs last month did not affect revenues this quarter.
- **Awaiting the impact of tariff structure change in 3Q10:** The change in tariff structure for the industrial, commercial and government customers that was announced the previous month will directly contribute to the bottom line figure in 3Q10 where we expect the company's net income to increase significantly. We expect this to be one of the key triggers for the stock in continuing its upward momentum.
- **Valuation:** We are **Overweight** on SEC and believe that the current market price does not fully factor in the potential earnings growth which will be witnessed starting from 3Q10.

Results summary

	2Q10A	2Q10E	2Q09A	YoY chg(%)	Var(%)*
Operating income	962	810	622	54.7	18.8
Net income	1,068	948	715	49.4	12.7
EPS	0.26	0.23	0.17	49.4	12.7

Source: Company, NCBC Research estimates
*Variance from our estimates

Ahmed Al Qahtani
ah.alqahtani@ncbc.com
Tel. +966 2 6907784

Kindly send all mailing list requests to research@ncbc.com

Head of Research	Eiji Aono	e.aono@ncbc.com	+966 2 690 7786
Brokerage website	www.alahlitadawul.com / www.alahlibrokerage.com		
Corporate website	www.ncbc.com		

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

IMPORTANT INFORMATION