الراجحي المالية
alrajhi capital

US$0.78bn	94.96%	US$3.1mn
Market Cap.	Free Float	Avg. Daily Value traded

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Saudi Industrials Services Co.

Smooth sailing ahead; upgrade to OW

Overweight

Price Target (SAR): 41.0

Current: 35.9
Upside/Downside: 13.7% above current

Valuation Multiples	24E	25E	26E
P/E* (x)	41.2	35.8	26.8
P/B (x)	1.2	1.2	1.1
EV/EBITDA (x)	6.6	6.1	5.4

Major Shareholders	% Ownership
Xenel Industries Limited	14.70%

Price Performance	1M	3M	YTD
Absolute	11.2%	18.5%	18.9%
Relative to TASI	7.5%	15.0%	15.1%

Financial Snapshot

(SAR mn)	2024E	2025E	2026E
Revenue (ex. Construction)	1,234	1,292	1,404
YoY %	*17.3%*	*4.7%*	*8.6%*
Gross Profit	641	677	748
GP Margin %	*52.0%*	*52.4%*	*53.3%*
YoY %	*19.2%*	*5.6%*	*10.5%*
EBITDA	633	654	705
EBITDA Margin	*51.3%*	*50.6%*	*50.2%*
Net Income	(2)	82	109
Net Income Margin %	*NM*	*6.3%*	*7.8%*
Adj. Net Income *	71	82	109
Adj. NI Margin %	*5.8%*	*6.3%*	*7.8%*
YoY %	*-19.5%*	*14.9%*	*33.5%*
EPS	(0.0)	1.0	1.3
Adj. EPS *	0.9	1.0	1.3
DPS	0.8	0.8	1.1

Source: Company data, Al Rajhi Capital; *FY24 earnings adjusted for one-off losses in Tawzea, Zakat liability, and provisions

SISCO has managed to navigate a turbulent FY24 successfully, where it was impacted by the Red Sea crisis and a plethora of one-off expenses. Despite the crisis, SISCO emerged to benefit from an upsurge in gateway volumes that helped the company grow its revenue (ex. construction) by 16.2% in 9MFY24 while increasing its EBITDA by 17% during the same period. We had turned Neutral on the company with a TP of SAR30/sh in February 2024 owing to external events impacting the company. Since then, the stock has, on average, hovered around ~SAR34/sh. The recent positive developments on the geopolitical front have compelled us to revisit our investment thesis. SISCO is set to be a beneficiary of the reduction in geopolitical tensions as transhipment volumes may normalize gradually, resulting in increased container volume for FY25e. We believe that the company will be able to maintain its gateway volumes in FY25e and may post low single-digit growth. Our revised earnings for FY25/26e stand at SAR1.0/1.3/sh. Consequently, we revise up our TP to SAR41.0/sh. The company has multiple profitability triggers in FY25e, and hence, we turn "Overweight" on the company, implying an upside of 13.7% to the last closing price. We like the company owing to several factors, including 1) expected gradual normalization of the Red Sea transit route, 2) likely tariff increase in FY25e, and 3) geographical diversification of port business coupled with the continued expansion of logistics business (M&A pipeline).

Normalisation of Red Sea transit in sight: The recent easing in geopolitical tensions is welcome news for SISCO, which was impacted by the disruption from the Red Sea crises. To recall, major European shipping lines had decided not to use the route in order to ensure the safety of the vessel and the crew. However, recent developments have been positive, and if geopolitical tensions are resolved, we can see an eventual and gradual normalisation in transhipment traffic through the Red Sea route. Overall, Saudi-based cargo remained unaffected in the whole situation during FY24.

