Sisco/Saudi Arabia
All Industries – All Sectors
SISCO AB: Saudi Arabia
15 October 2020

الراجحي المالية
Al Rajhi Capital

US$0.610bn	85%	US$6.46mn
Market cap	Free float	Avg. daily volume

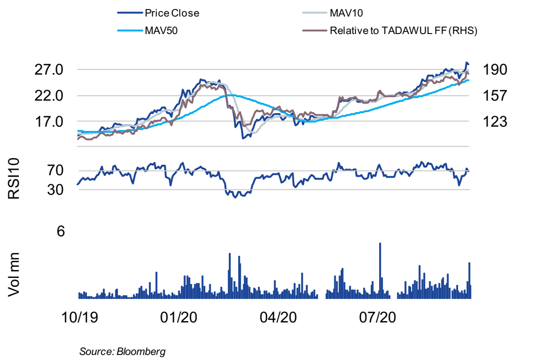
Target price	31.00	~11% over current
Current price	28.00	as at 14/10/2020

Research Department
Pratik Khandelwal
Tel ++966 11 836 5486, pratikK@alrajhi-capital.com

Existing rating

Underweight | Neutral | **Overweight**

Performance



Earnings

Period End (SARmn)	12/19A	12/20E	12/21E
Revenue	676	828	973
Revenue growth	20%	23%	17%
EBIDTA	243	347	486
EBIDTA growth	2%	43%	40%
EPS	0.62	0.94	1.27
EPS growth	9%	51%	36%
DPS	0.60	0.75	0.64
Payout Ratio	96%	80%	50%
ROE	5%	11%	9%

Source: Company data, Al Rajhi Capital

Sisco

Gradual recovery expected; Upgrade to "Overweight"

SISCO reported a net profit of SAR57mn in Q2 2020 however the normalized net profit after adjusting for reversal of asset replacement provision amounting to SAR45mn (post minority share) was ~SAR11mn v/s our estimates of SAR7mn. The revenue improved 19% y-o-y beating our estimates of SAR169mn. Revenue growth was driven by the increase in total volumes handled by the company as it started operating the northern part of Jeddah Islamic Port (Please note there was a delay in the takeover of the northern part of JIP from Feb 2020 to April 2020). The water segment revenue declined ~5% y-o-y in Q2 2020 likely due to a slowdown in demand for industrial wastewater treatment. The logistics segment revenue remained almost flat due to the lower occupancy of open yard space.

Figure 1 SISCO Q2 2020 results

SAR(Mn)	Q2 2019	Q1 2020	Q2 2020	% Q-O-Q	% Y-O-Y	ARC est.
Revenue	181	167	216	29%	19%	169
Gross Profit	78	53	116	118%	49%	60
Gross Margin	43%	32%	54%			36%
Operating Profit	43	13	73	446%	69%	20
Operating margin	24%	8%	34%			12%
Adjusted net Profit*	21	27	11	-59%	-48%	7
Net margin	12%	16%	5%			4%

Source: Company data, Al Rajhi Capital. * After adjusting for one-off provision of SAR45mn in Q2 2020.

Key Changes in accounting treatment:

1) The asset replacement provisions which the company used to create is no longer needed post the new consignment and therefore in Q2 2020 a reversal of the provision of SAR75mn (SISCO'S share SAR45mn) was recorded.

2) The royalty commission is no longer recorded in the cost of sales and therefore the gross margin looked higher in Q2 2020. From Q2 2020 the commission is divided into fixed and variable part.

Fixed Commission:

The company records the PV of future fixed commission as an intangible asset and a liability is recorded against it. Every quarter the asset is amortized, and an interest expense is charged on the liability in the P&L statement.

