

3Q19 Result Update

December 05, 2019

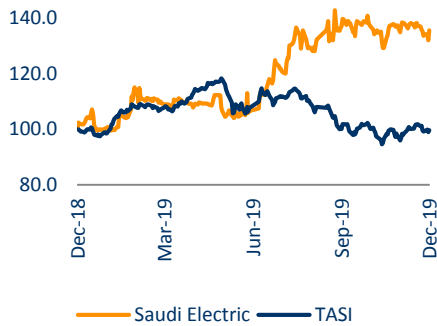
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	20.4
Target Price (SAR)	19.6
Upside/Downside (%)	(3.9%)

As of December 5th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	84.9
52-Wk High (SAR)	21.6
52-Wk Low (SAR)	14.8
Total Outstanding shares (in mn)	4,167
Free Float (%)	17.8%

Saudi Electric vs. TASI (Rebased)

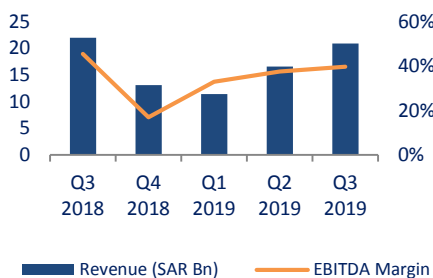


Price Performance (%)	Absolute	Relative
1m	0.5%	(3.4%)
6m	27.3%	34.8%
12m	35.6%	36.0%

Major Shareholders (%)

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

Revenue and EBITDA Margin (%)



Source: Bloomberg, Company Financials, FALCOM Research; Data as of December 05th, 2019

Net profits slide on lower electricity sales; miss consensus estimates

Saudi Electric Co. (SEC)'s net profit declined 45.6% YoY to SAR 2.7bn during 3Q19 due to lower electricity sales, greater depreciation, and higher finance charges. However, net profit climbed QoQ due to the seasonality effect. Revenue declined 5.0% YoY to SAR 20.8bn in 3Q19 as consumption rationalization in the residential and commercial segment led to less volumes of electric power sold. Meanwhile, revenue increased 26.1% QoQ. The rise in cost of sales over the comparable periods continues to pressurize the company's gross profit margin. In addition, higher operating expenses continue to impact the operating profit.

SEC is KSA's largest utility company and is involved in the generation, transmission and distribution of electricity to over 9.67 million customers in the country. Its power-generating assets account for almost 70% of the total installed generation capacity, whereas its transmission segment connects almost 99% of the kingdom. Despite a rise in subscriber numbers, growth in energy demand is expected to flatten in the short term and record a modest spike from 2021, as consumption rationalizes in the commercial and residential segment, which account for about 60% of the consumption mix. The company is working to offset the flattening demand by improving operational efficiency through reducing fuel consumption and boosting thermal efficiency. However, a shift to privatization and reforms in the kingdom's utility sector are key to the company's future performance. We maintain our "Neutral" rating on the stock.

- Revenue declined 5.0% YoY to SAR 20.8bn during 3Q19, reflecting a lower volume of electric power sales due to a decline in residential and commercial consumption. In addition, there was a change in the sales mix, with a higher contribution of consumption in lower tariff slabs. However, the company's revenue improved from meter reading, maintenance, bill preparation, and transmission system and electricity connection tariffs during 9M19.
- Cost of sales grew 7.0% YoY and 16.1% QoQ to SAR 17.1bn. There was a marginal rise in fuel costs and operation and maintenance expenses. Conversely, purchased power costs and government fees declined.
- Higher general and administrative expenses led to a decline of 35.6% YoY in operating profit to SAR 3.9bn. Consequently, operating margin stood at 18.5% in 3Q19 compared with 27.3% in 3Q18.
- EBITDA dropped 15.2% YoY to SAR 8.3bn and EBITDA margin contracted to 39.7% from 44.4% a year ago.
- SEC's net finance costs rose 12.0% YoY to SAR 1.2bn in 3Q19, which exacerbated the slide in net income that slipped by 45.6% YoY to SAR 2.7bn.
- The company's capital expenditure continued to decline in line with its strategy to fulfill demand, improve supply reliability, and connect new customers.

Valuation: We maintain our "Neutral" rating on the stock with a target price of SAR 19.6 per share.

	3Q'19	3Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	20.8	21.9	(5.0%)	62.1	64.1	(3.0%)
Gross Profit (SAR bn)	3.8	6.0	(37.0%)	2.7	5.9	(54.4%)
EBITDA (SAR bn)	8.3	9.7	(15.2%)	21.4	22.8	(6.2%)
Net Profit (SAR bn)	2.7	4.9	(45.6%)	(1.2)	1.8	NM
EPS basic (SAR)	0.64	1.18	(45.6%)	(0.28)	0.43	NM
Gross Margin (%)	18.0%	27.2%	(9.2%)	4.3%	9.2%	(4.9%)
EBITDA Margin (%)	39.7%	44.4%	(4.7%)	34.4%	35.6%	(1.2%)
Net Profit Margin (%)	12.9%	22.5%	(9.6%)	(1.9%)	2.8%	NM

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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