Sisco/Saudi Arabia

All Industries – All Sectors

SISCO AB: Saudi Arabia

2 June 2021

US$1.090bn	85%	US$6.06mn
Market cap	Free float	Avg. daily volume

Target price	47.00	-2% over current
Current price	48.00	as at 1/6/2021

Al Rajhi Capital

Research Department

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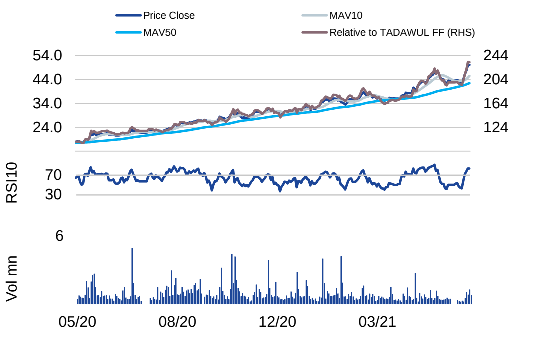
Existing rating

Underweight	Neutral	Overweight

Performance



Source: Bloomberg

Earnings

Period End (SARmn)	12/20A	12/21E	12/22E
Revenue	862	958	1,008
Revenue growth	27%	11%	5%
Adj. EBIDTA	489	538	567
Adj. EBIDTA growth	64%	10%	5%
Adj. EPS*	0.91	1.34	1.40
Adj. EPS growth	46%	46%	5%
DPS	0.80	0.67	0.70
Payout Ratio	88%	50%	50%
ROE	13%	9%	9%

Source: Company data, Al Rajhi Capital. * * After adjusting for one-off net gain of SAR64.9mn in 2020.

Sisco

Beat Estimates; Remain Neutral

SISCO's Q1 2021 net income of SAR32mn beat our estimates of SAR24mn on the back of higher container volumes handled. The top-line came in at SAR254mn (adjusted for construction revenue) v/s our estimates of SAR233mn. Revenue growth stemmed from 99% y-o-y growth in transhipment and 34% y-o-y growth in getaway volume during the quarter. The increase in getaway and consignment tariffs (W.e.f. from 1st Jan 2021) also contributed positively towards the revenue growth. The gross margins expanded ~210 bps q-o-q due to higher revenue growth and likely due to operating efficiency in logistics and water segment. The reported EBITDA increased 127%/16% y-o-y/q-o-q to SAR145mn in Q1 2021 driven by higher revenue and margins. We remain bullish on the long-term story of SISCO as the company intends to operate ports in Bangladesh and African countries; the company also has plans to increase warehouse capacity, which would drive the logistics segment revenue in medium term. The reduction in Umrah and Hajj pilgrimage remains a key headwind to the getaway volumes growth in FY 2021e. We roll over our DCF forward to 2025e and revise our long term forecast upwards to account for a strong recovery in volumes from FY2022e driven by religious and leisure tourism. We increase our TP to SAR47/sh from SAR32/sh, the stock is trading at ~11x FY 2021e EV/EBITDA, which in our view, seems fair given the future growth prospects. We remain "Neutral" on SISCO.

Figure 1 SISCO Q1 2021 results

SAR(Mn)	Q1 2020	Q4 2020	Q1 2021	% Q-O-Q	% Y-O-Y	ARC est.
Revenue	167	378	258	-32%	54%	233
Gross Profit	53	123	135	10%	154%	118
Gross Margin	32%	32%	52%			51%
Operating Profit	13	78	95	22%	607%	84
Operating margin	8%	21%	37%			36%
Net Profit	27	28	32	15%	21%	24
Net margin	16%	7%	13%			10%

Source: Company data, Al Rajhi Capital. (Q1 2021 revenue includes construction revenue)

Valuation: We value SISCO using equal weightage given to DCF and EV/EBITDA based relative valuation. Our DCF based target price based on 8.73% WACC and 2% terminal growth is SAR51/sh while relative valuation TP based on 11x FY2021E EBITDA is SAR43/sh thus equal weighted TP stands at SAR47/sh, which indicates ~2% downside from CMP of SAR48/sh. We remain "Neutral" on SISCO.

Key upside risks: 1) Higher government and consumer spending driven by faster recovery of oil prices will increase the getaway and consignee revenue of the company. This will have an upside risk to our valuation. 2)The company has plans to operate new ports in Bangladesh and African countries, if the deal goes through then it will have a significant upside on company's valuation.

Key downside risk: Delay in economic recovery and lower than expected Umrah can have an adverse impact on the getaway volume and our valuations.

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"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.

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