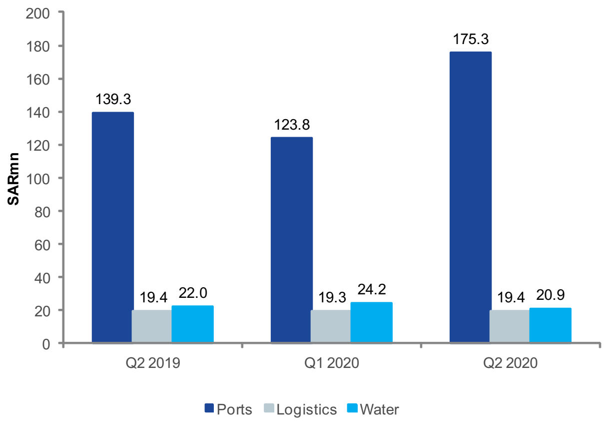
Variable Commission:

The Variable commission is charged only on the total transhipment and getaway volume; the consignment revenue is not considered while calculating this commission (generally ~40% of the total port revenue consists of this consignment revenue). For understanding the accounting treatment better let's divide the total volumes into minimum guaranteed volumes and actual volumes.

The minimum guaranteed volume is the volume on which the company has to pay the variable commission even if the actual volume is below it. Therefore, to account for this as per IFRIC 12 the company calculates the PV of the variable commission based on minimum guaranteed volume and records an intangible asset as well as a liability against it in its balance sheet. Accordingly, amortization and interest expense is charged on assets and liabilities respectively in the P&L statement. However, if the actual volume exceeds the minimum guaranteed volume in any financial year then the variable commission for that excess volumes will be expensed through the cost of sales and gross margins will be impacted and not through the balance sheet.

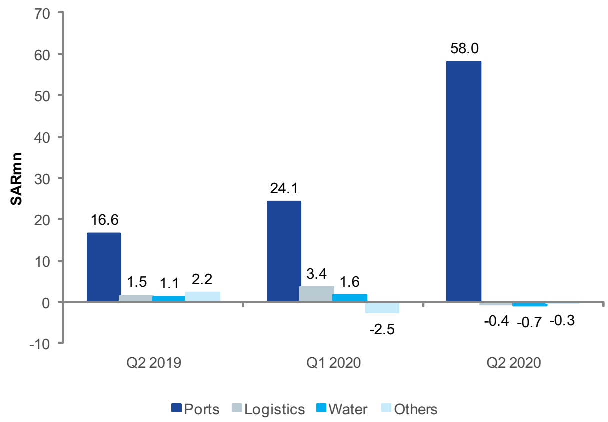
Outlook: We have observed an increasing volume at Jeddah Islamic port predominantly the transhipment volumes in the last few months, as per our analysis this is mainly driven by increasing staple consumption in nearby countries due to COVID 19. SISCO handles non pet-chemical items mainly construction equipment, construction materials, retail goods, automobiles, food items, etc. The slowdown in the overall economy, lower religious and leisure tourism is expected to impact the overall volumes in 2020 and H1 2021e. We expect a gradual recovery in LFL volumes from H2 2021e. The increase in certain getaway tariffs by 7% and inspection tariffs by ~10-12% effective from Jan 1st, 2021 should improve the revenue and since there is no additional cost involved it should directly flow to the bottom-line and enhance the margins. The water segment is expected to deliver flattish revenue growth in the near term while we expect the occupancy rate for the open yard to improve which should improve the logistics and warehouse segment revenue.

Figure 2 Segment-wise top-line performance



Source: Company data, Al Rajhi Capital

Figure 3 Segment-wise net profit performance



Source: Company data, Al Rajhi Capital

Valuation and Key Risks: We value SISCO using equal weight given to DCF and EV/EBITDA based relative valuation. Our DCF based target price based on 2% terminal growth and 8.63% WACC is SAR33/sh while relative valuation based on 10x FY 2021 EBITDA is SAR28/sh thus equal-weighted target price stands at SAR31/sh which implies ~11% upside compared to CMP of SAR28/sh. We upgrade SISCO to “overweight” from “Neutral”.

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"Overweight": Our target price is more than 10% above the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi
Head of Research
Tel : +966 11 838 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com

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