

## SAUDI STEEL PIPES CO



This is an extract of our published report, the full version of which can be found on the ncbc.com website

## COMPANY UPDATE

## Promising outlook by 2013

We remain Overweight on Saudi Steel Pipes with our PT increasing by 4% to SR30.6. Demand improvement in terms of the new contract being awarded from Aramco should lead to significant top and bottom line growth. We believe this has not yet been factored in by the market and not reflected in the current stock price.

- 2012 estimates revised down but 2013 more positive:** We are currently expecting revenues of SR700mn and SR1,040mn for 2012E and 2013E respectively, 3% lower than our previous forecast for 2012E but 2% higher than our previous estimate for 2013E. Overall, profitability remains under pressure due to material costs increasing at a faster rate than revenue. However, we expect this to correct in 2013E with a significant influx of revenue from the new project awarded.
- Demand improves due to new contract from Aramco:** Saudi Aramco awarded Saudi Steel Pipes (SSP) four contracts on August 25, 2012 worth more than SR216mn. The production of pipes will commence in 4Q12 and SSP will realize profitability on the medium diameter segment by 2Q13. This should lead to robust earnings growth in 2013. We are currently expecting 2013E profitability to increase significantly (87.4%) given the scale of the project.
- Performance from the medium diameter segment expected to improve in 2013E:** Based on our recent conversations with management, we believe that revenues from this segment will start to pick up in 2013 due to the new contract awarded. We are currently expecting a 41% YoY growth in net sales from the medium diameter segment from SR285mn in 2012E to SR400mn in 2013E.
- Remain overweight with a PT of SR30.6:** We remain overweight on SSP with a revised PT of SR30.6. Since our last company update in June, the stock is up 17.3% versus the TASI which is up 5.3%, thereby outperforming the market by 12%; in line with our overweight call on the stock. We believe that the current price is an attractive entry point into the stock, implying a 17% upside from current levels.

## Financial summary (Based on proportionate consolidation)

		2011	2012E	2013E	2014E	2015E
Revenues	SR mn	629	603	816	891	979
EBITDA	SR mn	88	87	122	148	163
Reported net income	SR mn	65	72	135	189	225
Total debt	SR mn	64	47	41	43	46
Div per share	SR	1.0	1.3	1.5	2.0	2.5
EBITDA margin	%	14.0	14.5	15.0	16.6	16.6
Net margin	%	8.7	9.9	13.8	17.6	19.1
ROE	%	7.0	7.7	14.2	18.7	20.9
Reported EPS	SR	1.2	1.4	2.6	3.7	4.4
Adjusted Cash EPS	SR	1.0	1.2	2.2	3.1	3.7

Source: Company, NCBC Research estimates

## OVERWEIGHT

**Target price (SR) 30.6**

**Current price (SR) 26.1**

## STOCK DETAILS

M52-week range H/L (SR)	31.9/20.7
Market cap (\$mn)	355
Shares outstanding (mn)	51
Listed on exchanges	Tadawul

Price perform (%)	1M	3M	12M
Absolute	11.3	16.5	10.7
Rel. to market	9.2	10.7	(5.5)

Avg daily turnover (mn)	SR	US\$
3M	6.4	1.7
12M	10.1	2.7

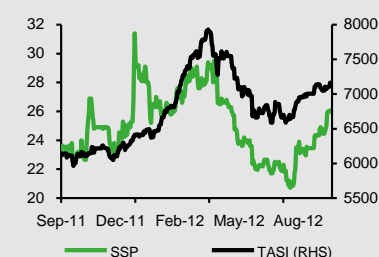
Reuters code	1320.SE
Bloomberg code	SSP AB
	<a href="http://www.sspipe.com">www.sspipe.com</a>

## VALUATION MULTIPLES

	11A	12E	13E
Reported P/E (x)	22.2	18.5	9.9
P/B (x)	1.7	1.7	1.6
EV/EBITDA (x)	14.4	14.4	10.3
Div Yield (%)	3.8	4.8	5.7

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Bloomberg

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- OVERWEIGHT:** Target price represents expected returns in excess of 15% in the next 12 months
- 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
- NC:** Not covered. NCBC does not cover this company

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