SISCO
Industrial: Transportation
SISCO AB: Saudi Arabia
4 September 2023

alrajhi capital

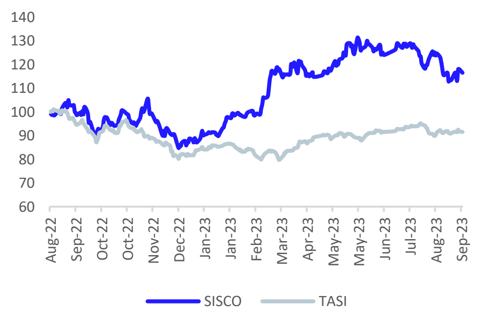
US$0.590bn	94.96%	US$5.94mn
Market Cap	Free Float	Avg. Daily Value Traded

Target price	**34.00**	**25% above current**
Current price	**27.15**	**as at 03/09/2023**

Existing rating

Underweight	Neutral	**Overweight**

Performance (Rebased to 100)



Key Metrics

(SARmn)	2022	2023E	2024E
Revenue	994	1,042	1,124
Revenue growth	1%	5%	8%
EBIDTA	402	528	557
EBIDTA growth	-11%	31%	6%
Net Income	56	146	157
Net Income growth	-42%	163%	8%
EPS	0.45	1.02	1.27
EPS growth	-37%	127%	24%
DPS	0.80	0.80	1.02
Payout Ratio	178%	78%	80%
ROE	2%	6%	6%

Source: Company data, Al Rajhi Capital.

Research Department
Danish Kazmi, CFA
Tel +966 11 828 4653, kazmiD@alrajhi-capital.com

Saudi Industrials Services Co.

TP revised up to SAR34/sh; remain OW

We reiterate our "Overweight" stance on SISCO with a revised TP of SAR34/sh, providing an upside of 25% to the last closing price. SISCO managed to post a better than expected recovery in 1H23, compelling us to upgrade our investment case. In 1H23, container volumes increased by 17% to 1.6mn TEUs as against 1.4mn TEUs in 1H22. Moreover, the gross margins showed a rapid recovery owing to increased volume as well as an improved transhipment-to-gateway ratio. As the majority of the costs are fixed, any improvement in volumes directly increases the gross margins. The company also expanded its capacity by 1.0mn TEUs to 6.2mn TEUs. Going forward, in FY24, we have assumed a growth in container volumes of only 5.0% YoY to 3.3mn TEUs while improving the transhipment to gateway ratio to 55:45. We remain conservative when it comes to growth in container volume, increasing it by a 5-year CAGR of 8%. However, faster than expected ramp-up of new capacity provides a major upside to our investment thesis. Apart from recovery in its core business, the company is actively looking to increase its footprint in the logistics segment. The company increased warehouse capacity by 21k sqm in 1H23, and another 25k sqm of capacity is set to come online in 2H23. In addition, the company is actively pursuing M&A in the 3PL business, which will likely be financed by the hefty cash balance on its books. Hence, we maintain our "Overweight" rating and revise up our TP to SAR34/sh. We have increased our FY23/24/25 earnings estimates by 80/44/42%, respectively. The stock provides an upside of 25% to the last closing price.

SISCO 1H23 Results: SISCO witnessed 1H23 revenues of SAR 500mn (ex. construction revenues), seeing a growth of 22% y-o-y, primarily due to healthy growth in the Ports' segment's container volumes, coupled with a promising improvement in the logistics segment. Ports segment revenues for 1H23 grew 26% y-o-y primarily due to strong Gateway and transhipment volumes improving 31% and 8% y-o-y respectively. Logistics revenues for 1H23 grew 13% y-o-y, primarily due to the successful operation of LogiPoint's new 21,000 sqm warehouse, which commenced on April 1, 2023, providing a significant boost to the revenue and margins of the logistics segment. Water segment revenues for 1H23 grew 7% y-o-y driven primarily by higher volumes. Gross margins (ex. construction revenues) for 1H23 came at 53% as compared to 46% in 1H22, the improvement was seen on back of more conducive market conditions and improved global supply chains as compared to 1H22. Net Income for 1H23 came at SAR 41mn, with an implied margin of 8% as compared to 1% in 1H22.

Figure 1 **1H23 Earnings summary**

(SAR mn)	Q2 2023	Q2 2022	Y-o-Y	Q1 2023	Q-o-Q	1H23	1H22	Y-o-Y
Revenue	261	213	23%	239	9%	500	409	22%
Gross profit	136	100	36%	129	14%	265	190	40%
Gross margin	52%	47%		54%		53%	46%	
Operating profit	82	84	-3%	82	18%	166	99	67%
Operating margin	31%	39%		34%		33%	24%	
Net profit	21	19	9%	19	16%	41	4	940%
Net margin	8%	9%		8%		8%	1%	

Source: Company data, Al Rajhi Capital

Valuations: Since our initiation on 26th February 2023, the stock has rallied by 18%. Despite the recent rally, we believe that the company has further upside potential at these levels. We have arrived at our revised-up blended TP of SAR34/sh using SOTP valuations where we assign 60% and 40% to DCF and EV/EBITDA-based relative valuation. The stock provides an upside of 25% to the last closing price. Hence, we reiterate our "Overweight" stance on the stock.

Risks: Key downside risks include: i) Potential manufacturing sector slowdown could adversely affect SISCO's port revenue through reduced imports and exports, ii) Decreased container traffic and warehouse occupancy might hinder revenue growth, iii) Government-dependent port tariffs, if lowered, could impact both top and bottom lines, iv) Increased transshipment vs. gateway volume would negatively affect revenue and net margins due to lower transshipment pricing, v) Global growth decline, trade slowdown, and rising rates could further pressure margins.

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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.

Contact us

Mazen AlSudairi, CFA
Head of Research
Tel : +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com
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