Implication for SISCO: SISCO was negatively impacted by the Red Sea crises as transhipment volume went down by a significant 26.2% y-o-y in 9MFY24. However, the upsurge in gateway volumes more than helped SISCO to maintain its top-line growth (ex-construction), which rose by 16.2% during the same period. Despite the drop in total volumes, GP margin managed to only decrease by 1.1 ppt to 52.1% in 9MFY24 owing to an increase of gateway revenues in the mix. The rise in gateway volumes can be attributed to 1) a decrease in transhipment vessels using long routes due to the Red Sea uncertainty, which in turn were replaced by feeder vessels embarking on shorter routes, and 2) an increase in the overall KSA gateway market.

Going forward, we assume that the resumption of European vessels utilising the route will be gradual, and a major uptick might be seen in 2HFY25 if the truce persists. Shipping lines would require a strong indication of ceasefire stability before transit traffic could return to pre-crisis levels. However, we remain confident that SISCO will be able to maintain its gateway volume y-o-y and might even post low single-digit growth owing to the growing Saudi market. This would help the company maintain its high gross margins in FY25e as well. For FY25e, we assume an overall increase in container volume of ~12% y-o-y, where transhipment rises by ~21% and gateway by ~3%. We expect the transhipment to total container volume ratio to stand at 50.9%. We believe the company does not need any further port expansion in the near term. In our assumptions, we have increased the capacity to 7.2mn TEUs in FY28 with a CAPEX of ~SAR300mn.

Tariff revision on the cards: As per our understanding, the current tariff was signed with Mawani in 2020; however, due to COVID-19, there were some delays in implementation, and the tariff was applied in 2021. As per the agreement, tariff revision is due every 5 years and is expected to happen in the second quarter of FY25. We believe SISCO is eligible for a hike equivalent to local CPI since 2021, which could be in the range of ~6.6-10%. Being conservative, we have assumed an increase in tariffs from FY26e, in the range of ~4%. Every 2% increase in tariff increases our FY26e annual earnings by 4.5% and DCF valuation by 1.3%.

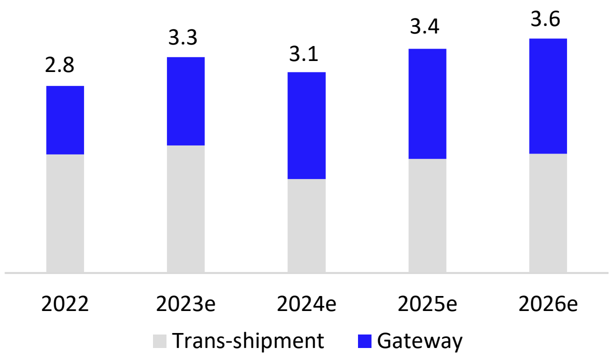
Financial commentary: In 9MFY24, SISCO's top line surged by 16.2%, driven by an increase in gateway volume. EBITDA for the company increased by 17% y-o-y during the same period. However, the profitability was down y-o-y owing to a plethora of one-off expenses. This includes: 1) loss of SAR29.6mn from Tawzea on SISCO's books; 2) an increase in operating costs in international ports business to the tune of SAR11mn; 3) Zakat charge and provision of SAR25.4mn for FY 2021 to 2023; and 4) non-recurring loss in Green Dome Holding of SAR12mn. Adjusting for these one-offs, profitability was still down by 19.1% y-o-y despite a rise in EBITDA. This can be mainly associated with increased D&A costs, which were up by 27.1% in 9MFY24.

For 4QFY24e, we anticipate gateway volumes to remain elevated (up by 27.5%) while transhipment volume is expected to continue its downfall by 26.2% y-o-y. We expect the GP margin to remain at a decent level of 51.7%, and barring any one-offs, this could be SISCO's strongest quarter in FY24 with a profitability of SAR18mn (EPS: SAR 0.22/sh).

Valuations: Due to the recent positive development of the Red Sea crisis and the hike in tariffs, our target price has been revised to SAR41/sh from its previous level of SAR30/sh. We employ Sum of the Parts (SOTP) valuation methodology, allocating a weight of 60% to Discounted Cash Flow (DCF) and 40% to EV/EBITDA-based relative valuation. The resulting target price reflects a 13.7% upside from the last closing, prompting us to upgrade our rating to Overweight.

