

1Q19 Result Update

May 27, 2019

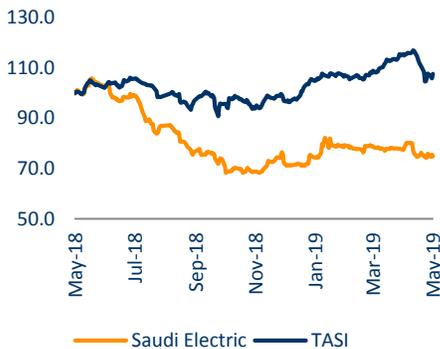
Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (SAR)	15.9
Target Price (SAR)	17.0
Upside/Downside (%)	7.2%

As of May 26th, 2019

Key Data (Source: Bloomberg)

Market Cap (SAR bn)	66.1
52-Wk High (SAR)	22.6
52-Wk Low (SAR)	14.3
Total Outstanding shares (in mn)	4,167
Free Float (%)	17.1%

Saudi Electric vs. TASI (Rebased)



Price Performance (%)	Absolute	Relative
1m	(3.3%)	3.5%
6m	8.8%	(5.8%)
12m	(25.1%)	(32.8%)

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 May 26, 2019

SEC's losses widen in 1Q19 on higher financial charges

Saudi Electric Co. (SEC)'s net losses slipped to SAR 1.5bn in 1Q19 from SAR 1.2bn in 1Q18, primarily due to significantly higher financial charges during the comparable period. However, improvements in operational efficiency, lower government fees, and higher other income helped limit the impact of these charges. Revenues remained flat on an annual basis but declined 12.6% QoQ to SAR 11.4bn owing to seasonality factors. The company's customer base grew, and there was a change in the consumption mix as well.

Saudi Electric enjoys a dominant market position in the domestic market, with government support in the form of free loans and waived off dividend rights. In addition, given its stable and strong fundamentals, SEC has been highly rated by rating agencies such as Moody's, Fitch, and S&P. SEC's performance in 1Q19 comprised stable revenues from a growing customer base even as it focused on optimizing costs. The company continues to invest in generation, transmission, and distribution capabilities to meet the growing demand, and connect new customers. However, a shift to privatization and reforms in the Kingdom's utility sector hold the key to the company's future performance. Thus, in view of the countervailing factors, we maintain our "Neutral" rating on the stock.

- Revenues for the quarter remained largely flat around SAR 11.4bn in 1Q19, as revenue from electricity sales declined 3.7% YoY to SAR 9.9bn over the comparable period, even though the electricity volume sold remained largely constant at ~48 Twh. The company recorded improvements in electricity connection tariff, transmission and meter reading, and maintenance revenues. Moreover, the consumption mix changed toward a higher contribution from the industrial segment and the consumer base expanded to 9.5mn from 9.14mn during the same period.
- Cost of sales remained largely in line with the comparable quarter last year. Fuel costs witnessed a 10.2% YoY decline, reflecting the contribution of better thermal efficiency. Gross loss slipped to SAR 636mn in 1Q19 from SAR 624mn in 1Q18.
- Continued improvement in operational efficiency and lower maintenance and general administrative expenses, led to lower operational losses in 1Q19 at SAR 594mn against SAR 643mn last year.
- SEC's net finance costs increased 56.9% YoY to SAR 884mn in 1Q19, which led to increased losses of SAR 1.5bn in 1Q19 compared to SAR 1.2bn in 1Q18.
- The company invested SAR 4.8bn in capital projects during the period versus SAR 7.3bn in 1Q18. SEC ended 1Q19 with a gross cash position of SAR 3.0bn against SAR 1.1bn in 1Q18.
- Starting January 2019, the company adopted the IFRS 16 accounting standard.
- SEC's general assembly approved a dividend payment of SAR 0.70 per share for 2018, in line with the dividend payout per share in previous years.

Valuation: We revised our target price slightly downward to SAR 17.0 in the view of flat revenues and lower net profit for the period despite improvement in operational efficiencies. We maintain a "Neutral" rating on the stock.

	1Q'19	1Q'18	% YoY	FY19E	FY18	% YoY
Revenues (SAR bn)	11.4	11.4	(0.1%)	66.5	64.1	3.8%
Gross Profit (SAR bn)	(0.6)	(0.6)	2.0%	7.4	5.9	25.5%
EBITDA (SAR bn)	3.8	3.2	17.8%	24.3	22.8	6.5%
Net Profit (SAR bn)	(1.5)	(1.2)	22.7%	3.0	1.8	68.4%
EPS basic (SAR)	(0.36)	(0.29)	22.7%	0.72	0.43	68.4%
Gross Margin (%)	(5.6%)	(5.5%)	(0.1%)	11.1%	9.2%	1.9%
Operating Margin (%)	(5.2%)	(5.6%)	0.4%	10.6%	9.4%	1.2%
Net Profit Margin (%)	(13.1%)	(10.6%)	(2.4%)	4.5%	2.8%	1.7%

Source: Company Financials, FALCOM Research

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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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