الراجحي المالية
Al Rajhi Capital

US$0.657bn	85%	US$8.43mn
Market cap	Free float	Avg. daily volume

Target price	32.00	~11% over current
Current price	29.00	as at 7/12/2020

Research Department
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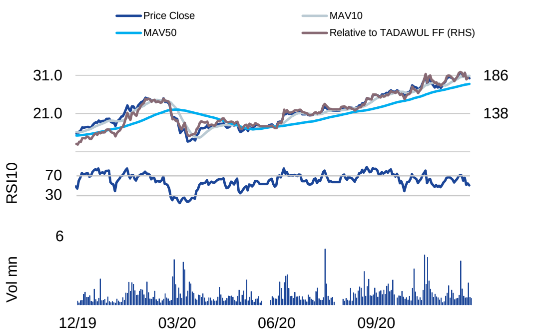
Existing rating

Underweight	Neutral	Overweight

Sisco
Meet Estimates; Remain overweight

SISCO'S Q3 2020 earnings met our revenue and net profit estimates. The top-line grew 51% y-o-y to SAR259mn, and after adjusting for notional income of SAR21mn, the revenue was in-line with our estimates of SAR238mn. Net profit came in at SAR28mn almost in-line with our expectations of SAR27mn. The port segment revenue drove the overall growth as the company started operating the northern part of Jeddah Islamic port earlier this year. The overall gross margins after adjusting for notional income was 55% v/s 41% in Q3 2019. We expect the getaway-transhipment ratio to improve in 2021e driven by increasing religious and leisure tourism as well as a moderate increase in overall economy. We revise our forecast slightly upwards and raise our tp to SAR32/sh, indicating 11% upside from CMP ofSAR29/sh. We remain "Overweight" on SISCO.

Performance



Source: Bloomberg

Earnings

Period End (SARmn)	12/19A	12/20E	12/21E
Revenue	676	833	973
Revenue growth	20%	23%	17%
EBIDTA	243	350	486
EBIDTA growth	2%	44%	39%
EPS	0.62	0.94	1.27
EPS growth	9%	51%	36%
DPS	0.60	0.71	0.64
Payout Ratio	96%	76%	50%
ROE	5%	10%	9%

Source: Company data, Al Rajhi Capital

Segment analysis

Port segment: The revenue grew 70% y-o-y driven by a 58% increase in container volume in Q3 2020 as the company started operating the new port. The reported GPM was 54% which looks inflated due to the change in the treatment of royalty commission which is now capitalised and reported below gross levels. However, if the actual volume handled is above the minimum guaranteed volume in any particular year, the variable commission on the excess above the minimum guaranteed will be recognised in the COGS and will impact gross margins)

Water segment: Revenue dropped 3% mainly likely due to lower realised prices as the volume remained flat at 4.4mn cubic meters on a y-o-y basis. The gross margins however improved ~400bps y-o-y due to operating efficiencies. The company's associate Tawzea successfully closed the financial agreement with Saudi Arabian Amiantit Co with regards to development of Taif wastewater treatment plant. The operation will begin in Q3 2022. The overall capacity of the plant will be 100,000 cubic meters per day which is expandable to 270,000 cubic meters.

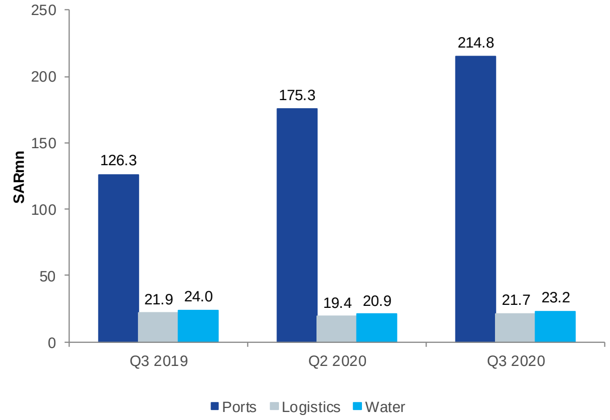
Logistics segment: In the logistics segment, the revenue declined 1% y-o-y in Q3 2020, mainly due to lower occupancy of open yard space. The gross margins for the segment declined 1300bps y-o-y. The warehouse occupancy was 99% in 9m2020 compared to 95% during the same period last year while the open yard occupancy dropped below 50% in 9m2020 from 67% y-o-y.

Figure 1 SISCO Q3 2020 results

SAR(Mn)	Q3 2019	Q2 2020	Q3 2020	% Q-O-Q	% Y-O-Y	ARC est.
Revenue	**172**	**216**	**260**	**20.5%**	**50.9%**	**240**
Gross Profit	70	116	132	14.0%	88.4%	129
Gross Margin	40.7%	53.8%	50.9%			54.0%
Operating Profit	15	73	92	25.4%	515.4%	87
Operating margin	8.7%	33.9%	35.3%			36.2%
Net Profit	**7**	**57***	**28**	**-50.3%**	**319.4%**	**27**
Net margin	3.9%	26.2%	10.8%			11.1%

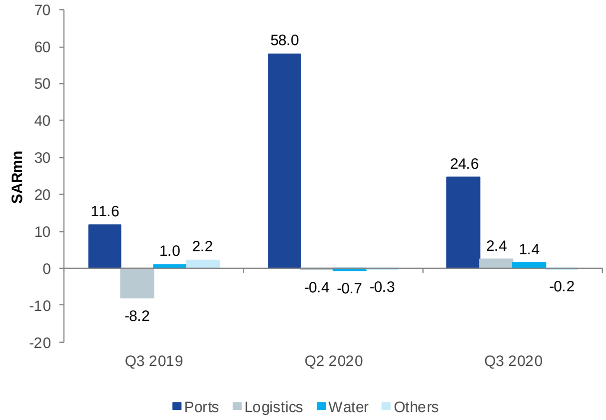
Source: Company data, Al Rajhi Capital. * Includes reversal of asset replacement provision, adjusted net profit is SAR11mn.

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: We value SISCO using equal weightage given to DCF and EV/EBITDA based relative valuation. Our DCF based target price based on 8.63% WACC and 2% terminal growth is SAR34/sh while relative valuation tp based on 10x FY2021E EBITDA is SAR29/sh thus equal-weighted tp stands at SAR32/sh which indicates 11% upside from CMP of SAR29/sh. We remain "Overweight" on SISCO.

Risks: Any significant delay in economic recovery, lower consumer spending and government spending will have a negative impact on the company's revenue and our valuations.

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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.

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