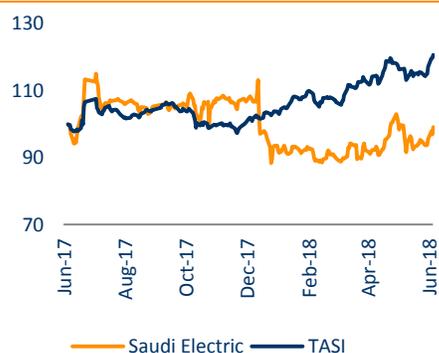


1Q 2018 Results Update
June 11, 2018

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	22.2
Target Price (SAR)	23.3
Upside/Downside (%)	5.1%

As of June 10, 2018
Key Data (Source: Bloomberg)

Market Cap (SAR bn)	92.3
52 Wk High (SAR)	26.05
52 Wk Low (SAR)	19.76
Total Outstanding shares (in mn)	4,167
Free Float (%)	17.1%

Saudi Electric vs. TASI (Rebased)


Price Performance (%)	Absolute	Relative
1m	(0.7%)	(4.4%)
6m	(8.0%)	(27.0%)
12m	(0.9%)	(21.6%)

Major Shareholders (%)

Public Investment Fund	74.30%
The Saudi Arabian Oil Company	6.92%

Revenue and Operating Profit Margin


Source: Bloomberg, Company Financials, FALCOM Research; Data as of 10th June 2018

1Q18 net loss better than market expectations

Saudi Electric reported a net loss of SAR 1.2bn for 1Q18, 7.4% above the consensus estimates (loss of SAR 1.3bn). On a YoY basis, however, the loss stands against a net profit of SAR 4.9bn in 1Q17. The stark difference is due to the impact of one-off items in 1Q17, which include a SAR 6.1bn income from reversal of accrued historical municipalities' fees and a SAR 232mn expense relating to the company's human resource productivity improvement program. Additionally, a SAR 2.6bn expense in government fees for 1Q18 largely offset the 27.8% YoY increase in revenue resulting from higher electricity tariffs and continued growth of customer base.

Saudi Electric enjoys a dominant market position in the domestic market, with recurrent government support to capital structure. The stock has been operating below global peer levels in terms of ROE and financial leverage. However, the company has been unable to reap tangible benefits from higher tariffs due to the royal mandate to pay an equivalent amount as government fees, in line with our expectations. Additionally, uncertainty prevails around the company's plans to diversify into solar power generation. Given the countervailing factors, we maintain our 'Neutral' rating on the stock.

- Revenue grew by SAR 2.7bn (27.8%) YoY to SAR 11.4bn, driven by higher electricity tariffs and continued growth of customer base. Revenue from sale of electricity, which makes 90% of total revenue, increased by 36.0% YoY to SAR 10.3bn.
- Higher revenues were offset by an equivalent SAR 2.6bn government fees charged on company's operations in 1Q18. Cost savings from better thermal efficiencies, optimization of fuel mix and operational cost control initiatives were offset by increase in cost of purchased power and depreciation. Consequently, gross margin improved by 74bps YoY to -5.5% and the company reported a gross loss of SAR 624mn in 1Q18 as compared to a SAR 555mn loss in 1Q17.
- Saudi Electric reported a SAR 643mn operating loss in 1Q18 as compared to a SAR 5.3bn profit in 1Q17, primarily due to the impact of one-off items in 1Q17 as described above. General and administrative expenses reduced by 11.4% YoY to SAR 313mn, indicative of management efforts towards improving operational efficiency.
- Net finance costs increased 63.5% to SAR 563mn, as a result of proceeds drawn from commercial loan facilities. As a result, net loss for 1Q18 stood at SAR 1.2bn as compared to a net profit of SAR 4.9bn.
- The company reported a net cash outflow from operating activities of SAR 2.9bn for 1Q18, as compared to an inflow of SAR 11.1bn, primarily due to a decline in trade payables, higher receivables and the SAR 2.6bn government fees introduced in 1Q18.
- Capital expenditure by Saudi Electric declined by 46.2% YoY to SAR 7.3bn in 1Q18, as compared to SAR 13.7bn in 1Q17.
- The board has recommended a dividend payment for 2017 of SAR 0.70 per share (subject to the general assembly meeting approval), which is in line with the pay-outs of previous years.

Valuation: We revise our target price slightly upwards to SAR 23.3, as 1Q18 results were slightly better than our expectations. We maintain our 'Neutral' rating on the stock.

(in SAR mn)	1Q'18	1Q'17	% YoY	FY18E	FY17	% YoY
Revenues	11,401	8,920	27.8%	52,509	50,615	3.7%
Gross Profit (Loss)	(624)	(555)	12.4%	7,875	6,620	19.0%
Operating Profit (Loss)	(643)	5,283	NA	7,858	10,005	-21.5%
Net Profit (Loss)	(1,214)	4,936	NA	4,759	6,908	-31.1%
EPS (LPS) basic (SAR)	(0.29)	1.18	NA	1.14	1.66	-31.1%
Gross Margin (%)	-5.5%	-6.2%	0.7%	15.0%	13.1%	1.9%
Operating Margin (%)	-5.6%	59.2%	NA	15.0%	19.8%	-4.8%
Net Profit Margin (%)	-10.6%	55.3%	NA	9.1%	13.6%	-4.6%

Source: Company Financials, FALCOM Research



FALCOM Rating Methodology

FALCOM Financial Services uses its own evaluation structure, and its recommendations are based on quantitative and qualitative data collected by the analysts. Moreover, the evaluation system places covered shares under one of the next recommendation areas based on the closing price of the market, the fair value that we set and the possibility of ascent/descent.

Overweight: The Target share price exceeds the current share price by $\geq 10\%$.

Neutral: The Target share price is either more or less than the current share price by 10%.

Underweight: The Target share price is less than the current share price by $\geq 10\%$.

To be Revised: No target price had been set for one or more of the following reasons: (1) waiting for more analysis, (2) waiting for detailed financials, (3) waiting for more data to be updated, (4) major change in company's performance, (5) change in market conditions or (6) any other reason from FALCOM Financial Services.

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