

Saudi Industrial Services Company (SISCO)

Equity Research Update

Sector – Industrials

Robust portfolio with stronger KPIs

2024 to witness peak portfolio performances & margins. Retain Outperform

9M-2023 results reconfirmed our thesis as strong performances in SISCO's existing portfolio investments at both subsidiary and associate level partnerships were evident. We expect the company's portfolio to further display peak performances in 2024E, and comfortably achieve group level GP margins of 52%-53% over 2023E-25E as per our expectations, thereby providing an ideal backdrop for its 6x26 strategy to grow revenues to SAR 2 Bn at a minimum target IRR of 12%. SISCO should be able to achieve its capital commitments for growth investments via SPVs such as RSPDI and GDI until 2026E and would necessarily not need to exhaust 100% of its cash at the center and affiliates, in our view. We therefore reiterate our Outperform rating on SISCO, as we remain optimistic on the company's capabilities to find new investments and operate as a full-cycle investment holding company that invests, incubates, monetizes, and recycles returns. Further, the completion of Phase-I of the company's share buyback plan which involved the purchase of 264,502 shares at an average price of SAR 25.02 should support share prices going forward, even as portfolio performances continue to register growth.

RSGT's higher gateway print sets the tone for RSPDI pursuits

We raise our average RSGT gateway volumes forecast to ~1.58 Mn TEUs (Previous: ~1.56 Mn TEUs) over 2023E-25E, at an average gateway pricing of ~SAR 489/TEU (Previous: SAR 485/TEU) and a transshipment to gateway mix of 55:45. Key drivers are the continuation of growth seen in the consumption of food, construction materials, electronics, and other consumables. We retain our transshipment volumes forecast which is expected to grow at CAGR of 8% over 2023E-25E, as liners continue to prefer JIP and divert most of their growing accounts to RSGT with the recent upgrade of the terminal's throughput to 6.2 Mn TEUs. GP margins should improve to average 54%-55% over 2023E-25E on higher gateway mix and higher palletized consignee revenue. The higher RSGT KPIs for 2024 should provide additional flexibility to pursue M&A opportunities via RSPDI – the company's inaugural foray into international investments. SISCO mentioned that current capital commitments from SISCO group to RSPDI is at SAR 105 Mn which is set to be utilized predominantly for Bangladesh's Patenga terminal concession that is expected to be fully operational by Q1/Q2-2025. SISCO further guided that the terminal would be entirely handling gateway volumes and preliminary pricing excluding services revenue is likely to be ~USD100/TEU which is comparable to RSGT (JIP) rates for gateway revenues.

Growing warehouse footprint bolsters 'logistics solutions' provider vision

LogiPoint is set to double its warehouse footprint by mid-2024 to 155k sq.m from 73k sq.m in 2022. This should drive a revenue CAGR of 21% over 2022-25E (Previous CAGR of 17.7%) at average GP margins of 50% over the period (GP Margin - 2022: 44%), according to our forecasts. This should aid SISCO's efforts to become a diversified regional logistics solutions provider and drive growth at the holding level through inorganic investments focusing on 3PL cold chain and adjacencies such as e-commerce in the logistics value chain via a pipeline of deals. We retain our Water segment revenue forecasts of SAR 92.6 Mn for 2023E and growth to SAR 97.75 Mn by 2025E ascribed to better revenue mix of volumes sold and pricing which should additionally drive strong GP margins of ~49% over 2023E-25E (2022: 37.5%).

Valuation & Risks – TP raised to SAR 29.70 (Previous: SAR 28.10)

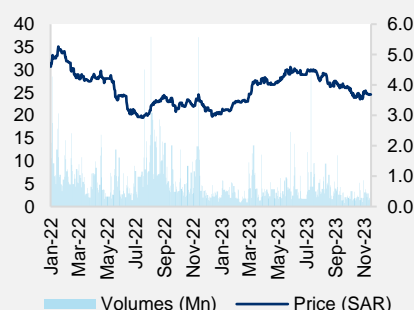
Our revised TP represents a 20.9% upside to SISCO's current share price and is based on SotP valuation. We value each segment individually based on a 70:30 split between DCF and EV/EBITDA multiples of its closest peers. Key downside risks: 1) Geopolitical risks impacting each segment's demand and disrupting H1-2023 momentum; 2) Challenges in global container market due to closure of trade lanes; 3) Leaner importer inventory strategies leading to lower bonded warehouses demand.