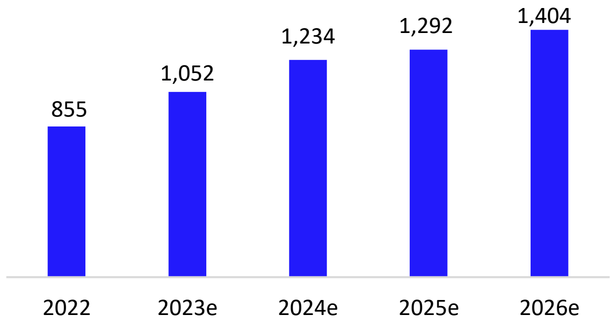
Key Risks: The key risks for the company are as follows: 1) Slower than expected resumption of European vessels on the Red Sea transit route, 2) Delays in government-dependent port tariff hikes, 3) Drop in gateway volume would negatively affect revenue and net margins due to lower transshipment pricing, and 4) Global growth decline, trade slowdown, and slower than expected rate cuts could further pressure margins.

Figure 1 **Container Volumes (mn TEUs)**



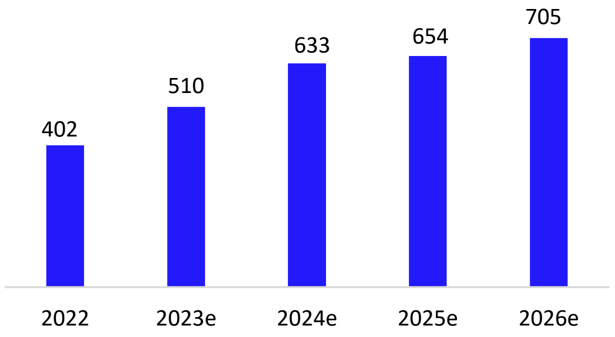
Source: Company Data, Al Rajhi Capital Estimates

Figure 2 **Revenue ex. Construction (SARmn)**



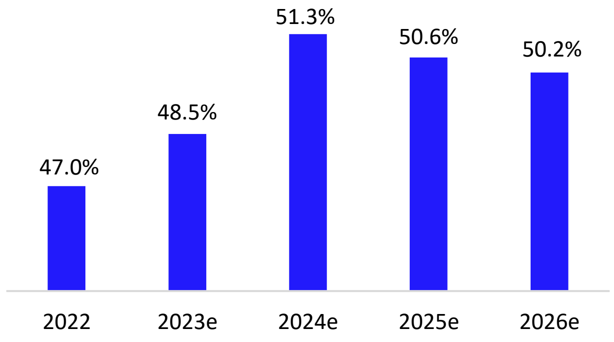
Source: Company Data, Al Rajhi Capital Estimates

Figure 3 **Adjusted EBITDA (SARmn)**



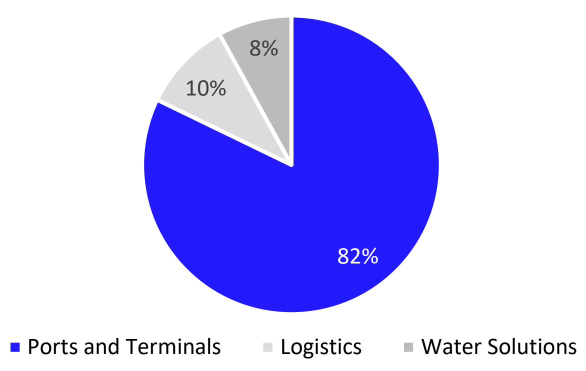
Source: Company Data, Al Rajhi Capital Estimates

Figure 4 **Adjusted EBITDA Margin**



Source: Company Data, Al Rajhi Capital Estimates

Figure 5 **Revenue breakup FY25**



Source: Company Data, Al Rajhi Capital Estimates

Figure 6 **Tariff Sensitivity Table**

Tariff Change	FY26e EPS	DCF Value
0%	**1.22**	**40.5**
4.0%	**1.35**	**41.6**
8.0%	**1.47**	**42.6**
12.0%	**1.59**	**43.7**

