

## SAUDI STEEL PIPES CO



## EVENT FLASH

## In-line 4Q12 earnings

SSP announced its 4Q12 preliminary results on 15 January 2012 after market hours. Net income came in at SR14mn, in line with our expectation. Earnings increased 5.2% YoY due to higher sales volume during 4Q12. We await the detailed results before updating our model.

- **Gross profit in-line with our expectations:** 4Q12 came in at SR24.8mn increasing 7.8% YoY and in-line with our estimate of SR24.0mn. 4Q12 was an increase of 27.9% QoQ.
- **Operating income increases YoY:** 4Q12 came in at SR15.2mn in-line with our estimate of SR14.7mn. 4Q12 was an increase of 9.3% YoY (SR13.9mn in 4Q11).
- **Net income improves 5.2% YoY:** 4Q12 came in at SR14mn compared to a reported profit of SR13.3mn in 4Q11. 4Q12 was an increase of 5.2% YoY. According to the company's announcement, higher sales volumes led to the strong set of results from SSP.
- In summary this is a reasonable set of results from SSP with all profit lines in-line with our estimates. Absolute YoY growth was relatively low with all lines recording lower than 10% growth due to the higher material as well as transportation costs which the company was not able to pass on to end users given the increased competition in the region.
- Over the last six months, Saudi Aramco has awarded Saudi Steel Pipes (SSP) four contracts on August 25, 2012 worth more than SR216mn and a SR114mn contract on December 5, 2012. According to management guidance, SSP will realize profitability on the medium diameter segment for the first contract by 2Q13E and for the second contract by 3Q13E. This should lead to robust earnings growth in 2013E. We are currently expecting 2013E profitability to increase significantly given the scale of these projects.
- We believe that revenues from the medium diameter segment will start to pick up in 2013E due to the new contracts awarded. We are currently expecting a 30.3% YoY growth in net sales from the medium diameter segment from SR307mn in 2012E to SR400mn in 2013E.
- We are currently Overweight on SSP with a PT of SR31.9/share. We see that the performance from the medium diameter segment is the key catalyst for the stock. We await the full details before updating our model.

## 4Q12 Results Summary

SR mn	4Q12A	4Q11A	YoY (%)	4Q12E	Var (%) <sup>^</sup>
Gross profit	24.8	23.0	7.7	24.0	3.3
Operating income	15.2	13.9	9.4	14.7	3.5
Net income	14.0	13.3	5.3	14.1	(0.7)
EPS (SR)	0.27	0.26	5.3	0.28	(0.7)

Source: Company, NCBC Research <sup>^</sup> % Var indicates variance from NCBC forecasts

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## OVERWEIGHT

**Target price (SR)** 31.9

**Current price (SR)** 26.7

## STOCK DETAILS

M52-week range H/L (SR)	29.8/20.7
Market cap (\$mn)	363
Shares outstanding (mn)	51
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	3.5	9.8	(0.4)
Rel. to market	3.0	14.3	(10.2)

Avg daily turnover (mn)	SR	US\$
3M	6.4	1.7
12M	9.5	2.5

Reuters code	1320.SE
Bloomberg code	SSP AB
	<a href="http://www.sspipe.com">www.sspipe.com</a>

## VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	21.7	17.5	9.9
P/B (x)	1.7	1.7	1.6
EV/EBITDA (x)	14.0	13.9	8.2
Div Yield (%)	3.9	4.9	5.9

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Bloomberg

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- NEUTRAL:** Target price represents expected returns between -10% and +15% in the next 12 months
- UNDERWEIGHT:** Target price represents a fall in share price exceeding 10% in the next 12 months
- 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

**Other Definitions**

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**CS:** Coverage Suspended. NCBC has suspended coverage of this company

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