Outperform

CMP 15-Nov-23: SAR 24.56

Target Price (TP): SAR 29.70

Upside: +20.9%



Price Perf.	1M	3M	12M
Absolute	1.5%	-9.0%	6.0%
Relative	-2.3%	-5.8%	7.2%

Stock Data

Bloomberg Ticker	SISCO AB
Tadawul Ticker	2190
Last Price (SAR)	24.56
MCap (SAR Mn)	2,004
MCap (USD Mn)	534
EV (SAR Mn)	3,172
Stock Performance - YTD (%)	21.0%
PE - 2023E (x)	23.6
EV/EBITDA - 2023E (x)	5.6
Dividend yield - 2023E (%)	3.3%
52-Week Range (SAR)	19.74/30.60

Sources: Kamco Invest Research & Bloomberg

SISCO Financials	2022	2023E	2024E
Revenue* (SAR Mn)	855	1092	1253
GP margins (%)	48.7%	52.6%	52.7%
EBITDA (SAR Mn)	458	564	646
EPS (SAR/share)	0.51	1.04	1.58
EV/EBITDA (x)	7.3	5.6	4.9
Div Yield (%)	3.9%	3.3%	3.3%

Source: Kamco Invest Research, SISCO, * excluding construction revenue

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Valuation and Risks

TP raised to SAR 29.70/share; maintain 'Outperform' rating

We raise our forecasts further after the 9M-2023 results, as portfolio segments continue to register strong KPI performances and margin improvements. We revise our forecasts for SISCO's current operating holdings as we expect 1) RSGT to achieve higher gateway volumes share and average gateway/total volumes of ~1.58 Mn/~3.7 Mn TEUs (previous ~1.56 Mn/~3.7 Mn TEUs) over 2023E-25E, with average gateway pricing of over SAR 489/TEU (previous SAR 485/TEU) over 2023E-25E and comfortably achieving the mix of transshipment to gateway to 55:45; 2) Optimized ratio of open yard to warehouses and higher warehouse capacity should drive segment revenues to grow at a CAGR of ~21% (Previous CAGR of 17.7%) over 2022-25E and achieve an average GP margin of 50% over the period; 3) Water segment revenues to reflect better revenue mix of volumes sold while pricing should contribute to strong GP margins of ~49% over 2023E-25E. Further, we raise our target price (TP) to SAR 29.70/share (Previous: SAR 28.10/share), and TP represents a 20.9% upside to SISCO's current share price and is based on sum-of-the-parts (SotP) valuation. We reiterate our Outperform rating on SISCO, as we remain optimistic on the company's capabilities to operate as a full-cycle investment holding company, and to invest, incubate, monetize, and recycle returns into new investment opportunities.

