

US\$0.69bn Market Cap. 94.96% Free Float US\$7.9mn Avg. Daily Value traded

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Saudi Industrials Services Co.

TP revised to SAR30/sh; downgrade to Neutral.

Neutral

Price Target (SAR): 30.0

Current: 31.8
Upside/Downside: 6% below current

Valuation Multiples	23E	24E	25E
P/E (x)	31.1	41.2	27.9
P/B (x)	1.1	1.1	1.1
EV/EBITDA (x)	6.7	7.1	6.2

Major Shareholders	% Ownership
Xenel Industries Limited	14.70%

Price Performance	1M	3M	YTD
Absolute	8.0%	25.2%	3.6%
Relative to TASI	9.0%	15.3%	3.1%

Earnings

(SAR mn)	2023E	2024E	2025E
Revenue (ex. Construction)	1,051	1,016	1,125
YoY %	22.9%	-3.3%	10.7%
Gross Profit	557	509	583
GM Margin %	53.0%	50.1%	51.8%
YoY %	33.8%	-8.5%	14.4%
EBITDA	543	494	547
EBITDA Margin	51.7%	48.7%	48.6%
Net Income	83	63	93
Net Income Margin %	7.9%	6.2%	8.3%
YoY %	177.7%	-38.3%	47.9%
EPS	1.0	0.8	1.1
DPS	0.8	0.6	0.9
P/E	31.1	41.2	27.9
EV/EBITDA	6.7	7.1	6.2
ROE	7%	4%	6%

Source: Company data, Al Rajhi Capital

SISCO has rallied by 17% since our last update note (4th September 2023) and by 51% since our initiation report. We update our investment thesis amid rising geopolitical tensions and downgrade the stock to "Neutral". As we write this note, the Red Sea crisis is nowhere near to being solved, and it has been nearly three months since it began. As the Red Sea route remains unsafe, a lot of vessels have decided to alter their routes, directly impacting SISCO's container volume. Lower container volumes will pull down the revenues of the company as well as put pressure on margins as the company has high operating leverage. Our initial analysis suggests that transshipment volume is likely to be affected more than the gateway. The 1Q24e results will witness the complete impact of the ensuing crises (a partial impact will be seen in the 4Q23 results), and if the issue is not solved soon, it will taint the overall FY24 earnings. Hence, we reduce our container volume numbers for FY24 by 11% as against previously assumed 3.3mn TEUs. This represents a YoY decline of 8%. We will revisit our investment once the issue is resolved, as the company is 1) sitting on a hefty cash balance of SAR803mn, 2) expanding aggressively to foreign shores (recently securing a concession with Bangladesh port; MOU with Tunisia Port), and 3) actively pursuing M&A opportunities in the 3PL business. However, the fact remains that SISCO's dependence on the port segment is the greatest, contributing 79% to the overall revenues. We revise down our FY24/25 earnings by 39/26% to SAR0.8/1.1/sh and recommend investors book profits at these levels while waiting for the geopolitical tensions to subside before building a position again in the stock. Our revised TP of SAR30/sh provides a downside of 6% to the last closing price.

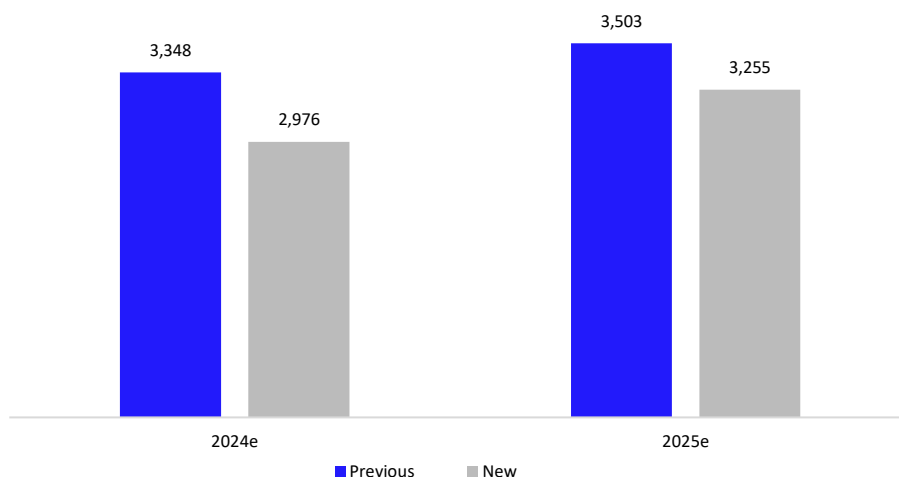
The Red Sea Crisis: Ongoing disruptions in the Red Sea have triggered a substantial shift in global trade, resulting in a diversion valued at US\$200bn*. Additionally, there has been an estimated decrease of 10-15% in the overall effective global shipping capacity. Prominent shipping entities like Danish giant Maersk and British Petroleum have recently opted to halt transits through the Red Sea. The conflict has also led to a surge in insurance premiums, with shipping companies now paying higher premiums to safeguard their cargo. Although the current conflict does not specifically target Saudi-based cargo traffic, the route remains unsafe due to the persistent hostilities.