Source: Company Data, Al Rajhi Capital Estimates

Key Financials

Figure 7 **Income Statement**

SAR mn	2024E	2025E	2026E
Revenue ex. Construction	**1,234**	**1,292**	**1,404**
y-o-y growth	*22.0%*	*8.8%*	*12.6%*
Cost of Sales	(593)	(615)	(655)
Gross Profit	**641**	**677**	**748**
y-o-y growth	*19.2%*	*5.6%*	*10.5%*
margins	*52.0%*	*52.4%*	*53.3%*
Selling and marketing expense	(13)	(17)	(18)
General & administrative expense	(236)	(254)	(276)
EBITDA	**633**	**654**	**705**
D&A	(241)	(248)	(251)
Operating Profit	**392**	**406**	**454**
y-o-y growth	*22.9%*	*3.5%*	*11.7%*
margins	*31.8%*	*31.4%*	*32.3%*
Interest income	31	28	35
Interest expenses	(292)	(289)	(282)
Other	11	40	40
Pre-Tax Income	**142**	**185**	**247**
Zakat	(67)	(37)	(49)
Minority Interest	78	66	89
Net Income ex. Minority	**(2)**	**82**	**109**
y-o-y growth	*NM*	*NM*	*33.5%*
margins	*NM*	*6.3%*	*7.8%*
EPS	(0.0)	1.0	1.3

Source: Al Rajhi Capital estimates

Figure 8 **Balance sheet**

SAR mn	2024E	2025E	2026E
Cash and Cash Equivalent	1,052	1,328	1,597
Inventories	23	25	29
Trade receivables, prepayments and other re	317	333	346
Due from related parties	17	17	17
TOTAL CURRENT ASSETS	**1,410**	**1,703**	**1,989**
Property, plant and equipment	271	264	258
Intangible Assets	3,519	3,206	3,065
Right of use of Assets	58	38	32
Investment Properties	363	245	223
Capital WIP	210	200	190
Others	160	160	160
TOTAL NON-CURRENT ASSETS	**4,580**	**4,112**	**3,928**
TOTAL ASSETS	**5,991**	**5,815**	**5,917**
Current portion of long term debt	186	145	145
Trade payables, accrued and other current li	415	413	422
Lease liabilities	11	13	13
Due to related parties	2	2	2
Obligation under service concession	172	169	169
Due to related parties	35	35	35
CURRENT LIABILITIES	**821**	**776**	**785**
Obligation under service concession	1,470	1,406	1,406
Others	1,271	1,342	1,334
NON-CURRENT LIABILITIES	**2,741**	**2,748**	**2,740**
SHAREHOLDERS EQUITY ex. Minority	**1,435**	**1,451**	**1,473**
Minority Interest	**993**	**1,050**	**1,128**
SHAREHOLDERS EQUITY	**2,428**	**2,501**	**2,601**
TOTAL LIABILITIES	**5,991**	**5,815**	**5,917**

Source: Al Rajhi Capital estimates

Figure 9 **Cash Flow Statement**

SAR mn	2024E	2025E	2026E
Cash flow from Operations	74	354	418
Cash flow from Investing	(68)	(48)	(52)
Cash flow from Financing	(46)	(104)	(97)
Change in cash	(40)	201	269

Source: Al Rajhi Capital estimates

Figure 10 **Key Ratios**

	2024E	2025E	2026E
ROA (%)	1.3%	2.5%	3.3%
ROE (%)	3.1%	5.9%	7.6%
D/E (x)	0.5x	0.5x	0.5x
Net Debt/EBITDA (x)	0.4x	0.0x	-0.4x
Receiveable days	94	94	90
Inventory days	14	15	16
Payable days	256	245	235

Source: Al Rajhi Capital estimates

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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.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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