SISCO SotP Valuation

(Individual segments valued based on 70:30 blend between DCF & EV/EBITDA)	Valuation (SAR Mn)	SISCO's effective shareholding	SISCO's share	Notes
Port development and operations (RSGT)	4,171.3	36.36%	1,516.7	Avg. EBITDA margins of 56%, WACC of 11.75%, concession term until 2049; 2023 EV/EBITDA of 8.8x
Logistics parks and support services (LogiPoint & ISNAD)	374.2	76%	284.4	Avg. EBITDA margins of 44%, WACC of 8.5% with a term until 2039 for JIP & Modon and 2053 for Khumrah; 2023 EV/EBITDA of 8.5x
Water desalination and distribution (Kindasa)	302.8	65%	196.8	Avg. EBITDA margins of 32%, WACC of 12.0% and terminal growth of 1.5%; 2023 EV/EBITDA of 17.2x
EV of operations	4,848.3		1,997.9	
Associates			450.6	Tawzea (50%) - 2024 P/E of 20x; SA Talke (33.3%) - 2024 P/E of 10x; WESSCO (31.85%), Xenmet (19%) & Green Dome (24%) each at P/B - 1x
Cash at centre			428.7	as of 9M-2023
Other assets SISCO center			22.0	as of 9M-2023
Other liabilities at SISCO center			-57.6	as of 9M-2023
Equity value prior to complexity discount			2,841.6	
Holding company complexity discount			15%	
SISCO SotP equity value (SAR Mn)			2,415.4	
SISCO SotP equity value per share (SAR)			29.70	
Current Price			24.56	
Upside (%)			20.9%	

Sources: Kamco Invest Research

We value each segment individually based on a 70:30 split between DCF and EV/EBITDA multiples of closest regional and international peers. For SISCO's individual segment DCFs, we utilize steady-state EBITDA margins, and apply segment specific WACC and net debt estimates. We model each segment's capacity progression and utilization over its respective concession terms. For SISCO's associates' valuation, we value each associate based on P/E or P/B multiples. We further apply a 15% complexity discount to the aggregate equity value, as SISCO operates as a holding company, and the company's investments operate as distinct entities within its portfolio. Our TP currently only reflects SISCO's organic operations forecasts and portfolio valuation estimates. Our thesis on RSGT's

Pattenga terminal concession signing remains positive, but we prefer to wait for all the finer details and guidance, before including the terminal's results in our model forecasts and valuation.

Downside risks to our valuation & forecasts include:

- Geopolitical risks impacting each segment's demand and disrupting momentum witnessed in 2023.
- Challenges in global container market due to closure of trade lanes.
- Port tariffs being adjusted downwards by port regulatory authorities.
- Competition for Ports segment from new challenger terminals impacting gateway and transshipment volumes.
- Importers preferring to maintain lean inventory levels that could lead to lower import volumes, and lesser demand for bonded warehouses.
- Oversupply of bonded warehouses in Saudi Arabia.
- Competition in SISCO's water segments for future desalination and wastewater treatment bids.
- Declines in global GDP growth, international trade due to an economic slowdown, rising inflation and higher interest rates.
- Slower non-oil GDP transformation of Saudi Arabia than outlined under the Vision 2030 plan.