Implications for SISCO: Major European shipping lines, including Maersk and Hapag-Lloyd, have announced that they will pause all cargo movement through the area and instead re-route container vessels towards the Suez Canal, preferring a longer route, albeit much safer. What this means for SISCO is a tremendous hit in transshipment volume, which we expect to go down significantly for the month of January. If the crises continue, the 1Q24e volumes could be down as much as 15-20% YoY. For now, gateway remains largely unaffected and is not expected to be down significantly YoY. In addition, a shift has been seen in the later end of January, where some of the volume shifted to smaller Chinese vessels leading partial recovery. If the crisis persists, the impact might be partially offset by an increased flow of Chinese vessels. For now, we have reduced our container volume assumption from 3.3mn TEUs to 2.9mn TEUs, down 11% and representing a decline of 8% YoY for 2024e. We are carefully monitoring the situation, and any developments regarding the Red Sea crisis can significantly impact our assumptions.

*<https://www.cnn.com/2024/01/03/red-sea-crisis-shipping-costs-delays-inflation.html>

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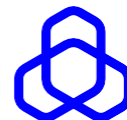
Figure 1 Total Shipping volume (000 TEUs) assumptions



Source: Al Rajhi Capital estimates

Valuations: Due to the incorporation of the risks associated with the ongoing crisis, our target price has been revised downward to SAR30/sh from its previous level of SAR34/sh. Our valuation methodology employs a Sum of the Parts (SOTP) approach, allocating weights of 60% to Discounted Cash Flow (DCF) and 40% to EV/EBITDA-based relative valuation. The adjusted target price reflects a 6% downside from the last closing, prompting us to downgrade our rating to Neutral.

Key Risks: The key risks for the company are as follows: 1) Operational risk from the continuing crisis in the Red Sea, 2) Government-dependent port tariffs, 3) Increased transshipment vs. gateway volume would negatively affect revenue and net margins due to lower transshipment pricing, and 4) Global growth decline, trade slowdown, and higher than expected rates could further pressure margins.



Key Financials

Figure 2 Income Statement

SAR mn	2023E	2024E	2025E
Revenue ex. Construction	1,051	1,016	1,125
<i>y-o-y growth</i>	22.9%	-3.3%	10.7%
Cost of Sales	(494)	(507)	(542)
Gross Profit	557	509	583
<i>y-o-y growth</i>	33.8%	-8.5%	14.4%
<i>margins</i>	53.0%	50.1%	51.8%
Selling and marketing expense	(12)	(14)	(15)
General & administrative expense	(191)	(191)	(211)
EBITDA	543	494	547
D&A	(189)	(190)	(190)
Operating Profit	354	305	357
<i>y-o-y growth</i>	54.0%	-13.9%	17.1%
<i>margins</i>	33.7%	30.0%	31.8%
Interest income	22	23	25
Interest expenses	(252)	(257)	(251)
Other	55	55	55
Pre-Tax Income	179	126	187
Zakat	(25)	(31)	(46)
Minority Interest	71	32	48
Net Income ex. Minority	83	63	93
<i>y-o-y growth</i>	127.0%	-24.5%	47.9%
<i>margins</i>	7.9%	6.2%	8.3%
EPS	1.0	0.8	1.1

Source: Al Rajhi Capital estimates

Figure 3 Cash Flow Statement

SAR mn	2023E	2024E	2025E
Cash flow from Operations	384	237	276
Cash flow from Investing	(162)	(36)	(39)
Cash flow from Financing	115	(102)	(84)
Change in cash	336	99	152

Source: Al Rajhi Capital estimates

Figure 4 Key Ratios

	2023E	2024E	2025E
ROA (%)	2.8%	1.7%	2.5%
ROE (%)	6.6%	4.0%	5.8%
D/E (x)	0.4x	0.4x	0.4x
Net Debt/EBITDA (x)	0.4x	0.2x	-0.1x
Receiveable days	78	78	77
Inventory days	21	25	26
Payable days	264	250	240

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

SAR mn	2023E	2024E	2025E
Cash and Cash Equivalent	844	942	1,094
Inventories	29	35	39
Trade receivables, prepayments and other re	225	217	237
Due from related parties	12	12	12
Short-term deposits	0	0	0
Derivatives financial instrument	0	0	0
TOTAL CURRENT ASSETS	1,109	1,206	1,382
Property, plant and equipment	248	245	245
Intangible Assets	3,048	2,932	2,816
Right of use of Assets	48	43	37
Investment Properties	283	266	249
Capital WIP	291	313	334
Others	460	460	460
TOTAL NON-CURRENT ASSETS	4,379	4,259	4,142
TOTAL ASSETS	5,488	5,465	5,524
Current portion of long term debt	109	88	88
Trade payables, accrued and other current li	356	347	356
Lease liabilities	13	11	11
Due to related parties	1	1	1
Obligation under service concession	168	165	165
Due to related parties	16	16	16
CURRENT LIABILITIES	665	629	638
Obligation under service concession	1,402	1,392	1,392
Others	1,076	1,066	1,059
NON-CURRENT LIABILITIES	2,478	2,457	2,451
SHAREHOLDERS EQUITY ex. Minority	1,516	1,529	1,547
Minority Interest	828	850	888
SHAREHOLDERS EQUITY	2,344	2,379	2,435
TOTAL LIABILITIES	5,488	5,465	5,524

Source: Al Rajhi Capital estimates

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