

October 17, 2017

Rating **Sell**
12- Month Target Price **SAR 17.00**

UNITED WIRE FACTORIES COMPANY (ASLAK)
3Q2017 First Look

Expected Total Return

Price as on Oct-16, 2017	SAR 17.54
Upside to Target Price	(3.1%)
Expected Dividend Yield	2.3%
Expected Total Return	(0.8%)

Market Data

52 Week H/L	SAR 28.1/17.2
Market Capitalization	SAR 770 mln
Enterprise Value	SAR 554 mln
Shares Outstanding	43.9 mln
Free Float	93.0%
12-Month ADTV (000's)	280.4
Bloomberg Code	ASLAK AB

1-Year Price Performance



Source: Bloomberg



Rigorous Cost Control

United Wire Factories Company (Aslak) reported an earnings surprise with 3Q2017 earnings ahead of our estimate by large margin; though revenue beat was in a modest range. EPS of SAR 0.16 beat our SAR 0.02 estimate, reporting a decent quarter after a sluggish 2Q. Unlike a bearish trend in 2Q2017, Aslak managed to surpass expectations with a large control on costs, believed to be on better utilization amid a cost savings on fall in local metal prices in this quarter. Factors that have driven such a stellar come back in earnings are expected to be i) softened metal prices which came below SAR 2,100/ton in 3Q from highs of SAR 2,400/ton in 1Q ii) large control on costs, with COGS at 85% marking the lowest over the last 2-3 quarters despite a fall in revenues iii) stable revenue levels in 3Q despite an industry bleakness when peers are witnessing a large decline and iv) impact of cheaper inventory to have aided low cost markup expanding margins. We maintain our estimates for 2017-19 and our SAR 17.00 target price. Stock is trading at expensive levels with its 2018E P/E of 24.7x at an unjustified premium to TASI's 14.3x. Albeit a comeback quarter, we remain negative on long-term business outlook as industry weakness and earnings volatility persist. We wait for another few quarters of earnings consistency for any re-rating. Maintain Sell.

Revenue tops estimate repeatedly

Revenue of SAR 130 million beat our SAR 121 million estimate, improved by +3% Y/Y but declined slightly by -3% Q/Q. We believe Aslak has managed to improve its volume sales despite a falling prices and weakening demand. The slight fall in steel prices is expected to have not affected end-product prices, the reason for some stability in revenues.

Margins improves on cost control

Gross profit of SAR 18.9 million beat our SAR 12.2 million estimate, inclining by +55% Q/Q though it declined by -21% Y/Y. The rigorous cost control in 3Q has earmarked Aslak's capability for a sharp comeback after a sluggish 2Q. COGS stood at 85% elevating gross margins by 560 bps Q/Q to 14.6% though Y/Y it contracted by 450 bps. Opex ratio is back to normal levels of 92% unlike 98% in 2Q due to short-term seasonality trends. Operating profit came-in at SAR 10.9 million, increased almost 3x from 2Q though declined by -20% Y/Y, taking margins to 8.4% in 3Q2017; 640 bps increase sequentially and decline of 370 bps Y/Y. Net margins are elevated to 5.2% mimicking such trends, though dropped 580 bps from 3Q2016. Net income of SAR 7.2 million is back to 1Q levels, though earnings surprised this time versus our SAR 1.1 million estimate, increased by 13.6x Q/Q, but declined by -50% Y/Y.

Uneven surprises over last two quarters

Aslak reported a negative surprise in 2Q and a large positive surprise in this quarter taking its earnings volatility to both extremes. With this scenario, we face significant re-rating challenges but continue to recommend Sell. We also maintain our estimates for 2017-19 and revise our 2018E DPS expectations to SAR 0.40 (earlier SAR 0.50), which yields 2.3%. Maintain Sell.

Fig in SAR mln	RC. Est	Actuals
Revenue	121.0	130.0
Gross Profit	12.2	18.9
EBIT	2.0	10.9
Net Income	1.1	7.2
EPS (SAR)	0.02	0.16

Key Financial Figures

FY Dec31 (SAR mln)	2016A	2017E	2018E
Revenue	690	580	602
EBITDA	108	67	71
Net Profit	81	23	31
EPS (SAR)	1.85	0.52	0.71
DPS (SAR)	1.65	0.30	0.40
BVPS (SAR)	11.99	12.22	12.52

Key Financial Ratios

FY Dec31	2016A	2017E	2018E
ROAA	15%	1%	2%
ROAE	15%	4%	6%
P/E	9.5x	33.3x	24.7x
P/B	1.5x	1.4x	1.4x
EV/EBITDA	5.1x	8.2x	7.8x
EV/Sales	0.8x	1.0x	0.9x

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Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than 15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

* The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors

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