SISCO Financials					
Balance Sheet (SAR Mn)	2021	2022	2023E	2024E	2025E
Assets					
Cash & cash equivalents	892.4	787.9	848.8	927.5	1,217.0
Receivables	161.8	155.5	220.5	252.9	279.0
Other assets	36.6	39.3	38.6	38.7	40.0
Total current assets	1,090.7	982.7	1,107.9	1,219.1	1,535.9
Net property, plant and equipment	427.1	575.0	737.8	883.4	912.6
Goodwill	8.8	8.8	8.8	8.8	8.8
Intangibles	3,052.9	3,010.7	3,041.9	2,999.4	2,921.2
Other assets	415.6	481.1	548.3	553.1	557.8
Total assets	4,995.1	5,058.3	5,444.7	5,663.8	5,936.3
Liabilities					
Liabilities	1,961.7	1,962.1	2,055.1	2,117.8	2,168.4
Total debt	736.9	780.0	996.5	1,003.2	1,009.8
Total liabilities	2,698.7	2,742.1	3,051.7	3,121.1	3,178.2
Shareholders' Equity					
Share capital	852.4	852.4	852.4	852.4	852.4
Retained earnings	202.5	170.3	191.1	254.9	358.1
Minority Interest	810.4	800.3	856.8	942.7	1,054.9
Other Equity	431.1	493.2	492.7	492.7	492.7
Total Equity	2,296.4	2,316.2	2,393.0	2,542.7	2,758.1
Total liabilities and equity	4,995.1	5,058.3	5,444.7	5,663.8	5,936.3
Income Statement (SAR Mn)	2021	2022	2023E	2024E	2025E
Revenue (excluding construction revenue)	921.2	854.8	1,092.1	1,252.6	1,381.4
Cost of goods sold	-474.7	-438.7	-517.9	-592.3	-647.1
Gross profit	446.5	416.2	574.2	660.2	734.3
SG&A	-168.1	-186.1	-218.4	-250.5	-276.3
Adjustments related to non-recurring items	219.6	228.1	208.1	236.0	277.0
Reported EBITDA	490.8	456.1	561.9	645.7	735.0
Adjusted EBITDA	497.9	458.1	563.8	645.7	735.0
Depreciation and amortization	-173.7	-171.6	-189.5	-197.3	-207.0
Adjustments related to non-recurring items	-38.8	-54.5	0.0	0.0	0.0
EBIT	278.3	230.0	372.4	448.4	528.0
Finance costs	-203.5	-213.6	-254.0	-258.3	-266.6
Finance income	0.2	12.3	13.7	14.0	19.0
Share associates and other income	38.5	44.9	51.7	51.6	53.4
Net income before taxes	113.6	73.7	183.8	255.7	333.9
Provision for Income Taxes	-18.4	-18.2	-42.4	-40.9	-53.4
Net income after taxes	95.1	55.5	141.4	214.8	280.5
Minority interest	-37.2	-18.8	-56.5	-85.9	-112.2
Net income attributable to parent	57.9	36.7	84.8	128.9	168.3
Non-recurring adjustments to net income	7.1	4.8	1.2	0.0	0.0
Adjusted net income	65.0	41.5	86.1	128.9	168.3
Adjusted EPS (SAR)	0.80	0.51	1.04	1.58	2.07

Source: Kamco Invest Research and SISCO

Cash Flow (SAR Mn)	2021	2022	2023E	2024E	2025E
Net cash from operating activities	236.3	213.2	416.3	551.7	620.4
Net cash (used in) from investing activities	511.4	(245.8)	(373.3)	(243.0)	(95.5)
Net cash from (used in) financing activities	(191.9)	(72.0)	17.9	(230.0)	(235.4)
Change in cash and cash equivalents	555.8	(104.5)	60.9	78.7	289.5
FX and other adjustments					
Cash and cash equivalents at the end of the year	892.4	787.9	848.8	927.5	1,217.0
Valuation & Financial Ratios	2021	2022	2023E	2024E	2025E
Asset Structure and Leverage Ratios					
Total Debt / Total Assets (x)	0.15	0.15	0.18	0.18	0.17
Total Debt / Equity (x)	0.32	0.34	0.42	0.39	0.37
Total Liabilities/Equity (x)	1.18	1.18	1.28	1.23	1.15
Profitability Ratios					
Return on Average Equity (%)	2.8%	1.8%	3.7%	5.2%	6.3%
ROIC (%)	8.6%	6.8%	9.7%	11.5%	12.6%
Margins					
Gross profit margin (%)	48.5%	48.7%	52.6%	52.7%	53.2%
EBITDA margin (%)	54.1%	53.6%	51.6%	51.6%	53.2%
EBIT margin (%)	30.2%	26.9%	34.1%	35.8%	38.2%
Net profit margin (%)	6.3%	4.3%	7.8%	10.3%	12.2%
Per Share Data and Valuation Ratios					
Earnings Per Share (SAR)	0.80	0.51	1.04	1.58	2.07
Book Value Per Share (SAR)	28.1	28.4	29.3	31.2	33.8
Dividend Per Share (SAR)	0.60	0.80	0.80	0.80	0.80
PE (x)	38.4	39.8	23.6	15.5	11.9
EV/EBITDA (x)	8.3	7.3	5.6	4.9	4.3
PB (x)	1.1	0.7	0.8	0.8	0.7
Dividend Yield (%)	2.0%	3.9%	3.3%	3.3%	3.3%

Source: Kamco Invest Research and SISCO

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