SAUDI ELECTRICITY CO.

NEUTRAL
CURRENT PRICE SAR20.5

DOWNSIDE -4.9%
TARGET PRICE SAR19.5

EVENT FLASH

Weak results on lower sales, higher financing cost

SEC reported a disappointing set of Q2 19 results, with a net profit of SAR789mn, declining 57.3% yoy and significantly lower than NCB estimate of SAR2.0bn. We believe the variance is due to lower than expected revenues and higher financial expense. However, a 38% yoy decline in capex is a key highlight which helps the company to reduce its debt level.

- Revenues stood at SAR16.5bn in Q2 19, 6.8% lower than our estimates of SAR17.7bn. This is a decline of 6.7% yoy. The additional revenue from higher tariffs is transferred entirely to the government, as per the Fiscal Balance Program. SEC sold 75.0TWh of electricity in Q2 19, declining 3.7% yoy, although customer base grew 3.9% yoy to 9.59mn in H1 19. The company attributed the decline in sales to consumption rationalisation mainly in the residential segment (-7.6% in H1 19) and the change to lower tariff slabs, following the increase in tariff in 2018.
- Gross profit stood at SAR1.8bn, significantly lower than our estimate of SAR3.0bn. This is a decline of 38.0% yoy. Gross margin came-in at 11.0% vs our estimates of 16.9% and 16.6% in Q2 18. This is the lowest Q2 gross margin since Q2 13. We believe the variance is due to lower electricity sales with limited reduction in cost of sales. SEC said that lower fuel cost was mitigated by higher depreciation expense.
- Operating profit stood at SAR1.9bn in Q2 19, lower than our estimate of SAR3.0bn. This is a decline of 31.8% yoy. We believe SG&A came-in at SAR179mn vs our estimate of SAR266mn and SAR238mn in Q2 18.
- The variance increased at the net income level due to higher financial expense. Based on our calculation, finance expenses stood at SAR1.1bn, higher than our estimates of SAR1.0bn and SAR991mn in Q2 18.
- Despite the negative impact on sales, consumption rationalisation helped SEC to control its capex which declined 38% yoy to SAR9bn. We believe this is a key highlight of the results as it will help in reducing the debt level of SAR159bn.
- We are Neutral on SEC with a PT of SAR19.5. The stock is trading at a 2019f EV/EBITDA of 10.5x, higher than peer group average of 9.9x. High debt levels and the uncertainty on the dividend policy are the key risks.

Q2 19 Results Summary

SARmn	Q2 19	Q2 18	% yoy	Q2 19f	%Var^	% qoq
Revenues	16,520	17,701	(6.7)%	17,727	(6.8)%	45.0
Gross income	1,821	2,939	(38.0)%	2,996	(39.2)%	NM
Gross margin (%)	11.0%	16.6%	(558)bps	16.9%	(588)bps	*NM*
EBIT	1,933	2,836	(31.8)%	3,021	(36.0)%	NM
EBIT Margin (%)	11.7%	16.0%	(432)bps	17.0%	(534)bps	*NM*
Net income	789	1,847	(57.3)%	2,013	(60.8)%	NM
Net margin (%)	4.8%	10.4%	(566)bps	11.4%	(658)bps	*NM*
EPS (SAR)	0.19	0.44	(57.3)%	0.48	(60.8)%	NM

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

STOCK DETAILS

M52-week range H/L (SAR)	21/14
Market cap ($mn)	22,777
Shares outstanding (mn)	4,167
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	11.5	20.7	0.2
Rel. to market	9.6	25.7	(4.8)

Avg daily turnover (mn)	SAR	US$
3M	51.1	13.6
12M	33.0	8.8

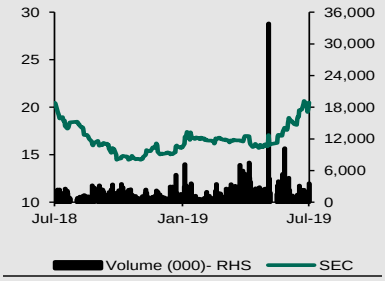
Reuters code	5110.SE
Bloomberg code	SECO AB
	www.se.com.sa

VALUATION MULTIPLES

	18f	19f	20f
P/E (x)	48.6	22.5	19.5
P/B (x)	1.2	1.1	1.0
EV/EBITDA (x)	10.3	10.5	10.2
Div Yield (%)	3.4	3.4	0.0

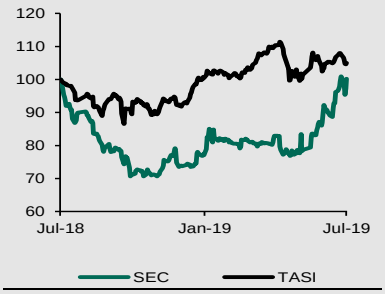
Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Tadawul

RELATIVE PERFORMANCE



Source: Tadawul

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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

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